TREASURY MANAGEMENT POLICY 2017/18

Policy Statement

This statement sets out East Kent College and Canterbury College's policy concerning the investment of surplus monies. This policy forms part of the Financial Regulations of the College.

Procedures

1. The Governing Body will set the level of risk to which any investment must be aligned
2. It is the responsibility of the Executive Director of Finance and Commercial Development to maximise investment returns on surplus funds, without risking the College's capital in less safe investments.
3. As part of the daily monitoring of the College's bank balances, the Head of Finance will identify where the College may be holding excess funds which are surplus to short term requirements
4. Where there are surplus funds, the Head of Finance will utilise any existing investment facilities and recommend to the Executive Director of Finance and Commercial Development, any other such facilities that will look to obtain maximum benefit from the investment.
5. Any certificates in relation to the investments will be held in the College's safe at all times and confirmation of deposit transactions will be retained and recorded by the Head of Finance.
6. Any material transactions will be reported through the appropriate Governance arrangements by the Executive Director of Finance and Commercial Development.

1. Introduction

This policy is intended to cover the Treasury Management activities of the College.

2. Approved Activities of the Treasury Function

The College has adopted the CIPFA definition of treasury management activities:

'The management of the College's cashflow, 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 these risks'.

The Governing Body approves the College borrowings and investments, including all loan agreements.

The Executive Director of Finance & Commercial Development is responsible for the implementation of loan agreements, including drawdown of finance, arranging fixed charges and compliance with covenants.

The Executive Director of Finance & Commercial Development is responsible for the investment of cash balances within the parameters set out by this Policy.

3. Approved Methods of Raising Capital Finance

The primary means of raising finance are:

- Long-term loan
- Short-term loan
- Lease finance
- Bank overdraft

In general, the College will obtain almost all its long-term financing from long term conventional debt since this is usually available from a mature funding market at competitive margins.

Short-term loans and overdraft finance may be used where this provides cheaper or more flexible funding.

The level of overall debt will be determined by the College's ability to meet total debt charges, with due regard to the interest rate risk referred to in Section 7. The cash flow forecast contained within the College's Financial Plan will reflect this requirement.

4. Approved Sources of Finance

The College will usually look to established banks and building societies who are currently active in the education funding market for its long-term facilities.

In addition, the College may consider sources of lease finance for small funding requirements (e.g. technology and other equipment replacement upgrade programmes), although it is generally accepted that this is more expensive than conventional debt finance.

The College will usually seek to avoid increasing its debt level on low value items.

5. Approved Financial Counterparties

Building and other capital project requirements will generally mean that the level of surplus cash will fluctuate significantly, particularly during major building construction periods.

The College will only invest surplus funds within the following constraints:

- With UK based institutions, with a 'strong' capacity to meet its commitments, as defined by:
    - Short term credit ratings of A1 (Standard and Poors) or F1 (Fitch IBCA) – Less than 3 months.
    - Long term credit ratings of AA (Standard and Poors) or AA (Fitch IBCA) – Greater than 3 months.
- Deposits no longer than 6 months, except up to £1,000,000 which may be invested up to one year.

A maximum bank counterparty deposit limit of £1,000,000, except if the investment is with the College's existing bankers.

6. Types of Financial Instruments

A key risk is that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the College's finances, against which the College has failed to protect itself adequately.

Apart from the approved types of finance outlined in section 3 above, the College may, therefore, use interest rate swaps, interest rate collars, interest rate caps and interest rate floors to mitigate the impact of potential interest rate fluctuations (interest hedging).

It is intended that such instruments will be entered into using the current lenders and that such instruments will be embedded within existing loan agreements.

7. Use of External Intermediaries

The College will not use brokers or fund managers since the majority of its cash deposits are relatively small and short-term. The College may use a financial advisor if the use of a Financial Instrument (see Section 6) is contemplated.

8. Liquidity Policy

The College 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 annual business plan objectives.

Any surplus cash balances are invested in interest-bearing bank accounts or on the money market to maximise income for the College.

The Executive Director of Finance & Commercial Development will be responsible for the regular reporting of debtors and creditors.

Creditors will be settled in accordance with invoice terms, except where the amounts are in dispute. Where specific terms are not given, settlement should be made within one month.

Payment performance will be reported in the College Financial Statements (subject to the requirements of the Statement of Recommended Practice (SORP) for the Sector.

9. Policy Review and Reporting

Treasury activities will be reported in the monthly Management Accounts, including, but not limited to:

- Cash flow Statement and Forecast
- Net Debt report

This information will supplement the borrowing ratios included within the funding body's financial performance indicators and the College CPIs.