

TREASURY MANAGEMENT POLICY

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CONTENTS

Section	Summary of Section	Page
Doc	Document Control	2
Cont	Contents	3
1	Introduction	4
2	Purpose & Scope	4
3	Duties and Responsibilities	4
4	Explanations of Terms used	5
5	Statement of Policy	5
6	Treasury Controls	6
7	Training Requirements	6
8	Equality Impact Assessment	6
9	Monitoring Compliance and Effectiveness	7
10	Counter Fraud	7
11	Relevant Care Quality Commission (CQC) Registration Standards	7
12	References, Acknowledgements and Associated documents	
13	Appendices	7
Appendix A	Attitude to Risk and Summary of Key Objectives	8
Appendix B	Reporting	10
Appendix C	Borrowing	11
Appendix D	Treasury Controls and Operating Procedures.	12

1. INTRODUCTION

- 1.1 Under Section 17 of the Health and Social Care (Community Health and Standards) Act 2003, NHS Foundation Trusts have wide discretion to invest money (other than money held by them as a trustee) for the purposes of, or in connection with, their functions. The principle objective of treasury management is to maintain liquidity, mitigate and manage risk together with financial risk and to ensure a competitive return within an acceptable risk profile.
- 1.2 This policy has been written in conjunction with 'Managing Operating Cash in NHS Foundation Trusts' issued by Monitor in December 2005, as updated 1st February 2016. Monitor strongly recommends that NHS Foundation Trusts should be prudent in their treasury management activities.
- 1.3 From 2013/14 the Department of Health has changed the methodology of the PDC calculation. This has an impact on the ability of Foundation Trusts to invest cash outside the Government Banking Service.

2. PURPOSE & SCOPE

- 2.1 The overall treasury objectives are to support the Trust's strategic and business objectives by:
- ensuring the most competitive return on surplus cash balances within an agreed risk profile;
 - ensuring the availability of flexible competitively priced funding at all times;
 - identifying and managing the financial risks, including interest rate and foreign currency risks, arising from operational activities; and
 - ensuring compliance with all banking covenants.
- 2.2 The policy applies to the Board of Directors and financial accounting staff carrying out Treasury Management functions.
- 2.3 The policy does not apply to any funds held on trust, whether charitable or for other purposes.

3. DUTIES AND RESPONSIBILITIES

3.1 Finance and Investment Committee

- To approve external funding arrangements;
- To approve overall treasury policy;
- If considered appropriate, to delegate responsibility for the approval of the Trust's treasury procedures, controls and detailed policies to an appropriate committee. Any delegated committee will at all times report to the Trust Finance and Investment Committee

3.2 **Director of Finance and Business Development**

- To approve subsidiary cash budgets and cash management systems.

3.3 **Finance Treasury Section/ Assistant Director of Finance**

- To define the Trust's treasury approach for approval by the delegated committee or Trust Board;
- Ensure treasury activities are reported on a timely and accurate basis;
- Manage key banking relationships;
- Manage treasury activities within the agreed Policies and Procedures.

3.4 **Financial Accountant**

- Accurate and timely recording in the accounting records of all treasury transactions, including confirmation with counterparty documentation.

3.5 **Auditors:** The Trust's treasury procedures will be subject to periodic review by 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. **EXPLANATIONS OF TERMS USED**

4.1 **Covenant:** A clause in a contract that requires one party to do, or refrain from, certain things. Often this is a restriction on a borrower imposed by a lender.

4.2 **Derivative:** A contract or security that derives its value from that of an underlying asset (such as another security).

4.3 **Financial instrument:** A financial security such as a bond, stock, etc having monetary value or recording a monetary transaction.

4.4 **PDC:** Public dividend capital

4.5 **Recognised rating agency:** These are the three main international rating agencies, Moody's, Standard and Poor's and Fitch Ratings. Each of these agencies provides a rating system to help investors determine the risk associated with investing in a specific company, investing instrument or market.

4.6 **Relationship bank:** A bank with which the Trust would have day to day contact as a customer/depositor.

