Ashford and St. Peter's Hospitals NHS
NHS Foundation Trust

TRUST BOARD
29th March 2012

TITLE	**Treasury Management Policy**
EXECUTIVE SUMMARY	The Finance Committee has reviewed the Trust's Treasury Management Policy in the light of the policy being in active operation for just over a year and also following the downgrading of a number of banks by Moody's rating agency. The following changes have been proposed: 1) Moody's rating: currently long term ratings (e.g. "AA2") are used and it is proposed that this is switched to short term ratings (e.g. "P2) as investments usually don't exceed three months. This is also in line with the latest Monitor guidance. 2) Formal review of ratings: the policy now states that ratings be reviewed formally at given intervals. 3) Santander: Santander is not UK owned, and therefore there was a question around whether it is a greater risk. The Committee felt that the risk was low, given that deposits are only held for three months, and ratings will be formally reviewed regularly. Santander has been added to the approved list. 4) LIBOR vs. LIBID: LIBID to be replaced by three months LIBOR as a measurement of performance. The full revised policy is attached for review and approval.
BOARD ASSURANCE (Risk) / IMPLICATIONS	The Board is assured by the scrutiny provided by the Finance Committee on matters of financial risk.
STAKEHOLDER / PATIENT IMPACT AND VIEWS	Compliance with Monitor guidance.
EQUALITY AND DIVERSITY ISSUES	None that I am aware of.
LEGAL ISSUES	Compliance with Monitor guidance.
The Trust Board is asked to:	Approve the revised Treasury Management Policy
Submitted by:	John Headley, Director of Finance and Information Paul Doyle, Deputy Director of Finance
Date:	21st March 2012
Decision:	For Approval

Ashford and St. Peter's Hospitals NHS
NHS Foundation Trust

TREASURY MANAGEMENT POLICY

1. INTRODUCTION

The Trust is required to have in place a Treasury Management Policy to ensure there is control over the management of its banking arrangements and cash. The policy relates solely to exchequer funds i.e. not charitable funds or patients monies.

Treasury management is the term used to denote the process of managing the cash flow of the Trust. It is an integrated policy covering all aspects of risk arising from treasury activities, drawing together all incoming and outgoing cash. It enables considered decisions to be made in ensuring that adequate cash resources are available to meet the needs of the Trust at any moment in time.

A sound treasury management system ensures that appropriate resources are available when required, and also generates additional resources by means of actively managing any surplus cash to produce income in the form of interest within an acceptable risk profile and at minimum cost.

To manage this process cash flow statements will be produced and updated regularly, covering the current financial year as well as twelve or twenty four months ahead. Careful management of the Trust's cash flow statement will influence decisions regarding payment of creditors, investment of 'surplus' cash thus maximising interest earned and determining when borrowing may be required.

Treasury management does not distinguish between 'revenue' and 'capital' cash; both are classed as cash resources and form part of the treasury management calculation.

In addition the Trust's exposure to interest rate and foreign exchange risk is monitored and managed.

2. POLICY

The policy covers the regime that is applicable to NHS Foundation Trusts. It: -

- reflects Monitor's guidance – Managing Operating Cash in NHS Foundation Trusts; and
- has been reviewed against policies available from other NHS Foundation Trusts.

3. OBJECTIVES

The principal role of the Trust is the provision of healthcare services for the NHS, and as such 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 addition the Trust must avoid potential reputational risks associated with investments.

The objectives of the Trust in relation to Treasury management are: -

- ensuring the most competitive return on surplus cash balances, within the agreed risk profile set out in the policy;
- ensuring the availability of flexible competitively priced funding for working capital at all times with an acceptable risk profile;
- identifying and managing the financial risks, including interest rate and foreign currency risks, arising from operational activities; and
- ensuring compliance with all banking covenants.

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 & Information, 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.

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;

- Investments – the Trust will only invest in safe harbour investments (see section 7) 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 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.

5 CASH FLOW FORECASTING

An annual cash flow forecast is prepared in summary form based on the Trust's business plan and in addition a rolling cash flow forecast is maintained (twelve monthly and then quarterly out to twenty four months)

At the end of each month the forecast is updated for actual movements and changed forecasts and reviewed by the Head of Financial Services and Deputy Director of Finance.

The Cash Flow Forecast is included in the monthly finance reporting pack for circulation to Trust Board members, Divisional Directors and General Managers.

6 BANKING

The approval of the opening and closing of any bank or investment account is the responsibility of the Trust Board as set out in Standing Orders. The Director of Finance & Information is responsible for managing the Trust's banking arrangements and for advising the Trust on the provision of banking services and operation of accounts.

