Treasury and Ethical Investment Policy

Status	Final
Owner	Finance
Source location	GCU website and finance SharePoint
Reviewed	April 2023
Next Review Date	April 2024
Version	V004 04/2022

Contents

1. Introduction

Treasury management is a central function of the University and is managed by the treasury team within the Finance Department.

Treasury management is the management of all cash resources and funding requirements of the University and its subsidiary companies and the control of associated risks.

The treasury management policy and decisions made in relation to this policy consider:

- Statement of Risk Appetite,
- University mission statement,
- The University's strategy,
- The University's budget,
- The capital expenditure programme,
- Cash flow forecasts,
- Working capital requirements.

The policy is reviewed by the Financial Controller on an annual basis and approved as required by the Finance & General Purposes Committee. To minimise market risk, any changes in economic conditions that are considered to have a direct impact on the University and the treasury management policy will be addressed by the treasury team, the Financial Controller, Chief Financial Officer, Chief Operating Officer & DVC (Operations), and Finance & General Purposes Committee out with the annual review of the policy.

2. Objectives

The objectives of the University's treasury management policy are:

- To safeguard cash balances by effectively identifying, managing, and controlling risk,
- To manage current account balances to ensure funds are available to meet day to day working capital requirements,
- To maximise returns from investments while minimising risk,
- To ensure borrowings whether secured or unsecured are at competitive market rates and sustainable by the University,
- To manage relationships with financial institutions and investment brokers.

3. Risk management

Monitoring the identification, management and control of treasury management risk is critical to ensure the objectives of the treasury management policy are met. In respect of the following risks, this policy, where applicable, outlines the arrangements that are in place to ensure the risks are managed and controlled.

- **Liquidity risk**
  The risk that cash will not be available when it is needed thus compromising the University's objectives.

  There is a need to ensure sufficient, but not excessive funds, borrowing arrangements and standby overdraft facilities are available and in place to cover working capital needs and meet the University's objectives.

- **Counterparty credit risk**
  The risk of failure by a counterparty to meet contractual obligations to the University particularly as a result of a change in the counterparty's creditworthiness.

  The security of funds invested is a prime objective. Surplus funds in excess of working capital needs should be invested with approved financial counterparties considering approved maximum deposit levels and durations.

- **Market risk**
  The risk that through adverse market events the value of the principal investments are compromised causing an adverse impact on the University.

  The University will seek to ensure that it will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect it from the effects of such fluctuations by carrying out regular reviews of the Treasury Management Policy, preparation of Treasury Reports and regular reviews of investments held.

- **Interest rate risk**
  The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted impact against the University.

  The effects of fluctuating interest rates will be incorporated in the University's cash flows and considered in the investment profile. The University will manage its exposure to fluctuations by securing interest rates on borrowings and investments. Investments will be permitted up to a maximum duration to maintain a degree of flexibility to take advantage in changes in interest rates while maintaining the security of invested funds.

- **Covenant breach risk**
  The risk that the University fails to meet the covenants set in the terms of borrowings which leads to default and the withdrawal or requirement to repay credit facilities.

  The University will measure its loan covenant compliance through its treasury activities. It will report such compliance annually to the Court, relevant Standing Committees, and the lender as part of the annual financial statements reporting cycle. Compliance with existing covenants in place will be considered alongside new debt requirements.

- **Refinancing risk**
  The risk that maturing borrowings, capital financing and partnership arrangements can't be refinanced on terms agreeable to the University.

  The University will ensure that its borrowings, capital financing and partnership arrangements are negotiated, structured, and documented. The maturity profile of the monies so raised will be managed with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable as can be achieved in the light of market conditions prevailing at the time. It will actively manage its relationship with its counterparties in such transactions. The University will seek to minimise the security requirements of new debt.

- **Exchange rate risk**
  The risk that fluctuations in exchange rates create an unexpected or unbudgeted impact against the University. Three risks are identified – translation, transaction, and economic risks.

  Foreign currency dealings should be entered into only for the transaction of normal university business, and under no circumstances is it permissible for foreign currency transactions to be used on a speculative basis. The University 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. The University is restricted by Charity Law and were permitted to do so may enter into currency derivative instruments to reduce exchange rate risk. Any scheme for derivative instruments will be approved by the Finance & General Purposes Committee.

