DRAFT

Investment Management Policy

Category:	Policy / Procedure
Summary:	The aim of the Investment Policy is to provide a framework within which the Trust can manage risk and protect financial assets, and as a subsidiary objective maximise return. This policy is being put in place in advance of the Trust converting to an NHS foundation trust. Once adopted by the Trust, this policy will not come into force until the date of the Trust's licensing as a foundation trust. However, work on preparing detailed procedures under this policy, and having them operating on a shadow basis, will be put in place prior to that date.
Equality Impact Assessment undertaken:	October 2014.
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Date of Next Review:	1 year after authorisation
Approval Date/ Via:	Trust Board [14th January 2015]
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Related Documents:	Standing Orders / Standing Financial Instructions– January 2015 Interim Treasury Management Policy – January 2014 Treasury Management Procedures -
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This Document replaces:	Interim Treasury Management Policy January 2014 (at date of authorisation as a Foundation Trust)

Lead Director: Executive Director of Finance

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Contents

Introduction.

1. Investment management represents the set of policies and strategies which an organisation adopts and implements to manage its cash resources and to raise finance at acceptable cost and risk. It also governs its relationships with its financial stakeholders (mainly banks).
2. The Trust's Investment Management policies and procedures primarily focus on investment of surplus operating cash likely to be needed within twelve months to support ongoing operations and meet liquidity requirements.
3. The policy on the provision of funding via a working capital facility is also documented.
4. As a public benefit corporation, the Trust has a duty to safeguard and properly account for public money. Therefore, the overriding aim in this policy is to ensure responsible, properly authorised and controlled investment management, and the use of prudent investments and other financial instruments, and to ensure that this does not compromise effective, efficient and economic delivery of services.
5. The Trust must comply with its statutory, regulatory and performance management obligations to manage its cash and liquidity position and meet its External Financing Limit (EFL) target.
6. This policy may be supplemented by detailed operational guidelines setting out how particular transactions or issues are to be handled, but nothing in those guidelines may override this policy, and no investments or financial instruments may be used which are not authorised in this Policy.

Policy Statement

7. It is the policy of the Trust that:

   7.1. short term investments of the Trust's surplus operating cash (i.e. cash that is likely to be required to support the Trust's ongoing operations) should be placed in investments that have a maximum maturity date of three months, in line with Monitor's guidance and corporate best practice in the UK.

Scope

8. Compliance with this policy is an obligation of all Trust staff.
9. No investment management operations may be undertaken except by designated staff within the Finance & Procurement Directorate.
10. No investment operations may be undertaken outside this policy and any operational guidelines established under it.
11. All investment operations must be reported to the Finance and Performance Committee and the Trust Board in accordance with requirements in paragraphs 64 to 72.

Aim

12. The purpose of this policy is to:

    12.1. to maintain liquidity,

    12.2. to mitigate and manage risk, and

    12.3. to protect assets:

12.4. within those parameters the treasury function also aims to obtain a competitive return and

12.5. minimize financing costs within an acceptable risk profile.

13. The primary objectives of the investment function are to safeguard the Trust by:
    13.1. Protecting the Trust's financial assets
    13.2. Ensuring that investment activities are properly accounted for and controlled, and are conducted within parameters authorised by the Trust Board.
    13.3. Ensuring the availability of flexible competitively priced working capital and other funding at all times.
    13.4. Identifying and managing financial risks arising from operational activities.
    13.5. To ensure compliance with all banking covenants.
    13.6. To protect the reputation of the Trust
14. The primary objectives are paramount, but the secondary objectives of the investment function are:
    14.1. To obtain competitive returns on surplus cash balances, within an agreed risk profile.
    14.2. To ensure that funding is obtained at competitive rates.
15. The Trust's investment activities will be undertaken in a manner that achieves the following key objectives:

    15.1. **Surplus cash:** To obtain the most competitive deposit rates primarily using a group of relationship banks, in line with deposit guidelines ratified by the Finance and Performance Committee.
    15.2. **Funding:** Ensure the availability of flexible and competitively priced funding from alternative sources to meet the trust's current and future requirements.
    15.3. **Interest Rate Management:** Maintain an interest rate structure which smoothes out the impact of rises or falls in interest rates on surpluses. Manage the maturity dates of deposits and loans to reduce exposure to interest rate changes.
    15.4. **Bank relationships:** Develop and maintain strong, long-term relationships with a core group of quality banks that can meet current and future funding requirements.