In accordance with Standing Financial Instructions the Director of Finance & Information will approve the signatories to all bank accounts and any relevant signatory limits. Signatories will be a minimum of pay band 8A (or equivalent).

The Director of Finance & Information will ensure that there are appropriate procedures in place to ensure that this policy is adhered to.

The Trust maintains an interest-bearing GBS (ex PGO) account which is used for the majority or receipts and payments. There are also Royal Bank of Scotland (RBS) and NatWest current and deposit accounts.

The GBS cash balances are reconciled by SBS (Shared Business Services) and provided to the Trust on a weekly basis, or more frequently if required. The RBS and NatWest accounts are reconciled every day to the Trust's own cashbook.

The commercial banking arrangements of the Trust are subject to the usual tendering regulations. It is important for the Trust to maintain good banking relationships as an NHS Foundation Trust.

7 INVESTMENTS

If surplus funds are identified the Financial Accountant will ensure that sufficient cash will be available, either in the current accounts or within seven days, to meet all of the Trust's projected financial commitments before the return of the investment.

When such surplus funds are identified consideration should be given to investing those funds. Funds left in the GBS account earn an attractive rate of interest and so the assessment is based on interest rate differentials and transfer costs. Any transfers are carried out in accordance with the Trust's banking procedures, with the necessary entries being recorded in the cashbook.

Safe Harbour Investments

Monitor's guidance is that Foundation Trusts should only invest surplus operating cash in 'safe harbour' investments to ensure adequate safety and liquidity. The following criteria define 'safe harbour' investments:

- they must meet permitted rating requirements issued by a recognised rating agency;
- they must be held at a permitted institution;
- they must have maximum maturity dates;
- they must be denominated in sterling with any payments or repayments in sterling;
- they must pay interest at a fixed, floating or discount rate; and
- they must be within the preferred concentration limit.

Investments may include money market deposits, money market funds, Government and Local Authority bonds and debt obligations, certificates of deposit and sterling commercial paper.

Investments may only be made in: -

- institutions that have been granted permission by the Financial Services Authority to do business with U.K. institutions; and
- the UK Government or an executive agency thereof.

Investments that do not fulfil the criteria for safe harbour are higher risk instruments and include bonds, equities, commodities and derivatives such as options, swaps etc. In line with Monitor's expectations the Trust will not invest outside of the safe harbour unless approved by the Trust Board.

Credit Rating Agency and Ratings

The Trust will use Moody's Investors Services Ltd as its rating agency. Moody's is one of the top three credit rating agencies in the investment world. Cash deposits should only be placed with relationship banks in line with deposit limits agreed by the Audit/Finance Committee and based on Moody's ratings.

According to the guidelines no investment should be made at an institution falling outside the following recommendations: -

- Short-term (<13mths) – minimum P-1 (Prime 1) rating for the institution

Brokers and Consultants

The Trust will utilise the expertise of external brokers, if required. Consultants will be used where the Trust has no in-house expertise in a particular banking, investment, foreign exchange or borrowing matter. The use of such brokers or consultants will be authorised by the Director of Finance & Information and reported to the Finance Committee.

Concentration limits

Concentration limits set out the maximum surplus funds that can be invested with one institution at any time. They are as follows: -

Amount	Moody's Rating	Maximum at any one time per institution
Up to £5m	P-1	Maximum of £5m

Government bodies are not subject to Moody's ratings and the limits above do not apply. These include: -

- GBS/Office of H.M. Paymaster General; and
- National Loans Fund – Temporary Deposit Facility.

The minimum deposit that may be placed with the National Loans Fund Temporary Deposit Facility is £1,000,000. Deposits above the threshold may be made in round thousands and may be made for any period from 7 days to 6 months, the period and terms of deposit being agreed with the Treasury at the time it agrees to take the deposit.

The Finance Committee will approve the list of banks that the Trust can invest in. These are currently HSBC, Barclays, Lloyds TSB, Royal Bank of Scotland/NatWest and Santander.

A maximum of 40% of the available funds can be invested in one of these banks, subject to the £5m limit.

The Trust will review the ratings of these banks at no more than three monthly intervals to ensure that they still comply with the Policy's requirements.

Investment Periods

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. All investments exceeding three months will be authorised by the Director of Finance & Information and any proposals for investments over six months requires the approval of the Finance Committee.

An investment file is maintained containing the investment forms, investment register and the counterparties deal confirmations. This file is kept in a locked cabinet at all times when not in use.

8 BORROWING

The Trust will maintain a risk-averse approach to borrowing, recognising the on-going requirement to have committed funds in place to cover both existing business cash-flows and reasonable headroom for seasonal debt fluctuations and capital expenditure programmes.

