

Operating Cash Management Policy

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| Consultation Groups | Audit Committee |
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| Date ratified: | 7 th September 2021 |
| Name and Job Title of author: | Dave Adams, Deputy Director of Finance |
| Executive Director lead : | Steven Course, Chief Finance Officer |
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| Services | Applicable |
| Trustwide | X |
| Mental Health and LD | |
| Community Health Services | |

Version Control Summary

| Version | Date | Author | Status | Comment |
|----------------|-------------|---------------|---------------|----------------|
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|---------------------------------------|---|
| Title | Operating Cash Management Policy |
| Author | Dave Adams, Deputy Director of Finance |
| Accountable Executive Director | Steven Course, Chief Finance Officer |

Purpose of the Report:

This paper sets out the framework to cover Treasury Management activities of the Trust establishing the aims and identifying the parameters within which the Trust will manage the risks associated with managing its cash.

Summary of Key Issues:

Review of investment procedures and reporting of cash balance

Strategic priorities this paper supports (Please check box including brief statement).

| | | |
|------------------------------------|-------------------------------------|---|
| Improved population health outcome | <input type="checkbox"/> | |
| Improved experience of care | <input type="checkbox"/> | |
| Improved staff experience | <input type="checkbox"/> | |
| Improved value | <input checked="" type="checkbox"/> | Cash management is an integral part of financial governance and the maintenance financial viability |

Committees/Meetings where this item has been considered:

| | |
|------|------|
| Date | None |
| | |

Implications:

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|--------------------------|--|
| Equality Analysis | This report has no impact on equality |
| Risk and Assurance | This report has no impact on risk or assurance |
| Service User/Carer/Staff | This report has no direct impact on service users, carers or staff |
| Financial | This paper is not seeking any funding. |
| Quality | None |

Supporting Documents and Research material

None

1.0 Scope and Objectives

Scope

This policy sets out a framework to cover the Treasury Management activities of the Trust, establishing the aims and identifying the parameters within which the Trust will manage the risks associated with managing its cash. It is consistent with and sets out the method of delivering the Trust's standing financial instructions (extract at Appendix 1).

The Policy focuses particularly on the investment of surplus operating cash likely to be needed within twelve months to support East London NHS Foundation Trust's ongoing operations.

Objectives

The overall Treasury Management objectives are to support the Trust's development by:

- Ensuring that cash is managed within the Trust effectively, and all financial obligations can be met on the day they fall due.
- Ensuring competitive returns on surplus cash balances, within the agreed guidelines.
- Identify and manage the financial risks, including interest rate risks, arising from operational activities.
- Ensuring that the Trust Board are kept fully aware of the Trust's ongoing cash position by regular and thorough reporting.

2.0 Risk and Control

2.1 Management of Risk

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.
- Regular reporting of treasury activities.
- Segregation of duties between those who deal, those who initiate payment and those who account for treasury activities;
- Strict limits of the types of investment used and circumstances in which they can be used.
- Inclusion of Treasury Management activities within the scope of review by Internal and External Audit.

2.2 Key Risks

Set out below are the key risks identified by the Trust and the key controls set up to mitigate those risks:

- The Trust fails to accurately identify and utilise a surplus cash balance
- The Trust fails to obtain a competitive return on its surplus cash balance is managed by the use of an authorised list of deposit takers and by operating investment authorisation controls.

- 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 three months with any longer term investments requiring the minuted approval of the Finance Business and Investment Committee.

3.0 Key Policies

3.1 Investment Policy

To minimise investment risks NHSI only permit the Trust to deposit funds with designated Safe Harbour Investments that meet the following criteria.

- Investments that meet the permitted rating requirement issued by a recognised rating agency that is equivalent to a high street bank,
- Investments that are held at a permitted institution.
- Investments that have a defined maximum maturity date (other than Government Bonds);
- Investments that are denominated in sterling, with any payments and repayments for investment payable in sterling; and
- Investments that pay interest as a fixed, floating or discount rate.

At present, the Trust is only able to invest surplus funds with the National Loans Fund

4.0 Key Procedures

4.1 Identification of cash surplus balances

The Financial Controller or Deputy Director of Finance identifies cash surplus balances by monitoring the following information:

- Cash reports prepared on a daily basis showing surplus cash available for investment on that day;
- Short-term cash flow report prepared to determine future cash requirements
- Longer term month-by-month cash flow reports for the year ahead.

If a surplus is identified the Financial Controller will check if the interest rate with the NLF/permitted institutions exceeds the interest rate in the Trust's GBS account

The Financial Controller must ensure that at least **£5,000,000** over and above planned expenditure levels is available instantly and sufficient cash will remain within the Trust's Government Banking Service (GBS) account to meet all the Trust's projected financial commitments before the return of the investment (including payment of invoices in accordance with the Better Payment Practice Code).

