TREASURY MANAGEMENT & INVESTMENT POLICY

Contents

1. Scope & objectives

1.1 Introduction

In order to reflect the contemporary climate on corporate governance issues, it is both appropriate and necessary to formally set out current treasury activities and establish an up to date treasury risk management environment in which all objectives, policies and operating parameters are clearly defined and understood.

Lindsey Lodge Hospice annually generates income in excess of £2.7mil per annum in order to fund the services provided to patients within North Lincolnshire and beyond. Income is generated via a range of means; primarily fundraising and retail operations with these sources being supplemented via funding grants from NHS commissioning bodies.

Whilst this funding is primarily allocated to the cost of clinical and other services within the Hospice it is prudent to build up liquidity reserves in order to provide financial coverage in the event of a temporary reduction in income.

This policy therefore sets out the protocols and procedures necessary for the Hospice to manage its cash resources, invest its surplus cash resources to maximise returns within acceptable risk and, should this become necessary, raise cash resources at acceptable cost and interest rate.

1.2 Scope

This policy covers the governance arrangements for

- Investment of surplus operating cash resources
- Raising finance at acceptable cost and risk
- The management and relationship with banks and other financial institutions

1.3 Treasury Objectives

The overall treasury objectives are to support the Hospice's operations by:

Treasury & Investment Management Objectives
Investment Ensuring the most competitive return on surplus cash balances within an acceptable risk profile. ***Funding*** Ensuring the availability of flexible, adequate and competitively priced working capital; ***Interest Rate Management*** Identifying and managing an interest rate structure that optimises the use of interest rates for investments and, should this ever become necessary, borrowings; ***Decision making*** Ensuring continuous review of financial institutions' credit ratings to provide the basis for Treasury Management decisions; ***Banking*** Ensuring compliance with all banking mandates and covenants and building and maintaining a strong relationship with banks.

2. Treasury risk definition

2.1 Definition of Risks:

This policy is therefore aimed at minimising the Hospice's exposure to the following risks:

Treasury Management Risks
Liquidity risk Cash not being available when it is needed to discharge the Hospice's commitments ***Security risk*** Cash being lost due to inappropriate activities ***Credit risk*** Cash being lost due to third parties ***Financial return / Interest Rate Risk*** Interest and charges not being optimised resulting in opportunity losses ***Inflation risk*** Changes in inflation levels resulting in price rises which could be have prevented by hedging or other similar devices

2.2 Definition of Terms:

Treasury Management Terms
Long term capital Capital to be strategically managed over a number of years i.e.5 yrs plus ***Working capital*** Capital to be managed day to day, week by week, and month by month ***Cash holdings and Investments*** Capital temporarily loaned to/placed with an organisation to earn a return ***Borrowing*** Capital loaned from an organisation subject to repayment and/or interest

3. Attitude to risk in treasury management

3.1 Funding

The key funding objective for this policy is to ensure that the Hospice has adequate cash balances to discharge its obligations at all times and invest any surplus cash to maximise returns with a managed risk.

The Hospice will maintain a risk-averse approach to funding, recognising the on-going requirement to have committed funds in place to cover both existing business cash flows and reasonable headroom for seasonal fluctuations and for any capital expenditure venture the Hospice wishes to make in order to support or expand the services provided to the local population.

3.2 **Investments**

The Hospice will maintain a reasonable risk/reward approach in relation to cash investments and will not enter into highly speculative trading/investment, taking a balanced attitude to risk. All investments will be made within “defined limits” and within “permitted institutions”. In order to safeguard the Hospice against liquidity risk all cash balances will remain in a comparatively liquid form. The Hospice will annually conduct a thorough budget setting exercise which will include forecasts of cash flows during the year. The minimum surplus cash balances identified through the Hospice’s projected cash plan will be realisable and have a maturity not exceeding twelve months.

All other cash balances (and investments resulting from them) directly under the control of Hospice will be realisable and have maturity dates not exceeding three months.

3.3 **Banking**

The Hospice’s approach is to minimise banking risk to a minimum by observing and monitoring the credit ratings on a daily/weekly basis, adherence to any covenants and develop long-term relationships with a core group of quality banks. This approach will establish a high degree of confidence and commitment between the parties so that the Banks will be prepared to meet the Hospice’s funding requirements in crucial times under very short notice.

3.4 **Interest Rate**

The Hospice maintains a risk averse stance to interest rate exposure and will maintain an interest rate structure which optimises the use of interest rates within the risk framework.

