



University of Oxford Treasury Management Code of Practice

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University of Oxford

Treasury Management Code of Practice

Section 1 - Foreword by the Director of Finance

Both the Higher Education Funding Council for England and Wales and the Chartered Institute of Public Finance and Accountancy (CIPFA) recommend that Higher Education Institutions publish a Code of Practice on Treasury Management (the Code).

Good Practice in any sphere of financial and business activity is important, and no more so in the field of treasury management, where sound systems of financial planning and management control need to be in place.

The University recognises the importance of this and asks the Finance Committee to review the Code annually before distributing it to a number of interested parties, including HEFCE, internal and external audit, trustees of specific University endowments and its donors. The Code is also available on the University website.

The key policies and practices contained within the Code are also given practical application by being linked to the department's Treasury Policies and Procedures Manual in order to emphasise their importance as part of the Treasury Section's day-to-day dealings.

The University's approach is summarised as follows within the Code:

- Section 3 outlines the Code's key principles covering the objectives, policies and practices of treasury management;
- Section 4 contains the recommended clauses to be formally adopted by the Committee;
- Section 5 provides the Treasury Management Policy Statement;
- Section 6 details the various Treasury Management Practices employed, with particular emphasis on the management of risk;
- Appendices to the Code include the Scheme of Delegation in place and reporting matters and frequencies;
- The Director of Finance chairs a monthly meeting of Officers to review the University's treasury activity and management of risk.

Section 2 Background

Treasury management is a central function of the University and is managed by the Treasury section of the Finance Division. It covers the following key areas:

i) Cash flow management

Managing day-to-day cash balances at the bank, investing surplus funds as required and cash flow forecasting and management. Cash flow forecasts are prepared and reviewed regularly by the Treasury section.

ii) Investing Cash Deposits

The University employs third party investment managers to manage a proportion of the day to day cash balances. The managers have a mandate from the University to invest in either cash deposits or Certificates of Deposit (CDs) up to a maximum period of six months. The University has agreed a list of counterparty banks with whom cash deposits can be made along with maximum deposit limits and duration per bank.

In addition to cash managed by investment managers the University also places cash:

- on deposit with its core banker in a Business Premium Account.
- on deposit with banks on its counterparty list; and
- in AAA rated money market liquidity funds

Both externally managed funds and Barclays deposits can be recalled daily if required.

The University, as agreed by the Head of Tax and Treasury, may place funds with Money market funds in accordance with the counterparty limits or in UK Government Gilts without limit.

The source of the funds varies and can consist of day-to-day cash surpluses held at bank, inter account balances, donations, and cash investments on behalf of the Trusts managed by the University.

iii) Management of Foreign Currency Exposures

The University manages large US Dollar and Euro cash inflows and outflows each year, the majority of which are research-related.

Treasury activity includes estimating likely cashflows, overseeing and managing the University's exposure to foreign currency and ensuring where possible that the risks of currency fluctuations are minimised.

iv) Management of Borrowing Facilities

The University has a number of borrowing facilities in place to assist with the management of short and medium term cash requirements. These facilities include both short term overdraft facilities and longer term loan facilities. The maintenance and operation of these facilities is the responsibility of the Head of Tax and Treasury.

Section 3 Key Principles

The Code identifies three key principles.

Key Principle 1

Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

Key Principle 2

Policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within the organisation. Their appetite for risk should form part of their annual strategy and should ensure that priority is given to security and liquidity when investing funds.

Key Principle 3

It should be acknowledged that the pursuit of value for money in treasury management and the use of suitable performance measures are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

Section 4. Clauses to be Formally Adopted

CIPFA recommends that organisations such as universities adopt, as part of their standing orders, financial regulations or other appropriate formal policy documents, the following four clauses

Clause 1 – This University confirms that:

- it has in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of its treasury management activities;
- one of its prime objectives is the effective management and control of risk;
- it has in place suitable measures to effectively monitor its performance;
- it supports the adoption of the clauses contained within the Code, and the adoption of a Treasury Management Policy Statement and will also aim to follow the recommendations contained within its Treasury Management Practices (TMP's);

Accordingly it will create and maintain:

- a Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities;
- suitable Treasury Management Practices (TMP's) which set out the manner in which the University will seek to achieve its policies and objectives and manage and control its activities;

Clause 2

- The University's Finance Committee will receive reports on its treasury management policies, practices and activities, including as a minimum, an annual review report and an annual strategy plan in the form prescribed in its TMP's.

Clause 3

- The University will delegate responsibility for the implementation and monitoring of its treasury management policies and practices and the execution and administration of its treasury management decisions to the Director of Finance who will act in accordance with the University's policy statement and TMP's.

