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TRANSPORT FOR THE NORTH

Transport for the North
Audit & Governance Committee
Agenda

Date of Meeting	**Thursday 18 February 2021**
Time of Meeting	**11.00 am**
Venue	**MS Teams**

Filming and broadcast of the meeting

Meetings of the Transport for the North are 'webcast'. These meetings are filmed and broadcast live on the Internet. If you attend this meeting you should be aware that you might be filmed and included in that transmission.

Item No.	Agenda Item	Page
1.0	**Welcome and Apologies** The Chairman to welcome members to the meeting.	Verbal Report
2.0	**Declarations of Interest (V)** Members are required to declare any personal, prejudicial or disclosable pecuniary interest they may have relating to items on the agenda and state the nature of such interest.	Verbal Report
3.0	**Minutes from the Previous Committee (R)** To consider the minutes from the meeting held on 19 November 2020 and, if thought fit, to approve as a correct record.	3 - 8
4.0	**Monthly Operating Report (December 2020) (R)** To note the Transport for the North Monthly Operating Report.	9 - 34
5.0	**Internal Audit Update** a) Internal Audit Progress Report b) Investment Programme Assurance Review c) New Payment (Commissioning) Processes	35 - 92

	d) Income and Debtor Management To note the reports from RSM Risk Assurance Services.	
6.0	**Internal Audit Plan 2021/22** To consider and agreed the report from RSM Risk Assurance Services.	93 - 110
7.0	**External Audit Update** a) Annual Audit Letter 2019/20 b) Audit Strategy Memorandum c) Audit Progress Report To note the reports from Mazars.	111 - 184
8.0	**Treasury Management Strategy 2021/22** To consider and agree the report.	185 - 254
9.0	**Accounting Policies 2021/22** To consider and agree the report.	255 - 276
10.0	**Annual Governance Statement Review** a) Annual Governance Statement b) Anti-Fraud & Corruption Policy Review To consider and approve the draft Annual Governance Statement and TfN's review of its Anti-fraud & Corruption Policy	277 - 312
11.0	**Corporate Risk Report** To highlight the significant risks associated with Transport for the North's ongoing transformational programmes. To consider and approve the updated format of the Risk Register.	313 - 358

Transport for the North
Audit & Governance – Minutes

Meeting: Transport for the North Audit and Governance Committee

Date: Thursday 19 November 2020, 11:00am – 12:15pm

Venue: MS Teams remote meeting

Attendees:

Chris Melling, CM (Chair)	Independent Member
Cllr Keith Little, KL (Vice-Chair)	Cumbria County Council
Cllr Heather Scott, HS	Darlington Borough Council
David Pevalin, DP	Independent Member
Cllr Chris Brewis, CB	Lincolnshire County Council
Cllr Liam Robinson, LR	Liverpool City Region
Cllr Allen Brett, AB	Rochdale MBC

Invitees:

Yaroslava Koseva, YK	Department for Transport
Karen Murray, KM	External Audit, Mazars
Andrew Mawdsley, AM	Internal Audit, RSM, UK

Officers:

Dawn Madin, DM	Business Capabilities Director
Iain Craven, IC	Finance Director
Paul Kelly, PK	Financial Controller
James Lyon, JL	Legal Assistant
Rosemary Lyon, RL	Legal & Democratic Services Officer
Julie Openshaw, JO	Head of Legal
Haddy Njie, HN	Risk Manager
Deborah Dimock, DD	Solicitor

Apologies:

Kevin Brady, KB	Independent Member

1.0 Welcome and Apologies — Action

1.1 It was noted that Keith Little would need to leave the meeting early due to other commitments. Kevin Brady's apologies were noted.

2.0 Declarations of Interest

2.1 There were no declarations of interest.

3.0 Minutes of the Last Meeting and Matters Arising

3.1 The minutes of the meeting on 24 September 2020 were considered.

RESOLVED: To accept the minutes of the meeting held on 24 September 2020 as a true and accurate record.

4.0 Monthly Operating Report (R)

4.1 The report was noted, and Iain Craven invited any questions arising from it.

4.2 The Chair asked if the delays to Phase 3 and 4 of the IST programmes contained any significant financial risks. IC advised that due to the delays noted in the report, the funding of the IST scheme had become dependent on the CSR announcement due on 25th November. He further noted that these delays were impacting on TfN's ability to plan for the following financial year.

4.3 The Chair asked for clarity concerning a phrase on IPBA which noted both that "work was ongoing" and "work was expected to start in April". IC replied that the Operating Report was published a month in arrears so there had been some movement in the timelines. The procurement was due to start in the next couple of days and the intention was that the appointment of a contractor and the subsequent work would begin in the new financial year.

4.4 The Chair further requested that the Committee was sighted on the TAME work on a regular basis as their work was critical to the Investment Programme and the decision of the NPR Programme.

Action: IC and Chair to discuss further to finalise the content of a TAME team presentation to the next Committee meeting to summarise its work.

5.0 Budget Revision 2 & Mid-Year TM Update (R)

5.1 IC advised that this report had been to both Scrutiny Committee and then to TfN Board on Wednesday 18th November. Primarily for information for the Audit & Governance Committee, it set out the final financial performance for the six months through to September, the budget revision through to the end of the 2020/21 financial

year and TfN's compliance of the Treasury Management Strategy.

5.2 The underspend of £3 million was mostly covered by the NPR and IST programmes. However, some underspend in Core was due to delays caused by Covid as TfN had over-estimated the return to normality.

