Greater Manchester Academies Trust

Banking and Investments Policy

Greater Manchester Academies Trust

Revision Information

This document has been approved for operation within	All Trust Establishments
Document Version	Version 3.0
Date of last review	December 2019 (the legacy 'Reserves and Treasury Management Policy' has been replaced by this Policy and a new 'Reserves Policy')
Date of next review	November 2020
Review Period	Annually, or where they have been material changes to the relevant courses of business
Date of Trustee Approval	(final version of document to be approved by Trustees)
Status	Statutory
Person Responsible for Policy	Chief Financial Officer
Owner	Greater Manchester Academies Trust
Signature of Approval	(final version of document to be approved by Trustees)

With you…for you…about you…

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Introduction

This is the Banking and Investments Policy of Greater Manchester Academies Trust, referred to throughout this Policy as the 'Trust'.

Previously, this Policy was referred to as the 'Reserves and Treasury Management Policy'. The Trust's policies have been refreshed and refined, and as such this Policy should be considered alongside the Trust's new Reserves Policy (2020).

Banking and Investments Policy and Risk Management

The existence, review and adherence to this Policy is a key control of the Trust with regards to risk management. The Trust has defined, in its risk strategy, a key control to be: any control which is in place to mitigate more than one identified risk contained in the Trust's Risk Register.

This Policy is specifically in place to mitigate the following risks listed in the Trust's Risk Register:

Risk ID	Potential Risk from Risk Register
FIN001	Risk of Inadequate Reserves and Liquidity Management
FIN008	Risk of Not Achieving Value For Money
FIN009	Risk of Inadequate Investment Strategy

Aims and Objectives

The **principal objective** of the Policy is to protect our learners, our staff, trustees and governors, and our assets.

The Policy has other objectives as follows:

1. to develop sufficient capital and revenue reserves to fund future projects.
2. to ensure Trust's funds are used only in accordance with the law, its articles of association, its funding agreements
3. to have a prudent level of resources available to meet unforeseen contingencies.
4. to further stabilise the Trust's finances and continue the improvement of the Trust's reserves levels.
5. to be utilised alongside the Trust's long-term asset management plan.
6. to contribute to the culture of good financial control, cash management and value for money, which are communicated and embedded across the Trust and its academies.
7. to ensure that investments of surplus cash are made without undue risk
8. to ensure that, where applicable, investments are diversified and spread.

Contextual Legislation and Compliance with the Academies Financial handbook

The Academies Financial Handbook states that academies and multi-academy trusts must have an investment policy.

Multi-academy trusts are not permitted to undertake any form of borrowing unless prior written approval is obtained from the Education, Skills and Funding Agency (ESFA).

Banking

The Trust must hold and maintain at least one bank account. Whilst the multi-academy trust has a relatively small number of academies, the bank account is held centrally and controlled within the Shared Services Finance Team.

The Trust currently has one main business current account with The Co-operative Bank. During 2020-21, the Trust must open and utilise a deposit account, as per its Reserves Policy, provided that security and liquidity are not compromised.

As at November 2020, the bank mandate and authorised signatories consists of:
- John Rowlands – Executive Principal and Accounting Officer
- Stewart Ash – Chief Financial Officer
- Andrew Woolley – Associate Vice Principal
- Patsy Hodson – Director of Social Investment Department & Community
- Hilary Vaughan – Trustee and Chair of Finance and Audit Committee
- Robin Lawler – Trustee

From January 2021, a new staff member will be added to the bank mandate:
- Ian Deeley – Senior Finance Officer

Transactions are made on a two-to-sign-basis. Any two of the listed officials must authorise an on-line payment or sign a cheque on behalf of the Trust. One official alone must not enter into a transaction.

The bank balances must be checked at least twice daily: at the start of each working day, and also once more during the working day. Cash position and cash flow is reported by the Finance Team to the Chief Executive Officer in writing on a weekly basis, and verbally on a daily basis.

The Trust must not use any other financial institute without of the agreement of the Trustees. The Trust must not arrange an overdraft facility or undertake borrowing without prior written approval from the ESFA.

The banking services provider must be reviewed every five years.

Reserves and Investments

The Trust's Reserves Policy is focused on cash in the bank and on accounting reserves balances. For academic year 2020-21, the Reserves Policy states that:

- the Trust must hold at least £750,000 across all of its bank accounts at any given point in time.
- at each month end date, the Trust must hold the equivalent of one month's payroll costs
- the Trust will aim to allocate £250,000 per year towards funding its asset management plan.
- the Trust will open and utilise a deposit or appropriate call account, to increase the return on its increasing reserve levels held. The order of priorities with deposit and call accounts must be: a) security; b) liquidity, and; c) return.

If the cash reserves levels rise significantly faster than expected during the year, the Trustees may decide to invest externally. The consideration and potential decision must be added to an agenda item at the next meeting of the Board of Trustees.

For the said agenda item, The Trustees must consider and have minuted:
• the amount to be invested and for how long.
• whether a potential investment gives security of investment (includes looking at counterparty credit ratings).
• what the credit rating from the three principal treasury management credit rating agencies are (see next paragraph for details)
• how quickly the capital invested can be converted to cash at any given point in time.
• what the return on investment is.
• whether the performance of a potential investment can be reliably measured.
• whether a diversification of investment is preferred.
• whether there is potential to be adversely impacted by currency, interest rate or other market fluctuations.
• whether there are any material brokerage costs.
• whether there are any ethical considerations.
• whether there are any reporting or other contractual requirements as a result of investment.

The final investment decision may of course be: 'do nothing'.

