

GOLDSMITHS
University of London

TREASURY MANAGEMENT POLICY STATEMENT

This Policy was first introduced in 2005, and was revised by Council on 14 December 2006 (paper S06.185) and on 27 November 2008 (08-381).

1 Introduction

This statement sets out Goldsmiths' College's policy concerning raising finance and investment of surplus monies. It also deals with internal movement of surplus funds between accounts established by the College. This Policy is referred to in the Financial Regulations of the College as an authoritative document. A copy has been forwarded to both internal and external audit for information purposes.

2 Approved Activities

Treasury management comprises the management of all cash, money market investments and capital market transactions in connection with the cash and funding resources of the College and the control of associated risks.

All Treasury management activities involve risk and potential reward. The policy of the College on borrowing is to minimise cost whilst maintaining the stability of the College's financial position by sound debt management techniques. The objective for lending purposes is to achieve the best possible return whilst minimising risk. The overriding principle is to avoid risk rather than to maximise return.

3 Finance and Resources Committee

Within the provisions of this policy and its own terms of reference, the Committee is responsible for giving authorisation to the Director of Finance and the nominated members of his staff:

- (a) on an annual basis, to deposit surplus funds of the College with organisations approved by the Committee on an annual basis, as listed in Appendix III;
- (b) from time to time, to refinance or borrow individual sums as dictated by the College's Financial Strategy.

The College will not undertake currency risk and accordingly will not borrow or deposit funds denominated in foreign currencies other than Euro accounts kept for where payment is required in Euros (usually under European Union Research projects.)

4 Formulation of treasury management strategy

The Director of Finance will prepare for the approval of Finance and Resources Committee as part of the five years' forecast each year:

- (a) An annual forecast of surplus funds and loan repayment requirements for the coming financial year

and

- (b) A strategy for funding the College's capital finance proposals and lending surplus cash for the period covered by the forecast.

In preparing the strategy the Director of Finance will have regard to:

- (a) The maintenance of the stable financial position of the College. He or she will ensure that the College has appropriate facilities available to meet its capital and interest repayments; for funding needs arising from uncertainties inherent in the planning process and from the timing and amount of cash flow;
- (b) The current level of interest rates and forecasts of future changes in interest rates. He or she will prepare a recommendation for approval by Finance and Resources Committee of any new proposals to raise capital finance and the impact of forecast interest rates on these proposals. In addition he or she will indicate the maximum proportion of interest on borrowing, which is subject to variable rates of interest;
- (c) Working capital management, including debt collection policy on creditor payments, including payroll;
and
The aggregate of all funds, loan and accounts operated by the College.
- (d) The need for investments to have due regard to ethical considerations.

Based on the annual forecast the Director of Finance will prepare monthly rolling forecasts of the short term surplus cash for the purpose of applying the Strategy on a day-to-day basis. The results of applying the Strategy will be reported to Finance and Resources Committee if significant. Where applicable, during the course of the year, the Director of Finance will recommend amendments to the Strategy to Finance and Resources Committee.

The Director of Finance has the authority (as indicated at 3) to carry out the College's Strategy for depositing surplus funds and managing the cash flow of the College. In exercising these powers he or she will have regard to the perceived credit risk associated with the approved organisation with which funds may be deposited or invested. Also, the effect of possible changes in interest rates on the cost of borrowing and the return from investing and the need to maintain adequate liquid funds to meet the College's obligations.

*NB. More detailed guidance concerning the contents of the Annual Financial Strategy is set out in **Appendix I** of this statement.*

5 Approved methods of raising capital finance

Any particular borrowing for capital purposes must have the specific authority of Finance and Resources Committee, and also of Council if the borrowing concerned exceeds the authority of Finance and Resources Committee.

Finance and Resources Committee will make recommendations to Council on the basis of a report from the Director of Finance for each proposed capital borrowing. The report may include the following:

- Borrowing requirements
- Proposed lender
- Interest rate structure-fixed, variable, variable with options to fix, index linked, deferred interest
- Interest rate-base plus lender's margin
- Arrangement fees
- Security arrangements (further guidance is included at **Appendix II**)
- Purpose (with cashflows)
- Comparisons with alternatives
- Arrangements for draw-down
- Legality
- Arrangements for compliance with the Financial Memorandum with the HEFCE
- Any other matters which might assist Finance and Resources Committee in considering the proposal

6 Approved Sources of Finance

In raising capital finance the Director of Finance is authorised to approach any bank or financial institution in the UK.

