



Report to: Audit and Risk Assurance Committee / Full Authority

Date: 18 November 2021 / 8 December 2021

Subject: Reserves Management

Author: Deputy Director, Financial Control

Sponsor: Director of Finance and Commercial Services

For: Note

1 PURPOSE OF THIS REPORT

1.1 To provide members with an update on the recommended approach to cash reserves management following the completion of the Medium Term Financial Plan (MTFP).

2 RECOMMENDATION

Members are asked to approve the recommended reserve decisions:

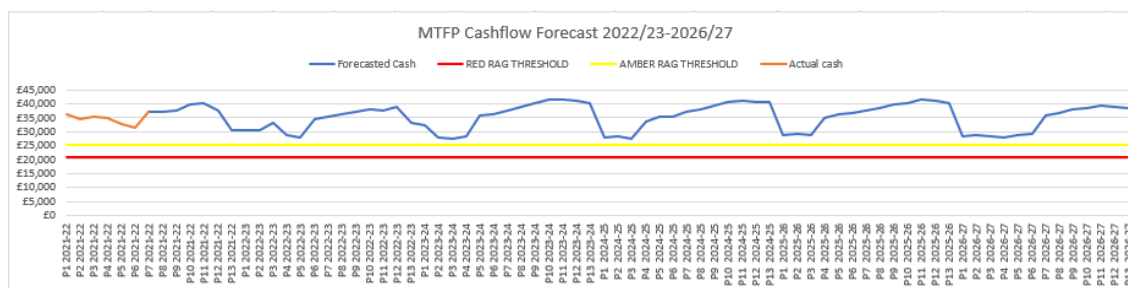
- To set only one cashflow threshold going forward with an amended threshold calculation- two options have been presented.
- To agree the principal of utilisation of cash reserves to fund part of the 'Force on the Move' transformation programme, up to £13.2m. A formal request including the value of suggested use of reserves each year will accompany a detailed breakdown of the investment and benefit plan to be presented to the Authority once this has been further developed within the Force.
- To continue conversations with TfL on the setting of a regular payment schedule aligned with PSA direct debits.

3 CONTEXT

- 3.1** BTPA currently holds a cash balance which sits at around £30 million. This has been as a result of historic funding received from DfT. We have analysed documentation relating to the various funding received and confirmed that funds are not expected to be returned to these bodies.
- 3.2** We have confirmed with DfT that there would be access to cash should there be a situation where the cash level drops and there are commitments to pay, e.g. failed direct debit or non-payment of a large debtor around the time payroll is due. This availability of DfT Grant-in-aid will be included in the next delegation letter we receive.
- 3.3** Audit Committee members approved a paper in September which recommended some basic principles around cash reserve management over the MTFP.
- To set only one cashflow threshold going forward with an amended threshold calculation.
 - To explore cash cover or borrowing opportunities with NatWest, DfT and other government bodies.
 - To continue conversations with external customers including TfL and the review of accrued income to ensure optimum management of working capital.
- 3.4** This paper progresses on points 1 and 3 following the completion of the MTFP.

4 CASH RESERVES POSITION

4.1 With the completion of the MTFP it can be concluded that the underlying cash position will remain stable to allow consideration for cash investment.



£m	22/23	23/24	24/25	25/26	26/27
Forecast opening cash	30.5	33.4	40.0	40.5	40.3
MTFP cash (deficit)/surplus	1.1	1.1	1.4	(0.6)	(1.2)
DfT Baskerville/Estates funding	3.7				
Amounts collected from PY	9.8	11.6	6.0	7.0	6.5
Amounts paid in following year	(11.6)	(6.0)	(7.0)	(6.5)	(7.2)
Forecast closing cash position	33.4	40.0	40.5	40.3	38.4
Forecast cash movement	2.9	6.7	0.4	(0.2)	(1.9)

The graph shows the period end cash balance forecast before any additional investment for the remainder of 21/22 and the MTFP period. This is measured against the current amber and red thresholds.

