

Treasury Management

Policy

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1. Treasury Objectives

1.1 Introduction

Public Service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

“Under Section 17 of the Health and Social Care (Community Health and Standards) Act 2003, NHS Foundation Trusts have a wide discretion to invest money (other than money held by them as trustee) for the purposes of, or in connection with, their functions. While this freedom offers greater opportunity to improve patient care, it should be managed carefully to avoid financial and/or reputational risks.” (Monitor- Managing Operating Cash in NHS Foundation Trusts)

1.2 Treasury Management Strategy

The Trust's Treasury Management Strategy is to maintain the appropriate levels of short-term investments to ensure ongoing liquidity, whilst maintaining a competitive rate of interest for the Trust. The Trust will pursue best value in treasury management and through the use of suitable performance measures ensure that the Trust works within the context of effective risk management.

1.3 Scope of the Treasury Function

This Trust defines its treasury management activities as:

“The management of the organisation's cash flows, 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 those risks”.

The objectives of the treasury function are to support the Trust's development by:

- Ensuring the availability of cash to meet operational requirements;
- Ensuring a competitive rate of return on surplus funds with a minimal risk profile;
- Ensuring the availability of flexible, competitively priced funding at all times;
- Monitor the Trust's exposure to foreign exchange risk (if any).

This Trust acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

1.4 Approved Activities of the Treasury Management Operation

The treasury management operation will encompass all of the following techniques and procedures:

- Working capital management (including all matters relating to debtors, creditors, stock and cash);
- Investment of surplus funds in approved organisations and the assessment of the creditworthiness of counterparties;
- Interest rate exposure management;
- Dealing procedures (i.e. using brokers, banks);
- The interpretation and analysis of external information from various sources, including market analysts and technicians;
- The production, analysis and interpretation of internal information and reports.
- Financing of cash deficits via approved borrowing instruments.

In addition, it incorporates the formulation, monitoring and review of treasury management objectives, strategies, operational policies, authority limits and exception reporting criteria.

Given the nature of the activity and the size of the transactions involved, treasury management security controls are of paramount importance. Liaison will be required with both internal and external audit and internal controls, separation of duties, authorisation levels and responsibilities should be reviewed regularly.

All banking arrangements will fall within the scope of treasury management (i.e. services, costs and tendering procedures).

It is the Board of Directors responsibility to review and approve a Treasury Management Policy (this document) on a periodic basis (last reviewed July 2019). The Board has responsibility for implementation of the policy and monitoring the performance of the treasury management function, which is delegated to the Integrated Performance Committee.

1.5 Treasury Controls

The wide range of complex financial instruments available to companies can significantly reduce financial risk when used wisely. Equally they can lead to financial distress when used unwisely.

The following treasury controls proposed in this document are designed to ensure the Trust's treasury activities are undertaken in a controlled and properly reported manner.

The key components of the overall treasury-operating environment include:

- Clearly defined roles and responsibilities, as laid out in section 3:
- Regular reporting of treasury activities;
- Controls on who can operate bank accounts and authorisation limits;
- Segregation of duties across the treasury management function.

1.6 Current Position

As at June 2020 the Trust has all of its cash held in with the Government Banking Service (GBS), other than a small petty cash balance. The Trust no longer has funds invested in short term savings accounts with approved UK clearing banks, nor does it have funds invested with appointed intermediaries.

1.7 Conclusion

Treasury management is the efficient management of liquidity and financial risks in a business and the actions to manage these risks will vary as their nature changes over time.

This policy provides a clearly defined risk management framework for those responsible for treasury operations. In order to fully realise the benefits it is essential that the policy is kept up to date to reflect any changes in the Trust's operation.

2. Attitude to Risk

2.1 Funding

The principle role of the treasury management function is to maintain liquidity, and ensure a competitive return on surplus funds while maintaining a minimal risk profile. For example all surplus funds will be invested in recognised "safe harbour" investments with a maturity date of no more than three months.

The key-funding objective is to ensure the Trust has sufficient liquidity to cover its business cash flows and provide reasonable flexibility for the seasonal cash flow fluctuations and capital expenditure.