5. **STATEMENT OF POLICY**

5.1 The Trust's treasury activities will be undertaken in a manner to achieve the following key objectives:

- **Surplus cash:** To obtain the most competitive deposit rates using a core group of relationship banks, in line with deposit guidelines ratified by the Board or delegated committee;
- **Funding:** To ensure the availability of flexible and competitively priced funding from alternative sources to meet the Trust's current and future requirements;

- **Interest rate management:** Maintain an interest rate structure that manages exposure to fluctuations in interest rates thus significantly reducing the financial risk to the Trust;
- **Bank relationships:** Develop and maintain strong, long-term relationships with a core group of quality relationship banks that can provide current and future funding requirements.

Please refer to the Appendices for further detail.

6. TREASURY CONTROLS

- 6.1 The wide range of complex financial instruments available to organisations can significantly reduce financial risk when used wisely. Equally, they can lead to an increase in financial risk if used unwisely.
- 6.2 The treasury controls proposed in this policy are designed to ensure the Trust's treasury activities are undertaken in a prudent, controlled and properly reported manner.
- 6.3 The key components of the overall treasury operating environment include the following:
- clearly defined roles and responsibilities in treasury activities for the Board of Directors and any delegated committees, the Director of Finance, Financial Accounting and the Finance Treasury section;
 - regular reporting of treasury activities;
 - controls on who can operate bank accounts and authorisation limits;
 - segregation of duties between those who deal, those who initiate payment and those who account for treasury activities; and
 - strict limitations on the types of derivatives and the circumstances in which they may be used by the Finance Treasury section.

7. TRAINING REQUIREMENTS

- 7.1 The Trust will work towards all staff being appropriately trained in line with the organisation's Staff Mandatory Training Matrix (training needs analysis). No specific external training requirements have been identified.

8. EQUALITY IMPACT ASSESSMENT

- 8.1 All relevant persons are required to comply with this document and must demonstrate sensitivity and competence in relation to the nine protected characteristics as defined by the Equality Act 2010. If you, or any other groups, believe you are disadvantaged by anything contained in this document please contact the Document Lead (author) who will then actively respond to the enquiry.

9. MONITORING COMPLIANCE AND EFFECTIVENESS

- 9.1 The policy will be monitored by the Trust Board, with the support of the Finance and Investment Committee and the Audit Committee.

10. COUNTER FRAUD

- 10.1 The Trust is committed to the NHS Protect Counter Fraud Policy – to reduce fraud in the NHS to a minimum, keep it at that level and put funds stolen by fraud back into patient care. Therefore, consideration has been given to the inclusion of guidance with regard to the potential for fraud and corruption to occur and what action should be taken in such circumstances during the development of this procedural document.

11. RELEVANT CARE QUALITY COMMISSION (CQC) STANDARDS

- 11.1 Not directly relevant to any of the standards.

12. REFERENCES, ACKNOWLEDGEMENTS AND ASSOCIATED DOCUMENTS

12.1 References

Risk Assessment Framework (Monitor, from 1 August 2015)

Managing Operating Cash in NHS Foundation Trusts (Monitor, 2005)

FT Bulletin April 2013 (Monitor)

12.2 Cross reference to other procedural documents

Standing Financial Instructions (SFIs)

Risk Management Policy and Procedure

All current policies and procedures are accessible to all staff on the Trust intranet (on the home page, click on 'Policies and Procedures'). Trust Guidance is accessible to staff on the Trust Intranet (within Policies and Procedures).

13. APPENDICES

For the avoidance of any doubt the appendices in this policy are to constitute part of the body of this policy and shall be treated as such.

Appendix A Attitude to Risk and Summary of Key Objectives

Appendix B Reporting

Appendix C Borrowing Procedures

Appendix D Treasury Controls and Operational Procedures.