- **Inflation risk**
  The risk that fluctuations in inflation rates create an unexpected or unbudgeted impact against the University.

  The impact of inflation on projected cash flows will be considered.

- **Legal and regulatory risk**
  The risk that the University, or a counterparty with which it is dealing in its treasury activities, fails to act in accordance with its legal or regulatory requirements.

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

- **Fraud, error and corruption and contingency management risk**
  The risk that the University fails to employ and maintain systems and procedures through which circumstances of fraud, error and corruption can be identified.

  The University will make suitable arrangements through internal controls and internal audit and external audit plans to ensure that it has minimised the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings.

4. Cash and cash flow management

Cash management is considered to be 'the effective planning, monitoring and management of liquid/ near liquid resources' and is one of the key tools for managing liquidity.

The University recognises the importance of ensuring effective control over its bank accounts. To ensure management of day-to-day cash balances, all funds due to the University are deposited in accounts with the designated operational bank or, if appropriate, the designated foreign currency bank account. Working capital is considered on a daily basis to ensure sufficient funds are available to meet payment runs.

Cash flow projections are prepared on a monthly basis by the treasury team. The cash flow model uses the current year budget and agreed capital expenditure programme as a base and is updated monthly for actual cash movements. The model provides an estimate of the cash position at the end of the current financial year and the estimated position at the end of the next four financial years considering interest rate, inflation rate and market risks.

Cash flow management assists compliance with liquidity risk management and forms the basis of the investment and borrowing strategy within the overall Finance Enabling Plan 2030.

Within the Finance Enabling Plan a minimum cash balance target has been set at £15m with reference to a “current ratio”. Current ratio is a liquidity ratio that measures the University’s ability to pay short term liabilities from its current assets. Current liabilities include trade creditors and debt due within one year and current assets includes trade debtors and cash at bank. The higher the ratio, the more capable the University demonstrates it is of paying its liabilities.

5. Ethical and sustainable investments

The following section applies to all direct and indirect investments held by the University.

The University invests cash funds with financial institutions through the regular investment of surplus funds. More recently, the University has invested surplus funds in “Green Deposits” with approved financial institutions. These funds are subsequently invested in “Green Bonds” by the financial institution and can cover a variety of projects including energy efficiency, renewable energy, green transport, sustainable food, waste management and greenhouse gas emission reduction.

It may also invest in spin-out companies and other related parties as these opportunities arise. Investments in equities and trusts from general University funds is not permissible and can only be held when it is a requirement of an endowment fund or where funds relate to a specific purpose (i.e. historic pension liabilities). Further, no investment of surplus funds will be made in Corporate Bonds.

The University recognises its responsibility to operate in an ethical manner and to take account of social, environmental, ethical and reputational considerations in all activities including its financial investments. Where the University invests in equities or trusts, it aims to make such investments in ways that are consistent with the University’s ESG ambitions as expressed in the University Strategy. The University will not knowingly invest in companies whose activities could be seen to endanger individuals or groups of people, or whose activities are inconsistent with the mission and values of the University, its community and its wider stakeholder network and will seek sustainable investments in companies with a positive social impact. Direct or indirect investments in the fossil fuel, alcohol, tobacco, and armaments sector, will not be permissible.

In order to give effect to its commitment to this policy the University will:

- Review on a regular basis, through the use of ESG reporting, whether any investment is contrary to the University’s mission and values and act accordingly
- Issue guidance for fund managers responsible for the University’s investments in equities and trusts
- Monitor the operation and effectiveness of decisions on an annual basis

- Publish on an annual basis, a list of Investments including, quantity, security description, market value and percentage of portfolio.

6. Short term investments

The key principles, in order of importance for the University, when looking at investments are:

- **Security**
  The strategy must ensure an investment is received back when the investment matures in order for the University to meet its payment obligations.

- **Liquidity**
  The strategy must consider the ease of converting an investment into cash at any time prior to its maturity without unduly affecting its value.

- **Yield**
  Yields can be maximised only when security and liquidity objectives have been satisfied. There is usually an inverse relationship between yield and security & liquidity.

Security is the key principle, and this consists of counterparty risk and market risk. Counterparty risk, the risk that the counterparty will not meet their obligation to repay the principal and interest in full and when due, is addressed when considering all new investments.