5.3 The full year Revision 2 forecast was reported as £67.1m, down £1.3m on the previous estimate. This was the net impact of a number of movements. The forecast including contingency has decreased by an additional £8.5m due to the deferral of activity into next year. This work was designed to expedite post-SOC works and will not affect the delivery of the SOC in March. IC noted that this work is now largely committed for delivery in the next financial year.

5.4 The funding picture for April 2021 onwards was still very uncertain due to the delay in CSR announcement, so TfN had begun to mitigate risks by delaying some activity, resulting in an underspend against forecast.

5.5 TfN Board previously approved a Treasury Management Policy which focussed on security, liquidity and yield in that order and the report detailed TfN's compliance with that policy.

5.6 The Chair asked if there was a risk that the £8.5million deferred into the following financial year from NPR would be lost. IC replied that DfT had been notified of the need for this activity to be moved into the new financial year and that it had been included in the revised CSR submission. He also noted that the co-cliented nature of the arrangements minimised the risk associated with this funding.

5.7 The Chair raised a written query from Kevin Brady, regarding the process for submitting the Budget revision noting that Audit & Governance received it after Board, and it seemed to be a document for information only. IC confirmed that as budgets and the revisions to them are driven by the business plan and essentially policy matters for the Board they are considered by the Scrutiny Committee prior to submission and that the report was provided for noting only as it contained information useful to this Committee's role. This was confirmed by JO.

RESOLVED: The Committee noted the report.

6.0 Internal Audit Reports (R)

6.1 Andrew Mawdsley from RSM presented the three reports from Internal Audit. He advised that the audit plan was on track, that the New Payment Process Audit had recently been issued in draft form and that this would be brought to the next Committee meeting. There were two remaining audits left to take place, Risk & Governance Framework and Income Management Review, both scheduled for January.

6.2 The Audit Progress report was taken as read and there were no questions arising.

6.3 RSM's IT technical expert team had carried out a Cyber Security Audit which raised two medium and two low priority management actions regarding procedures and controls. The penetration test proposed for Leeds and Manchester had yet to happen due to the office closure since lockdown. The Follow Up audit would address some of the specifics raised in the Cyber Security report to ensure that actions had been taken. However overall, the report had been broadly reassuring that TfN was well equipped to deal with IT matters.

6.5 The HR Audit had reviewed the end-to-end process of recruitment and selection of staff which had raised one minor point about CRB checks within the policy. It was also noted that the term "CRB" was outdated and should refer to DBS. However, this had no impact on the actual audit or the overall HR department since TfN had limited roles requiring such checks, and whilst the old wording had been carried forward in internal documents it did not affect actual processes. TfN's HR will update the wording, and this would be picked up in RSM's Follow Up Audit.

6.6 It was noted that External Audit had no formal reports to submit but the Chair asked if Mazars wished to update the Committee. Karen Murray confirmed that the accounts, recommended by Audit & Governance at the previous meeting, had gone to TfN Board for approval, this approval had been received and the accounts had been signed by Iain Craven, Finance Director and Karen Murray, External Audit Partner. The Annual Audit Letter, the written confirmation of the verbal assurance given in the meeting, would be issued before Christmas and presented to the Committee at the next meeting.

6.7 IC added his thanks to both RSM and Mazars for their collaborative work in a Covid-19 environment, with full remote working at both ends. The Chair added that TfN Board had also thanked Audit & Governance Committee for the work in recommending approval of the accounts recognising that the committee had also worked well via

virtual meetings and with Covid-related delays to facilitate the process.

RESOLVED: The Committee noted the reports and thanked RSM and Mazars for their work and the overall reassurance provided.

7.0 Annual Governance Review (R)

7.1 This represents the first report to Audit & Governance Committee of preparing the review of the Governance Statement, working to a publication date at the end of May for sign off by TfN Board in June. A number of review items will be brought to Audit & Governance including a review of the Anti-Fraud and Corruption policies which had been requested.

7.2 The Chair acknowledged that this was an important process and it was right to begin considering it in plenty of time

RESOLVED: The review process would be covered in more detail at the next Audit & Governance Committee.

8.0 Draft Corporate Risk Register Report (R)

8.1 HN advised that all risks had undergone a comprehensive revision as part of ongoing risk management processes and highlighted the main changes following this review. She added that the risks were fully reviewed at least monthly, often more frequently depending on the workflow concerned. In spite of the full remote working, regular meetings with programme teams were taking place and the engagement remained positive.

8.2 Some of the risk ratings had been lowered by a detailed exercise to separate further aspects and mitigations that TfN had direct control of and the ones that were imported and that TfN did not control directly. A point was raised on the possibility of differentiating controllable risk mitigations from dependency mitigations in order to better monitor progress with the mitigating actions.

8.3 NPR risks remained high due to its high profile and the ongoing challenges in relation to the approval of the SOC in March. However, the Register reflects the work being done to mitigate these risks, including work with Network Rail to challenge and mitigate cost pressure. Modelling work by TAME & NPR had resulted in an improvement to the Benefit/Cost ratio which had been reflected in a lowering of the risk scores within the Register. The progress made with the SOC was also noted and the timeline for its approval in

March 2021 considered more achievable, again resulting in a lowered risk rating.

8.4 Risks around the Integrated Rail Plan had been raised as having the potential to affect the NPR SOC and the Outline Business Case.