This analysis is based on an opening balance for 22/23 of £30.5m. This assumes receipt of £6.4m of the DfT Baskerville / Estates funding in 21/22, additional cash outflow for outstanding leave balances and capex spend per P7 21/22 forecast.

5 A CHANGE IN THRESHOLD

- 5.1 It was agreed at the previous Committee that cash would be monitored against one threshold in future and that the threshold would take secure income into account in the calculation.
- 5.2 Two thresholds have been prepared for Audit Committee members consideration, calculations of which are summarised in **Appendix A**.
- 5.3 **Model 1:** As per previous years, the threshold is initially based on covering a period's worth of costs. A period's worth of the annual pay, non-pay and capital costs from the MTFP have been calculated. In addition, we have included consideration of the receipt of the PSA direct debit every period ("secure income"). The secure income figure for Model 1 is calculated on a prudent basis assuming we may have a withheld or disputed charge with a TOC (based on the largest amount from one TOC in a month). This leaves us with a threshold in 22/23 of £14.9m which increases over the MTFP period in line with increasing costs.
- 5.4 **Model 2:** Model 2's threshold calculation is the same as Model 1 but removes the prudent assumption of a disputed charge. This provides a threshold in 22/23 of £7.7m; increasing slightly over the MTFP period. Based on historical experience this is the model that includes the most likely outcome on receipt of charges.

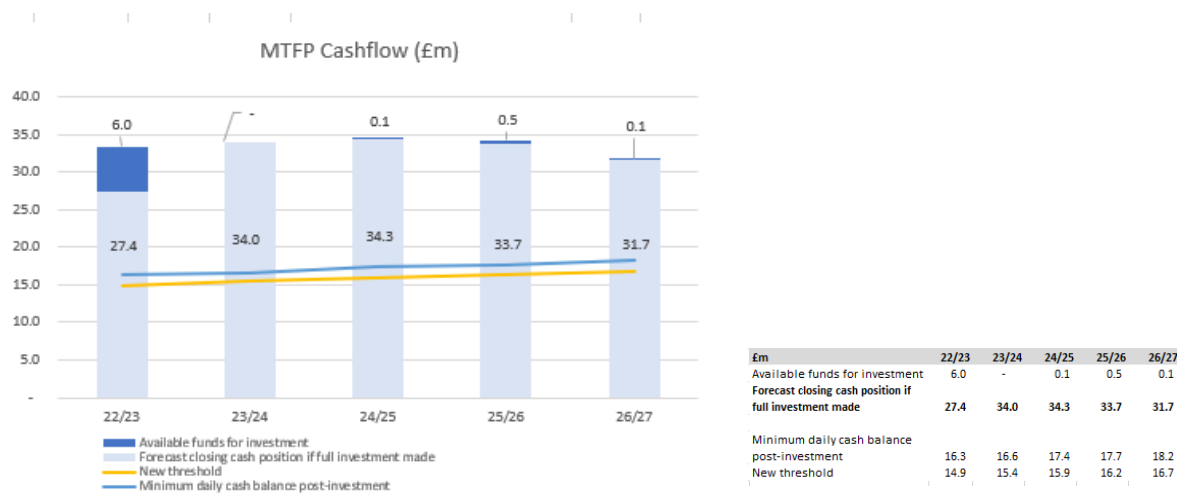
6 CASH INVESTMENT OPPORTUNITIES

6.1 The aim of setting a threshold is to ensure we maintain a cash balance above it at all times. The choice of threshold defines how much additional cash we can invest/utilise. We have analysed the impact of the two model thresholds below.

6.2 Model 1:

The below graph shows we are able to invest an additional £6m in 22/23 and some smaller amounts later in the MTFP period. This is on the intention that the daily cash balance will not drop below the threshold at any point, that investment occurs at the beginning of the year and that restricted reserves of £1.4m are ringfenced.

