

Treasury Management Policy

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Treasury Management Policy

Version Control Sheet

Version	Section / Para / Appendix	Version / Description of Amendments	Date	Author / Amended by
1	All	New Document	September 2015	Head of Financial Accounts
2	All	Amended	December 2017	Operational Finance Manager
3	All	Full review and amendments of titles	January 2020	Head of Financial Accounts
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Treasury Management Policy

Contents

Version Control Sheet.....	2
Background.....	4
Statement.....	4
Responsibilities	4
Training	4
Dissemination	4
1. Introduction	5
2. Executive Summary	5
3. Definitions	6
4. Roles and Responsibilities.....	7
5. Policy and Procedural Guidance	9
6. Treasury reporting.....	11
Appendix 1 Equality Analysis.....	12

Treasury Management Policy

Background

Best practice requires the Trust to have a formally approved Treasury Management policy to ensure the assets of the Trust are used to achieve the most efficient use of its financial resources consistent with appropriate levels of risk, and that borrowing and investment decisions are subject to appropriate controls.

This document sets out how the Trust will manage its cash flows and investments and its relationships with financial institutions. It sets out the statutory framework for the Trust's treasury management decisions, the Trust's objectives in treasury management and the policies and procedures covering treasury management within the Trust.

Statement

The Trust must comply with its statutory, regulatory and performance management obligations. From a finance and treasury management perspective, the Trust needs to ensure that surplus operating cash is invested in accordance with its duty to safeguard and properly account for the use of public money. In this way the Trust must promote fiscal responsibility and prudent investments that do not compromise effective, efficient and economic delivery of services. In order to do so, it is essential that treasury controls are applied to ensure the Trust's treasury activities are held accountable and undertaken in a controlled and properly reported manner.

Responsibilities

This policy sets out the key responsibilities for a number of key groups and roles within Lincolnshire Community Health Services NHS Trust. Key amongst these is as follows:

- The Trust Board
- Director of Finance
- Trust Finance Function

Training

Training on the content areas with regards to this policy will be primarily focused on those closely associated within its operation, the Trust finance function. Key individuals will also need to maintain broader appreciation of wider regulatory and economic factors which may directly or indirectly influence treasury management activities.

Dissemination

This document will be used by the Finance department, particularly the Financial Accounts section. It will also be used by the Finance and Performance and Investment Committee or any successor body so that the committee's members can satisfy themselves that an appropriate treasury management system is in place and is operating effectively.

Resource implication

Treasury management functions are part of the day-to-day processes of NHS organisations and as such, no additional resource implications are envisaged from the implementation or operation of this policy.

1. Introduction

- Treasury Management represents the set of policies and strategies which an organisation adopts and implements to manage its cash resources and to raise finance at acceptable cost and risk. It also governs its relationships with its financial stakeholders (mainly banks).
 - This document sets out the Trust's treasury management policies and procedures, focusing on investment of surplus operating cash needed to support ongoing operations.
 - Lincolnshire Community Health Services (LCHS) NHS Trust's objective is to operate in accordance with the disciplines of a Foundation Trust. As part of this process, it is putting in place a number of cash management enablers which it believes will help prepare for its transition. To this end it reflects both the requirements of an NHS Trust and compliance with Monitor/NHSI guidance and best practice. Key amongst these is the move towards a more active cash and treasury management. LCHS is committed to investing surplus cash as a key part of its financial strategy.
 - The Trust must comply with its statutory, regulatory and performance management obligations to manage its cash position and meet its External Financing Limit (EFL) target.
- **Scope of the Treasury Function**
 - The key objectives of the treasury management function are to support the Trusts' development by securing a competitive return on the investment of surplus cash balances and ensuring that the Trust has sufficient 'liquid' resources to meet its day to day expenditure commitments and liquidity ratio requirements as it progresses towards Foundation Trust (FT) status.
 - **Treasury Controls**
 - The Treasury controls detailed in this document are designed to ensure the Trust's treasury activities are undertaken in a controlled and properly reported manner. Lincolnshire Community Health Services NHS Trust is dealing with public money and LCHS must ensure that it invests the funds safely. The Trust operates within strict Department of Health (DH) guidelines to ensure this is the case.

