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**Meeting:** Transport for the North Board  
**Subject:** Appendix 2: Treasury Management Strategy 2022/23  
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**Sponsor:** Paul Kelly, Interim Finance Director  
**Meeting Date:** Wednesday 30 March 2022

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**1. Executive Summary:**

- 1.1 Under section 21 of the Local Government Act 2003, Local Authorities (including TfN) are required to have regard to the CIPFA Code of Practice - Treasury Management in the Public Services 2017 edition and to adopt a 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 appended. This document is inherently technical, so a summary of the considerations underpinning the strategy and its key features are set out in section 3 below.
- 1.3 The 2022/23 Treasury Management Strategy report was considered and approved by the TfN Audit & Governance Committee at its meeting on 25 February 2022.

**2. Recommendation:**

- 2.1 To approve the proposed Treasury Management Strategy for 2022/23.

**3. Issues:**

- 3.1 Whilst the concept of a TMS that governs approaches to investments and debt management will be familiar to northern partners, the circumstances of TfN's operating environment may not be.
- 3.2 TfN cannot access external credit, whether this be in the form of bank overdrafts to manage short-term cash-flow fluctuations or capital loans to support long-term investment aspirations.
- 3.3 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.
- 3.4 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.
- 3.5 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.
- 3.6 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.

- 3.7 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.
- 3.8 A reserve strategy was proposed as part of TfN's 2021/22 budget that supported 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. This reserve strategy will be reviewed as part of the 2022/23 budget and business planning cycle.
- 3.9 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.
- 3.10 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).

### **Annual Investment Strategy**

- 3.11 CIPFA defines treasury management as:
- "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 3.12 The extent of TfN's treasury management activity will be limited to its cash management. This covers its banking arrangements, and its policies towards the safeguarding of its cash balances.
- 3.13 TfN will report on its cash management strategy throughout the year. This will come in the form of a Treasury Management Strategy document which is proposed for adoption on an annual basis; a mid-year review of performance against this strategy; and an annual Treasury Management Report at the end of the year which highlights overall performance and offers lessons learnt.
- 3.14 Noting the serious risks around cash-management, TfN is required to adequately resource this activity through the provision of internal capacity supplemented by expert and independent third-party support.
- 3.15 Consistent with the approach adopted by northern partners, TfN has procured a Treasury Advisor – Link Treasury Services. The Treasury Advisor assists TfN in maintaining market intelligence and ensuring that the cash-management strategy remains appropriate throughout the year.
- 3.16 TfN recognises, however, that it cannot place undue reliance on external support, and must maintain internal skills and capacity.
- 3.17 Treasury Management activity will fall under the operating purview of the Finance Director and the Financial Controller.
- 3.18 Finance officers and those members charged with oversight of TfN's affairs will also be offered both internal and external training where appropriate.

### **Core Funds and Expected Investment Balances**

- 3.19 TfN receives its funding from the Department for Transport (DfT) in the form of grant allocations. This grant can be differentiated between discrete funding for pre-

approved programme activity, and general 'core' grant over which TfN has discretion – subject to the parameters set by TfN's objectives and TfN-DfT funding agreements.

- 3.20 How TfN is funded shapes the level of cash balances to be held. There are two principal factors:
- a) Discrete funding is awarded on a 'need' basis, generally meaning that DfT will release cash to TfN in advance of need; and TfN requires cash in hand at sufficient levels to guard against financial shock, noting its inability to access overdrafts, or raise revenues from a local tax base.
  - b) Being funded on a 'need' basis means that generally the programmes operate on a cash-neutral basis. That is, the cash outflows associated with payments will always be met by the cash inflows associated with the grant received.
- 3.21 To that end (and subject to TfN receiving appropriate assurances from DfT prior to entering into long term financial commitments), the cash flow implication of receiving grant in this manner is simply associated with the timing differences between receiving grant and spending it. As programme grant is generally awarded monthly or quarterly, this will generally mean that those variances will be corrected at worst within three months.
- 3.22 Similarly, being funded on a need basis means that TfN should not build up cash balances when its activity associated with core grant falls below forecast generating underspend. When such underspends do occur, they will be treated in the context of the proposed reserve strategy.
- 3.23 TfN's current reserve strategy ensures that over a rolling three-year period cash balances held in reserve will not fall below £2m. However, cash balances may be higher than this in any given year if there is an agreed plan to draw down upon that cash to support the business plan. This position will be reviewed as part of the 2022/23 budget and business planning cycle, as the transition of responsibility for delivery of the NPR programme into DfT will result in a c80% reduction in TfN's expenditure and a consequential reduction in the extent of the cash flow risk to which it is exposed.
- 3.24 The current reserve strategy affords TfN a degree of flexibility in that it can use cash balances over its minimum threshold to support expenditure plans that are higher than the in-year available resource. That is, TfN can supplement its annual grant from draws on available reserves where it is prudent to do so.
- 3.25 The reserve strategy also allows the DfT to fund TfN in an efficient manner. Working to a target reserve cash balance means that DfT does not unnecessarily draw down on funds from HM Treasury before they are required by TfN.
- 3.26 Although cash balances will likely fluctuate in-year as timing differences arise between cash being received and payments being made, it is expected that TfN's underlying cash position will reduce in the coming year, reflecting the removal of NPR Programme working capital from TfN's considerations. This will further reduce the opportunity for meaningful investment income to be generated from TfN's cash reserves.
- 3.27 TfN's funding allocation, received on 14 February 2022, implies a significant reduction in expenditure across the organisation. Treasury Management Practices will be revisited once clarity has been achieved regarding TfN's future operating model.

