



## **MORLEY COLLEGE LONDON**

### **Treasury Management Policy**

<b>POLICY OWNER:</b>	Chief Finance Officer
<b>FINAL APPROVAL BY:</b>	Governing Body
<b>Policy Category:</b>	Corporate
<b>Approved by Policy Committee:</b>	9 May 2022
<b>Approved by Governing Body:</b>	12 December 2022
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## 1. Introduction and Purpose

This policy sets out the principles, practices, and objectives of Morley's treasury management activities, as agreed by the Governing Body.

## 2. Policy Statement

- a) The College adopts the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA's Treasury Management in the Public Services: Code of Practice)
- b) The College in compliance with the CIPFA Code of Practice, defines Treasury Management activities as:

*The management of the College's cash flows, 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 these risks.*

- c) The College 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.
- d) The College recognises its social and environmental obligations, and will endeavour to ensure that treasury management activities align with college values.
- e) The College acknowledges that effective treasury management will provide support towards the achievement of its strategic objectives. It is therefore committed to the principles of achieving best value in treasury management and to employing suitable performance measurement techniques within the context of effective risk management.

## 3. Risk Management

### General statement

The Chief Finance Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report annually on their adequacy and suitability and will report promptly the circumstances of any actual or likely difficulty in significantly not achieving the College's objective in this respect. In respect of each of the following risks, the arrangements, which seek to ensure compliance with these objectives, are set out:

#### a) Liquidity Risk Management

*Liquidity risk is defined as the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the institution's business objectives will be compromised.*

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

#### b) Interest Rate / Inflation Management

*Interest Rate risk is defined as the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the institution's finances, against which the institution has failed to protect itself adequately.*

The College will manage its exposure to fluctuation in interest rates with a view to containing its interest costs, or securing its interest revenues while maintaining the security of the invested funds. 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 to the level or structure of interest rates.

**c) Exchange Rate Risk Management**

*Exchange Rate risk is defined as the risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the institution's finances, against which the institution has failed to protect itself adequately.*

The College will retain funds in currencies only to the extent that payments are due to be made in these currencies. Currency receipts surplus to this will be transferred into sterling at the best rate achievable, but always retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level of exchange rates.

**d) Credit and Counterparty Risk Management**

*Credit and Counterparty Risk is defined as the risk of failure by a third party to meet its contractual obligations to the institution under an investment, borrowing, capital, project or partnership financing, particularly as a result of third party diminished creditworthiness, and the resulting detrimental effect on the institution's capital or revenue resources.*

The College regards the prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty list is constructed with security in mind, but with a reasonable spread to make the most of market conditions. The list will be reviewed on a continuing basis and at least annually.

**e) Refinancing Risk Management**

*Refinancing risk is defined as the risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the institution for those refinancings, both capital and revenue, and / or that the terms are inconsistent with prevailing market conditions at the time.*

The College will ensure that its borrowings, private financing and partnership arrangements are negotiated, structured and documented and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for the renewal or refinancing, if required, which are competitive and as favourable to the College as can reasonably be achieved in the light of market conditions prevailing at the time. The College will manage its relationship with its counterparts to secure this objective and will avoid over-reliance on any one source of funding.

**f) Legal and Regulatory Risk Management**

*Legal and Regulatory risk is defined as the risk that the institution itself, or a third party with which it is dealing, fails to act in accordance with its legal powers or regularity requirements, and that the institution suffers losses accordingly.*

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

**g) Fraud, Error and Corruption and Contingency Management**

*This is defined as the risk that an institution fails to identify the circumstances in which it may be exposed to risk of loss through fraud, error, corruption or other circumstances in its treasury management dealings and fails to employ suitable systems and procedures and maintain effective contingency management arrangements.*

The College will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, the College will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends. Insurance cover will be taken out and the responsible officials included within it.

#### **h) Market Risk Management**

*Market Risk is defined as the risk that, through adverse market fluctuations in the value of the principal sums it invests, its stated treasury management policies and objectives are compromised and it has failed to protect itself.*

The College 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 sum fluctuations.

### **4. Performance Measurement**

The College is committed to the pursuit of best value in its treasury management activities and to the use of performance measuring in support of that aim. Accordingly, the treasury management function will regularly examine alternative methods of service delivery to ensure best value and will measure its performance using appropriate benchmarks.

### **5. Decision Making and Analysis**

The College 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 demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

### **6. Approved Instruments and Techniques**

The College will undertake its treasury management activities by employing only those instruments, methods and techniques as detailed in Schedule C below and within any limits approved by the College or specified in the College's Financial Regulations, Treasury and Investment Policy.

### **7. Organisation, Clarity and Segregation of Responsibilities**

For the purposes of effective control and monitoring of its treasury management activities, the College, through the Chief Finance Officer will seek to ensure that there are clear written statements of the responsibilities for each post engaged in treasury management and the arrangements for absence cover. (See Schedule D below).

