Treasury Management Policy

Purpose	**The Treasury Management Policy sets out the policies, practices and objectives of the University's treasury management activities.**
Author	**Finance**
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Treasury Management Policy

1. Introduction

This document sets out the policies, practices and objectives of the University's treasury management activities, as approved by the University Court.

This statement has been adopted by the University as part of its Financial Regulations and covers the University and all its subsidiary undertakings. The Treasury Management Policy will be reviewed on a periodic basis. No changes will be made to the policy without approval by Court Business Group.

The University defines its treasury management activities as:

- The management of the University's borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

- The University regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the University and any financial instruments entered into to manage these risks.

- The University acknowledges that effective treasury management will provide support towards the achievement of its business objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques within the context of effective risk management.

The core principles the University will follow when investing money are:

- the preservation of the capital value of deposits;

- to ensure there is sufficient portfolio liquidity to meet daily requirements;

- finally, to produce the highest return, once the first two considerations have been met.

No treasury management activity is without risk and therefore defining the level of acceptable risk is essential. The treasury policies are designed to minimise the risk of capital loss but cannot eliminate it entirely.

2. Risk management

The University regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures are in place for all external investment.

The Chief Financial Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report annually on the adequacy/suitability thereof to the Court Business Group, and will report to the Court Business Group, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the University's objectives in this respect. In respect of each of the following risks, the arrangements that seek to ensure compliance with these objectives are set out in Schedule A.

2.1 Credit and counterparty risk management

The risk of failure by a counterparty to meet its contractual obligations to the University under an investment, borrowing, derivative instrument, or capital, project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the University's capital or current (revenue) resources.

The University will ensure that its approved counterparties and limits reflect a prudent attitude towards organisations with whom funds may be deposited or investments made, and will limit its investment activities to those listed in Schedule A: 1.1.

The categories of approved counterparties and counterparty limits will be reviewed on an ongoing basis by the Chief Financial Officer and annually by the Court Business Group.

Where the Chief Financial Officer has reason to believe that a counterparty's credit rating may be impaired, lower limits should be set or the University should suspend dealings with that counterparty.

2.2 Liquidity risk management

The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, compromising the University's business/service objectives.

The University will ensure it has adequate though not excessive cash resources, borrowing arrangements and overdraft or standby facilities to enable it at all times to have the level of funds available to it that are necessary for the achievement of its business objectives.

The University will not borrow earlier than required to meet cash flow needs unless there is a clear business case for doing so and will only do so for the capital programme approved by Court, to finance future debt maturities, or to ensure an adequate level of short-term investments to provide liquidity for the University.

2.3 Interest rate risk management

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the University's finances against which the University has failed to adequately protect itself.

The University will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs or revenues in accordance with its treasury management policy and strategy and in accordance with its reporting requirements and management information arrangements.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.

It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs, and that the policy for the use of derivatives is clearly detailed in the annual strategy.

2.4 Exchange rate risk management

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the University's finances against which the University has failed to adequately protect itself.

The University will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

The University will normally only retain funds in currencies to the extent that payments are due to be made in these currencies. This will be reviewed regularly and any currency balances surplus to requirement will be transferred into sterling at the best rate achievable at that time. Further details are set out in Schedule A: 1.3.

2.5 Refinancing risk management

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the University for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

The University will ensure that its borrowing and other long-term liabilities are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, that are competitive and as favourable to the University as can reasonably be achieved in light of the market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.

2.6 Legal and regulatory risk management

The risk that the University itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements and that the University suffers losses accordingly.

The University will ensure that all its treasury management activities comply with its statutory powers and regulatory requirements.

Prior to entering into any borrowing or investment transaction the Chief Financial Officer will ensure, by reference if necessary to the University's legal advisors, that the proposed transaction does not breach any statute, the University's Financial Regulations, the requirements of the Financial Memorandum with the Funding Council or any terms and covenants relating to existing borrowings.

2.7 Management of operational risk, including fraud, error and corruption

The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes the risk of fraud, error, corruption or other eventualities in treasury management dealings.

The University will ensure that it has identified these circumstances which may expose it to the risk of loss due to inadequate or failed internal processes, people and systems or from external events. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements to these ends.

2.8 Price risk management

The risk that through adverse market fluctuations in the value of the principal sums the University borrows and invests, its stated treasury management policies and objects are compromised, against which effects it has failed to adequately protect itself.

The University will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect itself from the effects of such fluctuations.

