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Academies Trust

# Treasury & Investment Management Policy

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# Treasury & Investment Management Policy

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## 1. Introduction

- 1.1. This Treasury & Investment Management Policy (the Policy) sets out the Co-op Academy Trust's (the Trust) approach to the management of treasury and investment activities.
- 1.2. The Trust acknowledges the requirements of its funding agreements with the Secretary of State for Education and the Department for Education (DfE).
- 1.3. This Policy has been prepared having regard to:
  - the CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (2021) (the CIPFA Code).
  - the Academy Trust Handbook (ATH) as published by the DfE and amended from time to time (typically annually).
- 1.4. The Trust adopts the principles of the CIPFA Code in respect of financial probity and will seek to operate in accordance with those principles in all of its investment management activities. The Trust will manage its financial affairs in accordance with the provisions of the ATH, the Trust's Financial Regulations and Scheme of Delegations, and other relevant legislation and policies as applicable.

## 2. Organisational Structure and Scope

- 2.1. The organisation comprises a Central Trust function and a portfolio of academies.
- 2.2. This Policy applies to the Central Trust teams and each academy, both individually and on a consolidated basis. Principles and provisions apply equally to all unless otherwise specified. References to the Trust include central functions (mainly Finance) and academies.

## 3. Policy Statement

- 3.1. Treasury risks arise as a necessary consequence of running an organisation and engaging in treasury activities. This Policy is designed to identify and manage treasury management and investment risks in a prudent and risk-averse manner. Risk mitigation will take precedence over economic advantage in respect of investment decisions, with investments undertaken in such a way as to minimise exposure to risks that could jeopardise the security or value of the Trust's assets or otherwise impede the delivery of its primary objectives.

3.2. The following sections define the treasury and investment transactions and activities that are the subject of this Policy, and the risks and corresponding mitigations approach associated with engaging in those activities.

#### 4. Treasury and Investment Transactions and Activities

4.1. All treasury and investment transactions and activities set out below are subject to the risk management and mitigation arrangements set out in Section 5.

##### a) Financing

4.2. The Trust is financed predominantly through public grant funding. The Trust's Policy, in accordance with the DfE regulations, will not obtain debt funding.

4.3. For the purposes of this Policy, debt includes the borrowing of loans from banks and financial institutions or the issuance of debt in the capital markets. The definition of debt does not preclude the Trust from entering into finance lease arrangements, particularly in relation to the leasing of school buildings, subject to the provisions of Leasing Guidance for Academy Trusts published by the DfE:

<https://www.gov.uk/government/publications/academy-trust-financial-management-good-practice-guides/leasing-guidance-for-academy-trusts>

##### b) Cash and Cash Investments

4.4. The Trust's policy is to hold cash in its bank accounts and, from time to time, have cash investments placed on deposit in order to manage day-to-day working capital and liquidity requirements.

4.5. The Trust's day-to-day banking arrangements will be determined by the Central Trust Finance Team and any changes subject to Board approval. Academies are required to hold all bank accounts with the Trust's confirmed banking provider. Academies may not enter into any banking or investment arrangements outside of the provisions of the Central Trust.

4.6. Cash held by academies will have a term of availability of not more than three months; cash held within the Central Trust will have a term of availability of not more than six months. Cash investments are subject to meeting the working capital and liquidity requirements set out in Section 5.

##### c) Foreign Exchange

- 4.7. The Trust's Policy is to not engage in activity that creates foreign exchange risk, nor will it seek to enter into foreign exchange transactions. Where it is required to do so, such as purchasing from a non-UK supplier, transactions will be limited to £2,000. Any foreign currency purchases above this limit are subject to prior approval from the Deputy Chief Executive Officer.
- 4.8. For the avoidance of doubt, investment in any arrangement which exposes the Trust to foreign exchange risk is expressly prohibited.

## 5. Treasury and Investment Risk and Mitigation

- 5.1. The Trust identifies a number of risks associated with treasury and investment activities, and has mitigation policies to manage these risks as defined below.

### a) Liquidity Risk

- 5.2. This is the risk of the Trust or an academy becoming unable to meet its financial obligations, including an allowance for reasonably unexpected items, when they fall due. Such financial obligations include payments in respect of operating costs, capital expenditure and investments.

