NCG Treasury Policy

Policy Title	**NCG Treasury Policy**
Policy Category	Compliant
Owner	Head of Financial Analysis and Planning
Group Executive Lead	Chief Finance Officer
Date Written	May 2023
Considered By	Executive Board / Audit Committee
Approved By	Corporation
Date Approved	July 2023
Equality Impact Assessment	The implementation of this policy is not considered to have a negative impact on protected characteristics.
Freedom of Information	This document will not be publicly available through the Groups Publication Scheme.
Review Date	July 2026
Policy Summary	The Treasury Management Policy provides a framework for treasury activities to be carried out effectively in a controlled risk managed environment. The treasury management activities of the group are defined as follows: Cash flow management Investing of cash surpluses Management of borrowing facilities Monitoring and management of compliance with loan covenants

Applicability of Policy	Consultation Undertaken	Applicable To
Newcastle	Yes	Yes
Newcastle 6th Form	Yes	Yes
Carlisle	Yes	Yes
Kidderminster	Yes	Yes
Lewisham Southwick	Yes	Yes
Southwark	Yes	Yes
West Lancashire	Yes	Yes
Group Services	Yes	Yes

Changes to Earlier Versions	
Previous Approval Date	Summarise Changes Made Here
April 2017	Policy has been re-written to clearly identify the treasury risks impacting the group and the relevant actions/controls that are in place to manage these risks. No controls or approval limits have been removed or amended.
December 2020	Amended borrowing requirements in line with Managing public money rules Added money market funds and use of investment broker/platform to authorised investment types

Linked Documents	
Document Title	Relevance
Financial Regulations	This policy is in place to provide detail on the relevant controls for treasury management as outlined in the financial regulations

1. Scope and Purpose of Policy

The Treasury Management Policy provides a framework for treasury activities to be carried out effectively in a controlled risk managed environment.

The treasury management activities of the Group are defined as follows:

- Cash flow management.
- Investing of cash surpluses.
- Management of borrowing facilities.
- Monitoring and management of compliance with loan covenants.

Responsibility

The Corporation is responsible for determining treasury policy and has delegated responsibility for monitoring and review to the Audit Committee.

2. Risk Management

Liquidity

The group manages cash balances and financial affairs to ensure funds are available to meet obligations when they fall due without unnecessary additional costs.

Cash flow forecasting will be used to determine the Group's financial position at all times. Detailed cash flow management processes are set out in section 3 below.

Covenant risk

Risk that failure to meet the terms set by lenders will lead to a default and either the potential withdrawal of loans or credit facilities or reclassification of current liabilities. The loan covenants must therefore be monitored regularly.

Covenants must be reviewed during budget/ forecast setting and as part of financial month end reporting. The budget and forecast setting review is to confirm future plans do not give rise to potential breaches in covenants, and month end reporting will monitor actuals vs covenant limits.

Counterparty and Credit Risk

Core principles the group will follow when investing money are:

- To ensure deposits are secure and that risk is minimised.

- To ensure it has sufficient liquidity to meet immediate and short term demands.
- To achieve the highest return, once the first two considerations have been met.

Security of principal sums invested is a key requirement of the treasury management policy. The Group has a risk averse attitude and seeks to invest in counterparties and products that will not expose the group to more than moderate levels of counterparty risk. This is achieved by utilising credit ratings to assess the financial strength of the counterparties & diversification of deposits to spread the risk.

Surplus funds will be invested with Banks which are rated a minimum of A- for long term by either Standard and Poors/Moodys/Fitch rating agency.

The Group will endeavour to invest surplus funds with multiple counterparties to reduce the risk involved with loaning significant funds to one party. These decisions will be balanced by the financial advantage of investing larger sums at one time.

Compliance & Controls

The group must comply with the law and ESFA directives in relation to its Treasury Management operations. Treasury and money market activities are regulated by statute, codes of practice, market etiquette and internal procedures. The group will comply with these regulations and conventions in relation to its Treasury Management activities and demonstrate best professional standards at all times.

There shall be strict procedures in place for Cash Management and Investment Activities, as detailed in the sections below.