The University's measures to protect itself from the effects of adverse market fluctuations in treasury management activities will include employing only those instruments, methods and techniques and within the limits and parameters detailed in Schedule A and maintaining diversified portfolios managed by professional fund managers.

2.9 Covenant breach risk management

The risk that the University fails to meet terms set by lenders which leads to default of loans and the resulting withdrawal of credit facilities.

The University will monitor its loan covenant compliance on an ongoing basis appropriate to the risk. The Chief Financial Officer will report annually to Court Business Group on this as part of the Budget and Financial Forecasts and will provide quarterly updates on forecast covenant compliance in the Quarterly Business Reports. The University will seek to minimise the security requirements of new debt.

2.10 Inflation risk management

The risk that the cash flows from treasury instruments (such as investments) won't be worth as much in the future because of changes in purchasing power due to inflation.

The Chief Financial Officer will keep under review the sensitivity of the University's treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the University's wider inflation exposures.

3. Performance measurement

The University is committed to the pursuit of best value in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of regular examination of alternative methods of service delivery, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria in Schedule B.

4. Decision making and analysis

The University will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past and for accountability, e.g. demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

5. Approved instruments, methods and techniques

The University will undertake its treasury management activities by employing only those instruments, methods and techniques and within the limits and parameters detailed in Schedule A.

Where the University intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy.

The University will seek professional advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

6. Organisation and segregation of responsibilities and dealing arrangements

The University considers it essential for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times clarity of treasury management responsibilities.

The Chief Financial Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management and the arrangements for absence cover.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function. These arrangements are set out in Schedule B.

The Chief Financial Officer will also ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

7. Reporting requirements and management information

Court Business Group will as a minimum receive an annual report, covering:

- the strategy and plan to be pursued in the coming year;
- the performance of the treasury management function during the year, including the reasons for and the effects of any changes to the strategy set at the beginning of the year;
- the performance of any external service providers.

Further details are set out in Schedule B.

8. Accounting and audit arrangements

The University will account for its treasury management activities in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

The University will ensure that its auditors and any other bodies charged with regulatory review have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

9. Cash and cash flow management

The Chief Financial Officer will have responsibility for the cash management of the University and its subsidiaries as defined under this policy.

The Financial Accountant will prepare a weekly funds report detailing bank balances, deposits and borrowings and provide commentary on significant transactions.

Cash flow projections will be prepared on a regular and timely basis, and the Chief Financial Officer will ensure these are adequate for the purposes of monitoring compliance with treasury management practice on liquidity risk management and for the purpose of identifying future borrowing needs.

10. Money laundering

The University is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this are properly trained. The present arrangements are detailed in University's anti-money laundering policy.

11. Staff training and qualifications

The University recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will, therefore, seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

The Chief Financial Officer will recommend and implement the necessary arrangements.

The Chief Financial Officer will ensure that Court members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

12. Use of external service providers

The University recognises the potential value of employing external providers of treasury management services in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons that have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review. It will further ensure, where feasible and necessary, that a spread of service providers is used to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, the University's procurement guidance will always be observed.

Where external service providers are appointed with the responsibility for day-to-day treasury matters the University will retain full responsibility for the safeguarding of its funds and setting the treasury strategy.

13. Banking arrangements

The University recognises the importance of ensuring effective control over its bank accounts. All funds due to the University are deposited in accounts with the University's main bank unless otherwise approved by the Chief Financial Officer. Banking arrangements will be subject to periodic review.

14. Corporate Governance

The University is committed to the pursuit of proper corporate governance throughout its businesses and services and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The University has adopted and has implemented the key recommendations of the CIPFA Code of Practice. This, together with the other arrangements detailed in the Schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Chief Financial Officer will monitor the effectiveness of these arrangements.

Schedule A

1. Risk management

1.1 Credit and counterparties

The University regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its approved counterparties and limits reflect a prudent attitude towards organisations with whom funds may be deposited.

In line with best practice set out in the CIPFA Code, our minimum acceptable long term counterparty ratings will be specified in terms of an equivalent rating across all three credit rating agencies – Moody's, S&P and Fitch. Where counterparties have ratings from multiple agencies, they should normally meet all agencies' ratings.

The Chief Financial Officer is responsible for monitoring the credit standing of approved counterparties. Where the Chief Financial Officer has reason to believe that a counterparty's credit standing is or may become impaired, lower limits than set out in this schedule should be set or the University should suspend dealings with that counterparty. Any change to approved counterparties should be advised to the Treasurer of the University. Approved counterparties include:

- UK and non-UK banks which meet our minimum acceptable long-term rating. Our current minimum acceptable long-term rating is S&P A- (Moody's A3, Fitch A-), which is regarded as the lowest level at which counterparties are regarded as 'upper medium grade' for investment.

