SALFORD CITY COLLEGE GROUP

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Treasury Management Policy

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TO BE A BEACON OF **EDUCATIONAL EXCELLENCE**, TRANSFORMING THE LIVES OF THE **INDIVIDUALS** AND **COMMUNITIES** WE SERVE.

1. Policy Statement

This statement sets out Salford City College Group's policy concerning the raising of finance and the investment of surplus monies. It also deals with internal movement of surplus funds between accounts established by the College. This policy forms part of the Financial Regulations of the College (Section 4.3).

All treasury management activities involve risk and potential reward. The policy of the College on borrowing is to minimise cost whilst maintaining the stability of the College's financial position by robust debt management techniques. The objective for lending purposes is to achieve the best possible return whilst minimising risk. The overriding principle is to avoid risk rather than to maximise return.

2. Scope

Treasury management comprises the management of all cash, money market investments and capital market transactions in connection with the cash and funding resources of the College and the control of associated risks.

3. Legislation

Prior to entering into any borrowing or investment transaction, it is the responsibility of the Chief Financial Officer to be satisfied by reference (if necessary) to the College's legal advisors that the proposed transaction does not breach any statute, HM Treasury's *Managing Public Money* and associated reclassification requirements, the College's Financial Regulations, the requirements of the financial memorandum or contracts with funding bodies, or any terms and covenants concerning borrowing.

4. Responsibilities

The Chief Financial Officer is responsible to the Corporation for the implementation and operation of this policy. The Head of Finance is responsible for the daily operation of Treasury Management, assisted by the Financial Operations Manager.

5. Approved Activities of the Treasury Function

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

'The management of the Group's Cashflows, 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 Strategy, Finance & Resources Committee approves the College's borrowing and investment strategy, including all loan agreements.

The Chief Financial Officer is responsible for the implementation of loan agreements, including drawdown of finance, arranging fixed charges and compliance with covenants.

The Chief Financial Officer is responsible for the investment of cash balances within the parameters set out by this Policy.

6. Formulation of Treasury Management Policy

The College is seeking to adhere to the four principal drivers of policy:

- compliance with statute, regulation and best practice;
- security of financial assets;
- provision of adequate liquidity to meet financial obligations;
- effectiveness and efficiency in the use of financial resources.

The combination of these principles is weighted towards minimising risk, preserving asset values and liquidity levels while minimising costs within these parameters.

While this policy outlines the general approach towards Treasury Management, the Treasury Management Report will be included as part of the annual budget and accounting process, which is approved by the Strategy, Finance & Resources Committee.

7. Methods of Raising Capital Finance

The primary means of raising finance are:

- Long term loan;
- Short term loan;
- Lease finance;
- Bank overdraft;
- Revolving credit facility.

In general, the College has obtained almost all its long-term financing from long term conventional debt since this was available from a mature funding market at keen margins. Short term loans and overdraft finance may be used where this provides cheaper or more flexible funding.

However, as the College is now part of the central government sector, any raising of capital finance must comply with the requirements under HM Treasury's document *Managing Public Money*, much of which requires approval in advance from the Department for Education (DfE).

Loans

Under *Managing Public Money*, public sector organisations may borrow from private sector sources only if the transaction delivers better value for money for the Exchequer as a whole. As non-government lenders face higher costs, in practice it is usually difficult to satisfy this condition. As such, the College could, if required, take long and short-term loans from the Department for Education, subject to approval.

Leases

Lease arrangements are permitted under *Managing Public Money*.

Overdraft Facilities

Managing Public Money also states that public sector organisations should not go overdrawn as a matter of good financial management, but that it may be expedient to use an overdraft in the short term. The College does not currently hold an overdraft facility, and would therefore require prior consent from the DfE to obtain such a facility. In addition, should the College obtain an overdraft facility, it would not be permitted to increase that facility without further prior consent from the DfE.

The quantum 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 10. The College Financial Forecast Return , which is submitted each July to the ESFA, will reflect this requirement, with particular focus on the cash flow statement.

The Chief Financial Officer will prepare for the Strategy, Finance & Resources Committee a report for each proposed capital borrowing. The report may include the following:

- Borrowing requirements;
- Proposed lender;
- Interest rate structure-fixed, variable, variable, index linked, deferred interest;
- Interest rate-base plus lender's margin;
- Arrangement fees;
- Security arrangements;
- Purpose (with cashflows);
- Comparisons with alternatives;
- Arrangements for draw-down;
- Legality.

