Treasury Management Policy

1. Introduction

This Policy sets out the School's approach to treasury management, which is defined as:-

> *The management of the School's cash flows, its banking, investment and borrowing transactions, effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.*

The Policy applies to the School, and its subsidiary companies. It does not apply to the NFTS Foundation or NFTS Pension and Assurance Scheme, which have their own regulations and policies.

2. Treasury Management Objectives

The Policy recognises that there are risks in treasury management which need to be addressed by the School as follows: -

(a) **Liquidity risk:** to ensure there are adequate, though not excessive, cash resources, borrowing arrangements, overdraft or standby facilities to enable the School at all times to have the level of funds available which are necessary for the achievement of the School's business objectives.

(b) **Interest rate, Exchange rate and Inflation risk**: to ensure adequate protection against the risk of fluctuations in these monetary factors creating unexpected or unbudgeted burdens on the School's finances.

(c) **Credit and Counter-party risk:** to ensure sufficient protection from the risk of failure by a third party to meet its contractual obligations to the School under an investment or borrowing arrangement, particularly as a result of the third party's diminished creditworthiness.

(d) **Market risk:** to ensure the School will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and accordingly to protect it from the effects of such fluctuations.

(e) **Legal and regulatory risk:** to ensure that all of the School's treasury management activities comply demonstrably with its statutory powers and regulatory requirements and that the risk of these impacting adversely on the School is minimised.

(f) **Fraud, error, corruption, and contingency:** to ensure that circumstances are identified and addressed which may expose the School to risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Particular attention is to be given to the provisions of the Money Laundering Regulations (2007) and associated legislation such as the Terrorism Act (2006) and the Proceeds of Crime Act (2002); see ***NFTS Anti-Money Laundering Policy***.

The Policy adopts the general approaches listed above and then sets more detailed objectives as follows: -

(a) For cash, and temporary investments - to achieve the following objectives in priority order:
   - (i) To minimise the risk of loss or non-repayment.
   - (ii) To ensure that the periods for which monies are invested are consistent with the cash flow requirements of the School, so funds are available when needed.
   - (iii) To achieve a reasonable rate of return having regard to the first two objectives

(c) For working capital purposes - to maximise by proper control of debtors and creditors the amount of cash available to the School, consistent with the requirements of customer's and supplier's terms of business, and good practice.

(d) For borrowings - to achieve the following objectives in priority order:

   - (i) To raise finance in a timely and efficient fashion for approved projects
   - (ii) To pay the lowest reasonable cost of funds
   - (iii) To control tax risks
   - (iv) To agree with lenders such security arrangements and other constraints over the School as to leave it with the maximum freedom over its future finances

(e) For foreign exchange - to keep as simple as reasonably possible its transactions involving foreign currency, consistent with keeping administration and transaction costs low.

3. Responsibility and Authorization

Responsibility for the treasury management policy is ultimately that of the School Director as the Accountable Officer of the School. This responsibility is exercised on behalf of the School Director by the Director of Finance.

The Director of Finance may delegate, under a scheme of delegation, the duty of temporary investment, but not the responsibility, to such staff within the Finance team as they see fit. It is current practice for this duty to be undertaken by the Finance Manager without any restriction on limits, but subject to agreed authorisation and monitoring procedures. The Finance Manager is responsible for ensuring that investment procedures and relevant bank mandate records are clearly documented, reviewed regularly and updated as necessary.

The Finance & General Purpose Committee is responsible to the NFTS Board for advising on investment policy and monitoring investment transactions undertaken by authorised officers. This function is exercised by the approval of broad policy guidelines within which School employees must act, and through the more detailed consideration given to the activity by Finance & General Purpose Committee.

4. Procedures for Cash and Temporary Investments

The amount and period of any temporary investment shall be determined by reference to the School's estimated short-term cash flow requirements. For this purpose, the Director of Finance will, with the help of the Finance Manager, be responsible for maintaining a detailed forecast of cash movements covering at least three months ahead.

Use of the School's bank overdraft facility (if in place), is only permissible with the approval of the Chair of Finance & General Purpose Committee.

Where the School invests funds itself, the arrangements are that the only approved investment, except for accounts with the School's bank, is the simple money market deposit – either for a fixed period or on notice. Specifically prohibited are:

- Commercial paper
- Sterling certificates of deposit
- Any transaction involving the use of the futures market
- Any transaction requiring the use of interest rate swaps

Within the total temporary investments, any proportion (including the whole) may be invested at variable rates (i.e. on notice).

Institutions to which money may be lent are required to be approved by Finance & General Purpose Committee, and must meet minimum long term credit ratings (with reference to more than one credit rating agency), as determined by the Committee.

The list of institutions is restricted to the following:

- Substantial UK clearing banks
- Major UK building societies
- Specified foreign owned banks,
- Specified AAA Money Market Funds

The amounts which may be lent to individual borrowers or banking groups shall be determined by Finance & General Purpose Committee, and may be varied from time to time.

In order to manage short term working capital requirements, the counterparty limit for the School's main bank may be extended by an agreed amount, as determined by the Director of Finance, for limited periods of up to one month.

The current list of approved institutions and counterparty limits is available from the Finance Manager. The Director of Finance is responsible for amending the list based on changes to credit ratings.

