Shropshire Community Health
NHS Trust

Document Details	
Title	**Treasury Management Policy**
Trust Ref No	1583-74441
Local Ref (optional)	N/A
Main points the document covers	Process for managing cash flow to ensure cash is available when required & invested when required
Who is the document aimed at?	Directors & staff involved in the treasury management function
Author	David Court, Head of Financial Accounting Mike Hill, Financial Accounting Manager
Approval Process	
Approved by (Committee/Director)	Resource & Performance Committee
Approval Date	28 February 2022
Initial Equality Impact Screening	Yes
Full Equality Impact Assessment	No
Lead Director	Sarah Lloyd, Director of Finance
Category	Finance
Subcategory	Finance Procedures
Review date	28 February 2025
Distribution	
Who the policy will be distributed to	Distributed to senior staff as defined by directors
Method	Electronically to senior staff & available to all staff via the Trust website
Document Links	
Required by CQC	
Required by NHSR	
Other	

Amendments History		
No	Date	Amendment
1	October 2013	Increase lower authorisation limit for investments & replace references to SHA with TDA
2	January 2016	References to Trust bank accounts to now say Nat West only not Nat West & Citibank Remove references to requirements for FT status Expand on detail re healthcare invoicing to reflect complexities of commissioning arrangements Update document references
3	February 2019	Change Director of Finance to Director of Finance & Strategy and Deputy Director of Finance to Associate Director of Finance

4	February 2022	Changed Director of Finance & Strategy to Director of Finance and Associate Director of Finance to Head of Finance Removed reference to DH permitting the Trust to hold a maximum average cleared balance of £50k with commercial banking institutions. Removed reference to Prudential Borrowing Limit as no longer in guidance. Minor grammatical amendments

TREASURY MANAGEMENT POLICY

Contents

1. Introduction

1.1 Treasury Management represents the set of policies and strategies which an organisation adopts and implements to manage its cash resources and other working capital (including payables and receivables) and considers the effective control of risks associated with these activities. It also governs its relationships with its financial stakeholders (mainly banks).

1.2 This document sets out the Trust's treasury management policies and procedures, focusing on investment of surplus operating cash likely to be needed within twelve months to support ongoing operations. This document does not cover treasury management arrangements for charitable funds.

1.3 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. The key objectives of the treasury management function are to maximise the income associated with the investment of surplus cash balances, securing a competitive return on them and at the same time ensuring that the Trust has significant 'liquid' resources to meet its day-to-day expenditure commitments and liquidity ratio requirements.

1.4 In relation to treasury management, the key point to bear in mind is that the Trust is dealing with public money and 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. Objectives

2.1 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.

2.2 In support of this high-level objective, the main objectives of the treasury management function are:

- <u>Investment Objective</u>
  To ensure 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 twelve months. Cash Deposits should only be placed with DH approved institutions and in line with deposit limits agreed in this Policy.

- <u>Funding Objective</u>
  To 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. Summary of Key Roles and Responsibilities

3.1 Trust Board

- Approves capital investment loan arrangements subject to the funding policy.
- Delegates to the Director of Finance approval of the Trust's Treasury Management detailed procedures and controls.

3.2 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 deviation from agreed policies and procedures will be reported where appropriate to the main Board.
- Ensures Trust Staff follow up on any recommendations made.

3.3 Resource & Performance Committee

- Approves the Trust's treasury management policy.
- Receives details of investment and borrowing activities as part of the monthly finance report.

3.4 Director of Finance

- Has overall responsibility for proper operation of accounting systems including treasury management.
- Ensures investment and borrowing activities are reported to the Resource & Performance
  Committee and the Board.
  Has delegated authority to sign loan agreements after appropriate authorisation.

3.5 Treasury Function

This is a function carried out by a team drawn from the Financial Accounting Department.

- Defines the Trusts detailed treasury management approach.
- Reports treasury activities on a timely and accurate basis.
- Manages key relationships with deposit takers and loan providers.
- Manages operational treasury activities within the agreed policies and procedures.
- Maintains accurate and timely accounting records of all treasury transactions.
- Matches investment confirmations with internal documentation.

4. Key Policies

4.1 Investment Policy

The Trust is permitted by the Secretary of State to invest surplus funds with the Government Banking Service (GBS) and the National Loans Fund (NLF) through the Department of Health, up to a maximum investment period of twelve months. 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 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.