Any other maters which might assist the Strategy, Finance & Resources Committee in considering the proposal

8. Approved Sources of Finance

Under *Managing Public Money*, the College would be permitted to borrow from a commercial lender only if it provided better value for money than borrowing from the Department for Education. To be able to compare the cost of borrowing against the Department for Education's terms, the College would obtain quotes from established banks and building societies active in the education funding market for the cost of the borrowing requirement.

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

9. Approved Financial Counterparties

Building and other capital project requirements will generally mean that the level of surplus cash will fluctuate particularly during building construction periods and the summer period (when accommodation remodelling and IT and other equipment procurement is usually undertaken). Cash fluctuations have historically been built into the largest source of income for the College which funds learners aged 16-19, but from August 2023 this will now be on a more even profile.

As confirmed by the Department for Education following reclassification, colleges are permitted to retain the flexibility to carry over surpluses, in full, from one year to the next. The College will only invest surplus funds within the following constraints:

- With a UK based institution;
- Deposits no longer than six months, except up to £500k may be invested up to one year;
- A maximum bank counterparty deposit limit of £1m, except if the investment is with the College bankers, currently Lloyds and Barclays;
- Target month end cash balance of minimum £1,000k, excluding major capital spend;
- Any bank or building society with a long-term credit rating of not less than: Minimum of A3 credit rating as defined by Moody’s.

For day-to-day operational reasons, the College’s principal clearing bank (currently Lloyds) and the College’s secondary bank (currently Barclays) are not subject to the above restrictions in terms of cash held in the main account with each bank. However, accounts should not be over-funded for an extended period of time and efforts should be made to spread funds across all suitable appropriate investment facilities.

10. 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 types of finance outlined in Section 7 above, the College could 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). However, *Managing Public Money* deems the use of financial instruments as automatically novel and contentious and so the College would need prior consent from DfE before using them.

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

11. 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 10) is contemplated.

12. Internal Delegation of Authority

This will be in accordance with the Financial Memorandum and the College's Financial Regulations, but will include the following activities which will be approved by the Strategy, Finance & Resources Committee:

- New Loans
- Finance Leases
- Charging of Properties
- Treasury Management Policy
- Annual Treasury Report
- Interest Hedging
- Use of overdraft facility

13. 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 business/service objectives.

Surplus cash balances may be invested in interest bearing bank accounts or on the money market to maximise income for the College.

The Finance Department will be responsible for the regular reporting of debtors and creditors.

A debt collection agency may be used for individual debtors in accordance with procedures agreed by the Chief Financial Officer or their appointed nominee.

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).

14. Risk Management

The Treasury Management Policy and Annual Treasury Management Report are to be consistent with the College Risk Management Policy and Strategy.

15. Policy Review and Reporting

An Annual Treasury Report will be prepared which will incorporate a review of this Policy.

In addition, Treasury activities will be reported in the monthly Management Accounts, including:

- Cash flow forecast;
- Debtor analysis.

This information will supplement the borrowing ratios included within the ESFA's Financial Performance Indicators.

16. Banking Services

The College currently makes use of the banking facilities provided by Lloyds plc. The College may from time to time re-tender for the provision of day to day banking services. Any appointment will, in the first instance be for a period not exceeding five years.

17. Matters to be included in the Annual Treasury Management Report

a) Update to be submitted to Strategy, Finance & Resources Committee for information and continued approval should indicate:

- Forecast cash flows for the next financial year;
- Maturity of existing loans;
- Total outstanding borrowing;
- Maximum proportion of interest payable on variable rate borrowing.

b) Strategy for financing new loan requirements over the next (up to five) years (if required):

- Proposed sources of finance;
- Proposed maturity structure;
- Whether fixed or floating rate and if floating rate proposed rollover periods suggested mechanisms for controlling interest rate exposure;
- Estimated rates of interest;
- Effect of proposed loans on the College's overall security position;
- Estimate effect on revenue budget of financing strategy;
- Expected maximum total outstanding and expected maximum proportion of interest payable on variable rate borrowing;
- Adherence to *Managing Public Money*.

c) In respect of surplus funds:

- The extent to which surplus funds are earmarked for short-term requirements or to repay maturing loans, if applicable;
- The extent to which surplus funds should be held available to meet contingencies;
- The proposed strategy (type of instrument and maturity period) for each of:
    - Surplus funds earmarked for short term requirements or to repay loans
    - Surplus funds to be held available to meet contingencies
    - Surplus funds not held against an anticipate requirement, and
    - The revenue effect of the proposed strategy.