Any interest-bearing account facilities offered by the School's bankers may be used as an alternative to temporary investment at the discretion of the Director of Finance. In determining the use of such facilities, regard shall be paid to the rate of interest received and on any restrictions placed by the Bank on the use of such accounts.

Where it is likely to be beneficial, temporary investment will be arranged through an authorised and regulated London money broker, to obtain as wide as possible a range of potential borrowers.

The School is responsible for ensuring that any transactions placed through brokers conform to this policy.

The School may also deal direct with any institution on the approved list of borrowers who may, from time to time, offer terms of deposit which are substantially better than general money market rates.

The School may also choose to hold cash balances and temporary investments on deposit with stockbrokers and fund managers. These decisions will be made by Finance & General Purpose Committee, who will take such advice as they think appropriate from the money broker described above. The funds invested in this way will be fully subject to this Policy, in other regard than their management.

Interest earned from investments will be credited to the appropriate accounts as required to meet reporting timetables in the School.

5. Procedures for Endowment Funds

Endowed donations or bursaries received that are for use over a time period of greater than one year[1] should be accounted for and administrated by the Foundation with agreement made between the Foundation and NFTS as to the timing of draw-down of funds.

6. Procedures for working capital

These procedures concern debtors and creditors. The Director of Finance will make arrangements for debts to be collected promptly, and creditors to be paid in a timely fashion so as to maximise operating cash flow. Discounts for early payment will be accepted where their size exceeds the loss of interest on cash used.

7. Procedures for Borrowings

An overdraft facility may be maintained for operational purposes and a loan facility may also be arranged for the same purpose, but their use will be minimised so as to keep costs down. They will not be used for long-term purposes.

Any proposals for long-term borrowing for funding of projects will be evaluated carefully by the Director of Finance in line with the School's financial plan and the objectives of this policy. It will normally be expected that several sources of funds will be evaluated in each case. Proposals for new long-term borrowings require a resolution of the NFTS Board, following a recommendation by Finance & General Purpose Committee.

Appropriate interest rate hedging, through fixed rates, caps, and other non-aggressive instruments, will be undertaken to protect the School from sharp increases in interest rates on borrowings. The balance between protection and loss of flexibility will be evaluated by the Director of Finance with such external advice as they consider appropriate. Decisions will be taken by Finance & General Purpose Committee, but the Committee may delegate to the Director of Finance the timing of implementation of a proposal so as to allow favourable market conditions to be exploited.

Any subsequent refinancing of a borrowing arrangement will be considered if the terms are competitive and as favourable as can reasonably be achieved in the light of market conditions prevailing at the time, and will require approval by the NFTS Board.

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[1] This excludes Scholarships awarded by Industry or Government partners which covers the duration of a nominated student's 2-year MA.

8. Procedures for Foreign Exchange

Generally, the School will seek to keep simple its transactions involving foreign currency. To this end it will:

(a) Seek where possible to have transactions conducted in sterling rather than foreign currency
(b) Avoid speculating on the future value of foreign currencies against the Pound (GBP)
(c) Seek wherever possible to keep the administration of foreign currency transactions and holdings simple and low cost in administrative terms

Euros: Funds received in Euros, generally for EU-funded projects, will be credited to the foreign exchange bank accounts in that currency. Funds that are not planned for immediate currency conversion or payment to School suppliers may be invested either in linked deposit accounts or money market funds, where the School has freedom to do so, or will be retained in other accounts if required by the funding agency.

US Dollars: Funds received in US dollars will be credited to a foreign exchange bank account in that currency. The School will not hold dollar balances except in anticipation of dollar expenditure in order to reduce transaction costs and exchange rate risk.

Other Currencies: The School will not hold foreign currency except in the anticipation of related expenditure or onward payment to partner organisations. For currencies where there are both extensive purchases and sales, the School will keep under review whether to open foreign currency bank accounts with its bank in the UK in order to reduce transaction costs.

Currency Conversion Costs: Costs arising from conversions from foreign exchange will be absorbed by the relevant budgets for the activity. Changes in the sterling value of approved EU- funded projects will be borne by or credited to the projects, subject to EU rules.

Hedging: The School will not normally arrange hedging for its foreign exchange transactions. Exceptionally, where certainty of costs is required and it is important that losses are avoided, then the Director of Finance may approve hedging arrangements on a case by case basis, subject to the appropriate ISDA arrangements being put in place.

9. Forecasting, Monitoring and Reporting

The Director of Finance will, with the help of the Finance Manager, prepare appropriate cash flow forecasts for the coming year, based on the School's approved Financial Forecasts. These will be prepared prior to the start of each financial year as part of the annual forecast submission to HEFCE. The forecasts will be reviewed monthly during the year to track actual cash flows against planned movements, and adjusted for latest forecast outturn. This will enable the forecasts to be rolled forward as necessary.

10. Other Matters

Banking Arrangements: the School will bank with a substantial UK clearing bank.

Training: The Finance staff involved in treasury management will be expected to attend seminars and short courses on relevant topics, with particular reference to legal and regulatory changes. Other staff involved in receipt of income from non-standard sources, e.g. in the Registry Office and the Development Office, will be made aware of the risks of money laundering and required to follow appropriate procedures.

Audit: The treasury management function will be subject to internal and external audit in the normal way.

Review: This Policy is subject to review by the Finance & General Purpose Committee on the advice of the Director of Finance at such intervals as it may from time to time determine.

November 2017