Clause 4

- The University nominates its Finance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Section 5 The Treasury Management Policy Statement

1. The University defines the policies and objectives of its treasury management activities as ***“the management of its 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”***.
2. It 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 University.
3. It acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives and accordingly will employ suitable performance measurement techniques within the context of effective risk management.

Section 6 Treasury Management Practices (TMPs)

TMP1 Risk Management

The responsible officer (the Director of Finance) will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually to the Finance Committee on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the University's objectives in this respect, all in accordance with the procedures set out below in TMP6 'Reporting Requirements and Management Information Arrangements'.

a) *Credit and Counterparty Risk Management*

The University regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited and will limit its investment activities to the instruments, methods and techniques referred to in the TMP4 Approved instruments methods and techniques listed in the schedule to this document.

- The overriding principle guiding the investing of surplus cash balances is the preservation of the capital value of the institution's resources. The Head of Tax and Treasury has delegated authority from the University's Finance Committee to invest the surplus funds of the institution in accordance with the annual financial strategy and in accordance with this statement. He is authorised to deposit or invest funds only with those organisations meeting the University's credit worthiness selection criteria.
- In addition, the University will work with Oxford University Press (the Press), which is a department of the University but operates independently of the main operations of the University, to ensure that there are regular joint discussions on the lending criteria that are to be adopted and also that aggregate exposure limits are in place for both the University and the Press.
- The Director of Finance of the University and the Finance Director of the Press are responsible for monitoring the creditworthiness of approved deposit takers when arriving at a joint list of counterparties. The University relies on the ratings provided by its cash managers, who in turn carry out their own in-house assessment on the efficacy of the banks on their list on a regular basis (at least monthly) as part of their own in-house credit control procedures. The managers will make use of the rating agencies and also their own internal research and evaluation processes. The University has an investment mandate with its managers which restrict their investments to those UK banks with a minimum short-term credit rating of A1 (as defined by Standard and Poors) and a minimum long-term rating of A up to a maximum period of six months; and for non-UK banks who have a minimum short-term credit rating of A1 and a long-term rating of AA- as defined by Standard and Poors up to a maximum period of three months. In addition it has set maximum investment limits with counterparties.
- The University may invest in Money Market Funds which meet the criteria, and within the limits set out in the counterparty policy.
- Treasury Bills may also be purchased within the mandate. These can be purchased either via the primary markets on pre-defined auction dates or through the secondary markets, where they are bought and sold on a daily basis.

b) *Liquidity Risk Management*

- The University 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/service objectives.
- The University has a number of bank accounts, which are "swept" regularly to its No 1 account. The overdraft facility over all of its accounts is £10m.

c) *Interest Rate Risk Management*

- The University will ensure that it protects itself adequately against the risk of fluctuations in the level of interest rates creating an unexpected or unbudgeted burden on its finances.
- It will budget for income earned on its Deposit Pool (cash) investments, based on forecasts of actual and likely interest rates over the year ahead.
- It will manage its exposure to fluctuations in interest rates with a view to both providing certainty and containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements.
- The budgetary implications of any interest rate management will be taken into consideration
- Inflation is taken into account in the University's annual budgetary cycle. A view is taken on the likely inflationary impact on significant sources of income such as grant funding and deposit pool interest, as well as national expenditure levels of salary awards, potential increases in employers' contributions and non-pay expenditure.

d) *Exchange Rate Risk Management*

The University receives significant funds, often by grant or donation in foreign currency, principally in Euros and US dollars and these are subject to currency hedging where appropriate.

The University will ensure (as far as is possible) that it protects itself adequately against the risk of fluctuations in foreign exchange rates, which might impact upon its budgets.

- It has a Foreign Currency Policy for Research Awards in place, which covers:
 - General rules for costing and pricing of awards made in foreign currency;
 - Management of non-EC awards;
 - Management of EC awards (including the option for departments to have their awards re-budgeted in the last six to nine months of an award to ensure it is able to use up unspent Euro budget);
 - Expenditure in foreign currency from an award made in the same currency;
- In order to protect the central University from foreign exchange movements, the policy builds a margin into the estimated foreign exchange cost of research projects and gives budget certainty to researchers.
- Its main hedging techniques involve buying or selling currency forward in anticipation of known foreign currency receipts or expenditure or in appropriate circumstances it will consider the purchasing of currency options to protect specific budget rates.

- The University will not trade in currencies.
- All currency transactions will be in accordance with the standard International Swap Dealers Association (ISDA) form of contract.
- For forward selling contracts, the University has set down parameters to limit the amount of currency it will hedge at any one time. The Finance Division will have discretion to vary the amounts to be hedged dependent upon the history of transactions between the University and the third party.
- Where the University is expecting currency receipts it will take into account the length of time it has dealt with the counterparty and the level of confidence in the timing of payments.
- In respect of hedging future commitments (i.e. payments) the terms and conditions of the contract will be considered, along with the key trigger points contained within the contract and the level of due diligence undertaken beforehand by both the spending department and the Purchasing department.