Definitions

16. The terms in use in this document are defined as follows:-

Word, Phrase or Abbreviation	Definition
Acceptable Investments	Deposits, or Certificate of Deposits issued by Approved Counterparties with an initial maturity date not exceeding three months, or with an early termination option at the sole discretion of the Trust no more than three months from the start date and Senior, Public Debt issued by an Approved Bank with a final maturity date not exceeding 3 months from the Trade Date.
Approved Counterparties	UK Government Entities and Bank branches that have been granted permission by the Financial Services Agency to conduct banking business in the UK and which are directly regulated by the FSA which has long term senior debt ratings from both Moodys and

Word, Phrase or Abbreviation	Definition
	Standard and Poors which are AA2/AA or better, and whose short-term debt ratings are A1+/P1. For the avoidance of doubt, the legal entity which is being invested in must be cross-defaulted with the Approved Counterparty. Loans do not require a cross-default clause and may be originated from Approved Bank subsidiaries.
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
Concentration Limits	Intended to reduce concentration risk, means the maximum investment amount approved according to the table at para 35
Cross Default Clause	Cross default clauses are provisions which mean if a borrower with multiple debt obligations defaults on one of the debts, this triggers an automatic default on all other debts held by the same lender and is designed to protect the interest of the lender.
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.
Government Banking Service (GBS)	The Government Banking Service (GBS) was established in April 2008 and is the banking shared service provider to government and the wider public sector. It is part of HM Revenue & Customs and incorporates the Office of HM Paymaster General (OPG) which had provided banking services to the public sector since 1836.
LIBID	London Interbank Bid Rate: The rate bid by banks on GBP denominated Eurocurrency deposits (i.e. the rate at which a bank is willing to take deposits from other banks) Whilst the British Bankers' Association (BBA) publishes official LIBOR rates, there is no correspondent official LIBID fixing. Market practice is to calculate LIBID as the rate which is 1/8th of 1% lower than LIBOR.
LIBOR	London Interbank Offered Rate: As published by BBA on the corresponding date.
Long term Borrowing	All outstanding borrowing (e.g., borrowings from the Foundation Trust Financing Facility, commercial loans); finance leases and similar items; on-balance sheet PFIs; and any Accumulated Dividend. This excludes off-balance sheet PFIs, as well as amounts drawn down from a Working Capital Facility (overdraft facility)
Permitted Institution	Institutions that have been granted permission or any European institution that has been granted a passport by the Financial Services Authority to do business with UK institutions, provided it has a long-term credit rating of A1 or A+ issued by a recognised rating agency. It also includes investments with the UK Government and its departments.
Permitted rating requirement	The rating requirement for safe harbour investments, which should be A1/P1/F1 for short-term ratings and A1/A+ for long-term ratings
Prudent Liquidity Amount	An amount equal to or in excess of 1% of the annual turnover of the Trust in the preceding financial year.
Public Dividend	A form of long-term government finance which was initially provided

Word, Phrase or Abbreviation	Definition
Capital (PDC)	to NHS trusts when they were first formed to enable them to purchase the Trust's assets from the Secretary of State. Public dividend capital (PDC) represents the Department of Health's (DH's) equity interest in defined public assets across the NHS.
Recognised rating agency	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' investments.	Monitor defines these as investments that fulfil the following criteria:- • Meet the permitted rating requirement issued 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 / principle also in sterling • Pay interest at a fixed, floating or discount rate • Are within the preferred concentration limit
Surplus Cash Balances	Current liquid balances in excess of the Prudent Liquidity Amount.
Treasury function	This is not a separate department with full time staff within the Trust, but is a function carried out by a team drawn from the Financial Services Department.
Trust	Oxford University Hospitals NHS Foundation Trust

Responsibilities

17. The responsibilities of staff in respect of this policy are set out below:

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

17.2. The **Executive Director of Finance has a responsibility to:-**

17.2.1. Define the Trust's investment approach for approval by the Finance and Performance Committee.

17.2.2. Put systems and resources in place to ensure that:

- 17.2.2.1. investment activities are reported on a timely and accurate basis
- 17.2.2.2. key banking relations are properly managed
- 17.2.2.3. investment activities are managed within the agreed policies and procedures
- 17.2.2.4. all investment transactions are accurately recorded in the accounting records on a timely basis, and appropriate internal controls are in place

17.2.3. Regularly review reports on the operations of the investment system and the Trust's risk exposure, discuss issues with the Treasury Team, and ensure that matters of concern are brought to the attention of the Finance and Performance Committee.