2. Executive Summary

- **Treasury Management**

Treasury management is the process of managing:

- cash flow (including investment of surplus cash);
- the availability of short and long term funds;
- foreign currency and interest rate risk; and
- relationships with banks and other financial institutions.

This document sets out the Trust's treasury management policies and procedures, focusing on investment of surplus operating cash needed to support the Trust's ongoing operations. These investments need to be safe and liquid, so that the investments can be realised quickly. This document describes the Trust's policies and controls to ensure the liquidity of such investments, while generating as competitive as a return as possible.

- **Treasury Management Policy**

The Policy establishes a clear control framework for managing treasury activities and mitigating risks to ensure the objectives are delivered. The Trust can only invest surplus funds solely within the Government Banking Services (GBS) and the National Loans Fund (NFL), up to a maximum investment period of three months. The Trust has put in place key controls over the treasury and investment system that include:

- Clear definition of policies, processes and controls including description of roles and duties of the parties involved.
- Regular review of treasury activities.
- Separation of duties between those who set policy and monitor compliance and those who account for treasury activities and
- The inclusion of treasury management activities within the scope of review by internal audit and external audit.

A successful Foundation Trust application will require the Trust to significantly revise this document to be able to respond to the change in financial regime. In anticipation of this, work is progressing to allow these aspects to be put in place when the Foundation Trust is established.

3. Definitions

There are two main components of a Treasury Management policy:

- **Investment** - the Trust must ensure it achieves a competitive return on surplus cash balances (taking account of the cost of administering this function). All cash balances should remain in a comparatively liquid form and all investments should be realisable and have a maturity not exceeding three months. Cash Deposits should only be placed with DH approved institutions and in line with deposit limits agreed in this Policy.
- **Access to funding** - The Trust must ensure that competitively priced funds appropriate to its needs are available when required and throughout the required period to meet liabilities as they fall due.

3.1 Attitude to risk

The Trust will take a conservative approach to risk and will not make any investments that represent a risk to the base capital of the Trust.

- Funding – the Trust will maintain adequate free funds, amounting to £7m, the equivalent to working ten days, to finance its day to day operations. The risk that the Trust fails to accurately identify a cash balance that is sufficient to pay creditors is managed by the use of cash flow forecasts and related monitoring systems.
- **Investments** - the Trust will not invest outside of safe harbour investments. Risk ratings will be in line with Monitor/NHSI guidance and reviewed at least on a quarterly basis. The risk that too much money will be invested is managed by the use of authorised list of deposit takers together with limits on the amount that can be invested with each organisation. Long-term investments of more than three months will only be made with the approval of the Finance, Procurement and Investment Committee. The risk that the Treasury Function incurs excessive costs in placing or withdrawing an investment will be mitigated by specifying minimum limits on investment levels to ensure the return is greater than the costs.
- **Foreign exchange management** – will not be undertaken by the Trust

4. Roles and Responsibilities

- **Board of Directors**
 - Approves working capital and capital expenditure borrowing arrangements subject to the funding policy
 - Approve the overall Treasury Management Policy
 - Delegate to the Director of Finance the approval of LCHS detailed Treasury Management policies, processes and controls.
- **The Audit Committee**
 - Receives and reviews the reports of work undertaken by Internal and External Auditors in respect of Treasury Management. The Trust's treasury procedures will be subject to periodic review by the Auditors as part of their audit undertakings and any significant deviations from agreed policies and procedures will be reported where appropriate to the main Board.
- **Finance, Performance and Investment Committee**
 - Approves the Trust Investment strategy
 - Reviews and monitors investment, cash and borrowing policy and performance against relevant benchmarks
 - Monitor compliance with Treasury policies and procedures
- **Director of Finance**
 - Holds overall responsibility for the proper operation of accounting systems including cash flow management
 - Reviews treasury reports and prepares treasury information for the Board of Directors.
- **Head of Financial Accounting**
 - Ensuring that processes and procedures are in place for the day to day

running of the treasury function and that these are followed and has delegated responsibility to authorise transactions up to three months.

