

GOLDSMITHS
University of London

COUNCIL

FINANCE AND RESOURCES COMMITTEE

18 March 2014

TREASURY MANAGEMENT OPERATIONS

1 Background

Goldsmiths' Treasury Management Policy was last extensively reviewed in 2008. A number of changes in the wider financial environment make a review of both the Treasury Management Policy Statement and the operational framework timely:

- 1) The movement from HEFCE grant to student fees makes the management of cash balances more challenging: it provides both opportunities and risks as the income stream is MORE fluid than before.
- 2) The changes in the UK banking environment arising from the banking crisis of 2008 has led to a different credit environment.
- 3) Standards on treasury management have been adapted, particularly by the issue in 2011 by the Chartered Institute of Public Finance and Accountancy (CIPFA) of revised guidance in their revised code: *Treasury Management in the Public Sector: Code of Practice and Cross-Sectoral Guidance*.
- 4) Treasury management has recently become a topical issue for the whole sector as universities seek to find a safe home for their short-term cash balances and the British Universities Finance Directors Group (BUFDG) recently launched a Treasury Management Forum which had its first London meeting on 4 March 2014.

2 Treasury Management Operations at Goldsmiths

As Goldsmiths does not have a large endowment, the College has relatively limited cash resources but there has been an increase in the amount of cash available for short to medium term investment in recent years, reflecting the increasing importance of international student fees to the College and the need to maintain liquidity to support the College's strategic investment aims: to improve the physical estate and develop equipment, systems and infrastructure to support academic developments.

The Department of Finance has a small Cash Office team of 4.6 Full Time Equivalent established posts, one of whom heads the team as Treasury Accountant. The Treasury Accountant reports into the Head of Financial Accounts and Services but with direct access also to the Director of Finance on investment matters. Following an audit recommendation of the need for market testing of the cash management arrangements, and taking account of the planned retirement of the Treasury Accountant, who had been in post some years, a review was commissioned from SUMS and the report from this is attached.

Royal London Cash Management have been used by Goldsmiths for many years to invest cash with counter-parties. The main advantage of using a cash manager is that banks which would not engage with an institution on a relatively small deal (less than £5m) may offer such arrangements to a cash manager. As the SUMS report notes, Royal London's service is relatively expensive and the overall portfolio has performed less well than the portfolio directly placed by Goldsmiths staff with UK clearing banks on term deposits. This reflects (a) the limited mandate given to Royal London and (b) Royal London's position as a cash manager focused primarily on higher education and the charity sector, where conserving capital quite rightly comes higher than returns.

3 Treasury Management Policy

The Treasury Management Policy (TMP) has been rewritten to take account of the changes outlined above but also to address some areas where the SUMS review revealed a lack of clarity. The draft Treasury Management Policy is attached and the main changes are as follows:

- 1) The TMP focuses more on the general policy framework which will be subject to regular review on a three yearly basis: it therefore becomes more of a strategic document that can be used by Council and Finance and Resources Committee to direct the treasury management work of the Department of Finance;
- 2) The Ethical Investment Policy is now incorporated into the body of the TMP to give it proper weight – but it will continue also to be published separately as required by the Green League and other compilers of higher education published policies;
- 3) The TMP will be subject to regular review by Council on a three yearly basis;

and
- 4) A separate report on the Annual Treasury Strategy will accompany the annual budget papers in the Summer Term which will set out the short to medium term strategy, taking into account the College's capital investment and revenue expenditure and income plans over the coming year. This will remove operational detail from the TMP.

The new structure of the TMP follows the CIPFA mandated framework and in particular addresses separately interest rate risks, counterparty risk and liquidity risk.

4 Operational Framework

The SUMS review revealed some operational variation from the previous TMP. The recruitment of new staff to the two more senior roles in the Cash Office together with closer engagement by the Head of Financial Accounts and Services will enable Goldsmiths to engage more closely with a range of financial institutions. In addition, it provides an opportunity to formalise approval arrangements for proposed treasury deals and to put in place stronger arrangements for cash flow forecasting.

Goldsmiths will be engaging closely with the BUFDG Treasury Forum and the Head of Financial Accounts and Services has attended the first London meeting. The meeting indicated that many institutions are finding treasury management to be both more important and challenging than was formerly the case and are therefore reviewing who carries out those duties internally but also what external support is required. The Forum follows the Chatham House rule which enables a free exchange of views on which providers are best placed to support HEIs in the treasury environment. The Forum is also defining treasury management in its widest sense of management of liquid resources and therefore will also provide an opportunity to share good practice in relation to wider banking and income management arrangements.