17.2.4. These duties may be carried out on behalf of the Executive Director of Finance by the Associate Director of Operational Finance.

17.3. The **Treasury Team** has a responsibility to:-

17.3.1. Define the Trust's investment approach for approval by the Executive Director of Finance and the Finance and Performance Committee.
17.3.2. Ensure investment activities are reported on a timely and accurate basis.
17.3.3. Keep appropriate documentation of any deals.
17.3.4. Manage key banking relationships.
17.3.5. Manage investment activities within agreed policies and procedures.
17.3.6. Ensure that investment activities take account of the operational needs of the Trust and are conducted with appropriate knowledge of the operational and financial issues facing the Trust.
17.3.7. Reconcile the Trust's bank accounts

17.4. The **Financial Services Team** has a responsibility to:

17.4.1. Ensure that investment activities have been recorded on an accurate and timely basis in the Trust's accounting records.
17.4.2. Ensure that all control and suspense accounts are regularly reconciled or cleared.
17.4.3. Review bank reconciliations carried out by the Treasury Team.
17.4.4. Match bank and counterparty confirmations and contract notes with internal deal documentation.

17.5. **Internal Audit** has a responsibility to:

17.5.1. at least annually, review the Trust's investment procedures and operations
17.5.2. report any significant deviations from the agreed policies and procedures to the Audit Committee.

18. **The Board of Directors** is responsible for.

18.1. Approving the overall investment policy.

18.2. Approving the external funding arrangements of £5m or more (other than loan renewals/refinancing) and new loans.
18.3. delegating the responsibility for approval of the Trust's investment procedures, controls and detailed policies to the Finance and Performance Committee.

19. The **Finance and Performance Committee** will:

19.1. Approve the Trust's investment and borrowing strategy and policies in line with its appetite for risk.
19.2. Approve the Trust's risk management strategy in respect of interest rates, and if appropriate foreign exchange.
19.3. Approve the relevant benchmarks for measuring performance.
19.4. Review and monitor investment and borrowing policy and performance against the relevant benchmarks in respect of all Trust funds.
19.5. Ensure proper safeguards are in place for security of the Trust 's funds by:

19.5.1. agreeing a list of permitted institutions;
19.5.2. setting investment limits for each permitted institution;
19.5.3. agreeing permitted investment types; and
19.5.4. ensuring approved bank mandates are in place for all accounts and they are updated regularly for any changes in signatories and authority levels.

19.6. Monitor compliance with investment policies and procedures on investments and borrowing in respect of limits, approved counterparties and types of investments/instruments.
19.7. Approve external funding arrangements within delegated authority.
19.8. Delegate responsibility for investment operations to the Executive Director of Finance.

Attitude to Risk

20. The Trust has approved a Risk Appetite Statement in July 2014. This states

"The Trust recognises that its long term sustainability depends upon the delivery of its strategic objectives and its relationships with its patients, the public and strategic partners.

As such, the Trust will not accept risks that materially impact on patient safety. However the Trust has a greater appetite to take considered risks in terms of their impact on organisational issues. The Trust has the greatest appetite to pursue innovation and challenge current working practices and reputational risk, in terms of its willingness to take opportunities where positive gains can be anticipated, within the constraints of the regulatory environment."

21. The detailed analysis which underpins this Risk Appetite Statement identifies that the Trust takes a cautious approach to financial risk.

22. Under no circumstances will the Treasury Team be authorised to enter into trading positions or to undertake trading for purely speculative reasons

Relationship Banking

23. Effective and risk-averse investment management depends upon developing and maintaining effective relationships with a small group of institutions which the Trust knows well and which know the Trust well.

24. Such relationship banking requires long-term commitment by both parties, based upon a high-level of service being provided for a price that is acceptable to both sides.