#### *Academy Liquidity Management*

- 5.3. The Trust will hold all funds as cash or cash equivalents and will not invest in gilts, equities or other non-money assets that have marked reactive pricing and may suffer diminution of value if liquidated in response to cash requirements rather than market conditions.
- 5.4. Individual academies will, as a minimum, maintain fully liquid funds equal to its forecast gross cash outflow, based on an ongoing rolling cashflow forecast, for a rolling one month period. Fully liquid funds are defined as:
- cash balances held within the academy's current account; plus
  - cash balances held on instant access short-term deposit that are accessible on a same-day basis
- 5.5. Should an academy have total cash holdings equal to less than one month's gross cash outflow, all funds must be held as liquid funds within the academy's current account.
- 5.6. Subject to meeting provision 5.3 above, academies will maintain liquid funds equal to a minimum of a further one month's gross cash outflow. Liquid funds are defined as cash balances held on instant access short-term deposits that are available with three days' notice.

- 5.7. Subject to meeting provisions 5.3 and 5.4 above, academies will maintain short-term funds equal to a minimum of a further one month's gross cash outflow. Short-term funds are defined as cash balances held on short-term deposit for a fixed period of between four days and one month.
- 5.8. Subject to meeting provisions 5.3 - 5.5 above, academies may hold further cash balances as medium term funds. Medium term funds are defined as cash balances held on short- to medium-term deposits for a fixed period of between one month + one day and three months.
- 5.9. Prior to placing funds on fixed term deposit, the Academy Finance Lead and Regional Finance Director must be satisfied that the funds will not be required for the duration of the deposit period.
- 5.10. Academies may not place cash on deposit for a fixed period of more than three months, regardless of the level of cash surpluses held.
- 5.11. The above liquidity requirements are intended to be applied concurrently up to the full value of cash held. At each level, the academy may opt to hold more than the minimum requirement provided the previous thresholds have been met. A worked example is provided at Appendix A.

#### *Central Trust Liquidity Management*

- 5.12. It is recognised that the Central Trust cash holdings will often include funds other than those required for day-to-day working capital management. This includes, for example, holding the Trust Central Reserve and allocated SCA funds prior to academies undertaking related projects.
- 5.13. Conversely, the Central Trust is, on occasion, asked to provide a cash advance to an academy to support it in meeting its immediate financial obligations, and must therefore have sufficient funds available at short notice to meet both its own financial obligations, and in readiness to satisfy such requests.
- 5.14. The Central Trust will, as a minimum, maintain fully liquid funds equal to its forecast gross cash outflow, based on an ongoing rolling cashflow forecast, for a rolling one month period. Fully liquid funds are defined as:
  - cash balances held within the academy's current account; plus
  - cash balances held on instant access short-term deposit that are accessible on a same-day basis

- 5.15. Subject to meeting provision 5.13 above, the Central Trust will maintain liquid funds equal to a minimum of a further two months' gross cash outflow. Liquid funds are defined as cash balances held on instant access short-term deposits that are available with three days' notice.
- 5.16. Subject to meeting provisions 5.13 and 5.14 above, the Central Trust will maintain short-term funds equal to a minimum of a further one month's gross cash outflow. Short-term funds are defined as cash balances held on short-term deposit for a fixed period of between four days and one month.
- 5.17. Subject to meeting provisions 5.13 - 5.15 above, the Central Trust may hold further cash balances as medium term funds. Medium term funds are defined as cash balances held on short- to medium-term deposits for a fixed period of between one month + one day and six months.
- 5.18. Prior to placing funds on fixed term deposit, the Senior Central Finance Director must be satisfied that the funds will not be required for the duration of the deposit period.
- 5.19. The Central Trust may not place cash on deposit for a fixed period of more than six months, regardless of the level of cash surpluses held.
- 5.20. The above liquidity requirements are intended to be applied concurrently up to the full value of cash held. At each level, the Central Trust may opt to hold more than the minimum requirement provided the previous thresholds have been met. A worked example is provided at Appendix B.

b) Interest Rate Risk

- 5.21. This is the risk that changes in the interest rates receivable through the Trust's treasury and investment management activities have a material adverse effect on the Trust's finances.
- 5.22. The Trust may only undertake investment activity where:
  - the interest rate is fixed in advance; or
  - where the interest rate is variable, it is subject to a floor of 0%; and
  - there is no associated mark-to-market liability exposure.
- 5.23. As the Trust is prohibited from entering into any debt funding agreements, exposure to interest rate risk is minimal.

c) Foreign Exchange Risk

5.24. The Trust's Policy is to not incur any material exposure to foreign exchange risk. It will not, therefore, contract with suppliers in any currency other than Sterling for goods or services. Furthermore, any one-off transactions will not exceed the equivalent of £2,000. In exceptional circumstances, should the Trust wish to exceed these limits, prior approval must be obtained from the Chief Finance Officer prior to entering into any financial commitment.