8.5 Decarbonisation and Climate Emergency risks had been downgraded, as although the content of the risk information had not changed significantly, the mitigations had been reworked and improved and more specifically address the objective stated in the risk register.

8.6 DP praised the extra clarity that this had given to the report commenting that the issues of controllable and uncontrollable risks was one that the committee had struggled with since its inception. HN added that the risk register was still undergoing further revision with the aim of moving the current 4x4 matrix to a more detailed 5x5 one. IC added that the issues of risk descriptions and the corresponding mitigations had been discussed at length in TfN's Director meetings. IC invited the Committee to make any comments they had on the matter directly to him for consideration as the risk reports were updated.

RESOLVED: The Committee noted the Risk Report and thanked HN for the detail within it.

9.0 Next Committee Dates

9.1 The Committee noted the next meeting of 18th February 2021 at 11am.

9.2 In line with recent Government announcements around remote working, it would be a virtual meeting and an invitation would be sent shortly.

9.3 Future meetings in June and July were mentioned with the requirement to fit in around TfN Board dates

Action: Plan A&G meeting dates for 2021.

10.0 Any Other Business

10.1 No other items of business were raised.

The meeting concluded at 12:05pm

r = report; p = presentation; v = verbal

Transport for the North

Monthly Operating Report December 2020

TRANSPORT FOR THE NORTH

Contents

Introduction
Summary from the Chief Executive

The preparation of this report has been undertaken against the backdrop of the DfT funding letter issued on 4 January significantly cutting funding for next year. This report doesn't assess the impact of the proposed cuts – these will be discussed at TfN's January Board and subject to separate communication. TfN is now in dialogue with the Department for Transport regarding the settlement and is making further representations to ministers.

The National Infrastructure Commission published its delayed Rail Needs Assessment on the 15 December. TfN responded with an immediate reaction on the day of publication and followed up with a more detailed assessment for the TfN Board. The Integrated Rail Plan due at the end of 2020 is now expected to be published early in 2021.

We also submitted and published TfN's submission to the Union Connectivity Review, which highlighted the vital importance of Northern transport network in connecting Scotland, Wales and England and called for a sustained programme of road and rail investment to remove key bottlenecks, boost connectivity and improve resilience and reliability for key freight routes.

Work on the Northern Powerhouse Rail (NPR) Strategic Outline Case (SOC) remains on track to go to TfN Board and then to Government in March 2021. The SOC was shared with Partners and DfT during December.

Integrated & Smart Travel work continued, with the final set of Local Transport Authority (LTA) requested enhancements to Disruptions Messaging Tool (DMT) being delivered, tested and accepted for 'go live' in January 2021. During December, progress has been made with Northern Train's Platform Validators (PVals) with 85% now ready for live use, and PVals at Merseyrail's 66 stations operational in time for planned go-live in January 2021. National rollout of the Fares Tool and go-live for the Disruption Messaging Tool (DMT) are also planned for January 2021.

TfN's Future Travel Scenarios report was published online in mid-December, with publicity around this scheduled for January 2021. This major programme of analysis has been developed over 18 months, drawing on the work of leading experts in transport, decarbonisation, the economy and societal trends. The publication updates early analysis of future travel demand in the Strategic Transport Plan, providing long-term future growth forecasts by travel mode under a number of alternative futures.

We continue to support the North's rail network around Covid-related recovery planning.

Northern Powerhouse Rail (NPR)

Monthly Summary

The business case development work is continuing on schedule to gain approval of the Strategic Outline Case (SOC) by TfN Board in March to then be submitted to Government. During December, version 3.0 of the SOC was shared with Partners and DfT for review and feedback. In addition, a deep-dive on the SOC was held at the NPR Working Group. Feedback received has been incorporated into SOC V3.1 and is to be shared with TfN Board ahead of the meeting on 14 January 2021.

The next iteration of the SOC (Version 4) will include updated costs from Network Rail's (NR's) assurance process and NPR Commercial team as they are received through December and January. Updated BCRs as a result will also be calculated and included in the next version.

Remit development workshops are scheduled to take place in January between TfN, DfT, Partners and Delivery Partners to support delivery of NPR Programme objectives for FY21/22 This will be an iterative activity taking into account TfN Board decisions, the publication of the Integrated Rail Plan, which has been delayed until early 2021 and subsequent investment decisions following SOC submission.

Activity Update

Infrastructure

Work to support the re-assurance of costs for the SOC has continued to be a principal activity across the Infrastructure Team.

The preliminary sharing of unassured costs has helped the Commercial and TAME teams to complete as much work as early as possible to support development of the SOC to agreed timelines. They have also given TfN the opportunity to question and challenge costs ahead of them going through formal NR assurance panels.. However, NR assured costs will not be available until early February 2021. This has impacted NPR's ability to take assured cost estimates, as initially planned, to the January 2021 Board and additional governance dates are being scheduled to support submission of SOC in March 2021.

A scope for developing the first phase of the NPR train control strategy has now been agreed with NR. This work commenced in December 2020 and will continue into the next financial year (subject to funding being agreed).

A price and programme has been received from NR for Leeds – Hull Ground Investigation (GI) surveys. The GI surveys are scheduled to commence 27 February 2021, with a completion date for surveys of 02 July 2021, and completion of outputs (reports and updated Bespoke Advice Note) by 13 September 2021.

The Barnsley Dearne Valley Parkway & Rotherham Main Line Project remains on track to present progress on Outline Business Case (OBC) in February 2021. It is hoped that this will enable of approval from DfT for the team to progress to complete the remaining OBC evidence by mid-2021.