25. In selecting institutions with which to work the Trust will have regard to:

25.1. The ability of the institution to deliver a consistent and high level of service.
25.2. The reasonableness of the pricing for the services provided.
25.3. Evidence that the institution is making a long-term commitment to working with the healthcare sector and the Trust in particular, so that it can be expected to provide support during difficult as well as good times.
25.4. The stability and creditworthiness of the institution.

26. The Trust will only invest surplus funds with relationship banks (or UK Government and its agencies).

Operational Parameters

Investments

27. Surplus cash investments need to be safe and liquid, so that risk to Trust assets is minimized and funds can be realized quickly.

28. The key investment objective is to ensure a competitive return within an acceptable risk profile.

29. Following changes introduced in 2013/14, any decisions to invest need to take account of the impact on the PDC dividend calculation and demonstrate a higher return than, the sum of the saving from the dividend payment and the lost interest earned on the deposit had it remained with the Government Banking Service (GBS).

30. Any surplus cash that is to be invested with counterparties will be invested in counterparties that meet the credit criteria and in instruments that have an acceptable risk profile.

31. All cash deposits should be denominated in sterling with any payments or repayments being in sterling.

32. Under no circumstances may the Treasury Team enter into trading positions or undertake trading for purely speculative reasons.

33. All cash investments must be readily realizable and have maturity dates not exceeding three months or the date the invested funds are needed, whichever is sooner.

34. The Trust's priorities when investing are (in order of priority):

    - Security
    - Liquidity
    - Return

35. The Trust may only place investments with:
    35.1. Institutions that have been granted permission by the Financial Services Agency to conduct banking business in the UK and which are directly regulated by the FSA
    35.2. 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 the UK Debt Management Agency Deposit Facility.

36. The Channel Islands and the Isle of Man are not part of the United Kingdom, and no investments are permitted with institutions based in those jurisdictions and not subject to UK regulation by the FSA.

37. No investment is allowed in any institution which is only allowed to operate in the UK on the basis of being 'passported' by the FSA and is primarily subject to foreign rather than UK regulation.

38. There are limits on how much cash may be invested with each bank or banking group (subsidiaries and parents must be counted together for this purpose). These are set out in the table below

Institution (Companies in the same group must be aggregated)	***Permitted Deposit Limit £m***
Individual UK Clearing Banks	5

Other Institutions		
With credit rating of:	AAA	4
	Aa1	2
	Aa2	1
UK Government		No Limit

39. Monitor stipulated in 2005 that no investment may be made with any institution (other than the UK Government) which does not have at least the minimum credit ratings set out below:

	Standard & Poor	***Moody***	***Fitch***
Short-term	A-1	P-1	F1
Long-term	A+	A1	A+

40. In addition to limits on how much cash may be invested in an individual bank (or group of banks), the Trust also has limits on how the total available funds may be split between institutions. The aim of these restrictions is to ensure that risk is spread. These “concentration limits” are set out in the table below:

APPROVED COUNTERPARTIES	**MOODY / S&P LONG-TERM RATING**	**MOOD Y / S&P SHORT-TERM RATING**	**MAXIMUM CONCENTRATION LIMITS**
UK Government Entitles	Aa1/AAA	n/a	Unlimited
UK Clearing Banks	Aaa/AAA	P-1/A-1+	£15m
UK Clearing Banks	Aa1/AA+ to Aa3/AA-	P-1/A-1+	£5m
UK Clearing Banks	A1/AA-	P-1/A-1+	£3m
UK Clearing Banks	A1/A+-	P-1/A-1	£1m

41. As the Trust’s investments are currently restricted to 3 month duration, it will normally be the minimum short term rating which is relevant.

42. The Trust will invest surpluses below £500k with one institution but funds in excess of £500k will normally be spread across a number of permitted institutions to spread the investment risk.

43. No investment may be made with any institution (other than UK Government) before it has been added to the Trust's list of approved counterparties. Institutions may only be added to the list with the approval of the Finance and Performance Committee.

44. Credit ratings will be reviewed weekly by the Treasury team and any deterioration in ratings of institutions on the list of approved counterparties reported immediately to the Associate Director of Operational Finance.

45. No funds may be placed in instruments that are excluded from Monitor's definition of 'safe-harbour' investments. Excluded investments include: bonds, equities, commodities and prospects, options and swaps and contracts for differences, investments linked to other trade investments, index-linked investments, private equity or venture capital investments, leveraged instruments, hedge funds and foreign currency linked investments.