- The Royal Bank of Scotland will continue to be included as a specific named counterparty.

- The limit for UK and non-UK Banks is £20 million unless otherwise specified.

- In order to support day to day operational banking, the counterparty limit with the University's Bankers, Lloyds / Bank of Scotland, will not ordinarily exceed £50 million. Within this limit, no more than £10 million will be held on deposit in accounts to which there is not instant access.

- The University may also invest in pooled funds with our cash managers, Royal London Asset Management (RLAM). The University is permitted to invest in RLAM's Short Term Money Market, Short Term Fixed Income and Short Term Fixed Income Enhanced funds. Use of these funds will be limited to 85% of total cash and deposits. Our use of RLAM funds is also subject to a minimum acceptable long-term rating of upper medium grade.

In the event that there are funds to deposit, the Chief Financial Officer is authorised to deposit surplus funds of the institution in accordance with the above policies.

The limits set out above may be amended only with approval of Court Business Group.

1.2 Liquidity

The University maintains an effective cash and cash flow forecasting and monitoring system which identifies the extent to which the University is exposed to the effects of potential cash flow variations and shortfalls on a daily basis.

The University's Policy is to maintain minimum cash balances of £1 million in instant access accounts and ensure that there are sufficient funds available at all times to meet operating costs.

The Chief Financial Officer is authorised to arrange short term overdraft facilities with the University's bankers.

1.3 Exchange rate exposure policy

The University's policy is to minimise exposure to exchange rate fluctuations. The University aims to conduct all transactions in GBP as its base currency and the currency which reflects the vast majority of its cost base. There will however be exceptions, such as EU research contracts, whereby the University will need to conduct transactions in other currencies.

Currency receipts, other than Euros, US Dollars and UAE Dirhams (AED), are converted to sterling upon receipt. Deposits of Euros. US Dollars and AED are retained where appropriate to cover anticipated currency payments, The balances on these bank accounts are reviewed monthly and any currency in excess of £500k plus known commitments is translated into sterling.

The Chief Financial Officer is authorised to buy and sell currencies with the University's bankers or other UK clearing banks up to a maximum of €5 million or $US 5 million.

Derivatives:

The University does not ordinarily undertake currency hedging arrangements. However, the Chief Financial Officer may consider it appropriate for a specific transactional requirement to enter into forward contracts, spot trades and options to mitigate foreign exchange risk.

Management of foreign exchange should not create additional risk and under no circumstances is it permissible for foreign exchange currency transactions to be undertaken on a speculative basis. Approval levels are set out in Schedule B.4.

1.4 Raising finance

The Chief Financial Officer will undertake, on behalf of the Court, any borrowing required by the University. In the event that the University needs to either renew existing borrowing facilities or obtain new facilities, the Chief Financial Officer will report to the Court Business Group to explain the basis of any such requirement. Once approved in principle the Chief Financial Officer, along with the University's financial advisors, will conduct an appropriate process with potential funders to secure the best terms for the University. Any arrangements are subject to final review and approval by the Court Business Group.

The Chief Financial Officer will prepare for Court Business Group a report, for each proposed borrowing, which will typically include the following:

- Borrowing requirement – reason for additional borrowing, amount required and period
- Proposed lender
- Interest rate structure – fixed, variable, variable with options to fix
- Interest cost
- Arrangement fees
- Security or other obligations required by the proposed lender
- Comparison with alternatives
- Arrangements for draw-down
- Offer terms for renewal or refinancing on maturity
- Legality
- Arrangements for compliance with the Financial Memorandum with the Funding Council
- Implications of the proposed arrangements on any negative pledge obligation with existing lenders
- The value of assets already held as security on existing capital projects
- Restrictions on the institution's use of its property assets required by covenants
- The maximum level of assets that should be provided as security without risking the overall stability of the University
- Any other matters which might assist Court Business Group in considering the proposal.

The Chief Financial Officer will report annually to Court Business Group on the University's external borrowings and projected borrowing requirements within the Treasury Management Appendix to the Annual Budget and Financial Forecasts and will provide quarterly updates on forecast covenant compliance in Quarterly Business Reports.

