University Hospitals Birmingham
NHS Foundation Trust

POLICY DOCUMENT

Treasury Management Policy

CATEGORY:	Policy
CLASSIFICATION:	Governance
PURPOSE	To establish a Treasury Management policy that provides a framework to protect financial assets, minimise risk and costs associated with funding requirements and where appropriate maximise the return on cash held in accordance with NHSI and DH guidelines.
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Contents

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 robust treasury activities and the risk management environment in which all objectives and operating parameters are clearly defined in relation to the management of, borrowing of and investment of surplus funds where appropriate. 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:

- Protect the Trusts financial assets
- Maintain liquidity
- Compliance with all banking covenants;
- Compliance with Department of Health's PDC dividend rules and Government Banking Service ('GBS') / National Loan Funds ('NLF') criteria;
- Compliance with NHSI Single Oversight Framework
- Identifying and managing the financial risks, including interest rate risks, arising from operational activities;
- 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 within an agreed risk profile (where applicable);
- 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;

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

2. Scope

The Policy covers all staff engaged in treasury activities across the Trust be those individuals employed by the trust including contractors, volunteers, students, locum, bank and agency staff and those holding honorary contracts.

No one outside of the treasury area of finance will be authorised to act in any borrowing or investing capacity on behalf of the Trust.

3. Framework

This section describes the broad framework for the management of the Trusts finances and cash balances at optimal cost. Detailed instructions are provided in the associated procedural documents.

3.1. The Trust's treasury procedures will be approved by the Chief Financial Officer (or delegated 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 funding objective is to ensure the availability of flexible and competitively priced funding from alternative sources to meet the Trusts current and future requirements.

3.3.2. The Trust will not pre-finance in anticipation of potential future requirements.

3.3.3. The Trusts approach to funding is that any necessary loans will be put in place in advance of the requirement for the funds having regards for the timing to minimise cash charges for unused facilities

3.3.4. Funding requirements will be based upon cash forecasts and updated daily. These will be monitored against the trusts plan and reported to the Board on a monthly basis.

3.3.5. The cash position and the funding requirements will be discussed at the Heads of Department meetings within finance, informed by a weekly cash availability and review meeting.

3.3.6. Finance and the use of resources form one of the five areas that are monitored through the Single Oversight Framework, of which a ‘low’ “levels of financial performance score (3 or 4), or a “use of resources” rating of ‘inadequate’ or ‘requires improvement’ dictates the level of monitoring and support offered by NHSI .

3.3.7. Department of Health and Social Care Group Accounting manual 2020/21 require a 3.5% PDC dividend charge be levied on actual average net relevant assets. This cost must be factored into any decisions, only cash held in the Government Banking System and donated or grant funded assets are excluded from this PDC dividend charge.

3.4. <u>Investments</u>

3.4.1. Where surplus cash balances are identified and investment is viable it is the responsibility of the Chief Financial Accountant to manage cash deposits within an acceptable risk profile to maximise the return. Surplus cash may 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. 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, and contracts for differences, hedge funds, derivatives, futures, options or swaps.

3.4.2. 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 (< 3 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 quarterly return, (this is because anything > 3 months is not counted as cash).

- 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 (Moody's 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 were regulated by the Prudential Regulation Authority.

These definitions are based on and comply with NHSI's 'Managing operating cash in NHS Foundation Trusts' guidance.

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.

3.7. Attitude to Risk

The Board have approved a Risk Appetite Statement. This states:-

"The Board of Directors' top priority is the safety of our patients. While we attempt to find a balance in our approach to achieve the best value for money and ensure the Trust is sustainable and financially sound in the future, we will not hesitate to spend money and apply resources to situations that present unacceptable risks to the safety of our patients"

The detailed analysis that underpins the Risk Appetite Statement identifies that the Trust takes a low approach to risk that impacts on Finance and efficiency.

3.8. Bank Accounts and Relationship banking

Section 5 of the Standing Financial Instructions sets out the principles by which the trusts bank accounts should be operated.

Commercial banking partners are appointed through criteria based tender process, once selected relationships will be maintained through the Chief Financial Accountant.

The trusts treasury department maintains bank mandates (lists of authorised signatories)

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;

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

4.2.5. 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 (KPI's);

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 or borrowing in respect of limits, approved counterparties and types of investment or instruments.

4.4. Chief Financial Officer

The Chief Financial Officer is responsible for:

4.4.1. Defining the Trust's treasury approach for approval by the Investment Committee for onward recommendation to the Board of Directors;

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

4.4.3. Holding regular meetings with the Director of Strategic Finance and the Chief Financial Accountant 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 cash budgets and cash management systems; and

4.4.6. 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 Director of Strategic Finance

The Director of Strategic Finance is responsible for treasury operations specifically this will include:-

4.5.1 Approves all deals that the Chief Financial Accountant will make;

4.5.2 Oversee 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;

4.5.3 Receiving regular reports from Chief Financial Accountant and maintaining regular contact to understand the operating cash position;

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

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

4.5.6 Clearly defining the roles and responsibilities in treasury activities for the Board, the Finance Directorate and nominated representatives, and agents of the Trust;

4.5.7 Making recommendations to the Board on the systems of delegated limits and ensuring those limits are reviewed on a regular basis;

4.5.8 Providing regular reporting on treasury activities;

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

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

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

4.6 Chief Financial Accountant

The Chief Financial Accountant is responsible for:

4.6.1 Arranging all deals and authorising cash fund investments within their authorised limits;

4.6.2 Managing key banking relationships;

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

4.6.4 Manages treasury activities within the agreed policies and procedures;

4.6.5 Co-ordinates treasury operations;

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

4.6.7 Ensures all transactions are compliant with NHSI's Single Oversight Framework and Department of Health's PDC dividends / GBS rules.

5 Implementation and Monitoring

5.6 Implementation

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

5.7 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 Department of Health and Social Care Group Accounting Manual), DH (2020/21)

Single Oversight Framework (2017)

7 Associated Policy and Procedural Documentation

Scheme of Delegation and Accountability

Standing Financial Instructions

Standing Orders

Appendix A **Monitoring Matrix**

MONITORING OF IMPLEMENTATION	MONITORING LEAD	REPORTED TO PERSON/GROUP	MONITORING PROCESS	MONITORING FREQUENCY
Reporting of treasury activities	Director of Strategic Finance	Board of Directors	- 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; - Monthly reporting of the cash position	Quarterly (where applicable)
Review of cash availability	Financial Controller	Treasury cash availability group	- Advised of cash position - Review due commitment levels - Decision on cash availability to meet creditor payments	Bi-weekly
Review of investing activities	Chief Financial Accountant	Investment Committee	- Review the investment decisions taken and the returns obtained through investing - Details of any new borrowing and investment; - - Analysis of actual vs. plan for the month;	Quarterly (where applicable)

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.