Technical Assurance, Modelling and Economics (TAME)

Iteration 1D of the Northern Rail Modelling System (NoRMS) model, which is to be used in the SOC, has been updated to include a forecast opening year of 2040 from the currently used year of 2033. This was in order for the SOC to align with TfN phasing/Government's IRP. It results in an increase in BCR as the Capital Cost spend is pushed back by 7 years and as such is further discounted in the appraisal.

Iteration 2 of NoRMS, which will include the 2018 base year, is on schedule to be delivered in January and will be used to run sensitivity tests to deliver updated outputs which will be captured in the SOC where appropriate.

Partner engagement

Engagement at officer, executive and Member levels continues to support the programme towards the delivery of the SOC. Partner organisations continue to be informed at all levels, with briefing sessions taking place ahead of key milestones and meetings in the programme.

Risks

Issue Summary	Summary of Mitigating Measures	KPI
Issue: Infrastructure costs – The infrastructure costs for route/hub options have increased through Sequence 4 (SOC) development. The increased costs are contributing to reduced Benefit Cost Ratio (BCR) values vs the same options at SOBC, and negatively impact the ability to make a positive case.	1. Investigate the rationale for increase in Capital Expenditure (CAPEX) costs and ensure they are recorded. 2. TfN working with NR on a series of reviews including tunnel rates, overhead line equipment (OHLE) and power, property cost estimates and schedule forecasts. 3. Agreement made with NR that the network would be re-assured and new assured cost plans will be created. Two sets of figures are to be created – one with NR assured costs and the second with the NPR Commercial Team cost overlays. 4. The TfN estimating team is delivering packages of work (that NR would have previously delivered) required to support the SOC. This allows NR to focus on reassuring all retained routes.	2
Issue: BCR development - Low BCRs have been generated, following further development since SOBC, across infrastructure and modelling and appraisal. This may result in NPR struggling to present a viable business case to Government.	1. Iteration 1D to support SOC will provide further enhancements, alongside NeLUM (Northern Economy and Land-Use Model) which provides transformation Level 3 BCRs. 2. A final iteration of NoRMS, Iteration 2 (due Jan 2021), will include a 2018 demand uplift and should also increase overall benefits. 3. Work is being undertaken with the modelling team to look at optimism bias in Operational Expenditure (OPEX). NR renewals costs allowed for in NPR under review. This work is expected to be concluded 22 January 2021.	2

	4. Business case and modelling to be reviewed against Green Book reforms which place less emphasis on BCRs, as well as DfT proposals for longer appraisal periods.	
Risk Summary	**Summary of Mitigating Measures**	**KPI**
Risk: Partner engagement - There may be a lack of understanding and buy-in by partners of emerging and/or final information to support sifting and decision-making for SOC. This will impact on the time partners have available to fully review emerging final information and endorse/challenge to SOC submission timescales/failure to meet Board dates.	1. Post-sift and Board preparation engagement with partner organisations at a Member level, involving NPR working group throughout the sifting process. 2. One-to-one briefings are taking place by the NPR Director, Tim Wood, with leaders and executive Board Members. 3. NPR has extended the stakeholder management capacity within the NPR PMO to support Partner engagement.	2
Risk: Integrated Rail Plan (IRP) – The possible delay of the IRP publication and its outcome could have consequences to the SOC if its recommendations on funding envelope/phasing/specifying route options are different from those agreed by TfN Board. These recommendations may result in a need to review decisions and result in late submission of the SOC as well as resulting in a delayed start to the next stage of NPR delivery and the Outline Business Case (OBC).	1. TfN has set up a working group to develop its response to the IRP and ensure that it is effectively communicated to Partners and stakeholders, and that interfaces and interdependencies between IRP and NPR (including SOC) are closely managed. 2. Planning assumptions for FY 21/22 + are being used to develop plans for future year development of NPR. This will better prepare the programme to respond to the IRP conclusions, when the IRP is delivered (Date TBC), and, hopefully, reduce re-work to business planning ahead of TfN Board in March 21.	2

Programme and look ahead

TfN Board	Recommendations
14.01.21	Note SOC Near Final Draft, advise on essential changes to support approval.
10.03.21	Agree SOC, agree submission of SOC to Government, agree statutory advice, agree comms strategy and handling.

Integrated and Smart Travel (IST)

Monthly Summary

The final set of Local Transport Authority (LTA) requested enhancements to Disruptions Messaging Tool (DMT) were delivered, tested and accepted for 'go live' next month. The Fares Tool transitioned to DfT for national use also for next month. Good progress was made by Northern Trains readying for live use a further 18 Platform Validators (PVals). We progressed our Innovation Demonstrator project down selecting 10 bids to go through to round one (bidder desktop demonstrations).

***Update 4 January**:* DfT informed TfN that there was no funding allocation for the IST Programme in 2021/22. In the absence of any funding to continue with the Innovation Demonstrator project, the decision was therefore taken at Programme Board on 13 January to cancel the procurement of the associated procurement exercise.

Activity Update

Phase 1 - Smartcards on Rail

Northern Trains has made substantial progress over December with 80 (85%) of PVals ready for live use. PVals at Merseyrail's 66 stations are now fully operational and 'go live' is planned for January 2021. Flexi-seasons are available along five routes but given Covid-19 restrictions DfT has not yet approved further roll out. *Update 5 January:* we will review the impact of Lockdown restrictions on completion, but given the project is near completion we continue to work to 31 March 2021.