.

4.2 Borrowing/Funding Policy

The Trust can borrow monies using either a capital investment loan or working capital loan from the Secretary of State.

A capital investment loan is a long-term loan which the Trust can take out to cover capital investment, where internally generated cash has already been used up. This type of loan requires the prior approval of the Board.

A revenue support loan is a short-term loan which, in certain circumstances, a Trust may take out to cover cash flow difficulties. In such cases, approval is required from 2 Board directors, one of which must be the Director of Finance or the Chief Executive.

The principle of ongoing need for committed funds is recognised in order to cover existing business cash flows and to provide reasonable headroom for seasonal cash flow fluctuations and capital expenditure programmes. Funding in anticipation of potential projects is not allowable.

5. Key Operational Processes and Controls: Investment

5.1 High-Level Controls

The principal 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.

In order to ensure that the Trust undertakes treasury activities in a controlled and properly reported manner and to ensure that the Trust 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 and the Treasury Function.

- Separation of duties between those who transact and those who record treasury activities in the accounting records.

- Confirmation and checking of transactions by the Financial Accounting Manager.

- All transactions are recorded and are supported by instruction/confirmation.

- All payment instruction/confirmations will require an authorised signatory, 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 and external audit.

5.2 Key Investment Processes

5.2.1 Cash Flow Forecasting and Monitoring

Annual Forecast

The Finance Department prepares a 12 month rolling cash flow forecast on a monthly basis in accordance with revised operational forecasts.

Monitoring

The Trust monitors and analyses cash flow variances between actual and plan on a monthly basis, in order to:

- Allow appropriate action to be taken to maintain or improve the cash position at any one time.

- Provide a level of stability to the cash flow forecast and improve the accountability of treasury management staff, by having a positive influence on behaviour and performance.

Preparation of Daily Cash Balances

Daily cash surplus balances reports, informed by the cash flow forecasting, are prepared and NLF and GBS rates of return are monitored to highlight opportunities for investment on that day.

5.2.2 Invest Cash Surplus Balances and Maintain/Check Appropriate Records

The cash flow projections are used to inform the level of investment that can be placed with the appropriate investment instrument and for what time period. The investment institutions available to the Trust are identified in table 1 below. The Financial Accounting Manager must obtain appropriate authorisation of the proposed investment (or a proposal to rollover an investment) in accordance with the limit noted in table 2, before the investment transaction (payment or rollover confirmation) is confirmed.

Table 1: Permitted Trust Investment Institutions

Permitted institution/account as adopted by SCHNHST	Key use/purpose
National Loans Fund	Short term deposit of surplus funds, aiming to receive a higher return than is possible in GBS account.
GBS NatWest current account	All receipts and payments

Note: - The Secretary of State only permits investment with either the Government Banking Service or the National Loans Fund.

Table 2: Investment Authorisation Levels

Investment Value Investment period	Up to £3m	Over £3m up to £5m	Over £5m
1 week to 4 weeks	Head of Financial Accounting	Head of Finance	Director of Finance
4 weeks to 3 months	Head of Financial Accounting	Head of Finance	Director of Finance
Longer than 3 months	Head of Financial Accounting	Head of Finance	**Investment forbidden**

The Treasury function maintains records of all such investment transactions.

A standing instruction has been agreed with the NLF for them to send transaction confirmations directly to the Finance Department. The Finance Department independently checks and matches the confirmations against the daily movement reports. The Finance Department also holds for safe-keeping bank mandates and other authorised signatory schedules.

5.2.3 Report Treasury Activities

The regular reporting of treasury activities is crucial in allowing all relevant parties to be aware of transactions undertaken, to appreciate the Trust's financial position and assess the ongoing appropriateness of treasury objectives.

The Treasury Function prepares and circulates treasury reports, so that relevant parties have the information necessary for their roles, and so that treasury activities remain transparent. These are:

- A daily report of all movements to and from all accounts and investments, showing the maturity dates and values of all investments. The Financial Accounting Manager receives and reviews this report.

- A monthly report is prepared showing actual cash flow for the period to date (analysed into months) and forecasts of cash receipts and payments for the year (analysed into months), as well as the 12 month rolling cash flow forecast. The cash flow analysis is included in the monthly reports to the Resource & Performance Committee and the Board.