- Reviews treasury reports and prepares treasury information for the Board of Directors
- Holds overall responsibility for the proper operation of accounting systems including cash flow management.
- Manage the treasury management function and ensuring that all procedures are followed, all transactions are recorded and relevant cash flow and transaction reports prepared. Delegated responsibility to authorise individual transactions up to one month. Responsible for ensuring the policy is disseminated and communicated to all relevant parties
- Define the treasury approach to FPIC for approval
- Identify and recommend investment opportunities in line with National Investment Loan Fund (NLF).
- Ensuring treasury activities are reported regularly and accurately.
- Manage treasury activities within the agreed policies and procedures.
- Manage key banking relationships.

- **Treasury Function (Finance Team)**

- This is a function, carried out by a team drawn from the Finance Department. Separation of duties is maintained throughout to ensure key financial controls are maintained and no single officer is responsible for undertaking the placing, authorisation and reconciliation of investment confirmations to cash receipts.
- The Treasury team is responsible for:
 - Defining the Trust's detailed treasury management approach (operating procedures).
 - Reporting treasury activities on a timely and accurate basis.
 - Managing key relationships with deposit takers and loan providers.
 - Managing operational treasury activities within the agreed policies and procedures, including the placing and authorising of investments.
 - Matches investment confirmations with internal documentation.

- **Trust Cash Management Team**

- This is a function which is operated through a service level by United Lincolnshire Hospitals NHS Trust. The cash management team are responsible for:
 - Maintaining accurate and timely accounting records of all treasury transactions received.
 - Receipting and allocating funds received and payments made.

5. Policy and Procedural Guidance

5.1. Investment Procedures

As an NHS trust, the Trust is currently only permitted by the Secretary of State to invest surplus funds with the Government Banking Service (GBS) and the National Loans Fund (NLF).

The aim of the Policy is to ensure there is sufficient flexibility both to maximise the return on investments with the NLF at any one time and allow sufficient funds to remain within GBS for day to day cash requirements. These investments need to be safe and liquid, so that the investments can be realised quickly. The sums invested in each will be dependent on the differential rates of return offered and it should be recognised that:

- The NLF rate can on occasions be lower than the GBS rate of return.
- The rate of return offered by the NLF on its longer term investments may actually be lower than that which it offers on its shorter term investments, based on the NLF's assessment of future interest rate movements.

Table 1: Investment Authorisation Matrix			
Investment Period	Investment Value (£m)		
	< £2m	>£2m but <£5m	>£5m
1 to 4 weeks	Head of Financial Accounts	Director of Finance & Business Intelligence	Trust Board
4 weeks to 3 months	Head of Financial Accounts	Director of Finance & Business Intelligence	Trust Board
Longer than 3 months	Director of Finance	Director of Finance & Business Intelligence & Chief Executive	Trust Board

As a result of the above information, the Trust has adopted for use the following institutions and accounts meeting the 'safe harbour' criteria.

Table 2: 'Safe harbour institutions and accounts	
Permitted Institutions/Account	Key use /Purpose
GBS Current Account	Direct credit of receipts from NHS Bodies and specific payments re:NHS transactions,as well as weekly BACS payments,monthly salaries and day to day payments
National Loans Fund sterling Investment account	Short and Long term Deposits

5.2. Borrowing/Funding Procedures

The principle role of the Treasury Management function is to maintain liquidity and ensure a competitive return on surplus funds while maintaining an acceptable risk profile. This is assured by using 'safe harbour' investments (thereby applying the criteria outlined in Monitor's/NHSI's national guidance 'Managing Operating Cash in NHS Foundation Trusts').

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

The Trust's approach to funding is that most surplus funds should be available to the Trust on short notice and that, while a committed facility should be maintained, the Trust should aim not to utilise it.

The Trust can borrow monies using either a working capital loan or capital loan from the Secretary of State. Any such borrowing is vetted closely by the NHS Improvement (NHSI) and requires approval from the Board of Directors before any loan is proposed.

5.3. Investment Processes and Controls

5.3.1 Treasury Controls

The principle role of the Treasury function is to improve the liquidity position of the Trust, to mitigate and manage risk and ensure a competitive return with an acceptable risk profile.