Phase 2 - Improving Passenger Information

Fares Tool – The tool has been transitioned to DfT for national roll out in January 2021. In December TfN and DfT launched external communications promoting successful completion of the tool's development. Since the 'soft' launch (i.e. the tool's open availability for use by any operator in advance of national roll out) more than 400 fares and ticketing products have been created by 30 operators.

Disruption Messaging Tool (DMT) – LTAs and TfN have tested and accepted the final set of enhancements (social media and reporting) from the supplier, with 'go live' scheduled in January 2021. CityMapper (a transport app) has expanded its services to the North and is feeding back to LTAs in order that good quality data is provided to the public.

Phases 3 and 4 - Contactless on Rail and Local Smart Schemes

Whilst a decision regarding funding for these schemes was awaited, the programme made submissions to DfT to utilise unspent grant to undertake initial work over the remainder of this financial year. This included a joint proposal by TfN and Northern to implement a bankcard Pay As You Go (PAYG) proof of concept project. *Update 4 January 2021: DfT informed TfN that there was no funding allocation for the IST Programme in 2021-22.*

In December we progressed our innovation demonstrator projects. We finalised the assessment of selection questionnaires from 22 bidders (i.e. initial

submissions proposing fitness to proceed to the next stage). December's Programme Board approved 10 down selected bids to progress through to round one (bidder desktop demonstrations). *Update 13 January:* this procurement has been cancelled because of the decision not to fund the IST programme.

Risks

Risk/Issue Summary	Summary of Mitigating Measures	KPI
Risk: Phase 1 The challenges faced with validation equipment may delay the introduction of smart flexi-seasons in Greater Manchester and the Bradford areas, which could result in not attaining the KPI and costs running into 2021/22.	1. Northern - TfN to continue working with Northern to pressure suppliers for delivery. An alternative temporary solution proposed by Northern is to be discussed with TfN. 2. Listed Building Consents - Network Rail is giving Manchester Piccadilly priority for planning consents and delays to granting consents to the outstanding three stations are being escalated by TfN to senior officers in the relevant local authorities. 3. TfGM Validator configuration - TfGM has stated this work is to be completed by the end of January.	3
Risk: Phase 2 – Developers do not consume disruptions data in the Open Data Hub (ODH) and publish it in their live applications and as a consequence those LTAs who are currently using the DMT and ODH do not use the tools in the long term. This would have a reputational impact for TfN.	1. Continue to gain agreement from and support Nexus to use the tool as the other four City Region LTAs. Developers, including Google, have stated that they require consistency across the North if they are to publish data from the ODH. 2. If 1. is attainable ITO World (DMT supplier) to work with LTAs to increase consistency and quality of the data they enter and automate a process to transfer data from the ODH to Google (who a number of LTAs see as essential). 3. Work with LTAs and other developers e.g. CityMapper to improve data quality.	4
Issue: Phases 3 & 4 – DfT informed TfN (4 January 2021) that there was no funding allocation for the IST Programme in 2021/22. The impact is there is a loss of £33.4m investment in the North. There is no date by which the passengers in North will have access to contactless payments on heavy and light rail, resulting in reduced passenger confidence, a slower return to public transport and a failure to level up.	1. To seek TfN Board's support to engage Secretary of State to reconsider the IST funding decision particularly regarding the projects' impact on supporting the post Covid economic recovery.	5

Programme and look ahead

Phase 1

Merseytravel/rail launching (January 2021) their online retailing offer supported by Platform Validators at their 66 stations delivered through Phase 1. Northern to test Star Mobile (on board retailing and validation).

Phase 2

Fares Tool: Project closure. In addition to the scope of the project, TfN will support the DfT fares publication business change activity. Disruptions Messaging Tool: South Yorkshire Passenger Transport Executive (SYPTE) roll out of unplanned for disruptions across bus and tram in January 2021.

Investment Programme

Monthly Summary

We continue to prepare for next year's Investment Programme Benefit Analysis (IPBA) and through the road, rail and smart travel teams continue to pursue projects in the Economic Recovery Plan. The IPBA commission is critical to understanding the economic, social and environmental benefits of the TfN Investment Programme. The analysis will use DfT's conventional growth scenario, and the four Future Travel Scenarios agreed by TfN Board in July 2020, to assess the three investment programme strategies. This work will enable TfN to make a strong evidence-based case for transport investment and only through completing this analysis will we have a clear picture of the potential impact of the Investment Programme on carbon emissions. This includes reference case schemes including Northern Powerhouse Rail.

4 January Update – the IPBA will have to be assessed alongside all other priorities in the business planning process, given the reduction in funding announce.

Activity Update

The commission for the IPBA project went out to tender on 5 November 2020, so that suppliers can be commissioned to start work by April 2021. The deadline for the return of applications was extended to 23 December 2020 to allow further time for suppliers to respond during the holiday period. Tenders have now been returned and are being assessed. During this month:

- Work on updating the TfN Interventions Log, which maps the road and rail schemes in the Investment Programme, is ongoing, and takes account of recent decisions on the NPR programme. The Interventions Log will be regularly updated and also includes schemes that are under consideration but do not form part of the TfN Investment Programme.
- A commission to bring forward coding of the Investment Programme interventions into TfN's transport models is being procured to de-risk the main commission.
- A commission for freight modelling to support the main IPBA commission is being negotiated.

