

Transport for the North Board Meeting – Item 10

Subject: Transport for the North Treasury Management Strategy

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1. Executive Summary:

- 1.1 Under law, Transport for the North (TfN) is required to adopt an annual Treasury Management Strategy (TMS). The parameters within which this strategy is developed are informed by operational practicalities and statutory obligations.
- 1.2 The TfN TMS is attached to this report as Appendix 1. A summary of the considerations underpinning the strategy and its key features are set out in section 2 below.

2. Issue:

- 2.1 Unlike northern partners, TfN cannot access external credit; this includes bank overdrafts to manage short-term cash-flow fluctuations as well as capital loans to support long-term investment aspirations.
- 2.2 This removes TfN's need for a policy towards debt-management, but does shape the requirements of a cash-management (investment) strategy. Such a strategy is further informed by the way in which TfN is funded.
- 2.3 Without access to revenue-raising powers, TfN is reliant upon grant received from the DfT to resource its activity. This grant comes in the form of an annual 'core' grant over which TfN has discretion, and discrete grants for programme and development activity. The latter grants require pre-approval from the Department and are paid to TfN as required.
- 2.4 Accordingly, TfN's operating environment exposes it to insolvency risk which cannot be mitigated through the normal options open to a local or combined authority: cash-flow loans, and the effective underwrite which access to a local tax-base provides.

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- 2.5 Instead, TfN must mitigate its risk by managing its cash-flows in a particularly prudent manner. This factor promotes the dovetailing of a managed risk-culture within TfN, with a prudent reserve strategy, and an effective approach to cash-management. These strategies would be underpinned by the basic operating assertion that TfN must always have access to an appropriate balance of accessible cash on any given day to guard against financial-shock.
- 2.6 A managed risk culture involves TfN working collaboratively with other organisations (including DfT, northern partners, national agencies and suppliers) to structure contracts and financial relationships to ensure that its exposure to financial risk is proportionate to its ability to manage that risk.
- 2.7 A reserve strategy is proposed as part of TfN's budget that would support risk mitigation by, at any point in time, holding no less than £2m of cash in reserve. Such cash would be held on deposit in an appropriate bank or other financial institution, serving as a cash-buffer against financial-shock.
- 2.8 Finally, a cash management strategy must deliver upon the most basic requirement: that TfN will always have comfort that cash held on deposit is invested with only the most secure of counterparties, and is accessible in a timely manner.
- 2.9 This approach aligns with the priorities common to public-sector bodies that cash investment decisions must be made with due-regard to the following hierarchy of considerations:
- a) Security of the investment partner (creditworthiness);
 - b) Liquidity of the investment (accessibility);
 - c) Yield of the investment (financial return).

3. Purpose: For Approval

- 3.1 The Board is asked to approve the TfN Treasury Management Strategy.

4. Appendices:

- 4.1 Appendix 1: TfN Treasury Management Strategy.