The appropriateness of financial institutions is monitored throughout the year by considering their credit ratings. Credit ratings and outlooks from Fitch, Moody's and Standard & Poor's are reviewed and are reported to each Finance & General Purposes Committee meeting. Organisational credit ratings for UK financial institutions are to be, across all three credit agencies, a minimum of:

	Fitch	**Moody's**	**Standard & Poor's**
Short Term	F1	P-1	A-1
Long Term	A	A2	A

The credit rating of approved oversees financial institutions is considered on a case-by-case basis by the Finance & General Purposes Committee.

Market risk is the risk that on realisation prior to their maturity, investments may be worth less than expected. It is addressed by considering market conditions and expectations' regarding future interest rate rises. Generally short, dated investments carry lower risk than long dated investments.

Liquidity is addressed after security. Short term investments considered acceptable by the University range from the most liquid investments of funds in the Current Accounts and Money Market (Term) Deposits to illiquid Fixed Term Bonds. Certificates of Deposit are allowable where greater liquidity management is required, recognising that such deposits are tradeable before maturity.

Yield is addressed after security and liquidity. Funds are invested to ensure achievement of the best net returns available.

The University recognises that whilst accountability for all treasury management decisions rests with the University, there may be potential benefits from employing external providers of Cash Management services in order to gain access to specialised skills and resources. The University does not currently engage with any third-party provider in this regard, with the exception of the current approved counterparties. Were it to do so, the University will ensure that it does so for reasons which will have been submitted to a full evaluation and due diligence process. Where such services are subject to formal tender or re-tender arrangements, the University's procurement guidance will always be observed. The terms of any appointment (including maximum terms and value limits), and the methods by which their value will be assessed will be properly agreed and documented, and subject to regular review by Finance & General Purposes Committee.

The current approved counterparties together with the constraints on investments, i.e. maximum amount for deposits and duration of placements, are detailed in Appendix 1.

7. Other investments and Endowment asset investments

A list of all investments is included in the University's annual financial statements. The holdings are grouped as:

- New Blood Pensions 1995/96
- Shareholdings in subsidiary undertakings
- Other investments
- Endowment asset investments.

New Blood Pensions 1995/96

The University has investments linked to providing an enhanced element of the pensions to employees who retired in 1995/96 under the Scottish Funding Council "New Blood" scheme. The University has a number of Treasury Index linked stocks and equity holdings related to this purpose. The University is a nominee client of Rathbones Investment Management who manages the investments on its behalf.

Other Investments

The University also has holdings in 'spin out companies' set up to strengthen research and regional engagement.

Endowment asset investments

Endowments assets invested, other than as cash deposits, are managed by Rathbones in designated endowment fund portfolios, thus held separately from general funds. Such portfolios can include cash, fixed interest stocks and equities. Income received from such funds is remitted to the main operational University account on a quarterly basis. For good stewardship, each endowment has a separate project code in the financial system to post income and expenditure to/ from. Gifts from multiple donors given for a single purpose will be collected in a single project.

8. Borrowings

The key principles, in order of importance for the University, when looking at borrowings are:

- **Availability**
  The ability to borrow a sufficient quantity of money as needed for a reasonable term and at a reasonable price.

- **Flexibility**
  The ability to tailor the drawdown of facilities to the University's anticipated cash flow
  requirements and the ability to alter the borrowing profile as circumstances change.

- **Diversification**
  The range of borrowing sources should be such to reduce the chance that all become unavailable at the same time.

- **Cost**
  Cost is important however the University must ensure that it has liquidity to continue operating therefore cost will have to be incurred to ensure liquidity.

The University can raise capital funding by Commercial loan agreement or Government backed loan agreements.

Definitions of "Commercial" and "Government backed" borrowings are contained within the Financial Regulations.