Following reclassification all borrowing is subject to Managing Public money (MPM) rules, as detailed in section 5.

Interest Rate risk

The groups approach is to minimise interest rate risk; however this is a balanced approach to ensure the group can benefit from the current rate environment.

The group monitors market trends to manage this risk.

Where credit interest is received that is exposed to interest rate movements, the group will monitor deposit returns and benchmark against other counterparties to ensure value for money is achieved.

3. Cash Flow Management

The objectives of Cash Management are to:-

- Maximise returns to the Group while meeting the overriding need to protect the capital sum.
- Maintain maximum liquidity.
- Enable surplus funds to be invested.

Cash budgets will be prepared by a designated member of Group Finance.

Information regarding significant receipts and payments is filtered in from all sections of Finance to help produce a complete and accurate cash flow forecast.

The Management Accountant will produce cash flow forecasts from the cash budgets for investment and cash management purposes.

The Corporation will receive an up to date Cash Report for the current financial year, as part of the monthly reporting pack.

Cash Budgets

As part of the annual budget process a 12-month cash budget will be produced. This will form the basis of cash flow forecasts which will be used to make borrowing and investment decisions.

The Cash budget will be prepared in accordance with the detailed P&L and Capital budgets and informed by data from (but not limited to):

- CFO / Group Financial Controller (GFC).
- College Finance leads.
- Finance managers (in relation to accounts payable, Credit control, and Capital expenditure plans).
- Professional Services leads.

It is the responsibility of college leads to ensure budgets and forecasts are accurately phased and to highlight to the Group Financial Controller any differences versus cash profiles (actual or expected).

Individual managers and college finance leads will immediately inform the CFO/GFC/Management Accountant of unanticipated expenditure or income arising out of their area of work.

The Chief Executive and CFO will receive a monthly update as part of the management accounts pack detailing performance against budget/forecast and any areas of concern. Any significant weakness or failures identified will be reported immediately to the CFO.

Cash Flow Forecasts

Group Finance ensures daily management of the cash position, with daily anticipated cash flows produced on a rolling monthly basis.

Forecasts are also produced monthly on a rolling 12 month basis, with long term cash flows forecast on an annual basis thereafter.

Long terms plans are updated on a quarterly basis.

Each day an actual cash available figure will be reported to the CFO/GFC.

Where it is forecast there may be a shortage of cash (i.e. cash to fall below minimum cash requirement) the CFO must be informed immediately.

The results of the actual cash calculation should be compared with the cash flows and material variations explained in the monthly reporting pack.

The rolling monthly forecast will be updated to account for timing differences, working capital movements & known trends, in additional to being updated quarterly with the latest P&L forecast.

The daily and monthly cash flow forecasts will be used for investment and borrowing decisions.

A monthly reconciliation of the cashbook and balance sheet must be completed.

At the end of each month the cash book transactions shall be analysed and compared to the cash flow forecast with any variances explored and future cash forecast updated.

4. Investment of short term funds

The decision on the value of cash to be invested is made by analysing the cash flow forecast, taking into account forecast cashflows over the next week/month, three months and six months and noting cashflow and market trends. The majority of funds will not be invested for longer than six months.

The Group Financial Controller and the Management Accountant are authorised to give instructions to the counterparties.

An Investment Authorisation form must be completed for each investment transaction (see **Appendix 1**) to record the decision and approval.

This form must be authorised immediately by a Finance Manager, then sent to the CFO (or another senior post holder in the CFO's absence) for review and authorisation.

Full authorisation for the Investment is required prior to movement/commitment of funds.

Key Investment Principles

- Only place money with approved counterparties.
- Maintain a dialogue with banks and brokers.
- Obtain as much information as possible about financial markets and check rates with multiple parties.
- Only invest cash which is definitely available to the Group (i.e. cleared funds).
- Adhere to the risk adverse strategy.
- Use of broker/Investment platform permitted but investment decision must take into account any associated costs (e.g. commission)

Funds should only be placed with counterparties that have statements of ethical standards consistent with those of NCG.

To mitigate counterparty risk, the standard counterparty limit which may be approved by the CFO is no more than £5 million with one party. Any investment £5m-£12m with a single counterparty requires the approval of audit committee or corporation.