The Trust's approach to funding is that all surplus funds should be available to the Trust on short notice of up to 1 month.

2.2 Safe Harbour Investments

In line with NHS Improvement guidance, it is proposed that the Trust should not invest outside of safe harbours. Safe harbour means that NHS Foundation Trust Boards do not need to undertake an individual investment review for these investments nor will NHS Improvement require a report on them as part of its risk assessment process, since they are deemed to have sufficiently low risk and high liquidity. There should be no circumstances for the Trust to invest surplus operating cash outside of the safe harbour.

NHS Improvement's guidance defines a safe harbour as:

"Securities that are sufficiently safe and liquid to be in the safe harbour meet all of the following criteria:

- Meet permitted rating requirement issued by a recognised rating agency;
- Have a defined maximum maturity date;
- Are denominated in sterling, with any payments or repayments for the investment repayable in sterling;

- Pay interest at a fixed, floating or discount rate; and
- Are within the preferred concentration limit

These investments include money market deposits, money market funds, Government and local authority bonds and debt obligations, certificates of deposit, and sterling commercial paper.”

The following definitions elaborate on the criteria above:

Term	Advice
Recognised rating agency	Only ratings of the following rating agency is recognised <ul style="list-style-type: none"> • Moody's;
Permitted rating requirement	The short term rating should be at least; <ul style="list-style-type: none"> • P-1 Moody's rating; or The long term rating should be at least: <ul style="list-style-type: none"> • A1 (Moody's)
Permitted institutions	Permitted institutions include: <ul style="list-style-type: none"> • Institutions that have been granted permission, or any European institution that has been granted a passport, by the Financial Services Authority to do business with UK institutions provided it has an investment grade credit rating of A1/A+ issued by a recognized rating agency; and • The UK Government, or an executive agency of the UK Government, that is legally and constitutionally part of any department of the UK Government, including the UK Debt Management Agency Deposit Facility.
Maximum maturity date	<ul style="list-style-type: none"> • The maximum maturity date for all investments should be 1 month; • The maturity date for any investment should be before or on the date when the invested funds will be needed.

Preferred concentration limit	<ul style="list-style-type: none"> • Surpluses below £0.5m may be invested with one institution; • Surpluses above £0.5m should be invested across a number of permitted institutions to spread the investment risk; • Investment limits should be set for permitted institutions based on their credit rating. These limits should be reviewed regularly and reset if required.
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2.3 Investments

In accordance with the above table all cash balances should remain in a comparatively liquid form and all investments resulting from them should be realisable and have maturity not exceeding three months.

Cash deposits should only be placed with banks in line with deposit limits agreed by the Finance Sub Committee and based on **Moody's**.

Only Banks rated A+ (long term)/P1 short term can be approved to accept investments.

The investment limits based (to be considered with other criteria before investing) on Moody's ratings are currently (NHS Improvement's example):

- Trust nominated commercial clearing bank have a limit of £5m
- Banks rated P1 / Aaa £10 million
- Banks rated P1 / Aa1 £5 million
- Banks rated P1 / Aa2 and Aa3 £3 million
- Banks rated P1 / A1 have a limit £2 million
- Banks rated P1 / A2 or A3 have a limit of £1 million
- Banks rated below this have a Nil limit

In addition to the limits above, the Trust should invest no more than 50% of total investments.

The total amount of cash placed outside UK based banks would be no greater than 50% of the total cash available. Further of this amount no more than £2m should be placed in any one country.

The above limits do not apply to investments in the National Loans Fund or the Government Banking Service.

At the time of writing the Trust has not been able to invest with commercial banks or appointed intermediaries which are compliant with the Trust's permitted rating requirements.

The National Loans Fund (NLF) Temporary Deposit Facility (TDF) is operated by the Exchequer Funds and Accounts Team (EFA) of HM Treasury and exists to enable UK Government bodies (including NHS Foundation Trusts) to invest surplus funds arising from operating activities and earn a market rate of interest while avoiding the risks of commercial banks and keeping the funds within the Government Banking Services (GBS).