The College is also taking up BUFDG's recently arranged corporate membership of the Association of Corporate Treasurers which will help with staff development and ensuring that staff remain current with treasury best practice.

Currently Goldsmiths does not have a contract in place for treasury advice. Information is gleaned from a variety of sources. However, ratings for counter parties and market information that enables an accurate assessment of risk is not easily available. Consideration is therefore being given to appointing external treasury advisors who can provide accurate up to date information on the market.

5 SUMS report recommendations

- SUMS has recommended that Goldsmiths consider direct investment as the preferred option as it provides more control for Goldsmiths and reduces costs as no fees would be payable to a cash manager;
- Ensure staff skills are in place;
- Improve internal control processes;
- Redraft Treasury Management Policy.

Section 3 of this paper outlines how staff skills will be enhanced.

The Head of Financial Accounts and Services is reviewing how internal controls can be improved and in particular is undertaking work to improve the cashflow forecasting process.

The redrafted Treasury Management Policy is included in Annex A of this paper.

These elements will enable the College to properly consider the risks and benefits of direct investment.

6 Recommendations

Finance and Resources Committee is invited to:

- (i) Note the inclusion of the Ethical Investment Policy in section 5 of the Treasury Management Policy, noting that Council is committed to further consultation on the scope of the Ethical Investment Policy, taking into account the limited mandate for external investments;**
- (ii) Consider the attached Treasury Management Policy and comment on its scope; and**
- (iii) Consider the recommendations for the proposed changes to operational arrangements.**

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TREASURY MANAGEMENT POLICY STATEMENT

1 Introduction

This Statement sets out the Goldsmiths' College's policy concerning treasury policy, including raising finance and investment of surplus monies. The Policy Statement also incorporates Goldsmiths' Ethical Investment Policy

2 Approved Activities

Goldsmiths defines its treasury management activities as:

The management of the organisation's investments and 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 those risks.

3 Principles

The overriding principle for all treasury management at Goldsmiths is to protect capital rather than to maximize return. The avoidance of all risk is neither appropriate nor possible. However, a balance must be struck with a keen responsibility for the use of charitable funds, public money and students' fees.

Goldsmiths 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 College.

The policy of the College on borrowing is to minimise cost while maintaining the stability of Goldsmiths' financial position by sound debt management techniques. The objective in lending and investing money is to achieve the best possible return while minimizing risk.

4 Value for Money

The College acknowledges that effective treasury management will provide support towards the achievement of its business and service 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.

5 Ethical Investment Policy

Goldsmiths invests funds with various third party organisations through the investment of surplus funds and endowments. On occasion it may also make investments in spin-out companies and other related parties as these opportunities arise. It is the intention of the College to make investments in ways that are consistent with the objects and values of Goldsmiths as expressed in its Charter and Statutes.

In order to achieve these aims, Goldsmiths will not invest directly in companies whose activities could be seen to endanger individuals or groups of people, or whose activities are inconsistent with its Charter and Statutes and community of stakeholders.

In order to ensure compliance with this policy the College will:

- consider the ethical implications of all future investments alongside the commercial opportunities;
- allow members of its community of stakeholders to engage with the ethical investment policy by publishing the policy on the College website with appropriate contact details;
- ensure that fund managers responsible for Goldsmiths' investments are operating to socially responsible objectives consistent with those of the College; and
- review this policy regularly in conjunction with the College's Treasury Management Policy Statement.

6 Treasury Management Policies and Practices

Goldsmiths operates the following Treasury Management policies and procedures:

Section	Area covered (with reference to CIPFA Code)	Treasury Management Practices
7	Treasury risk management	TMP1
8	Best value and performance measurement	TMP2
9	Decision-making and analysis	TMP3
10	Approved instruments, methods and techniques	TMP4
11	Organisation, clarity and segregation of responsibilities, and dealing arrangements	TMP5
12	Reporting requirements and management information arrangements	TMP6
13	Budgeting, accounting and audit arrangements	TMP7
14	Cash and cash flow management	TMP8
15	Money laundering	TMP9
16	Staff training and qualifications	TMP10
17	Use of external service providers	TMP11
18	Corporate governance	TMP12

Treasury Management Practices are the internal procedures followed by the Department of Finance in implementing the Treasury Management Policy and their structure is based on CIPFA's Treasury Management Code of Practice.

