

Report to: Full Authority  
Date: 8 December 2021  
Subject: BTPA Cover Paper: Reserves Management  
Sponsor: Chief Financial Officer  
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For: Information

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## 1. Purpose of Paper

- 1.1 To act as a cover paper for the Force's report on Reserves Management, highlighting scrutiny provided by Audit and Risk Assurance Committee (ARAC), and the recommendations put to the Full Authority for approval.

## 2. Background

- 2.1 BTP/A have historically needed to maintain a substantial cash balance in order to manage working capital requirements. With the likelihood of significant investment needed over the next Medium-Term Financial Plan period to fund a new strategy, a review of cash reserves, including processes and requirements, is well underway with the ambition to optimise the use of the cash held by the Authority.
- 2.2 In November 2021, ARAC were asked to endorse Authority approval to changes to the minimum cash balance held in order to start using the cash reserves for investment.

## 3. Summary of ARAC Discussion (18 November 2021)

- 3.1 ARAC noted the current £30m cash balance, and the fact that Department for Transport (DfT) would welcome the Authority holding a lower figure. ARAC Members went on to consider two proposed models for threshold/cash investment opportunities: Model 1 proposed a threshold of 14.9m, and investing £6m in 2022/23; and cash investment Model 2 proposed a threshold of £7.7m and investing £13.3m in 22/23.
- 3.2 Members were uncomfortable with Model 2 given the risk posed by any potential large default by a PSA holder but recognised the scope for investment and grant-in-aid assurances provided by DfT. ARAC therefore endorsed the *principle* of using cash reserves, under a phased approach and subject to Authority approval. While there was no authorised allocation for the reserves to be used at present, this would allow the Force to continue to plan for cash investment in items such as *Force on the Move* knowing there will be an opportunity to release some cash reserves for investment in due course.
- 3.3 ARAC Members agreed to set one cash threshold, where previously there were two 'amber' and 'red' thresholds, specifically Model 1 (£14.9m).

- 3.4 Finally, ARAC Members endorsed continued conversations with TfL to agree payment schedules aligned to PSA direct debits to ensure prompt payments.

#### 4. Risks & Mitigations

- 4.1 **Risk. There is a risk of a cash shortage, should a large payment default.**
- 4.2 **Mitigation.** This is mitigated by access to DfT Grant-in-aid cash, which will be written into the Authority's delegation letter for 2022-23. There is no reputational or relationship risk with the DfT as this request has been discussed with them and they are comfortable since similar cash requests are common from other Arms' Length Bodies. The DfT would welcome the Authority holding a lower cash balance.
- 4.3 **Risk. There is a risk around the use of cash for future benefits.** If using cash does not result in anticipated future benefits, it is difficult to accumulate high reserves again once they have been spent. The benefits and timing of savings needs to be set out and agreed before any cash is spent.
- 4.4 **Mitigation.** Strategy and Planning Committee would be involved in reviewing plans, before the Authority ultimately approves the spend.
- 4.5 **Risk. Spend risks to the Authority could result in a change to cashflow requirements and timings** e.g. IT remedial spend, additional issues coming out of the MPS IT Peer Review, or unforeseen estates costs.
- 4.6 **Mitigation.** This is mitigated by taking the recommended two-step approach to the new cash threshold (Model 1, moving to Model 2 following review), so that there is a buffer of cash before moving to the lower threshold.

#### 5. Recommendations

- 5.1 Following the scrutiny afforded by ARAC, Members of the Full Authority are asked to:
- Approve cashflow threshold Model 1 (£14.9m) going forward with an amended threshold calculation, effective immediately regardless of when the released cash may be spent.
  - Approve *in principle* cash investment Model 1 (£6m investment in 22/23 and smaller amounts thereafter) with a reassessment at a later date to determine whether a move towards cash investment Model 2 (investment up to £13.2m) was appropriate. This will allow BTP to continue with their planning, but those plans, including the profiling of investment and benefits, are required to be presented back to SPC and the full Authority before any spend against cash reserves can be incurred.
  - Note the continuing of conversations with TfL on setting a regular payment schedule aligned with PSA direct debits.