Risks

Risk/Issue Summary	Summary of Mitigating Measures	KPI
Innovative Modelling – Risk: The delivery of the IPBA planned to start in April 2021 still relies on a set of innovative models to provide evidence for the North's business case, which require thorough testing and assurance. If the models are not ready on time, there is a risk that we might not meet the Business Plan commitments and the sequencing outputs may have low assurance.	1. To continue to hold monthly meetings to track interdependencies and monitor potential risks. 2. TAME to continue to provide monthly updates on the framework's development and state of readiness. 3. Hold point has been built into commission; a gateway allows TfN to review the scope of work against progress and need.	10

NPR Alignment – Risk: A number of interdependencies with NPR have been identified. – for e.g. reference case, model development, resource requirements, and freight modelling. If delivery of NPR and IPBA are not aligned: --- There are potential financial and time risks (for instance, if re-work is required or IPBA has to wait for NPR to complete their programme first); -Resource implications if NPR's priority leaves skills gap (particularly within TAME) that prevents IPBA from proceeding, as well as reputational impacts if the technical assumptions are not consistent.	1. Monitor the NPR programme and implications for IPBA via monthly programme reviews. 2. Hold regular resource meetings with NPR managers to consider TAME resource requirements. 3. TAME to provide bi-monthly technical updates to ensure consistency of NPR and IPBA delivery.	10

Programme and look ahead

- The project team, including contributors from our Partner organisations, will review the tender bids, and seek to award the contract to the successful bidder in March 2021.

Major Road Network (MRN)

Monthly Summary

On 20 November 2020, the Cumbria Local Enterprise Partnership (LEP) Board confirmed £5m of the Ministry of Housing, Communities & Local Government's 'Getting Building' fund to support further scheme development of the A595 Bothel Strategic Improvement.
TfN's Future Travel Scenarios reports have been published online with press release and light-touch comms promotion expected in January 2021. We have reviewed the Government's response to the Future Transport consultation (following our submission in Spring) and the Future of Transport Rural Strategy call for evidence and we are engaged with DfT officials. It is hoped that they will attend the Sub-National Transport Body liaison meeting on 12 February.

Activity Update

- The team has been engaging with the Department for Transport and their Acceleration Unit to discuss opportunities for speeding up delivery of projects identified in TfN's Economic Recovery Plan.
- The team has worked with our Communications and TAME teams to complete the Future Travel Scenarios report and ensure evidence-based application within TfN's Analytical Framework.
- The team is continuing to monitor the impacts of Covid-19 on travel, and is engaging with DfT, Highways England (HE) and TfN partners on sharing transport data. This includes sharing of mobile phone data monitoring journey time and reliability on the MRN.
- The team has received tender bids for the Major Road Network's monitoring and performance project, which uses anonymous mobile device data to provide network data such as journey times, reliability and origin-destination information. Subject to governance procedures, the contract will be awarded to the successful bidder in January 2021.
- The team is inputted into TfN's response to the Union Connectivity Review (UCR).

Risks

Risk/Issue Summary	Summary of Mitigating Measures	KPI
Risk: Negative perceptions - Due to the environmental and sustainability impacts of traffic and congestion, stakeholders might assume that road investments could be worsening the situation e.g. greenhouse gas (GHG) emissions. As a result, there is a risk that the road schemes might not get the investment needed to deliver the Strategic Transport Plan (STP).	1. Working with Communications team to develop a clear narrative on why roads are a critical part of the transport network, and how future management of, and investment in roads can support the North's vision for a sustainable future. 2. TfN's Strategy team to influence the transport appraisal processes to include social inclusion etc following publication of the Green Book updates. 3. Work to address this topic in the Major Roads Report and work with comms to develop an appropriate comms plan.	**6**

	4. Await the outcome of DfT's decarbonisation plan (Spring 2021) and use this to help inform TfN's Decarbonisation Pathway. 5. To monitor impacts of Covid-19 on travel behaviours, patterns and flows, and use this to inform scenario work and communications. 6. The Investment Programme's benefit analysis project to enable TAME to build the Analytical Framework, which can be used to demonstrate the real impact of road investment and different policy measures	

Programme and look ahead

- The team will continue to develop the Major Roads Business Plan for 2021-2022.
- The team will engage with Highways England, Network Rail and DfT following publication of TfN's Future Travel Scenarios, to share findings and planned application towards future TfN outputs.
- There has been further engagement with Partners following consideration of the report on the Trans-Pennine Tunnel (TPT) and M6-A1(M) studies at Partnership Board. This will help inform recommendations to TfN Board in January 2021.
- The team is supporting the development of TfN's draft Decarbonisation Strategy, due to be agreed at TfN Board in March.

Strategic Rail

Monthly Summary

The operational focus remains on supporting Covid-19-related work and service planning through the Rail North Officer Group (Operations) and working closely with Rail North Partnership (RNP).

TfN continues to work closely with the DfT and Network Rail on a range of investment plans across the North of England, including schemes to address congestion hotspots in Central Manchester, train lengthening (capacity) and decarbonisation as part of the Manchester and North West Transformation Programme and also at Leeds.

4 January update – the new England wide lockdown announced will reduce passenger numbers considerably through January into early February.

