

# Treasury Management Policy

Guidance on how to manage the Trust's treasury requirements

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## Version Control and Summary of Changes

Version number	Date	Comments (description change and amendments)
1.0	July 2010	Approved
1.1	May 2011	Revised
1.2	March 2012	Revised and Reviewed
1.3	February 2013	Reviewed
1.4	February 2014	Revised and Reviewed
1.5	February 2015	Revised and Reviewed
1.6	February 2016	Revised and Reviewed
1.7	February 2017	Revised and Reviewed
1.8	February 2018	Revised and Reviewed
1.9	February 2019	Revised and Reviewed
2.0	February 2020	Revised and Reviewed
2.1	September 2020	Revised and Reviewed (review date changed to realign with refreshed FPC work plan)

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### Equality Statement

Leicestershire Partnership NHS Trust (LPT) aims to design and implement policy documents that meet the diverse needs of our service, population and workforce, ensuring that none are placed at a disadvantage over others.

It takes into account the provisions of the Equality Act 2010 and promotes equal opportunities for all.

This document has been assessed to ensure that no one receives less favourable treatment on the protected characteristics of their age, disability, sex (gender), gender reassignment, sexual orientation, marriage and civil partnership, race, religion or belief, pregnancy and maternity.

In carrying out its functions, LPT must have due regard to the different needs of different protected equality groups in their area.

This applies to all the activities for which LPT is responsible, including policy development and review.

### **Due Regard**

The Trust's commitment to equality means that this document has been screened in relation to paying due regard to the Public Sector Equality Duty as set out in the Equality Act 2010 to eliminate unlawful discrimination, harassment, victimisation; advance equality of opportunity and foster good relations.

A due regard review found the activity outlined in the document to be equality neutral because it is procedural in nature, describing internal systems and processes.

## **1. Purpose of the Policy**

This policy aims to provide guidance on how to manage the Trust's treasury requirements. This includes setting targets for the minimum level of cash, maximum debt, investments and how each area should be monitored and reported. The Treasury Management Policy was last reviewed and updated in February 2020.

## **2. Introduction**

In order to maintain good corporate governance it is critical for the Trust to have a formally approved Treasury Management policy and to document and formalise how the Trust manages its treasury function.

## **3. Treasury Management**

Treasury Management is concerned with the process of managing all cash transactions relating to the funding of revenue and capital investment operations of the Trust. There must be effective processes and procedures in place to ensure that all of the Trust's financial obligations (e.g. the payment of employees and suppliers) can be met without interruption.

### **3.1 Policy statement and objectives**

The overall treasury management objectives are to support the Trust's development by;

- a) ensuring that cash is managed within the Trust effectively, and all financial obligations can be met on the day they fall due;
- b) ensuring that approved institutions are used for the investment of surplus funds;
- c) ensuring that any borrowing requirements are managed in accordance with predetermined guidelines;
- d) ensuring that the Trust Board is kept fully aware of the Trust's ongoing cash position by regular and thorough reporting;
- e) ensuring that all transactions and reviews are carried out within the appropriate timeframe and by the appropriate person;
- f) ensuring that procedures are in place for dealing with brokers, banks, and any other external party to the Trust's Treasury management operation, and
- g) Ensuring ongoing scrutiny of contractors' finances. Following the collapse of Carillion, lessons learnt stipulates financial vetting should take place during the delivery of the contract, not just during the tendering process.

#### 4. Risk and Control

The main liquidity imperatives are that the Trust must be able to meet all liabilities as they fall due and avoid the need to borrow if at all possible to meet short-term cash requirements.

To ensure that the Trust undertakes treasury activities in a controlled and properly reported manner, a number of high level controls are in place including:

- The documentation of treasury management policies and processes within this document;
- Clearly defined roles and responsibilities for the Trust Board, the Director of Finance, the Treasury Management function and the rest of the Finance department;
- Regular reporting of treasury activities;
- Separation of duties between those who deal, those who initiate payment and those who account for treasury activities;
- Strict limits of the type of investment used and the circumstances in which they can be used; and
- Inclusion of treasury management activities within the scope of review by Internal and External Audit.