5.25. All cash will be held in Sterling accounts, with no associated currency swaps or foreign exchange exposure. This applies to both current accounts and all investment deposit accounts.

d) Counterparty Credit Risk

5.26. This is the risk of payment default by a counterparty in a treasury or investment transaction. Cash and investments are of primary importance. The Trust's approach to counterparty credit risk mitigation is threefold:

*Counterparty Criteria*

5.27. For all treasury and investment activities, the Trust will only hold balances with UK incorporated institutions falling under the supervisory regime of the Financial Conduct Authority (FCA). Any counterparty must be included in the most recent "List of Banks" or "List of Building Societies" as published by the Bank of England.

*Minimum Credit Rating Criteria*

5.28. For day-to-day banking arrangements, the Trust will engage a banking partner with a minimum long-term credit rating meeting at least two of:

- Fitch: BBB
- Moody's: Baa3
- Standard & Poor: BBB-

5.29. These credit ratings are deemed 'investment grade'. Should one or more of the rating agencies listed change their definition of investment grade, the above thresholds will be reviewed and confirmed / amended by the Board.

5.30. The Trust will only enter into investment transactions with institutions deemed to meet the long-term credit ratings listed above. Furthermore, any investment counterparty must also hold a minimum short-term credit rating meeting at least two of:

- Fitch: F1
- Moody's: P-1
- Standard & Poor: A-1

- 5.31. Where an existing counterparty for banking transactions falls below the minimum credit rating criteria, the Board may approve by exception continuation with the existing counterparty after considering the risk exposure.
- 5.32. Where an existing counterparty for investment transactions falls below the minimum credit rating criteria, funds on deposit will be recalled immediately, even if this results in the forfeit of accumulated interest.

*Maximum Counterparty Limits*

- 5.33. To avoid concentration of investment risk, the following maximum counterparty deposit limits will apply:

| Institution                 | Current Account Balance | Fully Liquid Deposits                                  | Other Investments / Deposits                           |
|-----------------------------|-------------------------|--|--|
| Main banking provider       | 100% funds              | 100% funds   | £5.25m total<br>- £3.0m central<br>- £0.75m per region |
| Other eligible counterparty | N/A                     | £4.0m total<br>- £1.75m central<br>- £0.75m per region | £4.0m total<br>- £1.75m central<br>- £0.75m per region |

- 5.34. In exceptional circumstances, when large cash balances are held, it may be necessary to temporarily exceed this limit in order to place surpluses on interest earning deposits. In such circumstances temporary changes to Policy thresholds will be approved by the Senior Central Finance Director and the above thresholds re-imposed as soon as it is practicable to do so.

e) Legal / Compliance Risk

- 5.35. The Trust will ensure all treasury management and investment activities comply with its statutory and regulatory requirements. Procedures for cashflow forecasting and cash and investment management will be issued by the Central Finance Team and implemented in all Trust academies.
- 5.36. The Trust will undertake reasonable due diligence in respect of the creditworthiness of any counterparty to its treasury and investment activities, including any intermediary engaged to support / facilitate investment activity.
- 5.37. The Trust will maintain a policy on Money Laundering.

f) Fraud / Misstatement Risk

5.38. This is the risk of financial loss by the Trust due to fraudulent or erroneous action by an employee. The Trust's Policy is to ensure the Treasury Management Principles set out in Section 6 are adopted and followed.

5.39. The Trust will maintain an Anti-Fraud Policy.

6. Treasury Management Principles

6.1. The Trust will adopt the following principles in respect of all treasury and investment activities.

a) Segregation of Duties

6.2. The Trust will ensure that duties in respect of treasury and investment transactions are suitably segregated.

6.3. Any investment transactions will be subject to review by the relevant (Central or Regional) Finance Director, who shall both approve the transaction and ensure the counterparty thresholds set out above are not exceeded.

b) Delegation of Authority

6.4. The Trust will ensure the responsibilities and delegations of authority are clearly communicated to all relevant staff.