### **8. Reporting Requirements and Management Information Arrangements**

The College will seek to ensure that an annual report is prepared and considered on the implementation of its treasury management policies, on the effects of decisions taken and transactions executed in pursuit of those policies:

The Governing body will receive

- a) An annual report on the strategy and plan to be pursued in the coming year.
- b) An annual report on the performance of the treasury management function, on the effects of decisions taken and the transactions executed in the past year, and

on any circumstances of non-compliance with the College's treasury management policy statement and policies.

- c) An annual report on the performance of any external service providers including fund managers.

## **9. Budgeting, Accounting and Audit Arrangements**

The Chief Finance Officer will prepare and the Governing Body will approve and, if necessary, from time to time will amend, an annual budget, which will include income, and costs associated with treasury management activities. The matters to be included in the budget will, at minimum, be those required by statute or regulation.

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

The College will seek to ensure that its auditors, both external and internal and those 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

## **10. Cash and Cash Flow Management**

The Chief Finance Officer is responsible for all College monies. All funds will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Chief Finance Officer will seek to ensure that these are adequate for the purpose of monitoring compliance with Treasury Management Policy Liquidity Risk.

## **11. Money Laundering**

The College is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving money laundering. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties, reporting suspicious activity and ensuring staff involved in this are properly trained. Staff will be made aware of the provisions of the Money Laundering, Terrorist Financing and Transfer of Funds (Information of the Payer) Regulations 2017 and associated legislation such as the Terrorism Act 2000 (as amended), and the Proceeds of Crime Act 2002 (as amended).

## **12. Staff Training and Qualifications**

The College recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake their duties and responsibilities. The College 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 Finance Officer will take responsibility for the necessary arrangements.

## **13. Use of External Providers**

The College will evaluate the costs and benefits involved when employing external specialists. It will also endeavour to ensure that the terms of such external providers are assessed and properly agreed and documented and subjected to regular review. Where services are subject to a formal tender or re-tender arrangements, legislative requirements will always be observed. The College's standard procurement processes

will be followed and value for money assessed taking into account all relevant factors including the cost, quality, reliability and the ethical positioning of the service.

#### **14. Corporate Governance**

The College is committed to the pursuit of proper corporate governance throughout its businesses 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.

#### **15. Review and Monitoring of the Policy**

The Policy will monitored by the Finance Resources and Sustainability Committee and reviewed by the Governing Body on a triennial basis or more frequently should circumstances require it.

#### **16. Schedules to the Statement of Treasury Management Practices**

##### **Schedule A – Risk Management**

##### **1. Liquidity**

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

To that end, the Annual Treasury Management Strategy will include a target month end cash balance of £2,500k excluding major capital spend.

Cash balances surplus to working capital operational needs are invested in interest bearing bank accounts or on the money market to maximise income for the College.

The Finance Team will be responsible for the regular reporting of debtors and creditors.

A debt collection agency may be used for individual debtors in accordance with procedures agreed by the Chief Finance Officer.

Creditors will be settled in accordance with invoice terms, except where the amounts are in dispute. Where specific terms are not given settlement should be made within one month. Payment performance will be reported in the College Financial Statements (subject to the requirements of the Statement of Recommended Practice (SORP) for the Sector.

##### **2. Exchange Rate Exposure Policy**

The College's policy is to avoid exposure to exchange rate fluctuations.

Currency receipts should be transferred into sterling within one month of receipt, except where currency should be retained on deposit to cover any payments.

The Chief Finance Officer is authorised to buy and sell currencies with any of the organisations listed below:

<b>Institution</b>	<b>Limits</b>
NatWest Bank	£50k
Others	To be approved by the Finance, Resources and

	Sustainability Committee if required
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**3. Credit and Counterparty Lists**

The Chief Finance Officer is responsible for monitoring the credit standing of approved counterparties. Where there is a reason to believe that a counterparty’s credit standing is, or may, become impaired, lower limits will be applied. Any change to the counterparty list should be advised to the Governing Body.

Funds may be invested with approved counterparties providing they carry a minimum A+/A1 rating or better from one of the recognised credit rating agencies, i.e. Standard & Poors, Moodys or Fitch IBCA

**4. Financing and Refinancing**

If the College intends to raise capital for new projects and/or intends to refinance the whole or part of an existing debt portfolio, the Chief Finance Officer will have regard to:

- the level of security required for the project (if required)
- the maximum level of assets that could be provided as security without adversely affecting the stability of the College
- the value of assets already pledged as security on any existing facilities
- requirements of the Education & Skills Funding Agency (under the Financial Memorandum)
- any statutory restrictions and the College’s own powers/rules
- restrictions on the College’s use of its property assets required by loan documentation/and other covenants
- Proposed lender
- comparison with alternatives
- main terms and covenants
- the costs involved (associate fees, arrangements and otherwise)
- the level and nature of interest rates charged and structure in the current market place

**Schedule B – Best Value and Performance Measurement**

**1. Best Value**

The College currently makes use of the banking facilities provided by NatWest plc. The College will from time to time re-tender for the provision of day to day banking services. Any appointment will, in the first instance be for a period not exceeding five years.

