TREASURY MANAGEMENT POLICY

March 2020

Introduction

The University has adopted as part of the University Financial Regulations the *Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services* (the Code) issued in 2017. The Code is designed to address best treasury management practice in the public sector, including higher education institutions.

The effective management of treasury activities is of strategic importance to the future success of the University. It is also operationally critical because of the need to ensure the University has sufficient liquidity for day to day operations and remains compliant with lender covenants.

This policy sets out the framework of how treasury activities are managed at the University to mitigate risk. It contains the University's policies on treasury management both at the strategic and operational level. This policy has been adopted by the University as part of its Financial Regulations and applies to the University and all of its wholly owned subsidiaries.

Treasury Management Clauses

The University adopts the following four clauses of the Code:

Clause 1

The University will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury activities
- Suitable treasury management practices (TMPs), setting out the manner in which the University will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

Clause 2

The University Court will receive reports on its treasury management policies, practices and activities including as a minimum an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in the TMPs.

Clause 3

The University Court delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Joint Planning, Policy and Resources Committee (JPPRC), and for the execution and administration of treasury management decisions to the Executive Director of Finance, who will act in accordance with the University's policy statement and TMPs.

Clause 4

The Audit Committee has delegated responsibility from University Court for ensuring effective scrutiny, normally by Internal Audit, of the treasury management strategy and policies.

Treasury Management Policy Statement

The University defines its treasury management activities as:

The management of the University's borrowing, 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.

The University 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, with the objective of keeping credit, liquidity, operational, market, interest rate, exchange rate and legal and regulatory risks with the University's risk appetite.

The University 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 value for money in treasury management and to employing suitable performance measurement techniques within the context of effective risk management.

The University acknowledges the difficulties of striving for effective risk management and control, whilst at the same time pursuing value for money. The University Investment policy objectives are therefore:

1. To ensure the <u>security</u> of University funds and so minimise the risk of capital loss.
2. To maintain adequate <u>liquidity</u> by ensuring that 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 objectives and to meet working capital needs as they arise.
3. To keep surplus cash appropriately invested so as to achieve a satisfactory <u>yield</u> while managing the risk.

The University's borrowings will be affordable, sustainable and prudent and consideration will be given to the management of debt servicing costs, interest rate risk and refinancing risk. The University will adopt the principles detailed in Appendix 6 to help guide the University towards an <u>optimum responsible debt structure</u>.

Treasury Management Practices

The following Treasury Management Practices (TMPs) define the manner in which the University will achieve the Treasury Management Policy:

TMP1 Risk management
TMP2 Performance measurement
TMP3 Decision making and analysis
TMP4 Approved instruments, methods and techniques
TMP5 Organisation, clarity and segregation of duties and dealing arrangements
TMP6 Reporting requirements and management information arrangements
TMP7 Budgeting, accounting and audit arrangements
TMP8 Cash and cash flow management
TMP9 Money Laundering
TMP10 Training and qualifications
TMP11 Use of external service providers
TMP12 Corporate governance

TMP1: Risk Management

The Executive 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 on the adequacy and suitability thereof and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the institution's objectives in this respect, all in accordance with the procedures set out in TMP 6 *Reporting requirements and management information arrangements.*

In respect of each of the following risks, the operational arrangements which seek to ensure compliance with these objectives are set out in Appendix 1.

1.1 <u>Credit and counterparty risk management</u>

Credit and counterparty risk is identified as the risk of failure by a third party to meet its contractual obligations to the University under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the University's capital or revenue resources.

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 (Appendix 1, 1.1) are prudent in attitude towards organisations with whom funds may be deposited, and will limit investment activities to the instruments, methods and techniques referred to in TMP4 *Approved Instruments, methods and techniques*. It also recognises 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 financing or derivative arrangements.

1.2 Liquidity risk management

Liquidity risk is defined as the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the institution's business objectives may therefore be compromised.

The University will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or working capital facilities to enable it all times to have the level of funds available to it which are necessary for the achievement of its objectives. Working Capital facility is listed in Appendix 1, 1.2. The University will only borrow long term in advance of need where there is a clear business case for doing so and will only do so for the capital programme or to finance future debt maturities.

1.3 Interest rate risk management

Interest rate risk is defined as the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the institution's finances, against which the institution has failed to protect itself adequately.

The University will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues while maintaining the security of the invested funds. It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques as detailed in Appendix 4, 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 to the level or structure of interest rates.