The Trustees must ensure that investment risk is properly managed and must not undertake any form of borrowing without prior written approval from the ESFA.

Treasury Management Credit Ratings

Where there exists an opportunity to make an investment, in light of higher than anticipated levels of cash reserves, the Trustees must consider (alongside all of the items in the preceding paragraph) formal treasury management credit ratings.

There are three principal treasury management credit rating agencies: Fitch, Moody's and Standard & Poor's. These agencies provide two types of credit rating to banks and other financial institutes:

Short Term rating: reflects the likelihood of a borrower defaulting within the next year
Long Term rating: reflects the likelihood of a borrower defaulting at any time within an extended timeframe. Long Term ratings are assigned to obligations with an (original) maturity of one year or more.

The credit ratings below are as at 26 November 2020:

Institute	Type	Fitch Rating	Moody's Rating	S&P Rating
HSBC UK	Long Term	AA-	A1	A+ Stable
HSBC UK	Short Term	F1+	P-1	A-1
Barclays UK	Long Term	A+	A1	A Negative
Barclays UK	Short Term	F1	P-1	A-1
Co-op Bank	Long Term	B-	B3	(not provided)
Co-op Bank	Short Term	B	Not Prime	(not provided)
Standard Chartered UK	Long Term	A+	A1	A Stable
Standard Chartered UK	Short Term	F1	P-1	A-1
Lloyds Banking Group	Long Term	A+	A3	BBB+
Lloyds Banking Group	Short Term	F1	P-2	A-2
NatWest Group	Long Term	A	Baa2	BBB
NatWest Group	Short Term	F1	P-2	A-2
Santander UK	Long Term	A+	A1	A Negative
Santander UK	Short Term	F1	P-1	A-1

Ratings Definitions

Fitch – Long Term

The ratings descend as follows AAA, AA, A, BBB, BB, B, CCC, CC, C, RD, D, where AAA denotes the lowest expectation of risk of default and D denotes that the financial institute has entered into bankruptcy filings or a formal winding up.

Where the liquidity profile is particularly strong, a + is added to the rating. Similarly, a – is added to the rating to indicate that the profile is less strong compared with other financial institutes having been assigned the same rating class.

Fitch – Short Term

Rating	Definition
F1	The institute has the strongest capacity for meeting financial obligations.
F2	The institute has a good capacity for meeting financial obligations.
F3	The institute has adequate capacity for meeting financial obligations.
B	The institute has an uncertain capacity for meeting financial obligations.
C	The institute has a highly uncertain capacity for meeting financial obligations.
RD	The institute has defaulted on at least one of its financial commitments, although it does continue to meet other financial obligations.
D	There is widespread defaulting, or a default of short-term obligations.

Where the liquidity profile is particularly strong, a + is added to the rating. Similarly, a – is added to the rating to indicate that the profile is less strong compared with other financial institutes having been assigned the same rating class.

<u>Moody's – Long Term</u>

The ratings descend as follows Aaa, Aa1, Aa2, Aa3, A1, A2, A3, Baa1, Baa2, Baa3, Ba1, Ba2, Ba3, B1, B2, B3, Caa1, Caa2, Caa3, Ca, C where Aaa denotes the highest quality and C denotes that the financial institute usually defaults.

<u>Moody's – Short Term</u>

Rating	Definition
Prime 1	Best ability to repay short term debt.
Prime 2	A high ability to repay short term debt.
Prime 3	An acceptable ability to repay short term debt.
Not Prime	Loans in this category defined as having much higher credit risk.

<u>S&P – Long Term</u>

The ratings descend as follows AAA, AA+, AA, AA-, A+, A, BBB, BB, B, CCC, CC, C, R, SD, D where Aaa denotes an extremely strong capacity to meet its financial commitments and D denotes that the financial institute will generally default on most or all obligations.

<u>S&P – Short Term</u>

Rating	Definition
A-1	Capacity to meet financial obligations is strong.
A-2	Capacity to meet financial obligations is satisfactory.
A-3	Adverse economic conditions are likely to weaken capacity to meet financial obligations.
B	Currently has the capacity to meet financial obligations but faces major ongoing uncertainties that could impact its financial commitment on the obligation.
C	Currently vulnerable to non-payment and dependency upon favourable business, financial and economic conditions, in order to meet its financial commitment on the obligation.
D	The financial institute is in payment default and may be liable for bankruptcy.

Aspirations and Continuous Improvement

The Policy should be enhanced and improved over the next 12-18 months to consider the use of a formal lending counterparty list which must be monitored and reviewed by the Trustees. The counterparty list will be driven by the treasury management credit ratings applied to banks and other financial institutes.

As part of the enhanced future process, the Trustees must decide a set of credit ratings limits below which a potential borrower must not fall.

Equality and Diversity

The Trust is committed to the principles of equality and strives to ensure that everyone who wishes to be involved in our Trust whether as learners (and their parents/guardians), staff, trustees, governors or as a general member of the public:

- has a genuine and equal opportunity to do so without regard to their age, disability, gender reassignment, marital or civil partnership status, pregnancy or maternity, race, religion and belief, sex and sexual orientation; and
- can be assured of an environment in which their rights, dignity and individual worth are respected without the threat of intimidation, victimisation, harassment, bullying or abuse.

The Trust has an Equality and Diversity Policy which is monitored and review annually as a minimum.

The Reserves Policy does not and must not contradict the contents of the Equality and Diversity Policy.

Date of Next Review

The Policy must next be reviewed and signed off by the GMAT Board of Trustees the sooner of November 2021, or when there have been material changes to the relevant courses of business.