Schedule B

1. Tendering

The Chief Financial Officer will review at an appropriate frequency the quality and cost of the following services and if deemed necessary will undertake a tender exercise in respect of any of these services:

- Banking services
- Fund management services
- Financial advisor
- Cash management, money broking services and general financial advice

The tender process will be that normally followed by the University, contained within its Financial Regulations and Procurement Policy. Court Business Group is responsible for the appointment of the service provider on the recommendation of the Chief Financial Officer.

2. Performance measurement

2.1 In house performance

The benchmark for interest earned on self-managed funds will be:

£	Bank of England base rate
Euros	Euro base-rate
US$	US base-rate

Performance reports will show funds held, interest earned and comparison to benchmarks.

2.2 Investment Managers

Benchmarks and reporting requirements will be set out in agreement with the Investment Manager.

The University currently uses the services of two Asset Management companies to manage its investment portfolios of endowment funds, and general funds for use on a continuing basis in the activities of the University. Current arrangements with these investment managers are detailed below.

Newton Investment Management

Newton Investment Management manage three funds on behalf of the University by the Main Endowment Fund, the Hunter Endowment and the General Fund.

Quarterly reports contain the following information:

- a performance review
- a portfolio report including portfolio performance and activity and outlook,
- a statement of change of net assets

- a portfolio allocation (including comparison to benchmark) - by asset class by region in % and by equity sector in %
- performance attribution by asset class and region and by equity sector in %
- transaction highlights

The quarterly statements are supported by monthly reports, which are provided for each fund. Included in those statements are a reconciliation of net assets, a trading statement, an asset valuation (by holding), cash statement and income statement.

Benchmarks for each of the 3 funds have been agreed with the investment manager following consideration of the investment objectives of each fund and are detailed in the quarterly reports.

The performance review section of the quarterly reports for each fund includes the following performance information – gross return, net return and performance benchmark for:

- this quarter
- 1 year
- 3 years annualised
- 5 years annualised
- Since inception

An additional quarterly report is provided for each fund outlining environmental social and governance engagement undertaken on behalf of the portfolio during the quarter.

Evelyn Partners

Evelyn Partners manage four University funds - the Glaxo Jack Endowment, the Pakistan 50th Anniversary Fund, the Robertson Endowment and the Small Endowments Fund.

Quarterly reports contain the following information:

- Market comment
- Portfolio performance analysis
- Risk and return – reviewing portfolio volatility relative and performance relative to index returns
- Portfolio analysis - by asset class in % and equities by geographical sector in %
- Portfolio valuation
- Transaction Statement
- Cash statement.

Benchmarks for each of the 4 funds have been agreed with the investment manager following consideration of the investment objectives of each fund.

The performance review section of the quarterly reports for each fund includes the following performance information – the net portfolio returns and various index returns for:

- 3 months
- 6 months
- 1 year
- 3 years
- 5 years

An annual portfolio review is provided which provides a summary of performance of the portfolio and a comparison of its total return against agreed benchmarks.

2.3 Cash Managers

Benchmarks and reporting are agreed with the Cash Manager. Current arrangements with the cash manager are detailed below.

Monthly reports will be provided for each of the RLAM funds (Short Term Money Market, Short Term Fixed Income and Short Term Fixed Income Enhanced) via monthly factsheets.

The factsheets include details of asset allocations, credit rating profile, weighted average maturity and fund performance.

The benchmark for each of the funds is SONIA. Fund performance relative to SONIA is reported for:

- the current month and two previous months
- the past 6 months
- 1 year
- 3 years annualised
- 5 years annualised
- Cumulative 5-year performance

2.4 Debt Management

Debt management costs are measured as cost per £M of borrowings. The annual treasury management report will include:

- Average interest rate on debt
- Average interest rate on debt borrowed in the most recent financial year
- Average period to maturity of external debt
- Proportion of fixed and variable rate debt
- Headroom relative to SFC borrowing consent threshold (annualised costs of capital finance relative to 4% of total income reported in latest audited financial statements)

3. Approved instruments, methods and techniques

The overriding principle guiding the investment of surplus funds is to achieve a satisfactory return while reducing the risk to a level acceptable to Court.

Surplus cash balances may be invested with Banks and in RLAM pooled funds in accordance with the approved credit and counterparty limits as set out in Schedule A.

Sums cannot be invested for a period of greater than six months without prior agreement of the Treasurer of the University.

The University has appointed external fund managers to manage the investment of endowment funds under discretionary management arrangements subject to agreed parameters. These parameters are reviewed annually and updated, if appropriate, to take account of factors including the University's sustainable investment objective.