7 Treasury risk management

General statement

- 7.0.1 Council has considered its arrangements for the identification, management and control of treasury management risk, and will review these at least every three years to ensure the adequacy and suitability of arrangements (and more regularly should significant changes occur in the regulatory or operational environment).
- 7.0.2 The Director of Finance will be responsible for implementing and monitoring the arrangements established by Council and will prepare a report to assist Council in their triennial review.
- 7.0.3 The Director of Finance will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the College's objectives in this respect.
- 7.0.4 The treasury management risks currently identified by Council and the practices the College has adopted towards them are set out in the following sections 7.1 to 7.8.

7.1 Liquidity risk management

7.1.1 Liquidity risk is the risk that cash may not be available when it is required. Goldsmiths will ensure it has adequate, but not excessive cash resources, borrowing arrangements, overdraft and/or standby facilities to enable it at all times to have the level of funds available which are necessary for the achievement of its business/service objectives.

7.1.2 To assist with liquidity risk management, Goldsmiths uses the following definitions:

a) **Liquid funds** are defined as:

- a. cash in current or on deposit available at up to seven days' notice;
- b. committed facilities which are available for drawdown within seven days without undue restrictions; and
- c. The amount of any undrawn overdraft facility.

b) **Near liquid funds** are:

- a. Cash on deposit on notice periods between seven days and one month;

c) **Short term funds** are:

- a. Cash on deposit on notice periods of one to three months;
- b. Undrawn committed facilities available within one month.

7.1.3 The following are the current minimum liquidity requirements that Council has approved:

a) **Liquid funds** must be available which are equal to the forecast net cash outflow for the **next** calendar month;

b) **Near liquid funds** must be available which are equal to the forecast net cash outflow for the next **two** calendar quarters;

c) **Short term funds** must be equal to meet the net forecast outflow / inflow for the next 12 months.

7.2 Interest rate and inflation risk management

7.2.1 The College will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements, and so as to ensure that it is able to comply with the financial covenants applying to its borrowings.

7.2.2 Goldsmiths will ensure that it is aware of the potential impact of inflation on its ability to operate within its budgetary arrangements and the financial covenants on its loans, and that this is taken fully into account in establishing its interest rate strategy.

7.2.3 It will achieve these objectives 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, or inflation.

7.2.4 The use of such instruments will be exercised in accordance with an explicit written interest rate risk policy and such instruments will only be used to hedge an existing or anticipated underlying liability.

7.2.5 The above are subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

7.3 Exchange rate risk management

7.3.1 From time to time Goldsmiths incurs expenditure in a foreign currency. The amounts involved however are small in comparison to total expenditure. The College therefore does not consider that it would be cost effective to hedge these amounts. The Director of Finance will keep this under review and will notify Council should this change. Goldsmiths does not currently undertake currency risk, other than the holding of euros in euro-denominated accounts kept where payment is required in euros (usually under European Union-funded research projects).

7.4 Credit and counterparty risk management

7.4.1 The College regards a prime objective of its treasury management activities to be the security of the principal sums it invests, and considers this to rank above seeking to secure the highest possible revenue return on its investments. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited.

7.4.2 The investment parameters adopted by Goldsmiths, and a list of currently approved bodies for the deposit of funds and placing of investments will be recorded in the Treasury Management Practices document approved by the College's Senior Management Team.

1.4.3 The College will limit its investment activities to the instruments, methods and techniques referred to within the Treasury Management Practices.

7.4.4 Goldsmiths also recognizes the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements and this will be recorded within the Treasury Management Practices.

7.5 Refinancing risk management

7.5.1 The College will ensure that its borrowing, 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 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.

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

7.5.3 The College will continually monitor its ability to comply with any and all financial covenants applying to its borrowings, so as to ensure that it is not subject to any unplanned refinancing risk.

7.5.4 The College's current position on refinancing risk will be clearly recorded in its Treasury Management Practices and approved by Senior Management Team.

7.6 Legal and regulatory risk management

- 7.6.1 The College will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities.
- 7.6.2 In framing its credit and counterparty risk management policy, Goldsmiths will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the College, particularly with regard to duty of care and fees charged.
- 7.6.3 The College recognizes that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimize the risk of these impacting adversely on Goldsmiths.

