

## **RESERVES AND MINIMUM CASH BALANCE POLICY**

**Owner: Deputy Director Financial Control, BTP**  
**Sponsor: Director of Finance and Commercial Services, BTP**  
**Chief Financial Officer, BTPA**  
**Version: 3.0**  
**Date Issued 1<sup>st</sup> November 2019**

### **Introduction**

Reserves and cash balances are different but related concepts central to the financial management of an organisation:

- Reserves are the excess of the value of assets over liabilities; and
- Cash balances are the cash resources available to meet liabilities as they fall due.

There is a difference between cash and reserves because of differences in timing of receipts compared with income due, and payments compared with expenditure incurred. Within reserves are also non-cash items including the pension reserve which represent the net assets/liabilities applicable to the defined benefit pension schemes operated.

This policy will be reviewed annually at the November Audit & Risk Assurance Committee.

### **Objective**

This paper sets out policies for the management of both reserves and cash balances.

### **1 - RESERVES POLICY**

Reserves represent the difference between the assets and liabilities of the BTP Fund. The Authority has no statutory duty either to budget for or maintain positive reserves. The level of reserves is, however, important because of the way in which it has an impact on cash balances. The Authority has a statutory duty to set a budget that allows the Force to defray its costs to users of the service against the core policing requirement. In doing so, that service must be effective and efficient. Implicit within this is the concept of sustainability and the Authority may not expose itself or the Department to undue risk. Furthermore, the Railways and Transport Safety Act states the Authority can set a customer's contribution at a level which reflects the need to reserve funds for contingencies<sup>1</sup>

**Classification of Reserves** - BTP are permitted to identify separate reserves in the following scenarios:

1. Where separate reserves reflect proper practices applicable to the preparation of the accounts, including:
  - A revaluation reserve which represents the unrealised gains on non-current assets, such as property, plant and equipment; and
  - A pension reserve which represents the net assets/liabilities applicable to the defined benefit pension schemes operated.
2. Where there are statutory, regulatory or funder limitations on the application of funding so that the reserve is not available to fund general expenditure. Such reserves include:
  - Proceeds of Crime Act reserve which represents the value of net assets attributable to the Authority under the Asset Recovery Incentivisation Scheme; and
  - Metal Theft reserve which represents a grant supplied by Transport for Scotland to assist with the introduction of metal theft legislation in Scotland.
  - Capital receipts reserve – proceeds from disposal of assets used to purchase capital assets / to support

<sup>1</sup> Part 3, Paragraph 33, Sub Paragraph 5(c)

## OFFICIAL

capital investment.

3. Where income or expenditure is not reflected in charges made to Underground and Overground PSA holders at the time when the Income or Expenditure is recognised in the financial statements. Such reserves include:

- IFRS Adjustment Reserve, which reflects the net liability of the Authority for annual leave (remains within retained earnings but non-cash as technical posting for IFRS compliance); and
- Capital Projects – reserves representing the value of external funding for capital projects which has been recognised as income but has yet to be applied.
- Level Crossing reserve - a specific initiative being led by BTP because of concerns in rising crime relating to Level Crossing safety.

4. There are two categories of reserves for:

- addressing significant risks that do not form part of core funding, such as pensions liabilities or revaluations, EPSA challenges; and
- building up funding to deal with future financial pressure, such as technology upgrades, property changes, or to smooth what would otherwise be significant annual fluctuations in costs.

5. All other reserves form the Retained Earnings Reserve which is part of the Income and Expenditure Reserve of the BTP and the British Transport Police Authority. These represent the cumulative past operating surpluses / deficits from the PSA charges levied to the PSA Holders. Operating losses are carried forward and surpluses are retained and reinvested in the core business and agreed specific initiatives.

### **Use of Reserves**

The Authority has a statutory duty to approve a strategic plan. The cost of the strategy is articulated in the Medium-Term Financial Plan (MTFP) which is underpinned with defined assumptions, risks and opportunities. The first year of the MTFP forms the basis of the annual budget where performance is reported to the Performance and Delivery Committee.

Financial sustainability is paramount in minimising risk, although there may be certain circumstances in which the use of reserves is permitted:

- Where there is a clear case for investment such that would lead to quantifiable efficiencies.
- To fund exceptional items that may arise not funded within the base financial plan. This would include circumstances where risks have crystallised or where costs are known that will increase.
- To fund unforeseen costs or exceptional expenditure which the Authority acknowledges may not be passed to Industry.

Where costs arise in-year, BTP must first assess whether it is appropriate to fund such pressures from in-year underspends prior to making a call on Reserves; to be reported to the Performance and Delivery Committee. Where recurrent pressures emerge, assessment is to be made whether this can be funded from in-year underspends but identify and recommend sustainable funding measures to the Strategy and Planning Committee.

The utilisation or transfer to reserves will be included as part of the annual budget and MTFP setting and reporting process to senior management, Force Executive Board and the Performance and Delivery Committee. Authorisation to use reserves is required from the full Authority – at the meeting or through out of committee approval.

### **Reporting on Reserves**

BTP will report annually to the Audit and Risk Assurance Committee summarising the key movements in the annual Financial Statements. Commentary on material movements in the Reserves will be incorporated into this report.

Approval of the year-end reserves position from the Authority will be sought via the approval of the Financial Statements as a whole.

## OFFICIAL

### **Process on creating separate reserves**

BTP shall only establish separate reserves, other than those required by proper practices, when approval is sought from the Deputy Director, Financial Control. Consideration will only be given upon the documentation of:

- the purpose of the reserve;
- the principles governing movements in and out of the reserve; and
- procedures for the reserve's management and control.

### **2 - CASHFLOW REPORTING AND MINIMUM CASH BALANCE PROCEDURES**

Cash balances are required to meet liabilities as they fall due. Whilst the Authority has a power to borrow it can only do so from or with the consent of the Secretary of State (paragraphs 28 and 29 of Schedule 4 of the Railways and Transport Safety Act 2003). The process for obtaining such consent is complex and time consuming.

The Authority must therefore hold sufficient cash balances to accommodate working capital requirements, in order to ensure that the Authority is able to meet its liabilities as they fall due. There should not be inefficient unused surpluses. The minimum working capital has been defined through modelling income and expenditure payment profiles and indicates the level should be sufficient to fund BTP for one accounting period, equates to £20m at 19/20 prices. Should the forecast cashflow indicate cash will fall below this limit, the following action will be taken to mitigate:

- Immediate reporting to FD and CFO of the reason for the proposed breach;
- Daily reporting, including any immediate mitigating actions that can be taken to reduce risk until cash balance returns to the limit; and
- Capital grant options to be investigated.

### **Reporting on Cashflow**

The detailed cashflow for forecast, actual and budgeted expenditure and income will be included as part of the annual budget and MTFP setting and reporting process to senior management, Force Executive Board, the Performance and Delivery Committee and Audit and Risk Assurance Committee.

A detailed analysis of the Statement of Cashflow will be reported to the Audit and Risk Assurance Committee and Authority members as part of the Financial Statements year-end approval process.