Parameters

(i) for contracts where the University will receive foreign currency

For currency receipts forecast to be received within 12 months, the Treasury section will have the discretion to enter into contracts with a bank, and to sell forward between 50% and 100% of the anticipated currency receipts.

For receipts expected to be received in years two or three of the contract, the maximum percentage to be covered by a forward contract will be between 25%-75%, again dependent upon the confidence in the timing of the cashflow.

For payments to be received over years three to five of a contract, there are limited options to hedge the currency risk in current markets, and the costs of this are unlikely to make this attractive. Any proposed hedging will be reviewed on a case by case basis where appropriate, and authority sought from the Director of Finance should hedging of this risk be required.

In all cases the University will consider the aggregate exposure before hedging of foreign currency inflows and outflows to ensure only the net exposure is hedged.

(ii) for contracts where the University will pay in foreign currency

For payments due up to one year following contract agreement, the University will hedge between 50% and 100% of the contracted sums due to be paid.

For payments between one and two years the parameters are 25%-75%.

For payments to be received over years three to five of a contract, there are limited options to hedge the currency risk in current markets, and the costs of this are unlikely to make this attractive. Any proposed hedging will be reviewed on a case by case basis where appropriate, and authority sought from the Director of Finance should hedging of this risk be required.

e) Refinancing risk management

- The University will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and that 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 it as can reasonably be achieved in light of market conditions prevailing at the time.

- It will actively manage its borrowing relationship and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.
- Any University borrowings are generally carried out only after specific advice has been sought and competitive quotes obtained from the market.

f) Legal and Regulatory Risk Management

The University 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. In framing its credit and counterparty policy under TMP1 a) *credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the University, particularly with regard to duty of care and fees charged. The University recognises 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 minimise the risk of these impacting adversely upon it.

- Opinions have been sought and received on the University's powers to both borrow and enter into derivative-based contracts such as the ISDA standard form. The University also complies with the requirements of the HEFCE Funding Memorandum.
- Prior to entering into any borrowing or investment transaction, the Director of Finance will ensure that the proposed transaction(s) does not breach any statute, the University's financial regulations or standing orders, the requirements of the HEFCE financial memorandum or any terms and covenants concerning borrowing.

g) Fraud, Error and Corruption, and Contingency Management

The University will aim to identify 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 meet these ends.

- Investment transactions are subject to clearly established internal check procedures, as well as in-house authorisation and signing limits, which are carried out in conjunction with the University's bankers.
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- As part of its control procedures, the University has segregation of duties between the daily dealing transactions and the settlement authorisation. The Daily Dealing Log is presented to a list of authorised signatories for approval.
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- Insurance Cover for fraud and Professional Indemnity cover is held and provided, up to a maximum limit of £10m and £25m respectively.
- Payments for Money Market transactions are generally made by CHAPS (using the Barclay's Internet Banking system) and subject to laid down authorisation procedures, which are hierarchical, based on "administrator", "inputter" and "authoriser" levels.
- Contingency plans exist with the University's bankers to download opening bank balances and make same day payments in the event of a computer failure.

- The Treasury Management operation is subject to annual review by the Finance Committee and external audit and regular review by internal audit.

h) *Market Risk Management*

Notwithstanding the already short-term nature of its cash deposits the University 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.

TMP2 Performance Measurement

The University combines its cash balances within one cash management vehicle known as the Deposit Pool. The lending duration is short-term and consists of deposits being lent to either its banks, AAA rated money market liquidity funds or via investment managers. All deposits have same day liquidity. The average rate of interest earned on cash investments is calculated annually. As the investments are held short-term, the performance comparisons are made against the annualised average of the Bank of England base rate

TMP3 Decision Making and Analysis

The University will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, to demonstrate that reasonable steps are taken to ensure that all issues relevant to those decisions are taken into account at the time.

Records kept include:

- Daily investment diary detailing cleared and uncleared balances for each of the University's bank accounts, known income, investment maturities and any other significant items of income and expenditure;
- Cash flow history detailing each week's expenditure and income, under the main categories.

TMP4 Approved Instruments, Methods and Techniques

- The University will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in *TMP1 Risk Management*.
- The University does not preclude the use of any of the mainstream investment instruments or types of investment vehicle, subject to satisfactory prior research and advice being undertaken and given.

TMP5 Organisation, Clarity, Segregation of Responsibilities and Dealing Arrangements

The University considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, 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. The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function. If and when it intends, as a result of lack of resources or other circumstances, to depart from these principles, the responsible officer will ensure that the reasons are properly reported in accordance with *TMP6 Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

The responsible officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The delegations to the responsible officer come from the Finance Committee in respect of treasury management and are set out in Appendix 1 to this document. The responsible officer will fulfill all such responsibilities in accordance with the policy statement and TMPs.