6.5. The Board of Directors is responsible for formulating, reviewing and monitoring Financial Regulations, Investment Management Policies and Procedures and the Scheme of Delegation for Investment Management.

6.6. The Board of Directors is responsible for providing an effective control framework under which investment activities are performed, managed and controlled.

6.7. The Board of Directors may delegate scrutiny in respect of any or all of its responsibilities to an identified sub-committee of the Board.

6.8. Responsibility for implementing policies and strategies, including determining procedures and systems, and reporting on their implementation rests with the Deputy CEO (DCEO) in consultation with the Chief Executive (CEO). The DCEO and their staff shall be required to comply with the provisions of the relevant legislation and the Academy Trust Handbook as

published by the DfE and amended from time to time and to be mindful of the principles set out in the CIPFA Code of Practice, as set out above.

- 6.9. The DCEO, with support from the Senior Central Finance Director is responsible for the monitoring and maintenance of an approved counterparty list for investment activities, in accordance with the counterparty criteria set out above.
- 6.10. The Senior Central Finance Director is responsible for the approval of all central investment transactions, for ensuring the counterparty is included on the approved list and the related counterparty thresholds are adhered to. The relevant Regional Finance Director is responsible for the same in respect of academy investment transactions.

c) Procedures and Systems

- 6.11. The Trust will ensure that suitable procedures and systems are in place to manage its treasury and investment activities and compliance with this Policy.
- 6.12. Appropriate records will be maintained of the approval and execution of all treasury and investment transactions and full documentation will be retained in accordance with the Trust's data retention requirements.

d) Advice, Qualifications and Training

- 6.13. The Trust will ensure all officers involved in treasury and investment activities are suitably qualified and / or experienced in respect of the treasury-related responsibilities assigned to them. Sufficient training, including external training where appropriate, will be provided if required.
- 6.14. The Trust's policy is to manage its cash in-house and not to employ external treasury advisors.

e) Reporting

- 6.15. In order that the Board of Directors is able to undertake its responsibilities for reviewing and monitoring Financial Regulations, Investment Management Policies and Procedures and the Scheme of Delegation for Investment Management, the Board (or nominated sub-committee) will receive reports from the DCEO:
  - on the implementation of approved strategies within the parameters of the Treasury & Investment Management Policy at least annually;

- reviewing the strategies and investment management performance at least once a year and within six months of the end of each financial year;
- reviewing the skills, knowledge and experience at both Board and officer levels necessary to the identification and management of the investment risks to which the Trust is exposed at least annually, including recommendations of action required to address any identified weaknesses; and
- reviewing this Treasury & Investment Management Policy at least every three years.

f) Regular Audit

6.16. The Trust will ensure its treasury and investment activities are within the scope of the annual financial statements audit, and that all the necessary documentation and evidence is provided to satisfy audit requirements.

g) Fraud, Bribery and Corruption Legislation

6.17. The Trust will use its best endeavours to identify the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury and investment dealings, and employ suitable systems and procedures to prevent and detect such issues.

6.18. The Trust will maintain a suitable Anti-Fraud Framework including policies for the prevention, detection and management of fraud instances; anti-bribery and corruption, and anti-money laundering.

h) Accounting and Taxation

6.19. The Trust will ensure the accounting and taxation implications of any treasury or investment activity are fully understood before entering into any such transaction, with external expert advice sought where necessary.

## 7. Links to Other Policies

7.1. This Investment Management policy should be read in conjunction with the following Trust and academy policies:

- Financial Regulations;
- Anti-Fraud Framework; and
- Trust Scheme of Delegations.

## 8. Review

- 8.1. This policy will be reviewed at least every three years.

