Treasury Management Policy 2024/25

POLICY STATEMENT:

This statement sets out East Kent Colleges Group's (the 'Group') policy concerning the investment of surplus monies. This policy forms part of the Financial Regulations of the Group.

PROCEDURES:

1. The Governing Body will set the level of risk to which any investment must be aligned
2. It is the responsibility of the Chief Financial Officer to maximise investment returns on surplus funds, without risking those funds in less safe investments.
3. As part of the daily monitoring of the Group's bank balances, the Group Head of Finance will identify where the Group may be holding excess funds which are surplus to short-term requirements.
4. Where there are surplus funds, the Group Head of Finance will utilise any existing investment facilities and recommend to Chief Financial Officer, any other such facilities that will look to obtain maximum benefit from the investment.
5. Any certificates in relation to the investments and confirmation of deposit transactions will be retained and recorded by the Group Head of Finance.
6. Any material transactions will be reported through the appropriate Governance arrangements by the Chief Financial Officer.

1. Introduction

This policy is intended to cover the Treasury Management activities of the Group.

2. Approved Activities of the Treasury Function

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

'The management of the Group's cashflow, 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 Governing Body approves the Group borrowings and investments, 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.

3. Approved 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

4. Approved Sources of Finance

The Group is subject to the stipulations of the government's Managing Public Money policy. The Group is therefore required to ensure best value on all of its borrowings. Any loan, overdraft or revolving credit facility will require Department for Education (DfE) approval. In practice, this effectively precludes commercial borrowing, therefore the only remaining source of borrowing would be through government schemes.

The Group may consider sources of lease finance for small funding requirements (e.g. technology and other equipment replacement and/or upgrade programmes), although it is generally accepted that this is more expensive than conventional debt finance.

The Group will usually seek to avoid increasing its debt level on low value items.

We will invest any surplus Group money in funds which are subsequently used to support decarbonisation and environmental initiatives. We will make sure that Group investments are used by financial institutions to support green projects including renewable energy initiatives and reforestation.

We will not invest any surplus Group money in funds which are used to support fossil fuel (oil, gas and coal) companies for both moral and financial reasons. Investing Group funds which support these industries whilst claiming to be a sustainable organisation which aims to become carbon net zero is a contradictory position that the Group will avoid. This change in investment priority (also called "fossil fuel divestment") is a key deliverable in our Group Sustainability Strategy and sends a clear message about our values and ethos.

5. Approved Financial Counterparties

Building and other capital project requirements will generally mean that the level of surplus cash will fluctuate significantly, particularly during major building construction periods.

The Group will only invest surplus funds within the following constraints:

- With UK based institutions, with a 'strong' capacity to meet its commitments, as defined by:
  - Short term credit ratings of A1 (Standard and Poors) or F1 (Fitch IBCA) – Less than 3 months.
  - Long term credit ratings of AA (Standard and Poors) or AA (Fitch IBCA) – Greater than 3 months.
- Deposits no longer than 6 months, except up to £1,000,000 which may be invested up to one year.

- A maximum bank counterparty deposit limit of £1,000,000, except if the investment is with the Group's existing bankers.

6. Types of Financial Instruments

A key risk is that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Group's finances, against which the Group has failed to protect itself adequately.

Apart from the approved types of finance outlined in section 3 above, the Group may, therefore, 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). Given that these would also be subject to DfE approval, it is unlikely these will be permitted.

7. Use of External Intermediaries

The Group will not use brokers or fund managers since the majority of its cash deposits are relatively small and short-term. The Group may use a financial advisor if the use of a Financial Instrument (see Section 6) is contemplated.

8. Liquidity Policy

The Group 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 annual business plan objectives.

Any surplus cash balances are invested in interest-bearing bank accounts or on the money market to maximise income for the Group.

The Chief Financial Officer will be responsible for the regular reporting of debtors and creditors.

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 Group Financial Statements (subject to the requirements of the Statement of Recommended Practice (SORP) for the Sector.

9. Policy Review and Reporting

Treasury activities will be reported in the monthly Management Accounts, including, but not limited to:

- Cash flow Statement and Forecast
- Net Debt report

This information will supplement the borrowing ratios included within the funding body's financial performance indicators and the Group CPIs.