The following services will be subject to tender every 5 to 10 years;

- Fund management services (if applicable)
- Financial Adviser/Merchant Bank (if applicable)
- Cash management, money broking services and general financial advice

**2. Performance Measurement**

**a) In house performance**

The table below sets out the target benchmarks for in-house investment performance.

Currency	Benchmark Target
Euros	N/A

US\$	N/A
£ - under £0.1m	0.25% p.a.
£ - under £0.5m	0.5% p.a.
£ - over £0.5m	0.75% p.a.

**b) Investment Managers (If applicable)**

Benchmarks for the above are normally agreed with the Investment Manager and documented as such

**c) Debt Management**

The Chief Finance Officer will, having regard to the annual budget, set targets to quantify:

- Borrowing costs
- Interest rates
- Debt levels

**Schedule C – Approved Instruments, Methods and Techniques**

**1. Investment and Deposit of Surplus Funds**

- a) The overriding principle guiding the investment of surplus funds is to **achieve a satisfactory return while keeping risk to an acceptable level.**
- b) Surplus cash balances may be invested as follows:
- **Deposits** with approved banks
  - **Deposits** with approved building societies
  - **Certificates of deposit** issued by approved banks
  - **Deposits** with approved Money Market Funds

**Schedule D – Organisation, Segregation of Responsibilities and Dealing Arrangements**

**Responsibilities of Treasury Management Posts**

**1. The Governing Body**

The Governing Body has specifically reserved to itself the approval of all borrowing and the approval of Treasury Management Policy. The Governing Body will:

- a) consider the terms and conditions of any proposed borrowing, taking account of the impact of the borrowing, any covenants and provision of security on the overall stability and financial health of the College.
- b) approve an annual financial strategy.
- c) receive and review reports on treasury management policies, practices and activities.
- d) periodically consider any amendments to the treasury management policy statement and practices.
- e) budget consideration and approval.
- f) approve the division of responsibilities.
- g) receive and review external audit reports and follow-up action.
- h) approve selection of external service providers and agree terms of appointment.



## **2. Chief Finance Officer**

The Chief Finance Officer on behalf of the Principal, will be responsible for and have delegated authority to:

- a) Prepare an annual financial strategy as part of the budget process for approval by the Governing Body. In preparing the financial strategy the Chief Finance Officer will provide:
  - a. An annual forecast of surplus funds and loan repayment requirements for the coming financial year
  - b. A strategy for funding the College's capital finance proposals and investment of surplus cash for the period covered by the financial forecast.
- b) In preparing the strategy, the Chief Finance Officer will have regard to:
  - a. The maintenance of a stable financial position and the need to ensure the availability of resources to meet commitments, uncertainties inherent in the planning process and from the timing and amount of cash flows.
  - b. The current level and future forecasts of interest rates.
  - c. The proportion of borrowings which is subject to variable interest rates.
  - d. Policies contained in other documents, including:
    - i. The strategic plan
    - ii. The revenue budget and capital programme
    - iii. The estates strategy
  - e. Working capital management
  - f. The aggregate of all funds, loans and accounts operated by the College.
- c) Negotiate terms and conditions for raising capital finance for approval by the Governing Body.
- d) Recommend clauses, to be incorporated in treasury management policy and practices for approval, reviewing the same regularly and monitoring compliance
- e) Submit regular treasury management policy reports.
- f) Submit budgets and budget variations
- g) Receive and review management information reports.
- h) Review the performance of the treasury management function and promoting best value reviews.
- i) Ensure the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function.
- j) Recommend the appointment of external service providers.
- k) Confirm bank signatories for the College and its associated entities.

## **3. Finance team**

The Finance team will be responsible for:

- a) Execution of transactions.
- b) Adherence to agreed policies and practices on a day to day basis.
- c) Maintaining relationships with third parties and external service providers.
- d) Supervising treasury management staff.
- e) Monitoring performance on a day to day basis.
- f) Submitting management information reports to the Chief Finance Officer
- g) Identifying and recommending opportunities for improved practices.

#### **4. Reporting Requirements**

The following matters should be included in reports to the Governing Body

##### **a) Annual Report to Governors**

- Commentary on treasury operations for the year.
- Cash flow compared with budget and commentary on variances.
- Annual financial strategy for the next financial year as part of the annual budget-setting process
- Proposed amendments to the treasury management policy statement.
- Matters in respect of which the treasury management policy statement has not been complied with.

##### **b) Periodic Reports**

- Analysis of currently outstanding loans, deposits and investments by instrument, counterparty, maturity and interest rollover periods.
- Commentary on treasury operations for the period.
- Cash flow compared with budget and commentary on variances.
- Commentary on continued applicability of annual financial strategy and proposals for amendments.
- Revisions/adjustments to the future 12 month cash flow forecast and an estimation of future interest rates and the effect on annual financial strategy and revenues.
- Proposed amendments to list of approved counterparties and to limits attached thereto.
- Proposed amendments to treasury systems documents.
- Matters in respect of non-compliance with treasury management policy.