The University will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

1.4 Exchange rate risk management

Exchange rate risk is defined as the risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the institution's finances, against which the institution has failed to protect itself adequately.

The University will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

The University aims to conduct all transactions in GBP as its base currency and the currency which reflects the majority of its costs base. There will however be exceptions whereby the University will need to conduct transactions in other currencies.

The University does not operate any currency hedging arrangements. This is primarily due to the nature of many of these contracts makes it difficult to predict the timing of receipts with a level of certainty. The University does maintain Euro, US Dollar and Singapore Dollar accounts and where possible these will be used to match payments and receipts.

Currency receipts will be transferred into Sterling at regular intervals, bearing in mind that sufficient funds should be held to cover any immediate or future currency payments.

Whilst these arrangements are fit for purpose for the current activity, if University overseas arrangements were to grow significantly this may need to be revisited.

1.5 Refinancing risk management

Refinancing risk is defined as the risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the University for those refinancings, both capital and revenue, and/or that the terms are inconsistent with prevailing market conditions at the time.

The University will maintain Reliable records and forecast of the terms and the maturities of its borrowings, capital, project and partnership funding to allow it to plan the timing of and successfully negotiate appropriate terms for it's refinancing.

If the University intends to raise capital for new projects and/or intends to refinance the whole or part of the existing debt portfolio, the Director of Finance will have regard to the principles for guiding an optimum debts structure as defined in Appendix 6.

1.6 Legal and regulatory risk management

Legal and regulatory risk is defined as the risk that the University itself, or a third party which it is dealing with, fails to act in accordance with its legal powers or regulatory requirements, and that the University suffers losses accordingly.

The University will ensure that all of its treasury management activities comply with its Financial Regulations, statutory powers and other regulatory requirements.

Prior to entering into any borrowing or investment transaction the Executive Director of Finance will ensure, by reference if necessary to the University's legal advisors, that the proposed transaction does not breach any statute, the University's Financial Regulations, the requirements of the Financial Memorandum with the Funding Council or any terms and covenants relating to existing borrowings.

The University recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the University.

1.7 Fraud, error, bribery and corruption and contingency management

This is defined as the risk that the University fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings and fails to employ suitable systems and procedures and maintain effective *contingency management arrangements to these ends.*

The University 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. To that end it will maintain records of the processes pursued in making treasury management decision, and in executing transactions, to enable the University to create a successful audit trail, and to allow it to assess the need for contingency arrangements.

The University maintains a Fraud Policy and Anti-Bribery Policy.

Insurance is maintained to indemnify the University against fraudulent acts by its employees. Business continuity and disaster recovery arrangements relating to treasury activities are documented in the Business Continuity plan.

1.8 Market risk management

Market risk is defined as the risk that, through adverse market fluctuations in the value of the principal sums the University invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself.

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.

1.9 Covenant Breach risk management

Covenant Breach risk is the risk that failure to meet terms set by lenders may lead to default of loan(s) and the resulting withdrawal of facilities.

The University will ensure that covenant compliance is monitored and reported on in accordance with *TMP6 Reporting requirements and management information arrangements* and will ensure that lenders receive on a timely basis such information as they require.

1.10 Inflation risk management

Inflation risk is the chance that the cash flows from an investment won't be worth as much in the future because of the changes in purchasing power due to inflation.

The University will monitor the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole University's inflations exposures.

TMP2 Performance Management

The University is committed to the pursuit of value for money in its treasury management activities and to the use of performance measurement in support of that aim within the framework set out in its treasury management policy statement

Accordingly, the treasury management function will regularly examine alternative methods of service delivery, and of the scope for other potential improvements. The performance of the treasury management function will be measured using criteria set out in Appendix 2.

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, 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.

TMP4 Approved instruments methods and techniques

The University will undertake its treasury management activities by employing only those Instruments, methods and techniques detailed in Appendix 3, and within the limits and parameters defined in TMP1 Risk Management. The University will seek proper advice and will consider that advice when entering into arrangements.

TMP5 Organisation, clarity and segregation of responsibilities and dealing arrangements.

The University considers it essential for purposes of 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. These are detailed in Appendix 4.

The Executive Director of Finance 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 Executive Director of Finance will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

The delegation to the Executive Director of Finance in respect of Treasury management is set out in the University's Financial Regulations.

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.