46. The following are potentially safe-harbour investments: money market deposits, money market funds, Government and local authority bonds and debt obligations, certificates of deposit, and sterling commercial paper, provided they meet the other criteria set out in this policy.

47. However at present, it is not the policy of the Trust to invest in instruments other than money market deposits, bank deposits and deposits with UK Government bodies.

Funding

48. The key funding objective is to ensure the availability of flexible and competitively priced from alternative sources to meet the Trust's current and future requirements.

49. The Trust will maintain a risk-averse approach to funding, recognizing the ongoing requirement to have committed funds in place to cover existing business cash flows and to provide reasonable headroom for seasonal cash flow fluctuations and capital expenditure_programmes. The primary funding source is likely to be loans from the Foundation Trust Financing Facility.

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

51. The Working Capital Facility can only be used to provide short-term funding of working capital. Funds obtained in this way must not be used for other purposes (e.g. it must not be used to fund fixed assets).

52. The Trust's approach to funding is that while it should seek to minimize surplus cash balances or charges for unused loans / facilities as a result of pre-financing in anticipation of potential expenditure, loans / committed facilities should be put in place well in advance of any requirement for drawdown on these funds.

53. This will typically be between 6 and 18 months in advance. The Trust will need to take into account any uncertainties in its plans and the finance costs associated with loans / committed facilities.

54. Funding needs will be based upon the long-term cash forecast. This covers the next five years in outline, with detailed projections for the next 24 months. The long-term cash forecast must be updated regularly in line with the long-term business plan.

55. The cashflow must be prepared in 'best-guess' and 'worst-case' versions, and the assessment of the appropriate level of loan / committed facilities must be based upon the 'worst-case' version.

56. Loans / Committed facilities have a cost even if they are unused. However, uncommitted facilities may not actually be available when they are needed. The Trust will therefore aim to use loans / committed facilities to cover anticipated

requirements, while using uncommitted facilities to provide an additional degree of cover against unanticipated events.

57. Loans / Committed facilities should be put in place to cover a minimum of 100% of the expected borrowing requirements over the next six months.

58. The Finance and Performance Committee will consider what level of uncommitted facilities should be put in place.

59. The Trust will seek to negotiate similar covenant clauses in all facilities, particularly in respect of the definition of items such as net debt, net assets, etc. in order to facilitate the measurement of performance against covenants.

60. Facility covenants will be monitored regularly for actual or prospective defaults using information from the annual budgetary/forecasting process and the long-term financial plan.

61. The Trust will seek to avoid all loans / facilities coming up for renewal at the same time, in order to avoid exposure to risk due to unfavorable market conditions or temporary problems with the Trust's credit standing.

Detailed operational procedures will be established to provide guidance on which facilities should be drawn down and when. These procedures will take into account:

- Matching the funding to the amount and timing of the cash-flow needs.
- Obtaining competitive quotes
- Allowing of the impact of commitment fees in comparing costs
- Spreading the use of facilities between providers
- Monitoring the all-in cost of different funding sources.

Foreign exchange management

62. The Trust has only limited exposure to foreign exchange risk.

63. It is therefore not Trust policy to purchase foreign currency in advance, to hold foreign currency deposits, or to use derivatives to manage foreign currency risk

Interest rate management

64. It is not the policy of the Trust to use derivatives to manage interest rate exposure

Reporting

65. Regular reporting of investment management activities will be carried out as follows:-

Daily Reporting

66. The following information will be provided daily by the Treasury Team:

66.1. Opening and closing cash balances
66.2. Transactions undertaken
66.3. Exception reports (e.g. a breach of counterparty limits)

Recipients: All members of the Treasury Team, Financial Services Manager, Head of Operational Finance, Associate Director of Operational Finance.

Weekly Reporting

67. The following information will be provided weekly by the Treasury Team:

67.1. The end of day positions over the past week
67.2. Anticipated end of day positions over the coming two weeks
67.3. Facilities available and amounts drawn against those facilities
67.4. Cash deposits held and their maturity dates
67.5. Summary of borrowings including finance leases
67.6. Net cash/borrowing positions
67.7. Any unusual actions which will have to be taken to achieve the anticipated end of day positions over the next two weeks (e.g. delays to payment runs).