##### 4.1 Attitude to Key Risks

Set out below is the Trust's attitude to key risks identified by the Trust and the key controls set up to mitigate those risks:

- **Funding** – the Trust will maintain adequate free funds to finance its day to day operations. The risk that the Trust fails to accurately identify a positive cash balance that is sufficient to pay creditors is managed by the use of cash flow forecasts and related monitoring systems. The Trust has its own internal target of keeping a cash balance of at least 11 days operating expenses.
- **Investments** – the Trust will only invest in safe harbour investments and anything outside of this will require the approval of the Trust Board. The risk that the Trust places surplus cash in an account attracting too high a risk is again managed by the use of an authorised list of deposit takers together with limits on the amount placed with each organisation. Long-term investments carry the risk that cash is not available to cover any unforeseen cash requirements therefore any investments should be time limited to a maximum of six months with any longer term investments requiring the approval of the Finance and Performance Committee. The risk that the Treasury Function incurs excessive costs in placing

an investment are mitigated by a minimum investment level that is sufficient to generate a return that covers costs; and

- **Foreign exchange management** - foreign exchange rate hedging will only be undertaken with the approval of the Trust Board who must be appraised of any implications for the Trust under the Compliance Framework. Any such hedging will only be approved if it is needed to mitigate the risk of making losses on any operational contracts.

Treasury activity for purely speculative reasons is strictly prohibited. The role of the treasury function is to maintain liquidity, mitigate and manage risk and to ensure a competitive return is received on the Trust's investments, within an acceptable risk profile, while also ensuring and promoting fiscal responsibility and prudent investments that do not compromise delivery of services. Investments can only be made with those institutions detailed in Appendix A.

The Trust will seek the advice of a professional financial advisor as required and when deemed appropriate.

The treasury function's role also includes the management and safe guarding of patients monies, ensuring a competitive return is received and that risk is managed and mitigated appropriately.

The Trust's insurance arrangements will be reviewed annually. To make a successful claim against commercial fraud, the Trust has to provide evidence that robust governance arrangements are in place and correct procedures have been applied.

## **5. Detailed Policy**

### **5.1 Cash Flow forecasting**

In order to ensure that adequate funds are available to pay forthcoming liabilities, and to identify any surpluses, cash flow forecasts will be maintained. Daily cash book reports will be prepared detailing the opening and closing cash position, providing a summary of the current cash receipts and payments (detailed daily cash flows will be maintained throughout the year). A rolling twelve month cash flow projection will also be maintained to identify any investment opportunities or shortfall situations.

The Trust Board, through the Finance and Performance Committee will receive a rolling twelve month cash flow report each month detailing the Trust's cash position, performance against plan, forecast year end position and any investment activities or borrowing requirements. A more detailed cash-flow statement will also be included in the monthly Finance and Performance Committee's finance report.

All staff will support effective cash management in the Trust by ensuring that all invoices for payment receive prompt attention and are passed to the Payment Section to enable compliance with the Better Payment Practice Code, i.e. within 30 days from first receipt date of invoice into the Trust.

Staff with a responsibility for providing goods or services to external parties will ensure that debtor invoices are raised promptly; for the correct amounts; and sent to the most appropriate officers responsible for invoice authorisation and payment.

## **5.2 Investments**

Details of investment instructions are described in the Trust's Standing Financial Instructions.

The security of the Trust's assets will be maintained at all times.

The liquidity of the Trust will be maintained and enhanced by ensuring that investing is only carried out with those institutions approved by the Trust Board (and included within Appendix A), and that returns from investments are maximised whilst exposure to market risk is minimised.

In line with the ethos of promoting patient care, all investments should be in line with sound ethical and environmental principles, and not opposed to the objectives and purpose of the Trust in the provision of Healthcare.

Credit ratings of Trust approved investment organisations (see Appendix A) are to be reviewed on a regular basis, and at least once per year. Only those Rating Agencies recognised by NHS Improvement (NHSI) will be used (see Appendix A).