## Worked Example - Academy Liquidity Management

Example Academy A holds a total cash balance of £1m and has a gross monthly cashflow requirement of £150k. The cash holding is therefore significantly higher than monthly cashflow requirement.

| Policy Definition | Description   | Minimum Balance | Maximum Balance | Comments  |
|-------------------|---|-----------------|-----------------|---|
| Fully Liquid      | Current account<br>Same-day available deposit               | £150k           | £1m             | Academy can opt to hold all cash as fully liquid  |
| Liquid            | Up to three-day notice deposit                              | £150k           | £850k           | Academy can opt to the minimum fully liquid balance, then the rest as liquid                              |
| Short-Term        | Between four-day and one month notice deposit               | £150k           | £700k           | Academy can opt to the minimum fully liquid and liquid balances, then the rest as short-term              |
| Medium-Term       | Between one month + one day and three months notice deposit | No minimum      | £550k           | Academy can opt to the minimum fully liquid, liquid and short-term balances, then the rest as medium-term |

The above levels are sequential, from most liquid to least liquid. The minimum requirement for each level must be met before the next level can be applied.

In the case of Example Academy A, it must hold a minimum of £150k fully liquid, £150k liquid and £150k short-term funds before it can place any funds on medium-term deposit.

At any level, the academy can choose to exceed the minimum balance, but subsequent minimum requirements must still be met. In the case of Example Academy A, if it chose to hold £500k as fully liquid funds, it must still hold a further £150k liquid and £150k short-term funds before it can place any funds on medium-term deposit.

Example Academy B holds a total cash balance of £1m and has a gross monthly cashflow requirement of £400k. The cash holding is therefore not significantly higher than monthly cashflow requirement.

| Policy Definition | Description   | Minimum Balance | Maximum Balance | Comments   |
|-------------------|---|-----------------|-----------------|--|
| Fully Liquid      | Current account<br>Same-day available deposit               | £400k           | £1m             | Academy can opt to hold all cash as fully liquid   |
| Liquid            | Up to three-day notice deposit                              | £400k           | £600k           | Academy can opt to the minimum fully liquid balance, then the rest as liquid   |
| Short-Term        | Between four-day and one month notice deposit               | £400k           | £200k           | Academy can opt to place the rest of its available cash on short-term deposit after the two requirements above are met |
| Medium-Term       | Between one month + one day and three months notice deposit | No minimum      | N/A             | Academy does not have sufficient cash to place on medium-term deposit  |

The above levels are sequential, from most liquid to least liquid. The minimum requirement for each level must be met before the next level can be applied.

In the case of Example Academy B, it must hold a minimum of £400k fully liquid and £400k liquid before it can place any funds on short-term deposit. The remaining available balance is lower than the short-term minimum requirement and so the remainder can be placed on short-term deposits and there are insufficient funds for medium-term deposits.

At any level, the academy can choose to exceed the minimum balance, but subsequent minimum requirements must still be met. In the case of Example Academy B, if it chose to hold £500k as fully liquid funds, it must still hold a further £400k liquid before it can place any funds on short-term deposit.

## Worked Example - Central Trust Liquidity Management

Example Trust holds a total cash balance of £5m, including the Central Reserve and unutilised SCA funds. The Example Trust and has a gross monthly cashflow requirement of £350k.

| Policy Definition | Description   | Minimum Balance | Maximum Balance | Comments  |
|-------------------|---|-----------------|-----------------|---|
| Fully Liquid      | Current account<br>Same-day available deposit               | £350k           | £5m             | Trust can opt to hold all cash as fully liquid  |
| Liquid            | Up to three-day notice deposit                              | £700k           | £4.65m          | Trust can opt to the minimum fully liquid balance, then the rest as liquid                              |
| Short-Term        | Between four-day and one month notice deposit               | £350k           | £3.95m          | Trust can opt to the minimum fully liquid and liquid balances, then the rest as short-term              |
| Medium-Term       | Between one month + one day and three months notice deposit | No minimum      | £3.6m           | Trust can opt to the minimum fully liquid, liquid and short-term balances, then the rest as medium-term |

The above levels are sequential, from most liquid to least liquid. The minimum requirement for each level must be met before the next level can be applied.

In the case of Example Trust, it must hold a minimum of £350k fully liquid, £700k liquid and £350k short-term funds before it can place any funds on medium-term deposit.

At any level, the Central Trust can choose to exceed the minimum balance, but subsequent minimum requirements must still be met. In the case of Example Trust, if it chose to hold £1m as fully liquid funds, it must still hold a further £700k liquid and £350k short-term funds before it can place any funds on medium-term deposit.