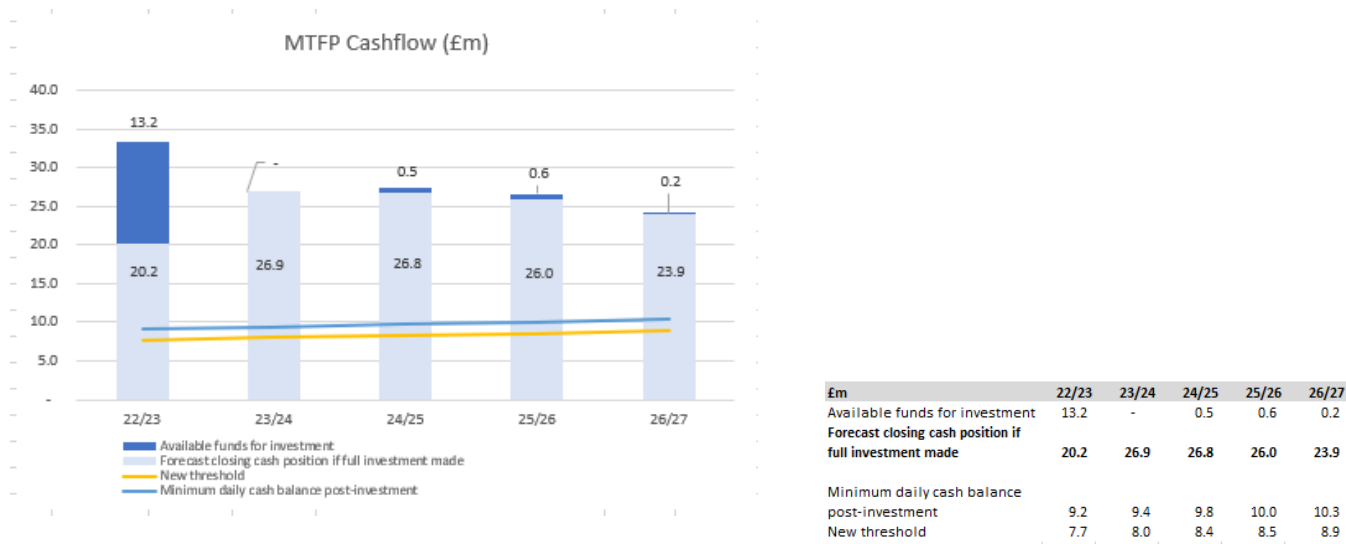
The blue line shows the minimum cash balance post investment for each year and evidences that it is maintained above the new reporting threshold (orange) each year.



6.3 Model 2:

In the same manner as Model 1, the below graph shows we are able to invest up to £13.2m in 22/23 with some additional amounts later in the MTFP period. This is with the intention that the daily cash balance will not drop below the threshold at any point, that investment occurs at the beginning of the year and that restricted reserves of £1.4m are ringfenced.

Again, the lines on the graph show that the minimum cash balance post investment for each year is maintained above the new reporting threshold (orange) each year.



6.4 On the assumption that Model 2 poses the most likely occurrence we recommend the use of this model for setting the threshold which allows the investment of up to £13.2m in the first year.

6.5 It is acknowledged by Finance and the Chief Officer Group that a more focussed approach to cash management must be taken alongside the choice of a lower threshold. We will not have the reserves previously maintained to cover short term cash issues.