4.2 Investment of surplus cash balances

The Financial Controller contacts the National Loans Fund (NLF) to invest the surplus funds available.

The amount of surplus cash to be invested is entered onto the Investment register showing the:

- Amount of the investment
- The period of investment
- Rate of interest

- The value of interest earned on the investment

If the interest rate with the NLF/permitted institutions exceeds the interest rate in the Trust's GBS account, the Financial Accountant will obtain authorisation from the Director of Finance to deposit the funds.

5.0 REPORTING ARRANGEMENTS

The finance department will report to each FBIC and at least quarterly on the following areas,

- Investments held and returns from investment
- Cashflow forecasting

6.0 Actions Being Requested

The Committee is asked to **DISCUSS** and **APPROVE** the recommended changes described in this report.

Appendix 1 – Extract from Standing Financial Instructions

TREASURY MANAGEMENT

External borrowing

1.1 As a Foundation Trust, the Trust has freedom to access capital (i.e. borrow externally) subject to three constraints:

- (i) a prudential borrowing limit agreed with the Independent Regulator and reviewed annually;
- (ii) prohibition on the use of protected assets as security for borrowing; and
- (iii) any additional degree of scrutiny required by financial institutions.

1.2 The Trust's prudential borrowing limit, as approved by the Independent Regulator under the terms of the Prudential Code, applies to the total debt liability of the organisation. The Prudential Code requires external debt to be kept within designated limits, taking account of affordability in terms of capacity to generate operating revenue to service debt.

1.3 The prudential borrowing limit is primarily intended to regulate access to finance for small to medium sized projects. For larger scale PFI projects, the Trust must comply with the Independent Regulator's "Roles and Responsibilities in the approval of NHS Foundation Trust PFI schemes". It is the responsibility of the Chief Executive, on behalf of the Trust, to ensure that these requirements are complied with.

1.4 The Trust also has freedom to access short-term working capital facilities, subject to an overall limit agreed with the Independent Regulator. All short term borrowings should be kept to the minimum period of time possible, consistent with the overall cash flow position. Working capital facilities will be reviewed by the Finance, Business and Investment Committee on an annual basis.

1.5 The Chief Financial Officer is responsible for ensuring that:

- (i) the Trust operates within the framework provided by the Prudential Code when making decisions regarding capital investment/external borrowing, specifically by providing appropriate advice to the Board on affordability/serviceability of debt;
- (ii) the Trust operates at all times within the prudential borrowing limit set by the Independent Regulator and the Board receives regular reports on the overall indebtedness of the Trust as against that limit (including quarterly ratio analysis in accordance with the Prudential Code);
- (iii) all long term borrowing is consistent with the Trust's strategic plans;
- (iv) the Trust operates within the working capital facility limit set by the regulator; and
- (v) detailed internal procedures are in place to regulate external borrowing, from short term working capital to long term debt, and from initial application through to monitoring and repayment.

1.6 The Board will agree the list of employees who are authorised to make short term or long term borrowings on behalf of the Trust. This must contain the Chief Executive and the Chief Financial Officer .

Cash Investments

1.7 Under the terms of the 2006 Act and the Constitution, the Trust may invest money (other than money held by it as a Trustee) for the purposes of or in connection with its functions. This may include investment by forming or participating in forming bodies corporate or by otherwise acquiring membership of bodies corporate.

1.8 The Chief Financial Officer is responsible for advising the Finance Business and Investment Committee and the Board on investments and shall report periodically to the Finance, Business and Investment Committee and the Board concerning the performance of investments held.

1.9 The Chief Financial Officer will prepare detailed procedural instructions on the operation of investment accounts, including authorisation procedures, and on the records to be maintained.

The Finance, Business and Investment Committee will:

(i) monitor adequate safeguards on investment of funds;
(ii) review draft cash management and investment policies, taking account of the Independent Regulator's "Managing Operating Cash in NHS Foundation Trusts" , recommend their approval by the Board, and test compliance with such policies;

(iii) recommend to the Board any drawdown of working capital facility or prudential borrowing limits;
(iv) review investment performance and risk; and
(v) approve any investments with a term of three months or more and any investments over £5,000,000.

1.10 The Board will:

(i) approve cash management and investment policies; and

(ii) approve any drawdown of working capital facility or prudential borrowing limits

Cash flow monitoring

1.11 The Chief Financial Officer is responsible for managing and monitoring the overall cash flow of the Trust and for providing reports to the Board. These reports will include:

(i) a comparison of month end outturn with the plan; and

(ii) a rolling 12 month projection of month end cash balances.