When there are indications that the Trust may be required to borrow money the Director of Finance & Information must consider the implication of borrowings on the Trust's Prudential Borrowing Limit, Working Capital Facility and I&E account (interest charges) where applicable.

Generally, borrowing should not be undertaken before it is required as this is not permitted and also leads to unnecessary interest being incurred. The Trust is required to give detailed information in its Annual Accounts about outstanding borrowings.

If at any time it appears that the Trust will be unable to repay its borrowings on the due dates the Director of Finance & Information must be informed so that remedial action can be taken.

The options to be considered for borrowing by the Director of Finance & Information are: -

- taking out a loan (generally for Capital);
- taking out a finance lease; and

- Working Capital Facility.

Loans

If the borrowing is not to be repaid in-year, then a Loan is required which is interest bearing. This will generally to fund capital schemes and must be within the Prudential Borrowing Limit for the Trust set by Monitor.

Applications for loans to fund capital schemes will in the first instance be to the Foundation Trust Financing Facility. The Trust will be required to be able to show that it has future plans to repay the loan.

Finance Lease

Finance leases to fund capital schemes are counted as borrowings so the effect on the Trust's Prudential Borrowing Limit should be calculated if such borrowings are being considered.

Working Capital Facility

A pre-requisite to licensing as a Foundation Trust is the negotiation of a committed Working Capital Facility with a commercial bank. It is anticipated that this will equate to 30 days operating expenditure and will be determined within the Trust's Integrated Business Plan. The Trust Board has approved a facility of £15m with NatWest for two years from 1 December 2010, and this is the agreed limit with Monitor.

9 FOREIGN EXCHANGE AND INTEREST RATE RISK

Although done for the management of operational risk, as previously stated investments to mitigate foreign exchange and interest rate risk are outside of the safe harbour as defined by Monitor. Whenever possible all contracts should be negotiated in sterling.

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.

10 RESPONSIBILITIES

10.1 Trust Board

The responsibility of the Trust Board is to: -

- approve external funding arrangements;
- approve the opening and closing of bank accounts;
- approve the overall Treasury Management Policy; and
- delegate responsibility for approval of the Trust's treasury procedures, controls and detailed policies to the Finance Committee.

10.2 Finance Committee

The responsibility of the Finance Committee is to: -

- ensure that the Trust's investment and borrowing strategy retains a minimal risk profile;
- approve and monitor relevant benchmarks for performance; and
- ensure that proper safeguards are in place for security of the Trust's funds by:

- agreeing a list of permitted institutions;
- setting investment limits for each institution;
- agreeing permitted investment types;
- monitor compliance with treasury policies and procedures;
- delegate responsibility for treasury operations to the Trust's Director of Finance & Information.

10.3 Director of Finance & Information

It is the responsibility of the Director of Finance & Information to set in place such procedures so as to ensure tight control over the investment of surplus cash balances.

10.4 Deputy Director of Finance

The Deputy Director of Finance is responsible for ensuring that procedures are in place for the day to day running of the treasury function and are followed and has the delegated authority to authorise individual transactions up to three months.

10.5 Head of Financial Services

The Head of Financial Services shall be responsible for managing the Treasury Management function and ensuring that all procedures are followed, all transactions recorded and relevant cash flow and transaction reports prepared. The have delegated authority to authorise individual transactions up to two weeks.

10.6 Financial Accountant

The Financial Accountant shall be responsible for carrying out the deals with the approved institutions following receipt of the approval of the Head of Financial Services, or in his absence, the Deputy Director of Finance. They should ensure accurate and timely recording of all treasury transactions.

11 REPORTING AND PERFORMANCE MONITORING

The detailed procedures followed by the treasury function will include daily, weekly and monthly reporting within the department. These reports will cover borrowing facilities as well as investments. The reports will include different slightly different information for different audiences, and should include, but not be limited to: -

- summary of end of day positions for previous week;
- investment deals – current and closed over the last period;
- investment performance;
- credit rating update;
- review of borrowing requirements;
- compliance with Covenants in the Working Capital Facility agreement; and
- compliance with Prudential Borrowing Code/Limit

The reports will be distributed as follows: -

- daily reports to the Head of Financial Services;
- weekly reports to the Deputy Director of Finance;
- monthly reports to the Director of Finance & Information; and
- monthly reports will be provided to the Finance Committee.

The report to the Finance Committee will include measurement of performance of the investment portfolio versus the three month London Interbank Offer Rate (Libor), or any

such other benchmark as the Finance Committee sets. The Finance Committee will set the relevant target against the benchmark.

Updated and Ratified by the Finance Committee
18th January 2012

Next Review – January 2013