There are no restrictions on sources of funding and when considering raising finance the Chief Operating Officer and designated staff will have specific regard to:

- the University's powers and rules
- statutory restrictions
- the requirements of the Financial Memorandum with the Scottish Funding Council (SFC)
- terms and covenants of borrowing
- the level of security required for the borrowing
- the value of assets already held as security on existing capital projects
- the maximum level of assets that should be provided as security without risking the overall stability of the University
- effect of future movements in interest rates

The conditions set by the SFC in the Financial Memorandum are as follows:

An institution shall obtain prior written consent from the SFC before it undertakes a level of capital finance where:

a) Annualised costs of all capital finance (being the sum of the servicing and capital repayment costs of each loan or other arrangements spread evenly over the period of the relevant loan or arrangement) would exceed 4% of total income as reported in the last audited financial statements, or, of the estimated amount of total income for the current year if that is lower,

b) Security is given as part of the arrangement.

Papers relating to the raising of commercial or Government backed borrowing proposals will include the details listed below:

- Purpose of the borrowing (including cashflows)

- Borrowing requirement
- Proposed lender
- Interest rate structure - fixed, variable, variable with option to fix, index linked, deferred interest
- Interest rate base - base plus lender's margin
- Arrangement fees
- Repayment term
- Security arrangements
- Comparison with alternatives
- Arrangements for draw-down
- Covenant type arrangements
- Impact on total University borrowing

8.1 Commercial Borrowing

The raising of commercial borrowing whether committed (defined terms & conditions) or uncommitted (short term funding), secured or unsecured must be approved, in advance, by the University Court.

8.2 Government backed loan schemes

The University Planning and Resources Group (UPRG) has the authority to authorise Government backed loan agreements with the following conditions;

- UPRG has a £1m financial year limit, above this would require prior F&GPC approval
- F&GPC will be notified of all such arrangements (applications, approvals, and drawdowns), regardless of value at the next available Committee meeting
- Reports to F&GPC will provide an overview of all University borrowing

9. Currency and foreign exchange (FX) exposure

As a group with international operations there will inevitably be exposure to foreign exchange risks and opportunities. Management of FX should not create additional risk and under no circumstances is it permissible for foreign currency transactions to be used on a speculative basis.

The exposures are:

- **Translation risk** - Foreign currency transactions are sensitive to fluctuations in exchange rate. The group financial statements are prepared in GBP however with overseas subsidiaries, part of the assets, liabilities and surplus/ (deficit) of the group are denominated in a currency other than GBP. Movements in FX will impact group reported surplus/ (deficits) and the net assets on the Balance Sheet. This is especially true in the economic climates where currency fluctuates significantly.

  It should not be Policy to hedge translation risk as we are not in a position, nor is it feasible, to hedge translation risk by projecting the cash flows that will be received from the subsidiary, and forward selling those into GBP. The time horizon is essentially infinite and there is no scope for buying currency forward for indefinite future periods. This risk should be managed under the authority of the Chief Operating Officer.

- **Transaction risk** - When importing, buying goods and services priced in a foreign currency, we need to recognise that the final cost to the University on delivery and payment may not be the GBP equivalent that was budgeted for at the date of contract. In addition, when receiving grant funding in foreign currency i.e., Euro grant funding, we need to recognise that the final receipt may not be the GBP equivalent that was budgeted for at the date of costing the Research activity.

  It is Policy to minimise exposure to exchange rate fluctuations. Currency receipts are converted to GBP upon receipt. GCU does have FX bank accounts and FX receipts should be retained in these accounts only where appropriate to cover FX payments. The balances in the FX bank accounts are reviewed on a monthly basis with any excess funds above commitments being transferred to the main operational University account.

- **Economic risk** – When exporting, delivering education and services through agreements and contracts, we must decide whether it's best to price the delivery in the local currency of the country with which we're trading and thus be exposed to unexpected exchange rate fluctuations. The decision will depend on individual circumstances and on factors such as how we want to present ourselves in that market and how competitors set their prices.

  It should not be Policy to hedge economic risk rather this should be managed using the School or Professional Services Senior Managers knowledge and expertise of the marketplace to mitigate this risk.

10. Delegated authority

The authority to transfer funds to/ from such short-term investments requires authorisation from two signatories from List A and/ or B of Current Authorised Signatories. Following authorisation, the Chief Operating Office & DVC (Operations), Chief Financial Officer, Financial Controller, Financial Accounting Manager, and the Treasury Manager are all authorised to provide telephone or online instructions for the movement of authorised fund transfers, where applicable.

The delegated authority will be updated and approved by the Finance & General Purposes Committee as required following changes in personnel.