The Head of Treasury & Systems will ensure that the Executive Director of Finance receives a quarterly statement (as part of the management accounts production process) on areas covered by the Treasury function so that they can consider the effects of decisions taken and transactions executed in pursuit of treasury management policies; on the implementation of changes, particularly budgetary, resulting from regulatory, economic, market and other factors affecting treasury management; and the performance of investment managers and the treasury function.

University Court will receive an annual report covering:

- the strategy and plan to be pursued in the coming year in support of the agreed budget and capital development programme
- the performance of the treasury management function, including the reasons for and the effects of any changes to the strategy at the beginning of the year.

TMP7 Budgeting, accounting and audit arrangements

The Executive Director of Finance will prepare and the University will approve and, if necessary, from time to time will amend, an annual budget, which will include income, and costs associated with treasury management activities. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk Management*, TMP2 *performance measurement* and TMP4 *approved instruments, methods and techniques.* The Director of Finance 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 UK GAAP, and with statutory and regulatory requirements in force including the *Statement of Recommended Practice – Accounting for Further and Higher Education (2015)*

The University will ensure that its auditors, both external and internal 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.

TMP8 Cash and cashflow management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the University and it's subsidiaries will be under the control of the Executive Director of Finance, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, as detailed in Appendix 5, and the Executive Director of Finance will ensure that these are adequate for the purposes of monitoring compliance with TMP 1.2 *Liquidity risk management* and TMP 1.*9 Covenant breach risk management.*

TMP9 Money Laundering

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, reporting suspicious activity and ensuring that staff involved in this are properly trained and fully aware of the Anti-money laundering policy.

Compliance with Sanctions Legislation

The University recognises its legal duty to comply with international sanctions and embargoes, used by governments to implement international anti-money laundering guidance and to strengthen national controls around transactions which may be laundering and terrorist financing. The University has a variety of due diligence and other procedures to facilitate compliance with UK, EU, US and UN Sanctions, which is also a condition of the University's banking and loan covenants.

TMP10 Training and qualifications

The University recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake their duties and responsibilities. The University 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 Head Treasury & Systems will recommend and implement the necessary arrangements.

TMP11 Use of external service providers

The University recognises that whilst accountability for all treasury management decisions rests the University, there may be potential benefits from employing external providers of treasury management services in order to gain access to specialist skills and resources. The University does not currently outsource any element of the treasury function or employ third party providers, with the exception of the occasional use of treasury contractors to support specific projects. If it were to do so, it will ensure that 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 subjected to regular review. It will further 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, the University's procurement guidance will always be observed.

Where external service providers are appointed with the responsibility for day to day treasury matters the University will retain full responsibility for the safeguarding of its funds and setting the treasury strategy.

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 has adopted and has implemented the key recommendations of the Code. This together with the other arrangements detailed in the Appendices to this document are considered vital to the achievement of proper corporate governance in treasury management, and the Executive Director of Finance will monitor, and if when necessary report upon the effectiveness of these arrangements

Appendix 1 – TMP1 Risk Management

1.1 Credit and counterparty risk management

The Executive Director of Finance is authorised to deposit surplus funds of the University with approved counterparties.

The University regards a prime objective of its treasury management activities to be the security of the principal sums it invests. The appropriateness of financial institutions is monitored throughout the year by considering their credit ratings. The University in selecting approved counterparties, sets as a standard minimum credit rating the following[1]:

Duration	Term	S&P	Moodys	Fitch
Short Term	Up to (and including) on year	A-1	P-1	F1
Long Term	Greater than one year	AA-	Aa3	AA-

For the avoidance of doubt, an approved counterparty must meet the minimum rating criteria from any 2 ratings agency.

The Executive Director of Finance is responsible for monitoring the credit standing of approved counterparties.

Acceptable counterparties for directly placed investments are normally limited to UK Clearing Banks and Building Societies. A UK Clearing Bank or Building Society is defined as having an established place of business in the UK and be regulated by the Financial Services Authority (FSA). This does not preclude, therefore, use of counterparties where the ownership is wholly or partly outside the UK.

In addition the Executive Director of Finance can allow the use of non UK banks for the placing of direct deposits. But only where countries that have Sovereign Credit Ratings from Standard and Poor of at least AA (or equivalent under Moody's or Fitch)

Even if lending criteria are met, the reputational risk of using certain counterparties should be considered. Recent credit downgrades, "rating watch" notices and market sentiment, as far as reasonably possible, should be taken into account. The University may choose to suspend its benchmarking targets where pursuing these targets may result in undue risk. At any point, the Executive Director of Finance can lower either the financial limits for lending (see below), or stipulate more stringent credit worthiness.