Surplus funds based on cash flow forecasting will be invested until required, at the best rate available to maximise the return from interest, and within a predetermined risk profile.

No investment shall be made without the appropriate written authorisation as follows:

### **Up to £1 million**

Any two persons from the approved signatories list in Appendix B

### **£1 million and above**

Any two persons from the approved signatories list in Appendix B, one of whom must be from Group A.

### **5.2.1 Types of Investment**

Investments can be made with those institutions listed in Appendix A.

The following money market financial instruments may be used (all of which are low risk investments):

- a) Overnight - Money placed on deposit overnight and repaid automatically next day. The rate of interest will depend on the prevailing rate.
- b) Instant access accounts – Allows for quick and easy access. Provide banded rates, which means the greater the balance the more interest is earned.
- c) Fixed term deposits – Money is placed on the Money Market for a fixed period from overnight to 12 months. The funds may not be redeemed early or be moved.

Investments will only be made in safe harbour investments. These are investments that fulfil the following criteria: meet the permitted rating requirement issued by a recognised rating agency; are held at a permitted institution; have a defined maximum maturity date; are denominated in sterling, with any payments/repayments of interest/principal also in sterling; pay interest at a fixed, floating or discount rate; and are within the preferred concentration limit.

### **5.2.2 Deposit Limits**

The maximum total deposit that can be made:

- Short term £10m for a period of one month
- Medium term £20m for a maximum period of 6 months
- With the exception of General Banking Service, investments shall not exceed £5m with any one institution.

Any investment proposal for a period exceeding one month will require approval by the Trust Board or by the Chief Executive and Director of Finance for ratification at the next Board meeting.

### **5.3 Short term borrowing**

Details of borrowing instructions are described in the Trust's Standing Financial Instructions.

Short-term borrowing to meet a temporary cash-flow deficit must be funded from the authorised working capital facility only and in accordance with the Trust's financial procedures as required by The Trust's Standing Financial Instructions.

Specific authority of the Director of Finance is required where the facility is being used in circumstances where cash-flow forecasts do not demonstrate that the borrowing is repayable in less than one month.

All borrowing transactions to be authorised in writing by two signatories from Group A as set out in Appendix B. Any borrowings will be subject to approval from NHSI.

All short term working capital borrowing transactions to be entered on the Trust's Risk Register.

## **6. Funding of Capital Investment**

Capital investment will be funded from various sources: from retained cash in excess of working capital requirements; cash generated from retained operating surpluses; from depreciation funding; and from external long-term borrowing.

The capital programme will be reviewed annually by the Capital Management Committee and Finance and Performance Committee, prior to approval at the Trust Board.

The Capital Management Committee and Finance and Performance Committee reviews of the annual programme will consider whether:

- a) The programme meets the objectives of the service development strategy and Business Plan
- b) Is affordable in revenue terms
- c) Achieves value for money
- d) Strategic capital schemes are supported by a full business case
- e) Is fundable from either retained cash or borrowings in accordance with the Trust's prudential borrowing limit.

In respect of external borrowings, the appropriate lender will be determined by reference to the cash flow forecast and financial plans based on the rates and facilities available at the time.

The Trust will approve and maintain a list of sources from which Trust officers are authorised to borrow money.

No borrowing transaction shall be entered into without approval of the business case by the Trust Board.

For strategic schemes (> £5m), capital Project Bank Accounts (PBAs) will be set up to facilitate payments directly from the Trust to sub-contractors of P22 operators. This will mitigate any risk of non-payment to sub-contractors by large construction companies in the event of a financial collapse (as was the case with Carillion).

## **7. Delegated Powers**

The Director of Finance shall have overall control over treasury management. He/she will delegate authority within this policy to:

- a) Invest temporary surplus cash
- b) Borrow monies from approved sources to cover the Trust's cash requirements in line with the Prudential Borrowing Code.
- c) Monitoring and report on the cash flow and liquidity position of the Trust.
- d) Move investments around to mitigate against real or potential risk

## **8. Reporting**

On a weekly basis the Financial Accounting team will inform the Financial Controller of the balances on all accounts and investments.