7 Investing and Depositing of Surplus Funds

- (a) The overriding principle guiding the investment of surplus cash balances is the preservation of the capital value of the College's resources. The Director of Finance has delegated authority to invest the surplus funds of the College in accordance with the Annual Financial Strategy and in accordance with the terms of this Statement. He or she is authorised to deposit or invest funds only with organisations and subject to the limits set out in **Appendix III** of this Statement and approved annually by Finance and Resources Committee.
- (b) The Director of Finance is responsible for monitoring the creditworthiness of approved deposit takers using appropriate external sources of information including credit agency reports and limiting exposure where appropriate. Individual limits can only be exceeded with the prior consent of Finance and Resources Committee.
- (c) The College will limit its investment of surplus funds to organisations with a credit rating of AA- or above.

8 Interest Rate Exposure

- (a) The Director of Finance is responsible for monitoring the College's interest rate exposure and for determining the interest rate exposure strategy within the limits set by this Statement and the Annual Financial Strategy.
- (b) The principal factor governing the exposure of surplus funds to interest rate movements is the College's cashflow forecast. Where surplus funds are required to meet possible cash outflows in the near future they will necessarily be deposited short term for periods which will ensure that funds are available. For investment for longer periods, the Annual Financial Strategy will give guidance on interest rate exposure policy.

(Further details at **Appendix IV.**)

9 Legal Issues

Prior to entering into any borrowing or investment transaction it is the responsibility of the Director of Finance to satisfy him or herself by reference (if necessary) to the College's legal advisors (via, as appropriate, the Registrar and Secretary) that the proposed transaction does not breach any statute, the College's Financial Regulations, the requirements of the Financial Memorandum with the Funding Council or any terms and covenants concerning borrowing.

10 Use of External Managers

- (a) The College has appointed Royal London to act as external managers of the College's short-term balances. The terms of engagement of the external managers, which sets out in detail the matters for which the external managers are responsible, together with the demarcation between external managers' responsibilities and those of the College's own staff, are available from the Director of Finance. The terms of engagement formally require the external managers to be bound by the requirements of this Statement and the Annual Financial Strategy. The terms of engagement have been approved by the Director of Finance.
- (b) External managers have been appointed with responsibility for day-to-day treasury matters, but the College retains full responsibility for the safeguarding of its funds and setting the treasury strategy. Consequently all of the matters set out in this Statement and the Annual Financial Strategy continue to apply to those areas of Treasury management with which the external managers deal including, in particular, the policy for interest rate exposure and credit policy, although it is recognised that the external managers will be consulted in drawing up the aspects of Treasury policy relevant to their work.
- (c) The College will keep the External managers appointed under review. Internal Audit, as part of their programme of work, or the Finance Department will ensure a review of the arrangement is conducted annually.

11 Delegation

The College has drawn up and approved a scheme of delegation for the operation of treasury policy, a summary of which is set out in **Appendix V.**

12 Review and reporting

The Director of Finance reports as and when required to Finance and Resources Committee but, as a minimum, a summary management report will be presented three times per annum.

13 Systems and Procedure

The Director of Finance maintains the treasury systems document which sets out the detailed systems and procedures which are in place to ensure delivery of the approved policy.

14 Risk Management

The Director of Finance will endeavour to identify and control risk. The following areas are key:

Liquidity Risk: The Annual Forecast and Budget; the Annual Accounts and the Half Year Forecast, all prepared at different times of the year highlight any liquidity shortfalls. Also regularly updated cash flows will give an early warning and allow timely action to be taken.

Interest Rate: HEFCE's Financial Memorandum places an effective upper limit to the College's exposure to interest risk but it is essential to continually assess the likely impact of forecast changes to interest rates.

Exchange Rate Risk: Limited funds are held in Euros to cover the costs of European research projects denominated in Euros, otherwise all funds are held in sterling and therefore exchange risks are minimal.

Legal and Regulatory Risk: Where necessary independent advice will be followed prior to entering into agreements ensuring that this risk is minimised.

Fraud, Error and Corruption: Relevant duties are segregated within the Finance department. Also, the College's system of internal control, including the Audit Committee, the operation of external independent internal audit system and the various audits, which can be initiated by the HEFCE act to further, protect against this risk. Furthermore, internal audit will be expected to conduct an annual review to ensure that material aspects of the investment guidelines and delegations from Finance and Resources are adhered to.