Recipients: Head of Operational Finance, Associate Director of Operational Finance.

Monthly Reporting

68. A monthly report will be provided to members of the Finance and Performance Committee, the Executive Director of Finance and the Associate Director of Operational Finance

69. The report will detail:-

69.1. market commentaries;
69.2. analysis of cash/borrowings (and comparison to limits).
69.3. details of facilities – committed and uncommitted;
69.4. Funding, including split of fixed/capped/floating rate funding and balance on any finance leases (fixed rate to be defined as rates fixed for at least 12 months from the current date).
69.5. The position on any derivatives, including embedded derivatives, including the rationale for their existence and confirmation of the effectiveness of the hedging arrangements to which they relate.
69.6. financial covenant compliance;
69.7. current and forecast position in relation to any limits set by Monitor
69.8. Outline cash forecasts for the next 24 months.
69.9. Review of key risks, showing sensitivity of positions and comparison to limits, and detailing any other issues likely to affect forecasts.
69.10. liquidity and security of funding;
69.11. bank relationships;
69.12. counterparty risks;
69.13. gearing and interest cover;
69.14. any foreign exchange exposure
69.15. Where the Trust has any borrowings, a gap analysis showing the net debt exposed to interest rate movements (because interest rates have to be reset) over each six month period for the next five years. The aim of this analysis is to show the exposure of the Trust should interest rates have moved by the time a current borrowing or investment moves from fixed to floating.

Quarterly Performance Management

70. On a quarterly basis a performance management report will be produced for the Finance & Performance Committee. This will be the basis for the Finance & Performance Committee to monitor the effectiveness of the investment management policy.

71. A performance management framework / benchmarks for achievement will be agreed by the Trust Board and will be a mechanism for the Finance & Performance Committee and the Board to approve policy and to measure the effectiveness of that policy.

72. The objective of the investment function will be to achieve an overall return in line with or better than these benchmarks. Significant over or under achievement against the benchmarks, for an extended period of time, will be closely scrutinized by the Finance & Performance Committee.

73. This report will include:-

    73.1. Actual performance (achieved investment and borrowing rates, the accuracy of past forecasts).
    73.2. Confirmation of compliance with control procedures, noting in particular any breaches of operational controls and the actions taken to deal with these.

Investment Controls

74. Appropriate controls will be put in place to ensure that investment activities are conducted in a controlled manner, that unauthorized trades are prevented and that exposure is properly monitored
75. Controls will include:
    75.1. segregation of duties between those who make deposits/borrowings and other dealings, those who initiate payments and those who account for transactions.
    75.2. Confirmation of transactions will be requested from all counterparties and checked by Financial Accounting against the Trust's records.
    75.3. All transactions will be recorded within the Treasury team's records and instructions/confirmations sent to counterparties.
    75.4. All payment instructions will require two authorised signatories in accordance with approved bank mandates.
    75.5. Mandates will be reviewed regularly and sent to all counterparties.

<u>Documentation of Operational Procedures</u>

76. A detailed manual of investment procedures will be maintained.

77. Changes to this manual may only be authorised by the Associate Director of Operational Finance or the Head of Operational Finance.

78. Copies of these procedures must be made available to all staff involved in investment management.

79. All procedures will be linked to the relevant sections of the Investment Policy, and must define the key responsibilities of staff members in the context of the overall organization.

80. The level of detail should be sufficient to introduce new staff to their work and allow temporary staff to move into roles as required, as well as enabling managers not

directly involved in investment to assess whether investment operations are being conducted appropriately.

81. The procedures should define:

    81.1. The sequence of actions required to perform the daily investment work.
    81.2. Where information is to be found (e.g. details of bank accounts, basic data on how financial instruments are to be used).
    81.3. Limits on investment activities, including counterparty and position limits, clearly demonstrating the levels of authority that are in place, and how situations requiring dealing in excess of limits are to be dealt with.
    81.4. Dealing procedures.
    81.5. Recording requirements.
    81.6. Procedures for confirmation, settlement and reporting of transactions, including segregation of duties.
    81.7. Mandates
    81.8. Management reporting

Mandates

82. Properly authorised mandates must be in place for all types of transaction. These include:

    82.1. Dealing mandates. Establishes that named Trust employees are able to arrange transactions such as investments or borrowings with counterparty. Limitations on transaction types, instruments, amount and periods may be included. The mandate should also set out requirements for how the counterparty is to provide confirmation of deals (and how the Trust will provide confirmation), standard settlement instructions and bank accounts that can be used.
    82.2. Transfer mandates. These define, for the bank or other institution, whom within the Trust has the authority to transfer funds from the Trust's bank accounts. These should specify how instruction may be given (in writing, by telephone, fax etc.) and the authority levels applying to transactions of various value sizes. These include the Trust's normal bank mandates.