The Director of Finance shall report to the Finance and Performance Committee and the Trust Board on the operations of the Treasury Management function. The report will include as a minimum:

- a) Actual against projected cash flows, with explanations for major variances i.e. major variances of 20% or greater from the plan and deficit cash flow projections
- b) Investment performance
- c) Details of any borrowing undertaken.

The Director of Finance shall bring to the attention of the Trust Board any exceptional matters at the earliest opportunity.

## **9. Organisation and Responsibilities**

### **9.1 Responsibilities of the Finance and Performance Committee**

The Finance and Performance Committee is a committee of the Trust Board, which will meet on a monthly basis. The role of the committee is to examine all exceptional financial issues, including investments, borrowings and capital expenditure. The Capital Management Committee will report in to the Finance and Performance Committee on matters including capital planning and investments.

### **9.2 Responsibilities of the Trust Board**

The Trust Board has overall responsibilities for the financial activities at the Trust and approving the banking arrangements.

### **9.3 Responsibilities of the Chief Executive**

The Chief Executive, as the accountable officer, is responsible and accountable for the funds entrusted to the Trust.

### **9.4 Responsibilities of the Director of Finance**

- Overall management of the banking arrangements and for advising the Trust on the provision of banking services and operation of accounts. This also includes the management of the working capital facility.
- Overall responsibility for the Treasury management function at the Trust
- Opening of bank accounts

### **9.5 Responsibilities of the Financial Controller**

- To produce the Treasury Management policy for approval by the Trust Board and to ensure that this is reviewed annually by the Finance and Performance Committee.
- To manage the treasury management function of the Trust in line with the policy on a day to day basis.

### **9.6 Responsibilities of the Accounts Department**

- The Senior Finance Assistant (Treasury Management) will obtain daily electronic bank statements and update the cash book and actual cash flow on a timely basis in an accurate manner. This will highlight cash balances and forecast cash balances. At the end of each month bank account reconciliation will be completed and signed by a senior member of Financial Accounts staff.
- The Assistant Finance Manager (Technical) or nominated officer will initiate investments by reviewing the daily cash flow and taking into account known expenditure for the period of investment. The amount proposed to be invested is agreed with the Financial Controller. The investment is then approved in line with the guidance set out in this paper.

## **10. Procedures**

The Financial Controller will ensure procedures are maintained for all of the Trust's treasury management functions, including working capital procedures.

## **11. Review**

This policy is to be reviewed by the Finance and Performance Committee for adequacy, and then formally approved by the Trust Board. It will be subject to regular review by the Finance and Performance Committee, at least annually.

## **12. Training Needs**

There is no training requirement identified within this policy

### **Permitted Institutions as outlined in Monitor's 'Managing Operating Cash in NHS Foundation Trust' paper**

- 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 recognised rating agency.
- 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.

### **Recognised rating agencies:**

- Standard & Poor's
- Moody's Investors Service Ltd
- Fitch Ratings

## **APPENDIX B**

### **Approved Signatories for entering into borrowing transactions and making investments on behalf of the Trust**

(To be read in conjunction with the Trusts Standing Financial Instructions and Standing Orders)

#### **Group A**

Chief Executive

Director of Finance

Deputy Director of Finance

#### **Group B**

Divisional Heads of Finance

Financial Controller

Head of Corporate Finance

**The NHS Constitution**

**The NHS will provide a universal service for all based on clinical need, not ability to pay.  
The NHS will provide a comprehensive range of services;**

<b>Shape its services around the needs and preferences of individual patients, their families and their carers</b>	<input type="checkbox"/>
<b>Respond to different needs of different sectors of the population</b>	<input type="checkbox"/>
<b>Work continuously to improve quality services and to minimise errors</b>	<input type="checkbox"/>
<b>Support and value its staff</b>	<input type="checkbox"/>
<b>Work together with others to ensure a seamless service for patients</b>	<input type="checkbox"/>
<b>Help keep people healthy and work to reduce health inequalities</b>	<input type="checkbox"/>
<b>Respect the confidentiality of individual patients and provide open access to information about services, treatment and performance</b>	<input type="checkbox"/>