Market fluctuation: The overriding aim of the Investment policy is security of the College's capital. Also only financial institutions with excellent credit ratings are used. (A definition of the standard and poor ratings is shown in **Appendix VI.**)

MATTERS TO BE INCLUDED IN THE ANNUAL FINANCIAL STRATEGY

Forecast cash flows for the next financial year and for the next (five) financial years.

Maturity ladder of existing loans.

Analysis of present levels of short and long term interest rates, comparison with historical trends and estimated trend movements in interest rates over the next financial year.

Proposals to be submitted to Finance and Resources Committee for information and approval:

Total outstanding borrowing;

Maximum proportion of interest payable on variable rate borrowing.

Strategy for financing new loan requirements over the next (five) years (if required):

Proposed sources of finance;

Proposed maturity structure;

Whether fixed or floating rate (etc) and if floating rate proposed rollover periods suggested mechanisms for controlling interest rate exposure;

Estimated rates of interest;

Effect of proposed loans on the College's overall security position;

Proposed new maturity ladder;

Estimate effect on revenue budget of financing strategy;

Expected maximum total outstanding and expected maximum proportion of interest payable on variable rate borrowing.

In respect of surplus funds:

The extent to which surplus funds are earmarked for short-term requirements or to repay maturing loans, if applicable;

the extent to which surplus funds should be held available to meet contingencies;

the proposed strategy (type of instrument and maturity period) for each of:

- (a) surplus funds earmarked for short term requirements or to repay loans
- (b) surplus funds to be held available to meet contingencies
- (c) surplus funds not held against an anticipate requirement, and
- (d) the revenue effect of the proposed strategy.

Changes to the organisations and limits set out in Appendix III of the Treasury Management Policy statement. Proposals to be submitted to Finance and Resources Committee and Council for amendments to the Treasury Management Policy statement.

POLICY FOR SECURITY TO BE USED ON LOANS

Where it is the intention of the College to raise capital for new projects the Director of Finance will have regard to:

- (a) the level of security required for the project;
- (b) the value of assets already held as security on existing capital projects;
- (c) requirements of the financial memorandum with the funding council;
- (d) statutory restrictions and the and the College's own powers and rules;
- (e) restrictions on the College's use of its property assets required by covenants, and
- (f) the maximum level of assets that should be provided as security without risking the overall stability of the College.

DEPOSIT AND INVESTMENT LIMITS**Organisation**

British Banks	Fixed Up to 6 months £ 000	Fixed Up to 1 year £'000
Abbey National	5,000	1,000
Halifax Bank of Scotland	5,000	1,000
National Westminster	5,000	1,000

Building Societies*None***Accepting Houses**

Royal London Cash Management	15,000	(limited to £3,000k per counterparty)
CCLA Investment Management Limited	5,000	
MPC Treasury Services Limited	5000	per counterparty

The limits set out above may be amended only with the approval of Finance and Resources Committee.

The Director of Finance is responsible for closely monitoring the credit standing of approved counterparties. Where he or she has reason to believe that a counterparty's credit standing is or may become impaired he or she should apply lower limits than set out above and advise Finance and Resources Committee at its next meeting.

CREDIT LIST AND CREDIT LIMITS

	Standard & Poors	
	Long Term	Short Term
Royal London Cash Management Ltd		
Clearers		
Barclays Bank plc	AA	A1+
HSBC Bank plc	AA	A1+
Lloyds TSB Bank plc	AA	A1+
Royal Bank of Scotland plc	AA-	A1+
Other Banks		
Abbey National Treasury Services plc	AA	A1+
Bank of Scotland Plc	AA-	A1+
<i>Non UK</i>		
Bank of Nova Scotia	AA-	A1+
BNP Paribas	AA+	A1+
Calyon	AA-	A1+
Credit Suisse	AA-	A1+
Deutsche Bank AG	AA-	A1+
ING Bank NV	AA	A1+
KBC Bank NV	AA-	A1+
National Australia Bank Ltd	AA	A1+
Rabobank	AAA	A1+
Royal Bank of Canada	AA-	A1+
Societe Generale	AA-	A1+
Toronto Dominion Bank Ltd	AA-	A1+
UBS AG London	AA-	A1+
UK Treasury Bills	Unlimited	

Credit Limits: Maximum Nominal Limit of £3m in any one name unless otherwise stated.