The University's sustainable investment objective is "To implement a considered responsible investment strategy in line with the University's strategy, values and as a socially progressive institution. The responsible investment strategy will consider a range of environmental, social and governance issues and it will inform any changes to the University's investment portfolio."

In addition to its Treasury Management activities, the University may also invest in spin-out companies and other commercial investments. These will be reviewed by the Enterprise and Investment Committee, which operates in accordance with the University's investment activity objectives, strategy and policy and with the Court Schedule of Delegated Authority.

4. Organisation and segregation of responsibility

4.1 Court Business Group

- Approval of and consideration of amendments to the University's treasury management policy and practices.
- To review borrowing requirements and approve borrowing facilities.
- Approve entering into foreign exchange derivative contracts with a nominal value of over £1 million.
- Receiving and reviewing reports on treasury management policies, practices and activities.
- Approving the selection of external service providers and agreeing terms of appointment.

4.2 Chief Financial Officer

- Recommend the treasury management policy and practices for approval, review these on an appropriate regular basis and monitor compliance.
- Receive and review management information reports and to provide at least annually a treasury report to Court Business Group.
- Review the performance of the treasury management function and promote best value reviews.

- Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Recommend the appointment of external service providers.
- Operate foreign bank accounts to the extent that they are necessary to facilitate the operational activities of the University.
- Arrange borrowings as agreed by Court Business Group.
- Approve entering into foreign exchange derivative contracts with a nominal value of £1 million or less.

4.3 Director of Finance

- Approve the deposit of surplus funds as required in line with the agreed treasury strategy and in accordance with the approved credit and counterparty limits as set out in Schedule A.

4.4 Deputy Director of Finance, Financial Management and Reporting

- Oversight of the day-to-day activities of the Financial Accountant.

4.5 Financial Accountant

- Recommend transactions necessary to support the agreed treasury strategy, for approval by the Director of Finance / Deputy Director of Finance, Financial Management and Reporting.
- Initiate transactions in accordance with the agreed strategy, policy and procedures, for approval by the Director of Finance / Deputy Director of Finance, Financial Management and Reporting.
- Adhere to agreed policies and practices on a day-to-day basis.
- Maintain relationships with third parties and external service providers.
- Prepare and maintain systems documentation relating to the treasury function.
- Monitor cash flows on a daily basis.
- Submit management information reports to the Director of Finance and Chief Financial Officer.
- Prepare weekly fund reports.
- Identify and recommend opportunities for improved practices.

5. Reporting requirements and management information

The Chief Financial Officer will provide an annual Treasury Management report to Court Business Group and Court as an Appendix to the Annual Budget and Financial Forecasts, which will cover the following:

- Commentary on treasury operations for the year including:
  - material treasury decisions
  - investment returns

  - cost of borrowing.

- Cash flow compared with budget and commentary on variances.
- Annual financial strategy for the next financial year.
- Proposed amendments to the treasury management policy statement.
- Matters in respect of which the treasury management policy statement has not been complied with.
- Analysis of currently outstanding loans, deposits and investments by instrument, counterparty, maturity and interest rollover period.
- Commentary on continued application of annual financial strategy and proposals for amendments thereto.
- Details of any financial guarantees provided to third parties.

The Chief Financial Officer will provide Court Business Group with quarterly updates on forecast covenant compliance in Quarterly Business Reports.

The following periodic reports will be prepared by the Financial Accountant:

- Weekly report on cash balances and cash movements to the Chief Financial Officer.
- Proposed amendments to approved counterparties.
- Proposed amendment to treasury systems document.
- Revisions to cash flow forecast and to estimates of future interest rates; effect on annual financial strategy and on revenue budget.

Lucy Noble
Acting Chief Financial Officer
14 September 2023

Appendix 4 – Additional information re RLAM deposits

In September 2016, as part of its approval of the Treasury Management Policy, Court approved the University's investment of cash with RLAM through 'pooled fund solutions'. These provide a blended approach: by segmenting cash into risk tranches, greater diversification can be achieved, increasing yield and reducing risk for a given level of return.

Cash is placed with RLAM by buying units, and the capital and returns realised by selling those units at a later date at a higher price. The low price volatility gives a high degree of certainty of achieving a given yield for a given level of risk.