4. Risk management

To ensure that Lindsey Lodge Hospice undertakes its treasury activities in a safe and controlled manner, a number of controls are established, maintained and monitored on a regular basis. These include:

- The documentation of Treasury Management Policies and Procedures;
- The documentation of clearly defined roles and responsibilities in treasury management activities for the Board of Trustees, the Finance & Business Development Committee being the sub-committee charged with the responsibility of overseeing financial activities and Chief Executive being the officer with the prime responsibility for maintaining sound and stable financial position;
- The documentation of strict limits on the types of investments used and the circumstances in which they can be used;
- The documentation of restricted procedures used to authorise long term borrowing.

In addition, the following controls will be established by the Chief Executive on behalf of the Board of Trustees:

- Segregation of duties between those who handle, those who initiate payment and those who account for treasury activities;
- Inclusion of treasury management activities within the scope of review by internal and external audit;
- Regular reporting of treasury activities.

5. Cash holding & investment strategy

5.1 The general principles which the Hospice will adopt in relation to cash holding are as follows:

Core principles
• Investments will only be made with surplus funds • Investments will be used to maximise returns • Investments will be viewed with a balanced attitude to risk

The Hospice will maintain a balanced attitude to risk with regard to investing cash surplus balances, forbidding highly speculative trading / investment. All investments will be made within defined limits and permitted institutions considered as “low” to “medium” risk.

As set out above, all cash balances will remain in a comparatively liquid form. The minimum surplus cash balances identified through the Hospice’s projected cash plan realisable and have a maturity not exceeding twelve months.

The Hospice will select investment advisors in order to provide the detailed, technical advice in order to ensure that returns are maximised from surplus funds. The choice, and terms of contract, will be reviewed periodically by the Finance & Business Development Committee and it is expected that the current choice will be reauthorised, or alternative arrangements selected, every three years.

The investment objectives are to generate a sustainable income stream which at least maintains its real value in future years, and at least to maintain the real capital value of the portfolio over the long-term. In order to achieve these aims it is accepted that at times this will mean accepting short or medium-term declines in capital values. It is expected that the Hospice will take advantage of the features of common investment funds and similar charity-specific pooled funds, and have concluded that these funds offer the most cost effective access to a well-diversified portfolio that reasonably matches the charity’s requirements.

The Hospice’s advisors will not invest in the following products:

- those which have high or unacceptable risk thresholds;
- those which invest in tobacco or tobacco products;
- those which could be subject to unacceptable foreign exchange risk
- banks or unit funds which do not hold a UK banking licence

5.2 Current Accounts

The Hospice will manage its cash via the following bank accounts:

- Yorkshire Bank (Clydesdale Bank plc) Lindsey Lodge Ltd account and Lindsey Lodge Ltd No 02 account.

Current accounts with the local bank will be tested regularly to ensure best value.

5.3 Investment Accounts

The use of investment accounts will be made to optimise investment returns. Investments will be in accordance with the Investment Strategy detailed above.

6. Borrowing strategy

Lindsey Lodge is able to exercise borrowing powers under the terms of its Articles of Association.

Thus far, the Hospice has no outstanding loan commitment although the Hospice recognises in principle the potential need for borrowing should this become necessary to fund business cash flows or to fund capital expenditure programmes or acquisition financing.

Borrowing principles
• As far as possible, the Hospice will manage its cash requirements by optimising its working capital and internally generated resources • All borrowings facilities will be agreed by the Board of Trustees as advised by the Finance & Business Development Committee • Borrowing should only be used to manage liquidity and never to fund cash investment to returns • Borrowings should minimise revenue costs and risks • Borrowings and their maturity profiles must be affordable

7 Working capital management

7.1 Income and Debt Recovery

- Invoice documentation will be generated and processed promptly in line with procedures to facilitate fast recovery
- Credit control procedures will ensure effective and speedy recovery of debts
- Discounts will not be offered to early settlement
- All significant Non NHS customers will be credit assessed

7.2 Payments and Debt Payment

- Invoice documentation will be generated and processed promptly
- Payments will take advantage of discounts where possible
- Prepayments will only be made when advantageous or required

7.3 Cash Management

- All receipts and payments will be recorded on a cash flow to facilitate monitoring and control. Cash flows will project on a monthly balance over the financial year to facilitate investment and borrowing activities
- Surplus funds will be managed according to the investment strategy set out in section five above
- Shortfalls in funds will be managed according to the borrowing strategy set out in section six above
- Daily reconciliations are carried out and the cash balance is confirmed by the Finance Manager on a weekly basis.
- Details of the cash position will be reported to the Chief Executive at least on a monthly basis and immediately should the Hospice face a risk to liquidity. It is expected that the monthly cash report will be submitted as part of the regular suite of financial performance information eight working days after the month-end.
- The Finance Manager will submit regular reports to the Finance & Business Development Committee on all cash management and investment matters.