Types of permitted investment are:

- **Fixed Term Deposit**: A term deposit is a fixed-term investment that includes the deposit of money into an account at a financial institution/money market. Term deposit investments usually carry short-term maturities ranging from one month to a few years. Usually cannot be redeemed early or rate changed.
- **Notice Deposit Account:** An account where the bank or building society requires advance notice before a withdrawal is made, usually between 32 and 95 days. Additional funds can be added/withdrawn as required (subject to the relevant notice period on withdrawals). May incur an interest rate penalty on all or withdrawal amount during notice period – important to check this and factor into rate comparisons.

5. Capital financing

Borrowing

New finance arrangements, drawdown of funds under existing finance arrangements and amendments to existing facilities are subject to Managing Public money (MPM) rules and written consent from DfE is required advance of committing to any new financing, actioning any new drawdowns of overdrafts, RCFs or loans or entering into any amendment that falls withing the scope of MPM.

Colleges as public sector organisations may borrow from private sector sources only if the transaction delivers value for money for the Exchequer. Because non-government lenders face higher financing costs, in practice it is very unlikely that colleges will be able to satisfy this condition for future private sector borrowing.

Only the CFO can approve entering into Finance leases (DfE consent not required), in line with contract approval limits in the financial regulations.

Repayments

The Group must ensure that repayments are made in accordance with loan schedules.

Repayments of capital and interest are incorporated into the Group cash flow forecast and monitored monthly.

Covenants

The Management Accountant will maintain a schedule of loan covenants as stated within individual loan agreements.

Monthly calculations will be performed to ensure compliance with the covenants terms and conditions.

All future forecasts will also be subject to calculations to ensure covenant compliance / identify potential issues

Any potential breaches identified from monitoring will immediately be reported to the CFO.

In the event a covenant is likely to be breached the Management Accountant will immediately inform the CFO who in turn will consult with the lender and inform the Corporation.

A letter will be sent to the lender a minimum of one month prior to the year end to request a waiver. The confirmation letter will be presented with the accounts for audit.

The waiver must be in place before the end of the reporting period (i.e. before the breach occurs).

Reporting

Lender Information

In accordance with loan agreements Group audited financial statements will be provided to the lender as soon as they are available within 180 days after the year end.

Quarterly management accounts which include Income and Expenditure Account, Balance Sheet and commentary of key variances will be provided to lenders within 28 days after the quarter end.

Board Information

Updates on any significant changes in the schedule of loan covenants will be included as part of the monthly reporting pack.

Appendix 1

INVESTMENT AUTHORISATION

DETAILS:

Date: ________/ ______ /______

Approved Counterparty ____________________

Investment Amount £____________________

Transfer from account: ____________________

Interest Rate ____________________%

Interest Amount £____________________

Release Amount £____________________

Release account : ____________________

Term __________mths/days Period Fixed/Call/Notice

Date of maturity (if fixed) _____/_____/______

COUNTERPARTY DETAILS:

Break Available (Fixed only) Yes/No

If yes what is the penalty? ____________________

Today's S & P Credit Rating ________

Internet checked for adverse publicity (tick box once carried out) ☐

AUTHORISATION:

Invested by ______________________

Date _____/_____/_____

Finance Manager: ______________________

Date _____/_____/_____

Executive approval: ______________________

Date _____/_____/_____

INVESTMENT AUTHORISATION - Notes

- When comparing rates for investment decisions, consider all associated costs and rate reductions during notice periods to ensure accurate comparison

- The Investment Authorisation form, once signed, must be filed awaiting the counter-party acknowledgement.

- When the counter-party acknowledgement has been received all details - rate, amount of interest due on maturity, value invested, repayment date, must be checked to ensure details are correct.

- The Management Accountant will maintain the Cash Summary spreadsheet each time a change in investments is made and at each period end. This form will record the following information for each investment

• Date of investment	Immediate update
• Value	Immediate update
• Institution	Immediate update
• Interest rate agreed	Immediate update
• Time period of investment	Immediate update
• Date due to be repaid	Immediate update
• Interest expected	Immediate update
• Interest earned	Update on repayment

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