

TREASURY MANAGEMENT POLICY

# Established: 1992

**Updated: January 2021**

# Version: 10

**Authorised: Resources Committee January 2021 Impact Assessed: January 2021**

# Next Review Date: January 2024

## CARDIFF METROPOLITAN UNIVERSITYITY

**FINANCIAL POLICIES**

## TREASURY MANAGEMENT POLICY

**Policy Statement**

1. Treasury Management is defined as the management of the University’s cash flows, investments and borrowings; the effective management of risk related to these activities; and the optimisation of performance from these activities within a controlled risk framework.
2. The overriding principle of the Treasury Management Policy is to avoid risk rather than to maximise return. The key criteria for assessing the desirability of any potential investment therefore, will be security, liquidity and yield respectively.

## Approval of the Treasury Management Policy

1. The Resources Committee is responsible for the periodic review and approval of the Treasury Management Policy under delegated authority from the Board of Governors.

## Risk

1. The Chief Officer Resources is responsible for the achievement of effective treasury management i.e. the maximisation of short term cash balances through the management of debtors and creditors, and the maximisation of the return on those cash balances within the established risk framework.
2. The identification, monitoring and control of risk are key criteria for measuring the effectiveness of Treasury Management. The control structure is therefore focused on a risk based approach to investment decisions. The key risks to be monitored are detailed below.
   1. Liquidity risk - ensuring adequate but not excessive cash resources are available at all times to meet working capital needs.
   2. Investment risk - a key objective is the maximisation of the return on short term investment but within a control framework that ensures the security of investment funds. The policy seeks to ensure that risk is diversified and that funds are deposited with secure and stable organisations. The credit rating criteria established by this Policy will be applied when selecting organisations for placement of investments. Appropriately appointed advisors and Cash Managers may also be used to provide expert market advice.
   3. Interest and exchange rate risk - funds need to be managed to reduce exposure to fluctuations in interest and exchange rates and avoid detrimental impacts on budgets.
   4. Legal and Regulatory risk - all Treasury Management activity must comply with the University’s statutory powers and regulatory requirements.
   5. Irregularity risk – any circumstances that may expose dealings to risk of loss through fraud, error or corruption will be identified and managed in accordance with the University’s Counter Fraud and Corruption Policy; and the Anti-Bribery policy.
3. All short‐term investments placed directly by the University will be with organisations that have a credit rating of A1, P1 or F1 or above (see para 9). No single investment will be placed for a period greater than 3 years. Total investments with any one organisation will not exceed £5 million with the exception of the University’s main bank RBS (£ unlimited), Barclays (£10 million) and Santander (£10 million).
4. All short‐term investments placed through the University’s Cash Manager, will be made on a segregated cash basis and will be placed only with organisations that have a credit rating of A1, P1 or F1 or above (see para 9). No single investment will be placed for a period greater than 3 years. Total investments with any one organisation will not exceed

£5 million.

1. The investment agreement with the University’s Cash Manager allows the use of deposits, certificates of deposit, UK Treasury bills, short-dated covered/uncovered bonds, Gilts, supranational bonds and corporate floating rate notes. Investments can only be made with an agreed list of counterparty banks and other institutions for whom maximum deposit limits and duration have been set (see para 7 above).
2. Short-term credit ratings assess the ability of the organisation to repay short-term debt obligations. A1/P1/F1 ratings (highest short-term rating) by Standard & Poors, Moody's and Fitch respectively, indicate a superior ability to repay short-term debt obligations, A2/P2/F2 indicates satisfactory ability and A3/P3/F3 indicates adequate ability to meet the short-term financial liabilities.
3. Any deviation from the principles outlined in paras 5 to 8 (above) would need the prior approval of the Chair of Resources Committee.

## Delegation of Authority

1. The Board of Governors has delegated the responsibility for the monitoring of treasury management performance to the Resources Committee.
2. Day‐to‐day investment decisions are delegated to the Chief Officer Resources, who will provide the Resources Committee with periodic reports on all aspects of treasury management, including but not limited to cash flow forecasts. The Chief Officer Resources and his nominees are authorised to make short‐term investment decisions in line with the Treasury Management Policy.

## Avoidance of Money Laundering

1. The University is alert to the possibility that it may become a target for money laundering. Remittances of large foreign currency payments, in particular for overseas student tuition fees, present a potential money laundering risk.
2. For the purposes of legislation in this area (in particular, the Money Laundering Regulations 2007, the Terrorism Act 2002 and the Proceeds of Crime Act 2002) the University is classed as a relevant body and, as such, has a responsibility to disclose any suspicious financial transactions to the relevant authorities. This Policy ensures that procedures are in place to satisfy our obligations under the regulations.

## Ethical investment policy

1. The University is committed to ensuring that its investments and banking practices are conducted transparently and in an economically viable, socially responsible manner and in ways which are consistent with the mission and values of the University. The University will strive to invest in companies where the activities of the company are, on ethical grounds, consistent with the educational and/or research objectives of the University even though this may reduce returns. The University will also take into account the published guidance of the Charity Commission on ethical and socially responsible investment of charitable funds.

## TREASURY MANAGEMENT POLICY – APPENDIX A: DEFINITIONS

Certificates of Deposit

A certificate issued by a bank to an organisation depositing money for a specified length of time at a specified rate of interest.

Corporate Floating Rate Notes

A corporate floating rate note (or *floater*) is a debt instrument whose interest rate fluctuates in comparison to a reference rate, e.g. three-month or six-month LIBOR. Floaters are mainly issued by financial institutions and governments and they typically have maturities of two to five years.

Deposits

A deposit is a sum of money paid into a bank or building society account.

Gilts

A Gilt is a UK Government liability in Sterling, issued by HM Treasury and listed on the London Stock Exchange. The term “Gilt” or “Gilt-edged security” derives from the instrument’s primary characteristic, i.e. its security. The British Government has never yet failed to make interest or principal payments on Gilts as they fall due.

LIBOR

The London Interbank Offered Rate (LIBOR) is the average interest rate estimated by leading banks in London that the average leading bank would be charged if borrowing from other banks.

Short-dated Covered/Uncovered Bonds

Bonds are used by corporations, local authorities and governments to raise money and finance a variety of projects and activities. Owners of bonds are debt holders, or creditors, of the issuer. The term is usually applied to longer-term debt instruments, with maturity of at least one year.

A covered bond is a corporate bond with recourse to a pool of assets that secures or "covers" the bond if the originator (usually a financial institution) becomes insolvent.

For the investor, one major advantage to a covered bond is that issuers must ensure that the pool consistently backs the covered bond. In the event of default, the investor has recourse to both the pool and the issuer. Uncovered bonds are not secured by a specific asset although the investor does have a claim on the assets of the defaulted issuer but only after investors whose securities are higher in the “capital structure” are paid first.

Supranational Bonds

A supranational entity is formed by two or more central governments with the purpose of promoting economic development for the member countries. Supranational institutions finance their activities by issuing debt, such as supranational bonds, which are considered very safe and have a high credit rating.

UK Treasury Bills

Sterling Treasury bills form an important constituent in the DMO's Exchequer cash management operations and an intrinsic component in the UK Government's stock of marketable debt instruments, alongside gilts. Treasury bills can be issued with maturities of 1 month, 3 months, 6 months or 12 months.