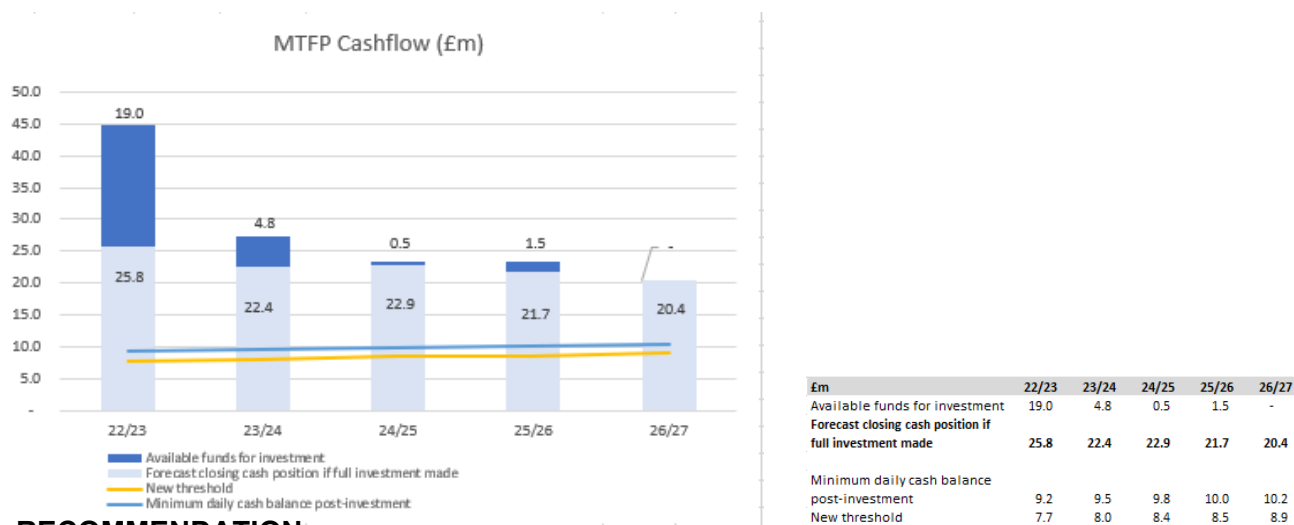
The below terms must be closely followed:

- Overspending in financial results cannot be as easily managed in the short term. Even on the agreement of wash-up charges to recover the overspend in the future, the remaining cash reserves may not suffice in the interim.
- EPSA agreements must be signed and a PO received prior to the incurring of any expenditure.
- Financial Control to be involved in decision making on the choice of cash investment to ensure timing of payments does not negatively impact the daily cash balance.
- Any change to timings of BAU working capital (eg. a change in payment date to a large supplier) must be modelled by Financial Control before any long-term decision is made.
- Expenditure intended to be externally funded must not be committed until funding is confirmed and a quick cash refund can be guaranteed. The impact of externally funded expenditure must be modelled by the Financial Control team before incurred.
- Savings/Efficiencies planned for each financial year to support the strategy must occur at the beginning of the year.

7 ASPIRATIONAL WORK ON CASH RESERVES

7.1 The Force continue to work with TfL to explore the implementation of a regular payment schedule which will allow the receipt of consistent periodic charges commencing much earlier in the year compared to historic timings.

7.2 The graph below is based on the scenario that TfL receipts are moved in line with the timing of the PSA direct debit from the beginning of 22/23. This would create a one-off benefit to cash that would allow greater investment in the future when measured against the Model 2 threshold, or provide greater security to our cash reserve if it was agreed to maintain cash investment at £13.2m.



8 RECOMMENDATION

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Members are asked to approve the recommended reserves strategy:

- To set only one cashflow threshold going forward with an amended threshold calculation, effective immediately regardless of when the released cash may be spent.
- To agree the principal of additional utilisation of cash reserves to fund part of the strategy up to £13.2m. A formal request including the value of suggested use of reserves each year will be included in the MTFP submission to Strategy and Performance Committee.
- To continue conversations with TfL on the setting of a regular payment schedule aligned with PSA direct debits.

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Basis of thresholds for 22/23	Model 1	Model 2 and "aspirational" model
One period of payroll costs	20.9	20.9
One period of non-pay and capital	5.8	5.8
Less "secure" income	- 11.8	- 18.9
	14.9	7.8

Model 1 assumes a dispute on large
PSA payment of £7m