A review of the investment ratings must be conducted on a quarterly basis where investments have been made outside of Government Banking Service or National Loans Fund.

2.4 Foreign Exchange Management

The Trust does not have a strategy to actively manage foreign exchange risk. This is due to the low volume and value of the Trust's foreign exchange exposure, and will be re-evaluated if foreign trading transactions become more significant.

2.5 Bank Relationships

The Trust's approach is to develop long-term relationships with a core group of quality banks either directly or through an approved intermediary. A transactional approach, without the development of relationships, may result in the Foundation Trust being unable to rely on the support of banks in any unforeseen circumstances that may arise, such as a crisis in the banking market, or a sudden decrease in surplus funds.

The benefit of relationship banks is to establish a high degree of confidence and commitment between the parties so that the banks are prepared to meet funding requirements at crucial times, and at short notice.

3. Summary of Key Responsibilities

3.1 Board of Directors

- Approve external funding arrangements
- Approve the banking arrangements

3.2 Audit Committee

- The Committee shall review the establishment and maintenance of an effective system of internal control and risk management for Treasury Management.

3.3 Integrated Performance Committee

- NHS Improvement's guidance recommends the setting up of an investment committee to report to the Board of Directors.
- The Board has delegated the responsibility for this function to the Integrated Performance Committee (IPC) (to establish and monitor an appropriate Treasury Management policy).

- The IPC will review the Treasury Management Policy (this document) on a minimum of an annual basis. This incorporates the reviewing of rating criteria and concentration limits.
- The IPC will review the performance of the Treasury Management function and report to the Board its findings.

3.4 Chief Finance Officer

- Responsible for maintaining the Trust's banking arrangements and for advising the Trust on the provision of banking services and operation of accounts;
- Approves cash management systems;
- Ensures approved bank mandates are in place for all accounts and that they are updated regularly for any changes in signatories and authority levels;
- Hold regular meetings with the Deputy Chief Finance Officer to discuss issues and consider any points that should be brought to the attention of the Integrated Performance Committee.

3.5 Deputy Chief Finance Officer / Head of Financial Services and Financial Accounts Team

- Define the Trust's Treasury strategy and policy for approval by the Investment Committee;
- Report on the Treasury activities on an accurate and timely basis;
- Manage key banking relationships; and
- Manage Treasury activities within agreed policies and procedures.

The Trust's Treasury procedures will be subject to periodic review by both the internal and external auditors as part of their audit undertakings and any significant deviations from agreed policies and procedures will be reported, where appropriate, to the Audit Committee.

4. Bank Relationships and Cash Management

The development and maintenance of strong banking relationships is an important factor in the Trust's cash management policy. The provision of efficient cash management systems throughout the Trust ensures that banking requirements are serviced at optimal cost. This section details the Trust's objectives in these areas of Treasury management.

4.1 Objectives

- To ensure the cost paid for banking services is competitive;
- To minimize the cost of borrowings and maximize the return on cash surpluses within acceptable risk parameters by maintaining efficient cash management procedures within the Trust;
- To develop and maintain strong relationships with a number of key banks;
- To monitor and ensure compliance with banking covenants.

4.2 Banking Relationships

The Deputy Chief Finance Officer will be responsible for managing all banking relationships across different banking services to achieve the optimum benefit to the Trust.

The Deputy Chief Finance Officer and/or the Head of Financial Services along with other representatives of the Financial Accounts team, will discuss with associated banks on a regular basis to discuss services provided and any new or improved products of potential interest to the Trust.

5. Treasury Reporting

The regular reporting of treasury activities is crucial in allowing all relevant parties to be aware of transactions undertaken, appreciate the Trust's financial position and assess the on-going appropriateness of Treasury objectives. The following reports are produced to meet these criteria.

5.1 Cash book and cashflow forecast

This report is completed daily by SBS and reviewed by the Financial Accounts team. This details all the payments to/receipts from the operational account (Government Banking Service) as well as the forecast closing positions.