Activity Update

Rail Operations

The December timetable was successfully brought into operation on 13 December to allow for greater stability whilst dealing with Covid-related resource challenges. The team continues to monitor passenger demand very closely and during December TransPennine Express passengers were at 24% of pre-Covid levels and Northern's at 30%. Through the Rail Operations Group, the team will be co-ordinating the response to the latest national lockdown. The Strategic Rail and IST teams continue to work with Northern on potential initiatives for smart ticketing and fares incentives in readiness to building back rail demand at the appropriate time.

Work has continued preparing the documentation and Member working group sessions in readiness for consultation on the options for a potential May 2022 timetable change centred on central Manchester and which is expected to commence in early January.

Rail Investment

A special Rail North Committee working group took place on 4 December 2020 to receive an update on the TransPennine Route Upgrade (TRU) from the DfT and Network Rail. The key points raised by Members at the session included gauge clearance for freight, full electrification, achieving full accessibility at all stations and ensuring there is alignment with disruption/works on the highway network. Consultation and communicating before the works start were also highlighted.

A new Reliability and Resilience Officer has joined Strategic Rail to drive the development of rail related strategy and policy, focusing on the reliability and resilience of the rail network.

Risks

Risk/Issue Summary	Summary of Mitigating Measures	KPI
Risk: The short-term effect of Covid-19 on the reintroduction of	1. TfN continues to work closely with operators to review timetables in advance of changes	

services on to the network – Services could be further impacted by resource levels among operators and restrictions around staff training. This will impact on localised areas which will see reductions in connectivity and frequency until driver training is delivered. Furthermore, the rollout of further new trains will also be delayed possibly leading to a reliance on older rolling stock.	and to feed in key areas of concern to be addressed. 2. Driver training continues whilst resources allow and TfN continues to work with operators to understand the impact and appropriate mitigations as a result of the backlog. 3. TfN is working with operators to understand train crew sickness levels following the recent increase in Covid-19 cases and any regional impacts this could have on services.	
Risk: The long-term effect of Covid-19 on viability of train services – The second and third national lockdowns and tighter restrictions on travel are likely to further affect the time it will take for the industry to recover to pre-Covid-19 levels. This may impact on the future of train service investment decisions which might affect TfN's ability to achieve its ambition for the North of England.	1. TfN's Economic Recovery Plan, including the "quick win" programme, has been issued to the DfT's Acceleration Unit and TfN continues to liaise with the Unit. 2. Messaging and communications will continue to promote safe use of public transport in line with Government guidelines and protect services for key workers. 3. Work with train companies using ticketing/marketing/offers to rebuild confidence, attract passengers back, and entice new passengers at the appropriate time.	9
Risk: DfT reprioritisation and the Williams Review - The coronavirus pandemic has meant DfT has had to focus its resources on response. This has led to the delay in the publication of the Williams Review. In addition, the Government may choose to focus on centrally deliverable initiatives such as franchise delivery and focus less on devolution. This may not align with the strategy of Members and would require a wider response from TfN.	1. TfN will continue to make the case for reform that supports the North's ambitions and will respond to the Williams White Paper once published. 2. To mitigate the risk further, TfN is working with Partners and external consultants to shape our response when the White Paper is published.	9

Programme and look ahead

- Support, monitor and help shape the industry response to Covid-19 and, when appropriate, to rebuild services, demand and passenger confidence.
- Work with operators for further timetable changes including May 2021.
- Working through the Rail North Committee and TfN Board, respond to industry proposals for mitigating cross-Manchester performance issues.
- Produce a draft report on how Strategic Rail can prioritise and develop proposals for addressing network gaps linked to the Long-Term Rail Strategy (LTRS) and produce a delivery plan for the TfN Stations Strategy.
- Continue to input to work on the Union Connectivity Review (UCR) and Integrated Rail Plan.
- Continue to work closely with the DfT and Network Rail to secure successful delivery of the TRU project objectives.
- The next Rail North Committee is on 12 January where agenda items include an update on the next steps on Central Manchester capacity issues as well as ongoing Covid impacts.

Operations Summary

Monthly Introduction

During December, operational colleagues have been focused on; comms activity in response to the National Infrastructure Commission's (NIC) Rail Needs Assessment and preparing detailed advice to TfN Board on 14 January, the finalising of TDF (Transport Development Fund) funding letter 18, the award of a range of procurements and contract extensions, the continuation of virtual public meetings and associated updates to the TfN constitution, continuation of work on various strategies including decarbonisation and freight, and a response to the Union Connectivity Review and other consultation activity, and ongoing work and/or assurance on key models in TAME including NoRMS (Northern Rail Modelling System) Iteration 1D, NoHAM (the Northern Highway Assignment Model), and NELUM (the Northern Economy and Land Use Model).

Activity Update

Summary updates on key actions from TfN operational teams are as follows:

Stakeholder Engagement & Communications Team (SECT)

- The SECT has continued to promote activity across TfN's channels on both a proactive and reactive basis.
- Activity has included a response to the publication of the National Infrastructure Commission's Rail Needs Assessment in December. This included a proactive media statement and subsequent interviews.
- TfN has also promoted internally and externally becoming a member of the Greater Manchester Good Employment Charter.
- TfN's Annual Conference was held successfully and fully virtually, with a cross-section of speakers including TfN Board Members, Ministers, industry and business representatives, with associated coverage of discussions on TfN's website and channels.
- December also saw the TfN website homepage updated, to improve navigation and signposting visitors to key pages within the site.
- On Strategic Rail, the team helped facilitate Member and officer briefings on the progress on Trans-Pennine Route Upgrade and Manchester Recovery Task Force activity, and is awaiting an update on next steps from the DfT on the latter.
- Elsewhere, progress on the Innovation Partnership procurement as part of the IST programme, has been promoted externally.
- The team continues to keep TfN colleagues engaged through a robust internal communications programme.