83. Copies of all mandates will be retained in the Finance Directorate and copies sent to all counterparties together with specimen signatures.

84. mandates must be approved by the Finance and Performance Committee, including signatories and appropriate limits (in accordance with the schedule of delegated limits)

Undertaking transactions / dealing

85. Those authorised to deal are:
    85.1. Head of Treasury,
    85.2. Head of Financial Services and
    85.3. Head of Operational Finance
86. All transactions must be recorded in the investment management register.
87. Investment transactions are only carried out with authorised counterparties and within set counterparty exposure limits.

Confirmation / payment instructions

88. All confirmations / payment instructions are signed by two signatories and in accordance with the limits under the bank mandate as approved by the Finance and Performance Committee

89. Payment to third parties from the investment will not be made.

Verification of Confirmations

90. All counterparties will be required to provide confirmation to the Trust and these will be checked by Financial Accounts, not Treasury.

91. Banks are instructed to send confirmations directly to the Financial Accounts.

92. The Treasury team will provide to Financial Accounts the following:
    92.1. daily movements report;
    92.2. copies of all deal tickets, payments instructions/confirmations; and
    92.3. weekly cash/borrowings positions report.

Eliminating disputes with counterparties

93. In order to reduce or eliminate the potential for disputes with counterparties:
    93.1. The Treasury Team will maintain a dealing diary, showing the investment, borrowing and other transactions.
    93.2. Dealing records will be maintained showing all the details associated with a transaction, including those institutions which bid unsuccessfully for the transaction. Deal tickets should be sequentially numbered and signed by the dealer.
    93.3. A log of unconfirmed or unmatched deals will be maintained.
    93.4. All telephone calls made or received by members of the treasury team will be recorded in order in case of disputes with counterparties as to instructions given.

Embedded Derivatives in Financial Instruments

94. The Trust will not use any explicit derivatives.

95. However, many financial instruments will include embedded derivatives as defined in International Financial Reporting Standards, even when no positive decision to make use of derivatives has been made, and even though the instruments in question may be in no way unusual or adventurous.

96. For example, IFRS specifically identify a loan at LIBOR as being an example of an embedded derivative (because the rate of return on the loan is in relation to an external index).

97. Accounting for embedded derivatives can be complex, and has the potential to have significant impacts upon the reported results of the Trust.

98. The Treasury Team will therefore regularly consult with the Head of Operational Finance about the accounting treatments for any instruments used, and in particular will seek advice before any new types of instrument are used.

Competencies and Training

99. It is critical that those charged with the Trust's Investment Management have appropriate training, experience and knowledge.

100. The Finance and Performance Committee comprises executive and non-executive directors. It is chaired by an experienced non-executive director and it will need an understanding of the issues involved in managing investment risk to undertake the roles envisaged in this policy.

101. The Trust will ensure that prior to licensing as a Foundation Trust; the Treasury team report to a suitably qualified member of the Association of Corporate Treasurers, or failing that a qualified accountant with appropriate knowledge and experience.

102. The Trust will invest in training for other staff members involved with or supervising investment functions with the aim of ensuring an appropriate degree of competence to carry out duties and that staff have the knowledge and experience to critically examine policies and proposals.

103. For on-going training on investment management please refer to the Trust Intranet. There is no mandatory training associated with this policy. Individuals' training needs will be identified through annual appraisal and supervision.

Monitoring Compliance

104. Compliance with the document will be monitored in the following ways.

Aspect of compliance or effectiveness being monitored	Monitoring method	Responsibility for monitoring (job title)	Frequency of monitoring	Group or Committee that will review the findings and monitor completion of any resulting action plan
Investment procedures and operations	Internal Audit Report	Internal Audit	At least annually	Audit Committee

105. Where, in the view of the Audit Committee, the Trust's internal audit function do not have sufficient expertises or experience with regard to investment, arrangements will be made to out-source audit of investment procedures and operations. Where the internal audit is out-outsourced to an external provider, care will be taken to ensure that there is clear independence between those performing audit work, and any staff involved in providing investment advice, consultancy or operational support to the Trust.