8. Documentation

The Finance Manager will hold all documentation for a period of two years and any prime documentation for a period of six years. The Finance Manager will also hold for safe keeping the Bank Mandates and other authorised signatory schedules.

<table>
<tr><td colspan="5">References:</td></tr>
<tr><td colspan="5">Owner/Author/Contact: Mike Rocke and Wayne Cross
Approving body: The Finance & Business Development Committee
Date of ratification: 21st November 2017
Review Interval: 2 years</td></tr>
<tr><td>To Be reviewed</td><td>Review completed</td><td>By</td><td>Approved By</td><td>Circulation</td></tr>
<tr><td>November 2019</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
</table>

Appendix one

KEY RESPONSIBILITIES

Board of Trustees

- Approve external funding arrangements;
- Approve overall treasury policy;
- Delegation of responsibility for devising the Hospice's detailed Treasury policy to the Chief Executive;
- To receive and review regular financial reports – to adapt Hospice future strategy based upon the current and forecasted future financial position.
-

Finance & Business Development Committee

- Recommend to the Board of Trustees the Treasury Management policies, procedures and controls;
- Reviews and confirms the Hospice authorisation limits for cash investments;
- Approves any potential external funding arrangement;
- Reviews investment and borrowing policy and performance against the relevant benchmarks;
- Ensures that all safeguards are in place for security of the Hospice's funds by:
    - Approves the list of permitted institutions and the investment limits for each institution;
    - Ensures approved bank mandates are in place for all accounts, updated regularly for all changes in signatories and authority levels;
- Monitors compliance with treasury policies and procedures;
- Specifies and reviews detailed treasury reporting requirements;

Chief Executive

- Holds regular meetings to discuss finance and cash management issues and consider any points that should be brought to the attention of the Finance & Business Development Committee;
- Has overall responsibility for proper operation of accounting systems including cash flow projection;
- Reviews treasury reports prepared for the Finance & Business Development Committee and the Board of Trustees.

Finance Manager

- Sets the Hospice's treasury management approach for approval by the Finance & Business Development Committee;
- Reports treasury activities in a timely daily/weekly/monthly basis;
- Manages key relationship with deposit takers and fund providers and manages operational treasury activities within agreed policies and procedures;

- Maintains accurate and timely accounting records of all treasury transactions;
- Performs regular month end bank reconciliations and to match counter party documentation with internal records.
-

Auditors

The Hospice's treasury procedures 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 Finance & Business Development Committee.

Appendix two

KEY RISKS

	Description of Key Risk	Key Controls to mitigate Risk
Financial Returns are not optimised:		
1	Failure to identify cash surplus/deficit for the correct time period	Use of cash flow, daily monitoring of cash balances and related forecasting tools
2	Failure to obtain a competitive return	Use of authorisation controls Use of “rate quotes” and authorised list of Institutions Tiered investment structure limiting losses
3	Failure to obtain competitive rates on loans	Use of authorisation controls Tiered gearing structure limiting losses, longer credit terms, earlier contract receipts, utilisation of Working Capital Facility, loan facility as the last resort.
Security risk – Cash is lost as a result of inappropriate activities:		
1	Surplus and deficits are dealt with appropriately	Adherence to Standing Financial Instructions and formalised policies and procedures Suitably qualified staff Authorisation controls Authorised list of Institutions Authorised Investment Limits
2	Funds are misappropriated	Formalised procedures Appropriate staffing Authorisation controls Segregation of duties Authorised list of Institutions Authorised Investment Limits
Liquidity risk – Cash is not available when required:		
1	Failure to identify a cash surplus or deficit for the correct time period	Use of cash flow, daily monitoring of cash balances and related forecasting tools
2	Failure to obtain required funding from customers	Appropriate staffing Timely invoicing and debtor controls Maintenance of relationships
3	Failure to obtain appropriate funding from Banks –i.e. working capital facility	Appropriate staffing Maintenance of relationships Compliance with covenants
Cash invested is lost by third parties:		
1	Cash invested is lost	Daily monitoring Use of Authorisation controls Use of authorised list of investors Use of investment limits
2	Cash is no longer available for borrowing	Daily cash monitoring Accurate forecasting tools Management of contract terms and funding facilities