### **Investment Policy**

- 3.28 The intention of the investment strategy is to provide security of investment and minimisation of risk. This ensures TfN will not chase yield at the expense of the

security of investments, and not prejudice TfN's risk mitigation priorities. The strategy also enables TfN to operate a diversified investment portfolio to avoid an over concentration of risk. With the low yield environment, in some cases marginally negative, TfN has chosen to position the majority of its excess funds with DMADF which has a lowest downside risk profile. This will be reconsidered if interest rises mean that investing in Money Market Funds again becomes worthwhile.

- 3.29 TfN's investment policy has regard to the government's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").
- 3.30 In accordance with the above guidance from MHCLG and CIPFA, and in order to minimise the risk to investments, TfN will only invest with the most creditworthy of counterparties, and for durations that reflect TfN's need for timely access to its cash. TfN will also limit its overall exposure to individual institutions by adopting limits to the amount of cash it will place with any one bank or fund.
- 3.31 TfN has adjusted its investment strategy, particularly around creditworthiness following the adoption of the Link Asset Services system.
- 3.32 The Link Asset Services system ensures that TfN does not place too much reliance on aged information provided by credit rating agencies. Instead, whilst using the credit ratings from the three main agencies the system also uses credit watches and credit outlooks to ensure it is informed of future forecasts, whilst also using real-time market opinion in the form of credit-default swaps (the cost that the market places on insuring transactions with counterparties). These factors are entered into a weighted scoring system which gives an indication on the relative creditworthiness of counterparties.

3.33 **Length of Investments**

TfN will favour short-term liquid investments which give it ready access to its cash:

- a) Individual investments will not be placed for longer-than 3 months.

At any point, at least £1m will be held in same-day access funds or accounts.

3.34 **Counterparty Credit Ratings**

TfN will use the Link Asset Services creditworthiness system. This system uses a variety of data sources to make real time dynamic judgements on a counterparty's relative creditworthiness. Typically, TfN will not invest with counterparties with a long-term Fitch rating of less than 'A-'.

3.35 **Country Sovereign Ratings**

Recognising the support that individual nations and central banks offer to banking institutions, TfN will invest with counterparties from countries with a minimum sovereign credit rating of 'AA-' from Fitch.

3.36 **Investment Classes**

TfN will limit investments to the following Sterling denominated classes:

- a) Term deposits with financial institutions and public bodies.

Redeemable share purchases in same-day access AAA rated constant and low volatility net-asset value money market funds.

3.37 **Investment Values**

TfN will limit its exposure to individual institutions by:

- a) Investing no more than £5m in individual institutions and funds.

The sole caveats to this are necessary investments with TfN's own bank and investments with the DMADF.

### 3.38 **Investment Returns**

Noting the relative considerations and requirement for liquidity, TfN will benchmark its investment returns against 7-day LIBID.

#### **4. Options Considered:**

4.1 This report proposes a Treasury Management Strategy that is designed to support TfN's approach to cash management risk. This Strategy is supported by the Link Asset Services approach to creditworthiness.

#### **5. Considerations:**

5.1 This report is formed from considerations around cash management risk.

#### **6. Preferred Option:**

6.1 This paper proposes a Treasury Management Strategy for adoption.

#### **7. Corporate Considerations**

##### ***Financial Implications***

7.1 The financial implications are contained within the report

##### ***Resource Implications***

7.2 There are no resource implications within this report.

##### ***Legal Implications***

7.3 Legal implications are contained within the report.

##### ***Risk Management and Key Issues***

7.4 There are no material risks to be considered within this report.

##### ***Environmental Implications***

7.5 A full impact assessment has not been conducted because it is not necessary for this report.

##### ***Equality and Diversity***

7.6 A full impact assessment has not been conducted because it is not necessary for this report.

##### ***Consultations***

7.7 A consultation has not been conducted because it is not necessary for this report.

#### **8. Background Papers**

8.1 Item 4, Budget & Business Planning Report

#### **Glossary of terms, abbreviations and acronyms used (if applicable)**

*Please include any technical abbreviations and acronyms used in the report in this section. (Please see examples below.) This will provide an easy reference point for the reader for any abbreviations and acronyms that are used in the report.*

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|----------|---|
| a) TMS   | Treasury Management Strategy                          |
| b) CIPFA | Chartered Institute of Public Finance and Accountancy |
| c) LIBID | London Interbank Bid Rate                             |