Financial limits
No more than 20% of the surplus cash balance may be deposited with any single counterparty.

1.2 Liquidity Risk Management

The University maintains an effective cash and cash flow forecasting and monitoring system which will identify the extent to which the University is exposed to the effects of potential cash flow variations and shortfalls.

The University will have arrangements in place to meet unforeseen liquidity requirements. In particular the University must be able to meet ongoing commitments as they fall due.

The University's main flexibility is a revolving credit facility. The University's policy is to minimise this facility whilst maintaining sufficient funds to meet any short term liquidity needs.

Counterparties	Funding Type	Facility Limit	Term
Lloyds	Revolving Credit Facility	£10m	2027

Appendix 2 : TMP2 Performance Management

2.1 Frequency and Process for Tendering

The Executive Director of Finance will review at an appropriate frequency the quality and cost of the following services and if deemed necessary will undertake a tender exercise in respect of any of these services:

- Banking services
- Fund management services
- Financial advisor
- Cash management, money broking services and general finance advice

The tender process will be that normally followed by the University, contained within it Financial Regulations and Procurement Policy.

2.2 Performance measurement

In house performance

The University invests its cash balances short term to either banks or investment managers. 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.

Investment Managers

Benchmarks and reporting requirements will be set out in agreement with the Investment Manager.

Appendix 3 - Approved Instruments, methods and techniques

3.1 Investments
The following investment product types are currently authorised for use by the University:

- Ordinary Current Accounts
- Term Bank deposits
- Certificates of deposit
- Treasury Bills
- Segregated Cash Managers
- Money Funds
- British Government Securities
- Corporate Debt
- Investment Funds

A Socially Responsible Investment Policy has been developed to allow the University to pursue an ethical approach to investment in accordance with the University's Ethical Code, whilst minimising any potential adverse impact on its investment returns. The SRIP sits within the over-arching Treasury Management Policy Statement

3.2 Borrowing
The following borrowing:

A) Legal Form
   - Mortgages secured on property collateral
   - Term Loans (secured or unsecured)
   - Finance Leases (building and equipment)
   - Equity (Ordinary and preference shares)
   - Gift, Grants and Donations
   - Authorised Overdraft/ Facility

B) Nature
   - Variable linked to base rate
   - Variable linked to LIBOR
   - Fixed by way of initial fixed rate
   - Fixed by use of derivative
   - Index linked
   - Deferred interest

3.3 Derivatives
The University is authorised to enter into the following types of derivatives only for the purposes of mitigating risks the university faces:

- Interest rate swaps
- Interest rate options
- Interest rate caps and collars
- Foreign Exchange forward contracts and spot trades
- Foreign Exchange options

On no account should derivatives be used to enter into speculative positions.

Appendix 4 – TMP5 Organisation, Segregation of Responsibilities and Dealing Arrangements

Delegate Power	Exercised By
General	
Approval and review of Treasury Management Policy	Court
Approval of instruments, methods and techniques	Court
Ratification of changes to authorised counterparties and changes to credit limits	Court
Appointment of new authorised counterparties	Executive Director of Finance
Authorisation of terms of reference of third party agents	Executive Director of Finance, subject to normal procurement thresholds and tendering
Approval of Credit Facilities, Loans and Finance Leases	
Unscheduled prepayment of loans	Court
Entering into new, or revising existing legal agreements for the raising of finance, including lease agreements	Court sign off before execution by Executive Director of Finance (see note 1 below)
Authorisation of drawdown of funds from the Working Capital Revolving Credit Facility	Specific delegated authority in facility agreements
Repayment of drawdowns made from the Working Capital Revolving Credit Facility	Two mandate signatories including Executive Director of Finance
General Banking	
Approval to open bank current account	Two mandate signatories including Executive Director of Finance
Approval to close bank current account	Two mandate signatories including Executive Director of Finance
Current account payments	Bank Mandate Signatories.
Investing	
Approval to open accounts for the investment of surplus funds with banks or building societies	Two mandate signatories including Executive Director of Finance
Deposit funds in an investment account.	Two mandate signatories including Executive Director of Finance
Authorisation of withdrawals on investment accounts requiring written authorised instructions	Two mandate signatories including Head of Treasury
Investment in securities (certificates of deposit, floating rate no, commercial paper, fixed rate bonds, gilts)	Two mandate signatories including Executive Director of Finance
Divestment of Securities (certificates of deposit, floating rate no, commercial paper, fixed rate bonds, gilts)	Two mandate signatories including Executive Director of Finance

