Cash Investment Policy

Version 1

This policy applies to all NCLT institutions.

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1.0 Background & Introduction

1.1 All charities are able to invest, and investments can be a major source of funding for them in furtherance of their charitable aims.

1.2 However, investing also exposes charities to risks, and it is important that charities manage these risks and operate within the law.

1.3 In general, in order to act within the law, trustees must:

- know, and act within, their charity's powers to invest (legal requirement)
- exercise care and skill when making investment decisions (legal requirement)
- select investments that are right for their charity; this means taking account of:
    - how suitable any investment is for the charity
    - the need to diversify investments (legal requirement)
- take advice from someone experienced in investment matters unless they have good reason for not doing so (legal requirement)
- follow certain legal requirements if they are going to use someone to manage investments on their behalf (legal requirement)
- review investments from time to time (legal requirement)
- explain their investment policy (if they have one) in the trustees' annual report (legal requirement)

1.4 The purpose of financial investment is to yield the best financial return within the level of risk considered to be acceptable. Charities can invest in a number of ways, in any asset that is specifically intended to maintain and increase its value and/or produce a financial return with specific legal duties and decision-making processes attached to each.

1.5 Possible types of investment include:

- **interest bearing cash deposits in bank or building society accounts**
- shares in a listed company (listed equities)
- interest bearing loans to a company or the government (bonds or gilts)
- buildings or land
- common investment funds and other collective investment schemes
- non traded equity in private companies
- hedge funds
- commodities
- derivatives

This policy document relates specifically to interest bearing cash deposits in bank or building society accounts

2.0 Overview

2.1 This policy governs the cash investment strategy of NCLT, and applies to all trustees and employees of NCLT; a breach of the investment policy and procedure may result in disciplinary action.

2.2 The management of the Trust’s charitable funds will comply with the requirements of the:

- Charities Act 2016; Trustee Act 2000;
- Financial Services and Markets Act (FSMA) 2000; and the
- Charity Commission.

Advice will be taken where appropriate regarding **any other way of investing cash**. identifying and planning for the management of any associated risks.

3.0 Policy Objectives

3.1 The objectives of Trust cash investment are primarily to maximise income/ return from all cash balances through interest received, whilst maintaining short-term liquidity and to negate as far as possible the effect of Trust loan interest charges; longer term, to generate additional capital to meet operational needs. This will be achieved without subjecting the fund to large disinvestment that could impact upon its ability to meet future financial commitments.

3.2 In any investment decision, the Trust will give consideration to specifically:

- the Trust’s immediate financial needs
- future spending commitments
- whether the Trust has restricted funds
- longer term organisational objectives
- past patterns of expenditure as an indication of future trends
- unplanned changes in activity or events that may impact on the Trust, for example, the likelihood of inflation or deflation, or changes in interest rates

3.3 Prior to any investment decision, amounts of funds will be identified that:

- need to be available on instant access
- can be used for short term investment
- that can be tied up for longer periods of time
- will be used to react to unplanned events

3.4 Procedurally, this will be reflected in a ‘tiered’ system:

- Instant access interest- bearing current account to cover monthly anticipated pay and non-pay revenue expenses per the budget and cash flow forecast.
- A ‘buffer zone’ of cash, in instant access deposit accounts equivalent to 20% of revenue expenditure requirements
- Use of 60/ 90 day accounts for additional surpluses, to a maximum of 80% of all cash balances.
- Use of 120 day and 1 year fixed term accounts for funds without identified planned expenditure commitments, limited to a maximum of 25% of total bank balances.

- Surplus income should only be invested if there is no requirement to spend the money within 24 months of the investment.
- Cash will only be deposited in accounts which bear interest, and the Trust will consider:
    - the rates of interest on offer
    - the calculation and timing of interest payments
    - the conditions of access to funds
    - whether interest is paid gross or net of tax
    - the charity's ethical stance

4.0 Consideration of Risk

4.1 The following risks can be identified associated with cash investment:

- liquidity risk - whether the Trust will be able to raise the cash to meet its obligations when they fall due or at short notice
- inflation risk- if the investment does not at least keep pace with inflation, it will fall in value in real terms
- interest rate risk - investments that pay a fixed rate of interest regularly may become unattractive if held for a long period if interest rates available elsewhere rise above that fixed rate
- Counterparty risk - the risk that a firm with which the Trust does investment business (for example, a bank, stockbroker or investment manager) will default on its contractual obligations.
- Tax risks - some investments may be treated as non-qualifying expenditure, with tax consequences.

4.2 The Trust will adopt a 'conservative' stance towards investment risk in the first instance, utilising instant access and fixed term deposits, with reputable institutions, authorised by the FSA in the UK.

4.3 In order for the FSCS to pay compensation, the bank housing the deposits will be required to be authorised by the Prudential Regulation Authority .

4.4 The Trust will therefore seek assurance that institutions are protected, and reference will be made to the FSCS website for the conditions of protection relating to particular accounts, prior to opening and deposit.

4.5 The Trust will identify any potential situation where money is held in multiple accounts with banks that are part of the same banking group (and may therefore share a banking licence) as these are treated as one bank. (In these cases the compensation limit of £85,000 applies to the total amount held across all these accounts, not to each separate account.)

4.6 The Trust will balance the benefit of getting a higher rate of interest for depositing a single large sum against the risks involved with depositing with a single institution.

4.7 The maximum amount the Trust will deposit with any one institution, excluding the Trust current account will be £500k, in order to reduce the risk of lost deposits. By splitting large deposits between banking institutions, trustees reduce the risk of large losses due to institutional failure.

4.8 All trustees share responsibility for ensuring that proper and appropriate steps are taken to protect the investment before arranging for deposit of the charity's money.

4.9 (Per Section 18 of the Financial Regulations) The Board will approve a list of financial institutions for the investment of surplus funds. The opening or closing of bank accounts in the name of the Trust will be delegated by the board of Directors to the Chief Operating Officer and Director of Finance as per the financial regulations.

4.10 All deposits/ bank to bank transfers of funds, will be approved in line with Trust procurement limits, (£50-500k requiring TET approval), and should be authorised by at least 2 authorised signatories from COO, Director of Finance or Finance Manager.

5.0 Consideration of Tax

5.1 Specifically designed deposit accounts are available for charities, which pay interest gross of tax.

5.2 If, however, the account preferred by trustees pays interest on the charity's deposit net of tax, then the Trust will ensure they are able to reclaim the tax.

6.0 Review & monitoring of Deposit Arrangements

6.1 The Trust will regularly review their cash management arrangements at end of each financial quarter, with regard to the costs and benefits of the accounts, to ensure deposits are protected and that charges and rates of interest are competitive.

6.2 The number of accounts and financial status with regard to rates achieved on each, will be reported to The Audit Committee on a regular basis.

7.0 Sources & Additional References

Charities and investment matters: A guide for Trustees

https://www.gov.uk/government/publications/charities-and-investment-matters-a-guide-for-trustees-cc14/charities-and-investment-matters-a-guide-for-trustees#s9

The Financial Conduct Authority

https://www.fca.org.uk/firms/financial-services-register

The Financial Services compensation Scheme
https://www.fscs.org.uk/

Policy Status			
Policy Lead (Title)	Director of Finance	**Review Period**	Annually
Reviewed By	C Suite/Financial Risk and Audit Committee	**Equality Impact Assessment Completed (Y/N)**	N

POLICY AMENDMENTS				
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