106. The Trust will engage appropriate independent advisors where appropriate.

107. At least annually the Finance and Performance Committee will consider whether independent advice is required in respect of the Trust's Investment Policy, procedures or practice.

108. The Finance and Performance Committee will also consider whether independent advice should be sought before

    108.1. authorising the use of any type of instrument not previously used by the Trust,

    108.2. any change in the structure of the portfolio which would result in a significant change in risk profile, or

    108.3. when the use of any derivative products is being considered.

109. In addition to the monitoring arrangements described above the Trust may undertake additional monitoring of this policy as a response to the identification of any gaps or as a result of the identification of risks arising from the policy prompted by incident review, external reviews, or other sources of information and advice. This monitoring could include:

- Commissioned audits and reviews
- Detailed data analysis
- Other focused studies

Results of this monitoring will be reported to the Finance and Performance Committee.

Review

110. This policy will be reviewed one year after it comes into operation on the licensing of the Trust as a Foundation Trust.

111. The Trust Board has delegated the responsibility for approval of the Trust's investment procedures, controls and detailed policies to the Finance and Performance Committee.

References

112. This policy forms part of part of the Trust's Standing Financial Instructions (SFIs) and this document should be read in conjunction with the SFI's

113. other key sources of information are shown in the table below:-

Other Key Sources of Information	• The Policy is referred to in Standing Financial Instructions section C (pages 39 & 62) and section 22.
	• NHS foundation trusts: managing operating cash -Monitor (Dec 2005)

Equality Impact Assessment

114. As part of its development, this policy and its impact on equality has been reviewed. The purpose of the assessment is to minimise and if possible remove any disproportionate impact on the grounds of race, gender, disability, age, sexual orientation or religious belief. No detriment was identified.

Document History

Date of	Version	Reason for review or update

revision	number	
20 Aug 2008	Draft 0.1	First Draft
23 Oct 2008	Draft 0.2	Second Draft
20 Feb 2009	Draft 0.3	Third Draft
31 March 2012	Draft 0.4	Fourth Draft
31 May 2012	Draft 0.5	Fifth Draft in Trust policy format
11 April 2014	Draft 1.0	Updated to reflect current guidance
30 October 2014	Draft 1.01	Further revisions to reflect current guidance & proposed new structure.
28 November 2014	Draft 1.02	Updated to reflect discussions at Audit Committee 19th November 2015

Appendix A

Sample List of [Approved] Counterparties
(as at 10.10.14)

COUNTERPARTY NAME	STATUS	COUNTRY	CURRENT DEPOSIT	CONCENTRATION LIMIT	MOODY/S&P / FITCH LONG TERM RATING	MOODY/S&P / FITCH SHORT TERM RATING	KEY USE OR PURPOSE
GBS current account		UK	n/a	n/a			Direct credit of receipts from NHS bodies and specific payments re NHS transactions
GBS euro account		UK	n/a	n/a			Receipt and payment of items denominated in Euros, thereby reducing currency exposure
National Loan Fund		UK		n/a	Aa1/AAA/AA+	tbd / A-1+ /tbd	Short term deposit of surplus funds, aiming to receive a higher return than is possible in GBS account.
NatWest Bank plc		UK			Baa1/A-/A	p-2/A-2/F1	Short term deposits

Standard Chartered Bank plc		UK			A1/AA-/AA-	P-1/A-1+/F1+	Short term deposits
HSBC Bank plc		UK			Aa3/AA-/AA-	P-1/A-1+/F1+	Short term deposits
Lloyds Bank plc		UK			A1/A/A	P-1/A-1/F1	Short term deposits
Barclays Bank plc		UK			A2/A/A	P-1/A-1/F1	Short term deposits
Royal Bank of Scotland plc		UK			Baa1/A-/A	p-2/A-2/F1	Short term deposits

1. GBS means Government Banking Service
2. The rating adopted for the National loan fund is based on the UK local currency sovereign ratings