Derivatives	
Entering into and terminating an interest rate hedge	Court
Entering into a foreign exchange forward contract, option or spot sales with the nominal value < £1m	Two mandate signatories including Executive Director of Finance
Entering into a foreign exchange forward contract, option or spot sales with the nominal value > £1m	Court
Giving notice to the counterparty that the University is exercising its option in an embedded Interest Rate or Foreign Exchange Option Contract	Executive Director of Finance

Notes:

1. Court May delegate to a sub group comprising:

    - Chair of Court
    - Principal
    - Chair of JPPRC
    - Vice-Chair of Court
    - Lay member of Court
    - Student Member

    Finance leases under £100,000 balance value per annum can be approved by the Executive Director of Finance

Appendix 5 – TMP8 Cash and cashflow management

The University will prepare cash flow forecasts and actuals for the current financial year so as to be able to determine:

- Whether minimum acceptable levels of cash balances plus short term investments might be (or have been) breached.
- The adequacy (or otherwise) of standby/overdraft facilities or contingency arrangements
- The optimum arrangements to be made for investing and managing surplus cash

Liquidity will be maintained to allow the University to meet its financial obligations, with only cash surplus to working capital requirements being invested. The investment portfolio will be balanced by spreading surplus cash across approved counterparties and over varying time scales.

The cash flow model uses the current year budget and agreed capital expenditure programme as a base and is updated quarterly for the forecast outturn and actual cash movements. The model provides an estimate of the cash position at the end of the current financial year and the estimated position at the end of the next three financial years.

The University's cash flow management needs to take cognisance of the repayment bullets of the Private Placement loans and facilitate the build-up of funds in a managed fashion that will not jeopardise the continuing operations and strategic plans of the University. To that extent the Court Sub Group envisaged that the University would adopt a fiscal discipline so as to enable and manage effectively an amortising profile internally. The indicative profile is attached in Appendix 7.

It should be noted that this is also a condition imposed by the Scottish Funding Council in providing consent to borrow for the second tranche of the Private Placement in December 2017 and the Financial Transactions fund in December 2019.

Appendix 6 - Principles for guiding an optimum debt structure

Given the short term limit on debt capacity the University will need to ensure that debt is allocated strategically to the capital projects that it wishes to undertake to further its strategic aims. It will also need to ensure that since debt is a limited resource there is an approach geared towards securing debt as cost effectively as possible. The University can improve the efficient and effective use of debt-financing by how it structures debt. As such it is proposed that the following principles are applied on an ongoing basis to help determine an optimum and responsible debt structure for the University to adopt:

Efficient and Flexible

i. The University will monitor and proactively consider refinancing opportunities of outstanding debt where the net present value of savings are positive and refinancing will support the strategic need of the University.

ii. External borrowing will be coordinated to the extent practical so that multiple projects can be accommodated in a single borrowing, thus reducing transaction costs and the risk of financing being unavailable. This is to be weighed against having the timing of borrowings structured so as to minimise the effect of holding funds in advance of when they are needed when the investment earnings on borrowed proceeds are below the cost of borrowing.

iii. The University will seek to minimise the cost of borrowing. However this will need to be balanced with the aim of limiting exposure to market volatility. To this end the University will enter into interest rate swaps or other hedging arrangements to manage the University's variable rate exposure. However due to the financing flexibility and typically lower interest cost associated with variable debt, it is likely to be desirable to maintain a portion of the University's aggregate debt on a market led floating rate basis.

Maturity

iv. The University will employ debt maturity structures that correspond with the effective or useful life of the assets being financed and the expected availability of cash flows to meet debt service requirements. The overall maturity of debt in whatever form should not exceed the useful life of the asset.

Compliant

v. The University will ensure that the overall debt structure complies with:
   - Covenants agreed with lender(s) as a condition of borrowing and
   - Mandatory requirements of the Scottish Funding Council as set out in the Financial Memorandum dated December 2014.

Security

vi. To agree with lenders such security arrangements and other constraints over the University's assets so as to leave it with the maximum freedom and flexibility over its future financial and infrastructure decisions.