MPC Counterparties	Short Term Ratings
Anglo Irish Bank Corporation plc	F1
Butterfield Bank (UK) Ltd	F1
Bank of Ireland	F1
Cheshire Building Society	P1
Co-Operative Bank plc	F1
Derbyshire Building Society	P1
EBS Building Society Irish	P1
Heritable Bank Ltd	F1
Northern Rock	F1
Singer & Friedlander Ltd Merchant Bank	F1
Zurich Bank Not UK	F1

MATTERS TO BE CONSIDERED IN ESTABLISHING INTEREST RATE EXPOSURE POLICY

The current level and structure of interest rates.

Current interest rates compared with the historical trend.

Estimates of future movements in the level and structure of interest rates.

The extent to which estimated future movements in interest rates would affect the revenue account and the effect of estimated future movements in interest rates on the revenue account if all loans are to be converted to floating rates.

The sensitivity of the revenue account to fluctuations in future interests compared with estimate.

SCHEME OF DELEGATION FOR TREASURY POLICY

Approval of treasury management policy statement and its amendment Council	Council
Preparation of treasury management policy and subsequent amendment Director of Finance	Director of Finance
Approval of Annual Financial Strategy	Council
Preparation of Annual Financial Strategy	Director of Finance
Day-to-day Treasury dealing with counterparties	Director of Finance and his delegated staff
Application of approved strategy	Director of Finance
Authorisation of cash transfers to/from approved depositors	Director of Finance and his delegated staff
Bank mandates	Warden Director of Finance
Dealing mandates	Director of Finance
Borrowing and lending document	Director of Finance/ Finance and Resources Committee
Approval of counterparties and limits	Finance and Resources Committee on recommendation of Director of Finance
Authorisation of terms of reference of external managers	Finance and Resources Committee
Negotiation with external fund managers	Director of Finance

All transactions above £10K require two signatures in accordance with bank mandate

STANDARD AND POOR CREDIT RATINGS: DEFINITION

Bank Survivability Assessment Definitions

AAA

A bank with a 'AAA' survivability assessment has EXTREMELY STRONG likelihood of remaining in operation either directly or through successors, and the assessment typically would only be given to banks that also maintain that level of capacity to meet their financial commitments on a timely basis. 'AAA' is the highest survivability evaluation assigned by Standard & Poor's.

AA

A bank with a 'AA' survivability assessment has VERY STRONG likelihood of continuing operations, and the assessment also typically would only be given to banks that also maintain that level of capacity to meet their financial commitments on a timely basis. The likelihood differs from that of the highest assessed banks only in small degree.

A

A bank with a survivability assessment of 'A' has STRONG likelihood of continuing operations, but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than banks assessed in higher categories.

BBB

A bank with a survivability assessment of 'BBB' has ADEQUATE likelihood of continuing operations. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened likelihood of so doing, than in the higher categories.

BB

A bank with a survivability assessment of 'BB' faces significant ongoing UNCERTAINTIES and exposure to adverse business, financial, or economic conditions. These could lead to uncertainties in the bank's ability to maintain operations in which case the bank may become subject to regulatory intervention.

B

A bank with a survivability assessment of 'B' is VULNERABLE. Adverse business, financial or economic conditions will likely impair the bank's ability to maintain operations in which case the bank may become subject to regulatory intervention.

CCC

A bank with a survivability assessment of 'CCC' is CURRENTLY VULNERABLE, and is dependent upon favourable business, financial, economic or regulatory actions to remain in business.

CC

A bank evaluated at 'CC' is CURRENTLY HIGHLY VULNERABLE. Plus (+) or minus (-): Evaluations from 'AA' to 'CCC' may be modified by the addition of a plus or minus sign to show relative standing within the major categories.

R

A bank evaluated at 'R' is currently under regulatory supervision owing to its financial condition. Its ability to remain in business will be determined by future regulatory action.

FITCH RATINGS DEFINITIONS

International Short-Term Credit Ratings

The following ratings scale applies to foreign currency and local currency ratings. A Short-term rating has a time horizon of less than 13 months for most obligations, or up to three years for US public finance, in line with industry standards, to reflect unique risk characteristics of bond, tax, and revenue anticipation notes that are commonly issued with terms up to three years. Short-term ratings thus place greater emphasis on the liquidity necessary to meet financial commitments in a timely manner.

F1

Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.

F2

Good credit quality. A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.

F3

Fair credit quality. The capacity for timely payment of financial commitments is adequate; however, near term adverse changes could result in a reduction to non investment grade.

B

Speculative. Minimal capacity for timely payment of financial commitments, plus vulnerability to near term adverse changes in financial and economic conditions.

C

High default risk. Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon a sustained, favorable business and economic environment.

D

Indicates an entity or sovereign that has defaulted on all of its financial obligations.