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 is designed to provide a clearly defined risk management framework for those responsible for treasury operations. In order to fully realise the benefits, the Policy will be reviewed not less than annually to reflect any changes in the Trust's operation.

In order to ensure that the Trust undertakes treasury activities in a controlled and properly reported manner and to ensure that LCHS is not exposed to undue operational risks, it has put in place a number of overall high-level controls including:

- The documentation of treasury management policy itself and the operational processes within the Treasury Management function.
- Clearly defined roles and responsibilities associated with treasury management activities for the Director of Finance, the Trust Finance Function and the Cashier Function.
- Separation of duties between those who deal, those who initiate and those who authorise investments.
- Limits on where and the value of cash that can be invested.
- Confirmation and checking of transactions by the Head of Financial Accounting
- All transactions are recorded electronically and are supported by instruction/confirmation documentation.
- All payment instructions / confirmations will require two authorised signatories, in accordance with approved bank and investment mandates.
- Mandates will be regularly reviewed and sent to all counterparties.
- Inclusion of treasury management activities within the scope of review by internal audit and external audit.
- Regular reporting of Treasury Activities.

6. 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.

6.1 Annual Financial Plan

The annual financial plan will include a forecast cash flow which shows the forecast overall cash balances on the final day of each month over the financial year. (In-year, balances will be routinely monitored in more detail and the lowest and highest balances reported over each month).

6.2 Daily movement reports

The cash management team will produce a daily report for the Trust finance team showing the aggregate cash balance and the individual balances of all accounts.

6.3 Weekly

A concise report will be produced by the Financial Accountant for the Head of Financial Accounting giving details of:

- Record of previous five end of day positions, compared against plan.
- Details of investments to date.
- Details of borrowings to date.

6.4 Monthly

The Trust Finance and Performance Committee will receive within the overall finance report the following information:

- Details of all investments and the returns achieved.
- Details of all borrowings and the interest terms secured.
- Liquid ratio.
- Gearing and interest cover.
- Cash flow statements showing performance against plan.
- actual monthly flows to date and future forecasts for the following twelve months and performance against any covenant arrangements (if any)
- Commentary on the working relationships with the permitted institutions.

Appendix 1 Equality Analysis

NB - It is the responsibility of the author / reviewer of this document to complete / update the Equality Analysis each time it has a full review and to contact the Equality Diversity and Inclusion Lead if a full equality impact analysis is required

Equality Impact Analysis Screening Form

Title of activity	Treasury management		
Date form completed	December 2019	Name of lead for this activity	Simon Burrows

Analysis undertaken by:		
Name(s)	Job role	Department
Simon Burrows	Head of Financial Accounts	Finance

What is the aim or objective of this activity?	To document the Trust procedures for the management of cash balances and management of payments and receipts.
Who will this activity impact on? <i>E.g. staff, patients, carers, visitors etc.</i>	The policy details the methods by which the Trust will operate and manage its cash balances. In terms of impact, management and compliance will enable the Trust to function effectively and pay its staff and suppliers to support service delivery for patients.

Potential impacts on different equality groups:

Equality Group	Potential for positive impact	Neutral Impact	Potential for negative impact	Please provide details of how you believe there is a potential positive, negative or neutral impact (and what evidence you have gathered)
Age	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Disability	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Gender reassignment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Marriage & civil partnerships	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	

Pregnancy & maternity	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Race	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Religion or belief	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Sex	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Sexual Orientation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Additional Impacts <i>(what other groups might this activity impact on? Carers, homeless, travelling communities etc.)</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	

If you have ticked one of the above equality groups please complete the following:

Level of impact

	Yes	No
Could this impact be considered direct or indirect discrimination?	<input type="checkbox"/>	<input type="checkbox"/>
If yes, how will you address this?		

	High	Medium	Low
What level do you consider the potential negative impact would be?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If the negative impact is high, a full equality impact analysis will be required.

Action Plan

How could you minimise or remove any negative impacts identified, even if this is rated low?
How will you monitor this impact or planned actions?

Future review date: