# Treasury Management Policy

**CATEGORY:** Policy  
**CLASSIFICATION:** Governance  

**PURPOSE**  
To establish a cash investment policy: this will allow the Trust to improve returns on free cash, in a secure manner and in accordance with NHSI and DH guidelines.

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**Distribution:**
- **Essential Reading for:** Chief Financial Officer, Director of Finance, Financial Controller, Treasury Manager
- **Information for:** Board of Directors, Treasury staff, Financial Accounting staff, External and Internal Audit
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1. **Policy Statement**

1.1. It is a requirement of good corporate governance, that University Hospitals Birmingham NHS Foundation Trust (the ‘Trust’) has a Treasury Policy which formally sets out treasury activities and the risk management environment in which all objectives and operating parameters are clearly defined in relation to the investment of surplus funds. This policy document complies with the guidance issued by NHSI as at the date of publication and has been reviewed by the Trust’s internal auditors.

1.2. 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 operations.

1.3. **Objectives of a treasury function**

The Trust’s treasury activities are undertaken in a manner that achieves the following key objectives:

- Ensuring the most competitive return on surplus cash balances, within a agreed risk profile;
- Ensuring the availability of flexible competitively priced funding at all times;
- Identifying and managing the financial risks, including interest rate risks, arising from operational activities;
- Compliance with all banking covenants;
- Compliance with NHSI treasury policy and Financial Sustainability Risk Rating (‘FSRR’);
- Compliance with Department of Health’s PDC dividend rules and Government Banking Service (‘GBS’) / National Loan Funds (‘NLF’) criteria;
- Maximise operational cash: ensure practices are in place to recover outstanding monies by identifying and resolving issues quickly to avoid delayed payment;
- Surplus cash: to obtain the most competitive deposit rates in line with deposit guidelines ratified by the Investment Committee/Treasury Management Group;
• Funding: ensure the availability of flexible and competitively priced funding from alternative sources to meet the Trust’s current and future requirements within an acceptable risk profile;

• Interest rate management: maintain an interest rate structure which smooths out the impact of rises or falls in interest rates on operating results;

• Bank relationships: develop and maintain strong, long-term relationships with the Trust’s bankers;

• Covenants: ensure the Trust comply with the covenants set out in the Bank overdraft facility; and

• Cash forecasting: develop and maintain an accurate cash forecast in sufficient detail to allow reasonable investment decisions to be made and accurate comparison of forecast flows against actual amounts.

2. **Scope**

The Policy covers all treasury activities across the Trust.

3. **Framework**

3.1. The Trust’s treasury procedures which will be approved by the Chief Financial Officer will be subject to periodic review by the internal auditors as part of their audit undertakings and any significant deviations from agreed policies and procedures will be reported where appropriate to the Investment Committee. In addition, external audit will review any material items as part of their normal audit work.

3.2. The provision of efficient cash management systems ensures that banking requirements are serviced at the optimal cost. This section describes the broad framework of arrangements in this area of treasury.

3.3. **Funding Arrangements**

3.3.1. The principal 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. For instance, surplus cash will be invested with counterparties that meet the credit criteria and in instruments that have an acceptable risk profile. Under no circumstances will the treasury function be authorised to enter into any transaction relating to general equities, derivative products or to undertake trading for purely speculative reasons as these are specifically prohibited by NHSI. Examples of prohibited transactions include investments linked to other trade
instruments or foreign exchange, index-linked investments, private equity or venture capital investments, equity or commodity related investments, leveraged investments, contracts for differences, hedge funds, derivatives, futures, options or swaps.

3.3.2. NHSI’s FSRR regime requires the Trust to achieve a rating of 2* or higher, to avoid regulatory action. Therefore, the Trust must ensure that all investment decisions do not comprise this objective.

3.3.3. Department of Health regulations require a 3.5% of net assets PDC dividend, if net assets are positive. This cost must be factored into any investment decision, only the GBS and NLF are exempt from this PDC dividend calculation.

3.4. Investments

3.4.1. All cash balances must remain in a reasonably liquid form and all investments must be invested in “Safe harbour” products. This requires that there must be adequate safety and liquidity, the risk profile is tolerable and funds are available on short notice. Specifically allowable products are defined as those that:

- Meet one of the following permitted short term (< 12 months) rating requirements issued by a recognised rating agency:
  
a) standard and poor A-1;
  
b) Moody’s Investors Services rating P-1;
  
c) Finch ratings limited F1

  All of which are the highest rating groups for short term debt.

- Are held at permitted institutions, i.e.:
  
a) Institutions regulated by the Financial Conduct Authority and Prudential Regulation Authority (Bank of England). Membership of this latter institution is a requirement of the financial services compensation scheme. Or
  
b) 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 UK Debt Management Agency deposit facility. This includes GBS and NLF.
Have a defined maturity date of no more than 3 months, following the date of the next quarter’s NHSI return, (this is because anything > 3 months is not counted by NHSI as cash). In the event that the NHSI FSRR score was unaffected, a limit of 12 months would apply instead.

Cash deposits must only be placed in line with deposit limits agreed by the Investment Committee and based on permitted ratings. The limits per bank are as follows:

a) A limit of £25m applies to UK clearing banks rated P-1 (Moodys or equivalent). For the avoidance of doubt, this does not apply to funds held in the current account of the Trust’s commercial banking provider.

The Trust will remain risk averse in its investment attitude and this will be reflected in the permissible investment product holdings. No investment will be entered into outside of GBP sterling and a UK clearing bank, for example the ongoing Euro currency volatility would preclude any European bank even if it where regulated by the Prudential Regulation Authority.

These definitions are based on and comply with NHSI’s ‘Managing operating cash in NHS Foundation Trusts’ policy.

3.5. Forecasting and Reporting

3.5.1. In addition to mandatory cash reporting to NHS Improvement, the Trust must maintain and further develop a comprehensive, timely, relevant and reliable reporting package to support the Trust.

3.5.2. The Trust must also continue to produce a robust cash flow forecasting model to enable the accurate and timely management of cash. This must incorporate processes and procedures in order to fully comply with distressed finance funding guidance. Requirement for cash support must be identified at the earliest opportunity in order to obtain Trust Board approval to apply for distressed finance funding support from NHSI.

3.6. Maximising cash balances

The Trust must ensure that robust credit control procedures are consistently applied to ensure that cash receipts are recovered by the due date and non-payment is escalated in a timely manner. These procedures must be adapted on a timely basis for changes in the financial environment.
3.6.1. The Trust must ensure that processes are in place to ensure that the balance sheet is proactively managed to maximise cash balances on an ongoing basis.

4. Duties

The key responsibilities are as outlined in the Scheme of Delegation, Standing Orders and Standing Financial Instructions of the Trust. These are as follows:

4.1. Chief Executive

The Chief Executive is the Accountable Officer of the Trust and with the Board of Directors, is charged with ensuring probity in the use of money. Day to day management responsibility rests with the Director of Finance.

4.2. Board of Directors

Members of the Board of Directors will:

4.2.1. Approve the Treasury Management Policy;

4.2.2. Approve the Trust’s investment and borrowing strategy and policies in line with NHSI’s guidelines;

4.2.3. Review monthly cash position reports and cash forecast;

4.2.4. Approve cash positions in annual plan reports;

4.2.5. The Board of Directors has responsibility for approval of the Trust’s external funding arrangements subject to the limit imposed by its authorisation and NHSI’s Financial Sustainability Risk Rating; and

4.2.6. The Board of Directors delegates responsibility for treasury procedures, controls and detailed policies to the Chief Financial Officer.

4.3. Investment Committee

Members of the Investment Committee will:

4.3.1. Approve the relevant benchmarks for measuring performance;

4.3.2. Review and monitor investment and borrowing policy and performance against the relevant benchmarks in respect of all funds, unless held in the current account; and
4.3.3. Monitor compliance with treasury policies and procedures on investment/ borrowing in respect of limits, approved counterparties and types of investment/instruments.

4.4. **Chief Financial Officer**

The Chief Financial Officer is responsible for:

4.4.1. Defines the Trust’s treasury approach for approval by the Investment Committee and Board of Directors;

4.4.2. Approves external funding arrangements including working capital limits within delegated authority;

4.4.3. Will hold regular meetings with the Director of Finance and the Financial Controller to discuss issues and consider any points that must be brought to the attention of the Investment Committee;

4.4.4. Prepare a balance sheet and cash flow statement analysing:

   a) performance against the NHSI annual plan;
   
   b) Commentaries on significant cash variances against the plan;
   
   c) Forecast outturn cash position;
   
   d) Reporting and commentary on debtor balances; and
   
   e) Commentaries on recent investment activity where appropriate

4.4.5. Approves all deals that the Financial Controller will make;

4.4.6. Approves cash budgets and cash management systems; and

4.4.7. Ensures proper safeguards are in place for security of the Trust’s funds by:

   a) agreeing a list of permitted institutions;
   
   b) setting investment limits for each permitted institution;
   
   c) agreeing permitted investment types; and
   
   d) ensuring approved bank mandates are in place for all accounts and they are updated regularly for any changes in signatories and authority levels.
4.5. **Financial Controller**

The Financial Controller is responsible for:

4.5.1. Arranges all deals and authorises cash fund investments within their authorised limits;

4.5.2. Manages key banking relationships;

4.5.3. Ensures treasury activities are reported on a timely and accurate basis;

4.5.4. Manages treasury activities within the agreed policies and procedures;

4.5.5. Co-ordinates treasury operations;

4.5.6. Responsible for accurate and timely recording in the accounting records of all treasury transactions; and

4.5.7. Ensures all transactions are compliant with NHSI’s FSRR and Department of Health’s PDC dividends / GBS rules.

4.6. **Duties for Director of Finance in relation to services provided Heartlands, Good Hope, and Solihull Hospitals Divisions**

The Director of Finance is responsible for treasury operations. Specifically, this will include:

4.6.1. Manage treasury activities within agreed policies and procedures and ensuring that controls and processes are sufficient to meet the aims and objectives of the Treasury Management Policy;

4.6.2. Receiving regular reports from Treasury Management and maintaining regular contact to understand the operating cash position;

4.6.3. Determining any issues to bring to the attention of the Audit Committee and Trust Board;

4.6.4. Making a judgement on the appropriateness of seeking independent expert professional advice on any aspect of the Trust’s treasury management policies or activities.

4.6.5. Clearly defining the roles and responsibilities in treasury activities for the Board, the Treasury Management Group, the Finance Directorate and nominated representatives, and agents of the Trust;
4.6.6. Making recommendations to the Board on the systems of delegated limits and ensuring those limits are reviewed on a regular basis;

4.6.7. Providing regular reporting on treasury activities;

4.6.8. Maintaining controls on who can operate bank accounts and authorisation limits;

4.6.9. Ensuring segregation of duties between those who deal, those who initiate payments and those who account for treasury activities; and

4.6.10. Making recommendations to the Board when financial support by loan or distressed financing is required.

4.7. Duties for Director of Finance in relation to services provided Heartlands, Good Hope, and Solihull Hospitals Divisions

Day-to-day treasury management function is managed and overseen by the Chief Financial Controller. Specific aspects of treasury management include providing regular reports to the Director of Finance / Associate Director of Finance, including assessment of investment options and Treasury performance measures;

4.8. Duties for Treasury Management Group in relation to services provided Heartlands, Good Hope, and Solihull Hospitals Divisions

Membership of the Treasury Management Group will include the Director of Finance, the Associate Director of Finance, Head of Operational Finance, Chief Financial Controller and the Financial Controller, who will be responsible for:

4.8.1. The Director of Finance has set up a Treasury Management Group. The key responsibilities of the Group include:

4.8.2. Ensuring that the Trust has an appropriate, reliable and relevant Treasury Management Policy;

4.8.3. Receiving regular reports on treasury management activities and reviewing performance against treasury management benchmarks;

4.8.4. Providing scrutiny on the application and effectiveness of treasury management policies and procedures on investment / borrowing / interest rate / foreign exchange management in respect of limits, approved counterparties and types of investments / securities;
4.8.5. Monitoring the Trust’s investment performance and develop key performance indicators (KPIs) suitable for upward reporting to the Director of Finance and the Board;

4.8.6. Identifying, debating and approving the use of alternative financial institutions or products in order to improve the investment returns received by the Trust;

4.8.7. Overseeing the development and review of Trust cash flow forecasting in line with the Trust’s other financial models, ensuring that cash flow forecasts are appropriately reported to Trust Board through the Director of Finance;

4.8.8. Identifying any Trust funding requirements, explore potential sources of Finance and report and recommend to the Trust Board; and

4.8.9. Ensuring safeguards are in place for the security of funds by ensuring approved bank mandates are in place for all accounts and they are updated regularly for any changes in signatories and authority levels.

4.9. **Duties for Chief Financial Officer in relation to services provided Heartlands, Good Hope, and Solihull Hospitals Divisions**

The Chief Financial Officer is responsible for:

4.9.1. Overall review of the past quarter’s treasury management function;

4.9.2. Cash balances (deposit and loan accounts);

4.9.3. Interest receivable and payable, with comparison to base rate;

4.9.4. Overall market analysis and commentary on key issues;

4.9.5. Short term cash position (including aged debtors/creditors analysis);

4.9.6. A list of current banking relationships;

4.9.7. Interest rate exposures;

4.9.8. Details of any new borrowing and investment;

4.9.9. Analysis of actual vs. plan for the month;

4.9.10. Forecast outturn cash balance, interest receivable and interest payable; and
4.9.11. Compliance with distressed finance guidance.

5. Implementation and Monitoring

5.1. Implementation

The policy will be published as a Controlled Document on the Trust’s intranet.

5.2. Monitoring

Appendix A provides full details on how this policy will be monitored by the Trust.

6. References

Banks regulated by the Prudential Regulation Authority, BofE (2014)
Managing Operating Cash in the NHS Foundation Trusts, Monitor (2005)
PDC Dividends and the GBS (see current NHS Finance Manual), DH (2014)

7. Associated Policy and Procedural Documentation

Scheme of Delegation and Accountability

Standing Financial Instructions

Standing Orders
## Appendix A  
### Monitoring Matrix

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| Reporting of treasury activities | Chief Financial Officer | Treasury Management Group | - Overall review of the past quarter’s treasury management function;  
- Cash balances (deposit and loan accounts);  
- Interest receivable and payable, with comparison to base rate;  
- Overall market analysis and commentary on key issues;  
- Short term cash position (including aged debtors/creditors analysis);  
- A list of current banking relationships;  
- Interest rate exposures;  
- Details of any new borrowing and investment;  
- Analysis of actual vs. plan for the month;  
- Forecast outturn cash balance, interest receivable and interest payable; and  
- Compliance with distressed finance guidance. | Quarterly |
Appendix B: Glossary of terms

**Bank covenants:** These are financial covenants required of a borrower and frequently include maintenance of a ratio of earnings to interest payable, a ratio of borrowings to earnings and a ratio of current assets to current liabilities.

**Bilateral facility:** This is a borrowing facility agreed between a company and a single lender, usually a relationship bank.

**Certificate of deposit:** A negotiable money market instrument that can usually be readily realised in the secondary market.

**Clearing bank:** A bank which (of itself or through a subsidiary company) is a member of Cheque and Credit Clearing Company Limited, which oversees the bulk clearing of cheques and paper credits in the UK.

**Covenants:** Covenants impose obligations on a company to do, or not to do, something for the duration of the agreement. They are intended to ensure the continued soundness of a lender’s asset and to give the lender certain inside information about the borrower.

**FSRR:** NHSI’s Financial Sustainability Risk Rating. A financial scoring system for Foundation Trusts. Four ratios (including liquidity) are scored from 1 to 4 (4 being the highest) to generate an overall rating.

**Derivatives:** Financial instruments that are off-balance sheet and may be used to manage risk or as speculative instruments. Examples include forwards, futures, swaps, options and credit derivatives.