This is used by the Head of Financial Services to decide in accordance with permitted rating requirements the appropriate levels of investments to ensure a competitive rate of return by not carrying excess funds in the operational (lower interest) accounts.

It also details the actual closing investment positions. A monthly summary of investments and cash position is circulated to the Deputy Chief Finance Officer.

All proposed investments are approved by the Deputy Chief Finance Officer or the Head of Financial Services.

5.2 Reports

- **Rolling annual Cashflow**

A rolling annual cash flow forecast is produced by the Head of Financial Services using the daily movement report breaking down monthly payments/receipts into various headings. This is used to monitor the actual income/expenditure against the forecast, which highlights any variances and to produce forecast cash balances. This is reported to IPC on a monthly basis.

- **1 Year Cashflow Projection**

Included in the Integrated Performance Report is a 1 year forecast of the Trust's cash balances.

- **Other Integrated Performance Report Appendices**

Included in the monthly Integrated Performance Report is an analysis of investments and relevant working capital KPIs. The Statement of Financial Position incorporates the month's closing cash balances. The Statement of Comprehensive Income shows the interest receivable during the financial year. Also included is NHS Improvement's Risk Ratings.

- **Budget setting for Interest Receivable**

The Financial Accounts team will provide information to inform the budget setting process with projected interest rates, funds to be invested and projected costs of investments.

- **Control Account Reconciliation**

The Head of Financial Services receives from SBS a full reconciliation of the bank account control accounts of the Trust to the bank statements on a monthly basis. This is approved signed off by the Head of Financial Services on a monthly basis.

- **Monthly NHS Improvement Report**

Reports are required by NHS Improvement to assess the financial risk of each Foundation Trust. It consists of a Statement of Financial Position, Statement of Comprehensive Income and Statement of Cash Flows: planned, actual, forecast and variance. A commentary is also required to explain any significant variances from plan.

Various ratios such as liquidity, return on assets, trade debtor days etc are included to ensure the Trust is maintaining its minimal risk approach. Reports are made available to the Chief Finance Officer, Board of Directors, IPC and submitted to NHS Improvement.

6. Treasury Controls

6.1 Summary

The overall objective of the controls set out below is to ensure treasury activities are undertaken in a controlled manner, thereby ensuring that the Trust is not exposed to undue operational risks. In particular:

- Segregation of Duties is specified between those to deal and those who authorise transactions:
- All transactions are recorded and supported by an instruction/confirmation:
- All payment instructions/confirmations will require two authorised signatories in accordance with approved bank mandates:
- Mandates will be reviewed regularly.
- The Deputy Chief Finance Officer will ensure that there is absence cover and that current procedures are maintained in accordance with the Treasury Management policy.
- The Trust will ensure that all the relevant people involved in Treasury Management have the relevant training required.

- This Trust is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.
- The Deputy Chief Finance Officer will review every 3 months the investments to ensure that the Investment Banks are appropriate.

6.2 Operational Procedures

Undertaking transactions

Those authorised to transfer monies between the banks are:

The Deputy Chief Finance officer/ Head of Financial Services and the Assistant Financial Accountant

The transfer must not be authorised by the initiator of the payment.

All transfers are authorised by two authorised signatories as per the banks' mandates.

Verification of transactions

All payments are process by SBS and approvals are electronically recorded within the ledger.

Bank Mandates are maintained by the Assistant Financial Accountant.

7. Appendices

APPENDIX 1 Nominated Banks for the Investment of Surplus Funds

The ratings of the Trust’s current banking institutions are as follows as rated by Moody’s:
National Loans Fund / GBS account is part of the UK Government, and has a credit rating of AA1.

APPENDIX 2 RATINGS – GUIDE

The Trust has adopted Moody’s as its recognized ratings agency. A guide to their ratings can be found here:
https://www.moodys.com/sites/products/productattachments/ap075378_1_1408_ki.pdf

8. Endorsed By:

Name of Lead Clinician / Manager or Committee Chair	Position of Endorser or Name of Endorsing Committee	Date

9. Record of Changes

Section No	Version No	Date of Change	Description of Amendment	Description of Deletion	Description of Addition	Reason