- The Director of Finance has overall responsibility for the Treasury Management operation with the Head of Tax and Treasury having day-to-day operational responsibility.
- The Treasury section is subject to internal financial controls and is set-up in such a way as to achieve adequate separation of duties.

TMP6 Reporting Requirements and Management Information Arrangements

The University will ensure that regular reports are 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; 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.

As a minimum the Finance Committee will receive:

- A termly activity report;
- An annual report on prior-year performance and likely strategy for the year ahead;

TMP7 Budgeting, Accounting and Audit Arrangements

The responsible officer will prepare, and the University will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The responsible officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 *Reporting requirements and management information arrangements*.

The University 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 University 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 fulfillment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

- Estimates of cash management income are prepared annually as part of the annual budget compilation.
- A copy of the minutes of the Finance Committee and any subsequent reports are provided to the University's external auditors annually and a copy of its Treasury Management Code of Practice is submitted to both Internal and External Audit annually.

TMP8 Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the

University 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 TMP1(b) *Liquidity risk management*.

- A cashflow overview for the year ahead is prepared annually and thereafter updated monthly and forms one of the key elements in day-to-day investment decision-making.
- Cash flow forecasts affecting the University's capital payments are also kept and 'estimates' and 'actuals' compared on monthly basis and presented to the Director of Finance.

TMP9 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 the laundering of money. Accordingly, it 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.

- Cash investments from the University's Deposit Pool will only be made to those institutions approved by the Finance Committee.

- Apart from its direct investments with approved counterparties the University's other deposits will be placed via its investment managers to their client account. The managers will be required to carry out the 'Know Your Customer' checks, including verification of the bank accounts, of the deposit takers they deal with.
- Any gifts received will be subject to the criteria laid out in the university's Financial Regulations (2.3)

TMP10 Staff Training and Qualifications

The University recognises the importance of ensuring that all staff involved in the treasury management functions 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 responsible officer will recommend and implement the necessary arrangements.

- The University's Finance Division has a strong commitment to providing appropriate professional training.
- All Treasury staff will be subject to the University's Personal Development Review process. In addition, they will also undergo basic treasury training before being allowed to deal.

TMP11 Use of External Service Providers

The University recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons, which will have been submitted to a 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 subject to regular review. In addition, and where feasible and necessary, a spread of service providers will be used to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, the University's Procurement arrangements will also be observed. The monitoring of such arrangements rests with the responsible officer.

TMP12 Corporate Governance

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

- The University's Council is responsible for the management of the University's finances and assets and has established a Finance Committee whose responsibilities include the approval of the University's banking and treasury arrangements. The remit and composition of the Finance Committee is laid down by Council in Regulations (Council Regulations 15 of 2002, Part 19). The composition of the Committee provides for four of its members (a majority) to be external. .
- In addition the Finance Division is subject to the financial governance rules laid down in the University's Financial Regulations, which are made by Council.

Delegated Power	Exercised By
Approval and amendment of treasury management	Finance Committee
Policy statement	
Amendment of list of approved organisations and limits	Finance Committee
Approval of annual investment strategy	Finance Committee
Approval of treasury systems document	Director of Finance
Application of approved strategy	Director of Finance/Head of Tax and Treasury
Treasury dealing with counter parties	Head of Tax and Treasury
Authorisation of cash transfers	Deputy Director of Finance, Head of Financial Planning and Analysis, Head of Tax and Treasury, Group Financial Controller, Head of Accounting Services, Head of Subsidiary Accounts, Financial Accountant
Borrowing and lending documentation	Director of Finance
Bank and dealing mandates	Director of Finance under authority from Council

To Finance Committee

Annually:

- presentation of the Treasury Management Code of Practice; including
- any proposed amendments to the treasury management policy statement

Termly

- review of treasury management activity for preceding year; comprising:
- analysis of treasury activity - cash balances, bank counterparties including any proposed amendments to approved counter parties;
- commentary on treasury operation for the period;
- any areas of non-compliance with the treasury management policy statement
- annual cash investment strategy for the next financial year including projected cash flows and variance analysis;
- foreign exchange activity;
- capital financing update;

To the Director of Finance

Monthly:

- Treasury Activity:
cash balances;
compliance with approved counterparty requirements;
- Foreign Exchange Activity:
new contracts entered into;
monthly statement of all forward contracts;
details of any euro/USD sales;
currency balances at bank;
- Capital Financing Update:
statement of current borrowings;
indication of current borrowing rates;
- Other to include:
audit updates;
bank facilities.