1. ATTITUDE TO RISK AND SUMMARY OF KEY OBJECTIVES

Funding

- 1.1 The principle role of the Treasury function is to maintain liquidity, to mitigate and manage risk and to ensure a competitive return within an acceptable risk profile. Surplus cash will be invested with the National Loans Fund, managed by the Treasury that meet the credit criteria and in instruments that have an acceptable risk profile.
- 1.2 Under no circumstances will the treasury function be authorised to enter into trading positions or undertake trading for purely speculative reasons.
- 1.3 The Trust will maintain a risk-averse approach to funding, recognising the on-going requirement to have committed funds in place to cover both existing business cash flows and reasonable headroom for cash requirement fluctuations, e.g. capital expenditure programmes and acquisition financing.
- 1.4 It is not appropriate to arrange long-term specific debt without a specific need.
- 1.5 The Trust's approach to funding is that whilst it is beneficial to retain reasonable headroom in committed facilities, the Trust shall not pre-arrange finance in anticipation of potential substantial future acquisitions.

2. Investments

- 2.1 All cash balances shall remain in a comparatively liquid form and all cash balances (and investments resulting from them) directly under the control of the Trust should be realisable and have a maturity not exceeding three months.
- 2.2 Cash deposits are only placed with the National Loans Fund and are in line with deposit limits agreed by the Trust Board or delegated committee.

- 2.3 If the Trust wishes to invest in any financial instruments other than cash this must be approved by the Board of Directors prior to any investment being made.

3. Foreign Exchange Management

- 3.1 The Trust is not exposed to material foreign exchange transaction risk.
- 3.2 The Trust's approach to managing foreign currency translation exposures will be reviewed as required depending upon the level of business conducted in foreign currencies and any accounting issues arising.

4. Interest Rate Management

- 4.1 Should the Trust enter into any long-term borrowings, the Trust Treasury function will maintain an interest rate structure which minimises the impact of rapidly changing interest rates on financing costs.
- 4.2 However, long term borrowings will normally be via the Independent Trust Finance Facility (ITFF) and the interest rate will be fixed for the life of the loan.

5. Banking Covenance Compliance

In situations where funding arrangements are attached to financial covenants, a regular review of the Trust's performance against these covenants should be included in the treasury reports to the Board so that potential problems can be identified at an early stage.

APPENDIX B

1. Reporting

- 1.1 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.

2. Monthly Report

- 2.1 The monthly finance report prepared for the Board will include details of borrowing against the Prudential Borrowing Limit (PBL) as set by Monitor, details of cash in hand and of committed and uncommitted facilities.

3. Treasury Performance Reports

- 3.1 The need to prepare an investment performance report will depend on the value of liquid funds available and the prevalent market conditions linked to the current bank rate.
- 3.2 Should the Trust be in a position to have a significant investment portfolio the Treasury Function will prepare a quarterly performance report as follows:
- performance of the investment portfolio versus the benchmark of 3 month London Interbank Bid Rate (LIBID) at the start of each quarter.
- 3.3 The objective of the Treasury Function will be to achieve an overall return in line with or better than this benchmark.
- 3.4 Significant over or under achievement against the benchmark, for an extended period of time, should be closely scrutinised by the Finance and Investment Committee.

1. BORROWING PROCEDURES

Borrowing

- 1.1 Use of the working capital committed facility has to be agreed by the Director of Finance and Business Development and reported to the Finance and Investment Committee and the Trust Board.
- 1.2 Long term borrowings will normally be obtained from HM Treasury via the Independent Trust Financing Facility (ITFF), following approval by Monitor.
- 1.3 Any such loans will be approved by the Trust Board before draw down.
- 1.4 Changes to this current practice re other borrowings are subject to Board approval.

1. TREASURY CONTROLS AND OPERATIONAL PROCEDURES

Summary

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

- segregation of duties is specified between those who deal, those who initiate payments and those who account for transactions;
- all transactions are recorded within a treasury management system and are supported by an instruction/confirmation; and
- all payment instructions/confirmations will require two authorised signatures, in accordance with approved bank mandates;

Operational Procedures

- 2.1 Those authorised to deal are the Director of Finance and Business Development, Deputy Director of Finance, Assistant Director of Finance and other approved senior finance staff.
- 2.2 All transactions are recorded in an electronic recording system, which provides confirmations and contains a database of all transactions.
- 2.3 All confirmations/payment instructions are signed by two signatures and in accordance with the limits under the bank mandate as approved by the Trust Board or delegated committee.