**Exchange contract:** A contract to buy or sell a specific currency at a pre-specified price (the forward price) on a pre-determined date in the future.

**Gearing:** A financial covenant used by lenders and variously defined, including, the ratio of debt to equity or the ratio of debt to capital employed.

**GBS:** Government Banking System – current bank accounts for public sector bodies. These cash balances are included within Bank of England totals and count towards Government cash.

**Interest cover:** The ratio of profit before interest and tax to interest payable and often used as a financial covenant by lenders.

**Interest rate swap:** A swap is a contract that commits two parties to exchange, over an agreed period, two streams of interest payments each calculated using a different interest rate index, but applied to a common notional principal.

**Investment grade rating:** Ratings provided by recognised rating agencies lie on a spectrum ranging from highest credit quality at one end to default or “junk” at the other. The highest credit quality for long-term ratings is AAA (Standard & Poor’s or...
Fitch Ratings) or Aaa (Moody’s) and the lowest is D (S and P or Fitch Ratings) or C (Moody’s). Within this spectrum there are different degrees of each rating, which are, depending on the agency, denoted by a plus or minus sign or a number. For Standard & Poor’s or Fitch Ratings a “AAA” rating signifies the highest investment grade and means that there is very low credit risk; “AA” represents very high credit quality, “A” means high credit quality and “BBB” is good credit quality. These ratings are considered to be investment grade, which means that the security or entity being rated carries a level of quality that many institutions require. Ratings that fall below “BBB” are considered to be speculative or junk. For Moody’s the lowest investment grade rating is Baa.

**Libid:** Libid stands for the London Interbank Bid Rate and is the rate of interest at which banks could lend funds to other banks, in marketable size, in the London interbank market.

**Libor:** LIBOR stands for the London Interbank Offered Rate and is the rate of interest at which banks could borrow funds from other banks, in marketable size, in the London interbank market. Administered by the British Bankers Association, the rate is fixed daily at 11.00 am and is the most widely used benchmark or reference rate for short-term interest rates.

**Market to market:** A procedure to adjust the carrying value of a security or derivative contract to its current market value or the valuation of open positions at prevailing settlement prices.

**Money market fund:** This is a specialised fund that invests in money market instruments on behalf of its clients. The fund has credit enhancement such that it is generally highly rated for credit purposes by rating agencies (often AAA or A1/P1), without compromise to the liquidity of investments.

**NLF:** National Loans Fund – an investment vehicle for public sector bodies. This is an arm of HM Treasury – the money is included in the Government cash totals.

**Net worth:** Total assets minus total liabilities can be used to determine creditworthiness because it gives a snapshot of a company’s investment history. It is also called owner’s equity, shareholders’ equity, or net assets.

**Operational risk:** Risks arising from the trading activities of a business.

**Permitted institution:** Institutions that are regulated by the Prudential Regulation Authority of the Bank of England in the UK and rating agency assessments. Also includes investments with the UK Government and its departments.

**Permitted rating:** The rating requirement for safe harbour investments which must be A1/P1/F1 for short-term ratings and A1/A+ for long-term ratings.

**Recognised rating:** 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.

**Safe harbour:** These are investments that fulfil the following criteria: meet the permitted rating requirement issues 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.

**Sterling commercial:** Sterling commercial paper takes the form of negotiable short-term promissory notes, payable to bearer. They may be issued by UK-based or international companies or financial institutions, using the market as a flexible way of raising short-term funds.

**Surplus operating cash:** Cash likely to be needed within 12 months to support ongoing operations.

**Transaction exposure:** This is the risk that a company’s cash flows and realised profits may be impacted by movements in foreign exchange markets. Generally foreign exchange transaction risk is short-term, is revenue in nature and arises where there is a firm commitment to pay or receive in a foreign currency.

**Translation exposure:** Arises for companies with overseas subsidiaries as the domestic value of the assets and liabilities of these subsidiaries fluctuates with exchange rate movements. In addition, the domestic equivalent of the foreign currency earnings of these subsidiaries will also be affected by movements in exchange rates.