7.7 Fraud, error and corruption, and contingency management

- 7.7.1 Goldsmiths 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, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

7.8 Market risk management

- 7.8.1 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 such fluctuations.
- 7.8.2 Goldsmiths' current exposure to market risk, and its strategy for dealing with this are documented within the Treasury Management Practices..

8 Best value and performance measurement

- 8.1 The College 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 this Treasury Management Policy Statement.
- 8.2 Accordingly, the treasury management function will be reviewed from time to time to ensure that it provides levels of support appropriate to the needs of Goldsmiths and its stated business or service objectives. It will be the subject to review from time to time and in particular in response to the changing needs of the College.
- 8.3 The procedures used to ensure best value and the performance measures used are set out within the Treasury Management Practices.

9 Decision making and analysis

- 9.1 Goldsmiths 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. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed within the Treasury Management Practices.

10 Approved instruments, methods and techniques

- 10.1 The College will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in its Treasury Management Practices and within the limits and parameters approved by Senior Management Team.

11 Organisation, clarity and segregation of responsibilities, and dealing arrangements

- 11.1 Goldsmiths considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, and for the reduction of the 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 a clarity of treasury management responsibilities.
- 11.2 The size and nature of the treasury activities of the College mean that it is not possible to adopt all of the best practice principles that would be appropriate in a larger institution. There is however a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling them. There are also controls to ensure that transactions are recorded and checked and that investment funds are always transferred to and from the College's clearing bank account.
- 11.3 The Director of Finance will ensure that each member of staff engaged in treasury management has a job description with a clear description of the responsibilities of the position. The Director of Finance will make suitable arrangements for absence cover. The arrangements will be detailed in the Treasury Management Practices.
- 11.4 The delegation to the responsible officer in respect of treasury management will be set out in the job description the senior staff engaged in treasury management. These senior staff will fulfil all such responsibilities in accordance with the College's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

12 Reporting requirements and management information arrangements

- 12.1 The College will ensure that on a periodic basis reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and the transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.
- 12.2 As a minimum, the Council as part of the Financial Strategy of the College will receive:
- an annual report from the Director of Finance on the strategy and plan to be pursued in the coming year, and showing the cash flow implications of future years' income and expenditure;
 - a strategy for funding Goldsmiths' capital financing needs and for lending any surplus cash for the period covered by the forecast; and
 - exception reports on a timely basis of any breach or potential breach of the College's financial covenants with lenders, that is likely to have a material adverse effect upon the College's finances and continued operation

12.3 The present arrangements and the form of these reports are available from the Director of Finance.

13 Budgeting, accounting and audit arrangements

13.1 Goldsmiths 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.

13.2 The College will ensure that its auditors, 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.

14 Cash and cash flow management

14.1 Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the College will be under the control of the responsible officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with liquidity risk management and therefore maintaining appropriate levels of liquidity and compliance with any external covenants.

15 Money laundering

15.1 Goldsmiths 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. It is a requirement of the Financial Conduct Authority ("FCA") that a Money Laundering Record be maintained. Goldsmiths 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.

16 Staff training and qualifications

16.1 The College recognizes 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 Director of Finance will ensure that all personnel involved in the treasury management function receive appropriate training. The responsible officer will recommend and implement the necessary arrangements.

16.2 Goldsmiths is committed to both building on and sharing good practice on treasury management.

17 Use of external service providers

17.1 The College recognizes the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. The College will seek to take expert advice on interest rate forecasts, treasury management

strategy, timing for borrowing and lending, debt rescheduling, use of various borrowing and investment instruments, setting of credit criteria etc.

- 17.2 When it employs external service providers, it will ensure it does so for reasons which will have been submitted to 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.
- 17.3 It will 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, legislative requirements will always be observed. The monitoring of such arrangements rests with the Director of Finance.

18 Corporate Governance

- 18.1 Goldsmiths is committed to the pursuit of proper corporate governance throughout its services and operations, 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.
- 18.2 The College has adopted and has implemented the key recommendations of the Combined Code of Corporate Governance. This, together with the other arrangements in this document are considered vital to the achievement of proper corporate governance in treasury management, and the Director of Finance will monitor and, if and when necessary, report upon the effectiveness of these arrangements.