11. Treasury management reporting

On a monthly basis the Financial Controller prepares a Treasury Report detailing funds held in instant access accounts and funds held in investments. This is reported monthly to the Chief Operating Officer & DVC (Operations) and Chief Financial Officer and is reported to each Finance & General Purposes Committee meeting. An example of the Report is detailed at Appendix 2.

As detailed in Section 6, the credit ratings are reviewed, and any changes are reported to the Finance & General Purposes Committee for their consideration.

A schedule of banks and building societies available to the University to accept short term investments is maintained and updated following instructions from the Finance & General Purposes Committee. See Appendix 1.

The treasury team will retain full records to support treasury management decisions to demonstrate that reasonable steps were taken to ensure all issues relevant to the decisions were considered.

12. Bank Accounts

The Chief Financial Officer is responsible for ensuring that all bank accounts are subject to regular reconciliation and that large or unusual items are investigated as appropriate.

Only the Finance & General Purposes Committee may authorise the opening or closing of a University bank account, including Escrow Accounts in the name or joint name of the University. Further no staff member (other than the Chief Operating Officer & DVC (Operations), or as delegated, operating on the authority of the Finance & General Purposes Committee), may operate bank accounts to deal with funds held by or due to the University. All cheques drawn, and all automated transfers on behalf of the University, such as BACS or CHAPS, must be authorised in accordance with the prevailing bank mandate. No direct debits may be set up against any University bank account without prior approval from two authorised signatories on the bank mandate.

13. 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 money laundering.

The Anti-Money Laundering Policy in force at GCU, approved by Audit Committee, outlines how Glasgow Caledonian University, its UK subsidiary companies and its employees will manage money laundering risks and comply with its legal obligations in accordance with the Proceeds of Crime Act 2002 and the Terrorism Act 2000. These Acts have detailed provisions which mean that they may cover activities carried on by persons outside the United Kingdom. It is therefore important that those persons acting for the UK based entities are aware of the Policy and abide by it when carrying on activities in the UK and other jurisdictions.

The Anti-Money Laundering Policy applies to Court, University Executive Group, Management and Staff members and sets out the procedure to be followed if money laundering is suspected and defines the responsibility of both the University and individual employees in the process. The Policy is available here.

Treasury Management Policy

Appendix 1

Approved financial institutions

Financial Institution	**Ultimate Parent**	**Maximum placement allowed**	**Maximum term of placement**
Santander UK plc	Banco Santander	£20m	12 months
BOS plc	Lloyds Banking Group	£30m	Transactional & 12 months
Barclays	Barclays Bank PLC	£20m	12 months
HSBC Bank plc	HSBC Holdings PLC	£20m	12 months
Nationwide	Nationwide Building Society	£20m	12 months
Bank of China (UK) Ltd	Bank of China Ltd	£1m	12 months
		£111m	

Other approved financial institutions

Financial Institution	**Ultimate Parent**	**Account type**	**Maximum deposit allowed**
Investec Bank (Mauritius) Limited	Investec Group	Escrow Account	Escrow Account
Banco Santander	Banco Santander	Current Account	Minimum amount (for tax purposes only)
Western Union	Western Union	Intermediary Account	For draw down of US Federal Loan funds only

Treasury management policy

Appendix 2

Treasury Report

Glasgow Caledonian University

Treasury Report

Date

Base rate

1. Summary of Instant Access Funds

Institution	Value	%	Interest rate	Weighted Average rate of on demand at xx 20xx

2. Summary of Short-term deposit investments

Institution	Number of deposits	Value	%	Weighted Average rate of placed deposits

3. Liquidity Statement

Term deposit	£	A Actual Weighted Average rate of placed deposits	B Market Weighted Average rate of deposits at time placed	C Market Weighted Average rate of deposits at xx 20xx	Remaining weighted average period for which interest rate fixed
< 1 month					
2 months					
3 months					
4 months					
6 months					
12 months					
Total					

Column A demonstrates the actual weighted average rate of placed deposits based on financial Institutions available to us.

Column B demonstrates the similar rate that would have been available to us if 'market' had been available to invest in. Our main aim while maximising return is mitigating risk.

Column C details the market rates should we have placed all our deposits at date of the report.