Under a pooled fund approach, cash is allocated to one of three tranches based on the time horizon within which the University forecasts requiring use of that cash:

Time horizon	**Features of fund appropriate for investment of cash**
Core and operational cash that needs to be immediately accessible	– Bespoke treasury management and/or money market funds with a variable net asset value but very low volatility. – Very short duration assets (maximum 60 days) from high quality institutions. – Typically a AAA rated fund.
Cash to be invested for 6 months or longer	– A fund invested in assets with 3-9 month duration, primarily money market instruments with a high level of liquidity but very low volatility, giving a return higher than a pure liquidity fund – Typically a AAA rated fund.
Cash to be invested for 12 months	– Fund required to be low risk, but to deliver a higher level of return. Generally invested in assets with >6 month duration, of low volatility. – Fund includes cash, short-dated credit, gilts and floating rate notes. – Typically a AA rated fund.

The advantage of the second and third tranches is that they broaden the range of available investment assets, increasing diversification and mitigating default risk. In particular, RLAM highlight the use of covered bonds. These assets are debt securities backed by cash flows from mortgages or public sector loans. As such, they are excluded from any UK and EU 'bail-in' provisions, and are more attractive in relation to the risk of failure of a financial institution compared to direct cash deposits. Investors have dual recourse to both the issuing bank and the underlying assets in the event of a default, making them a relatively secure option. Covered bonds also tend to pay a higher yield than certificates of deposit issued by the same entity.

The University invests in three funds aligned to each of the three tranches outlined above:

- Short Term Money Market Fund – a liquid and diversified fund, rated AAAmmf by Fitch. Investment objective is to preserve capital and provide an income by outperforming the Bank of England Sterling Overnight Interbank Average (SONIA) over rolling 12-month periods

- Short Term Fixed Income Fund – a liquid and diversified fund providing higher yields than the Short Term Money Market fund; a broader investment base and longer fund duration, rated AAAf/S1 by Fitch. The Fund's investment objective is to achieve a total return over rolling 12-month periods by primarily investing in short term fixed income securities. The Fund's performance target is to outperform, before the deduction of charges, SONIA by 0.50% per annum over rolling 12-month periods.

- Short Term Fixed Income Enhanced Fund -– a liquid and diversified fund providing higher yields than the Short Term Money Market and Short Term Fixed Income Funds through a broader investment base (including more Fixed Rate Notes) and longer fund duration, rated AAf/S2 by Fitch. The Fund's investment objective is to achieve a total return over rolling 12-month periods by generally investing in short term fixed income securities. The Fund's performance target is to outperform, before the deduction of charges, SONIA by 1.00% over rolling 12-month periods

The asset allocations for each of the funds are shown below:

Short Term Money Market Fund

Asset allocation	Minimum	Maximum	Notes
Money market instruments	25%	100%	Includes certificates of deposit, time deposits, corporates and treasury bills (< 397 days)
Covered bonds Floating and fixed	0%	30%	Covered bonds issued by banks and building societies (< 397 days)
Corporate bonds Floating and fixed	0%	20%	Bonds issued by financial and non-financial corporates with a minimum credit rating of AA- (< 397 days)
Gilts / supranational	0%	75%	UK government and supranational issuers with a minimum credit rating of AA (< 397 days)

Short Term Fixed Income Fund

Asset allocation	Minimum	Maximum	Notes
Money market instruments	50%	100%	Includes certificates of deposit, time deposits, corporates and treasury bills
Covered bonds & corporate bonds Floating and fixed	0%	50% (Corps max 20%)	Covered bonds issued by banks and building societies Bonds issued by financial and non-financial corporates with a minimum credit rating of AA-
Gilts / supranational	0%	25%	UK government and supranational issuers with a minimum credit rating of AA

Short Term Fixed Income Enhanced Fund

Asset allocation	Minimum	Maximum	Notes
Money market instruments	25%	100%	Includes certificates of deposit, time deposits, corporates and treasury bills
Covered bonds Floating and fixed	0%	50%	Covered bonds issued by banks and building societies
Corporate bonds Floating and fixed	0%	50%	Bonds issued by financial and non-financial corporates (investment grade only)
Asset backed securities (ABS) & mortgage backed securities (MBS)	0%	20%	Asset backed bonds issued by financial and non-financial corporates with a minimum rating of AA-
Gilts / supranational	0%	25%	UK government and supranational issuers

All units in these funds can be realised at two days' notice notwithstanding the longer investment horizons of Short Term Fixed Income Fund and Short Term Fixed Income Enhanced Fund. If a significant value is realised earlier than the investment horizon of a fund this may attract direct transaction costs, which would result in a lower return over the investment period.