5.2.4 Performance Management

Performance management is an important part of the control environment from a corporate governance perspective. A performance framework is a mechanism for the Board to approve policy and monitor the effectiveness of that policy. Given the restriction on the investment instruments that the Trust can use, the scope to develop metrics is limited.

6. Key Processes and Controls: Loan Facilities

The following process is adopted to secure borrowing:

6.1 Identify Loan Requirement

The Treasury Function identifies cash requirements by monitoring longer term month by month cash flow reports for the year ahead, prepared in conjunction with income and expenditure forecasts and capital expenditure forecasts.

The requirement for a capital investment loan should be communicated to the Board at the earliest opportunity, to allow for due and careful consideration of the risks, issues and affordability of repayments to be considered.

If a revenue support loan is required, the authorising directors will need to see cash flow forecasts to back up the request.

6.2 Complete Loan Application

The Treasury Function prepares loan application documents in line with guidance received from the Secretary of State and the Trust Development Authority.

Following the required internal approval, the application is subject to further scrutiny and analysis by the Trust Development Authority.

If approved by the Secretary of State, the Board is required to approve the specific terms of the loan in a resolution, delegating authority to sign the loan agreement to the Director of Finance or Chief Executive.

6.3 Report Loan Activity

Once received, the loan will be reported each month on the Statement of Financial Position within the finance report to the Resource & Performance Committee and the Board. The effect of the loan repayments will also be seen within the cash flow statement.

7. Working Capital

The following processes are adopted in relation to working capital:

7.1 Receivables

Staff with a responsibility for providing goods and services to external parties must ensure that invoices are raised promptly.

A large part of the Trust's cash receipts come from contract agreements with healthcare commissioners. Whilst the Standard NHS Contract is based on payments being made on the 15th of each month, with the increasing complexity in the commissioning landscape with both NHS and Non-NHS commissioners, it is important that there is clarity on both sides about the payment terms that apply, and that this is reflected in the Trust's cash flow forecast.

Payment terms for receivables generally are 30 days from the invoice date unless the terms of the contract specify otherwise.

The Trust actively pursues outstanding debts outside the above terms. This comprises:

- Automated reminder letters and statements
- Phone calls/emails where contact information is held
- Referral to the relevant service manager
- Referral to the Trust's debt recovery solicitors if appropriate for non-NHS debts.

Information on outstanding debts is reported monthly to the Resource & Performance Committee and the Board.

7.2 Payables

Staff must support effective cash management by ensuring that all goods are receipted promptly, and all invoices authorised promptly, to enable payment within 30 days in line with the Better Payment Practice Code.

Accounts Payable staff will remind managers where possible and provide information on problem areas relating to late payment.

7.3 Reporting

Information on outstanding debts and performance against the Better Payment Practice Code is included in the monthly report to the Resource & Performance Committee.

8. Risk

8.1 Table 3 presents an analysis of:

- The key risks identified that could prevent the Trust from meeting its treasury management key objectives.

- The key controls set up to mitigate those risks.

Table 3: Risks

Ref.	Key risk: description	Key controls mitigating key risk
Key objective (a). Ensure a competitive return on surplus cash balances (taking account of the cost of administering this function).		
1	Failure to identify accurately a surplus cash balance (as regards amount and/or duration)	Use cash flow projection and related monitoring systems
2	Failure to obtain a competitive return on a surplus cash balance	The Trust can only invest in GBS or the NLF, and should obtain the best rate possible
		Operate investment authorisation controls
Key objective (b). Ensure that competitively priced funds appropriate to the Trust's needs are available when required, and throughout the required period.		
3	Failure to identify the need for funds accurately and/or in time.	Use cash flow projections and related monitoring systems
4	The Secretary of State via the TDA is unwilling to provide the necessary approval for working capital funding facilities	Monitor funding levels
		Trust Financial Plan to demonstrate control total is achievable and has capacity to repay any loan

9. Associated References

Standing Financial Instructions Chapter 13 “External Borrowing & Investments”

Trust Finance Procedures on Banking/Cash, Receivables and Payables

NHSI document “Introduction to Cash Management for NHS Trusts”.