Finance & Procurement

- TDF (Transport Development Fund) Funding letter 18 agreed and funds transferred in December.

- Three-year financial forecasting model testing completed and ready for operational use.
- The Procurement department continues to support the business around Covid-19 work activities.
- The team is working closely with TAME/NPR colleagues to manage the procurement pipeline and develop the long-term procurement strategy for the coming year and beyond. In addition, a number of procurements / contract extensions have been awarded including, Distributional Impact Appraisal, Transport Related Social Exclusion, Wider Impact Calculator, SOC (Strategic Outline Case) Strategy Procurement Manager, NPR Business Case Officer Roles, User Insights, Decarbonisation and Visitor Economy. The following projects are currently out in the market for tender or close to be awarded including, Mobile Device Data, NorMITS (Northern Model Integration Tools) Demand Partner, and IPBA (Investment Programme Benefit Analysis).

Legal & Democratic

- Virtual public meetings continue to be held; the TfN Constitution includes formal procedure rules for this purpose. Regulations allowing virtual meetings expire in May 2021 and the position continues to be monitored; the LGA and other local Government organisations wrote on 16 October 2020 to the Secretary of State calling for the Regulations to be made permanent.
- Now that the TfN Modern.Gov website is live and all public meetings since 28 October 2020 have been published through it, the "restricted app", which allows secure access and electronic annotations has been added. Preparations are being made to add further internal programme boards onto the system. The team continues to support governance through input into a range of workstreams across TfN .

Strategy, Policy, Economics & Research

- Following the publication of the Rail Needs Assessment on 15 December, the team supported the immediate proactive media response and has worked rapidly with Strategic Rail and the NPR Programme to provide strategic and technical advice to the Board meeting on 14 January.
- Development of TfN's Decarbonisation Strategy continues on track to be submitted to the March TfN Board meeting. An initial draft of the strategy, including proposals for a pan-Northern carbon trajectory, will be considered at the Partnership Board in February. Engagement on future priority actions, to be signposted in the Strategy, is ongoing with Partner officers. TfN's work is also being informed through a decarbonisation-focused working group formed with the other sub-national transport bodies and research being undertaken alongside the DecarboN8 network.
- Similarly, our work on a new Freight Strategy for TfN is progressing well and analytical work is progressing. We will be engaging with officers and Members on this at the Partnership Board Meeting in February and full Board in March 2021.

- A response to the Union Connectivity Review was submitted at the end of December following partner input and we will follow up with the review team. TfN is also preparing a response to the Devolution All Party Parliamentary Group (APPG) enquiry into the role of central Government reform in English devolution, building on the Northern Transport Charter work.
- The research team is currently finalising procurement of the next phases of the TfN Research Programme, including new work on the North's visitor economy and developing our evidence base on transport related social inclusion. Both projects will play an important role in shaping the evidence behind our Strategic Transport Plan.

TAME (Technical Assurance, Modelling & Economics)

- TfN's TAME team is continuing to finalise the Northern Rail Modelling System (NoRMS) Iteration 1D for application in NPR. Testing of updates during December identified some minor issues which are currently being addressed.
- TAME's ongoing work with the DfT to assure this version of NoRMS has resulted in broad approval of the model's use in the SOC. This will be used to test the value for money case of the full NPR scheme; outputs for this will feed into TfN's February Board.
- TfN's suppliers at SYSTRA are also continuing to further develop NoRMS; the Iteration 2 model, with a 2018 base year is due to be finalised during January; and will be incorporated into the later stages of the SOC programme, but will be mainly focussed on application in 2021/22.
- The wider TfN Analytical Framework is also undergoing assurance and peer review in readiness for the IPBA commencing in April 2021. The development of the Northern Highway Assignment Model (NoHAM) is undergoing independent review, and the most recent work to update the future year travel demands is being documented to support peer review during January. Other tools such as the Northern Economy and Land Use Model (NELUM) and External Forecast System (EFS) are also being readied for application in the IPBA during January.
- TAME is coordinating a response to DfT's consultation on appraisal periods, which could see additional years of benefits being counted in business cases for major transport projects.
- TAME staff are continuing to contribute modelling and analysis to TfN's draft Decarbonisation Strategy, which will also be presented at the TfN February Board.
- New contracts are scheduled to commence in early January to support the wider analysis workstreams using TfN's Analytical Framework, along with further model development of NELUM's Wider Impacts Calculator and the Northern Model Integration Tools (NorMITS).
- A new starter has joined TAME part-time to assist TAME in their strategy for using the Analytical Framework to support upcoming Strategic Rail projects.

Financial Performance

Financial Update

Summary

Expenditure incurred in December: £5.11m
Variance to December monthly budget: Underspend of £0.62m
Year to-date expenditure: £40.84m
Year to-date variance to budget: Underspend of £2.79m

Headlines

- Financial position for December is monitored against Revision 2 budget.
- A final budget revision exercise was carried out in December to be approved by TfN Board in January. However, this was rendered out of date by the DfT Funding Letter received on 4 January which reduced in year Core funding by £3m and significantly changed the context of TfN's financial planning for the remainder of the financial year.

Programmes:

- Expenditure of £4.64m represented an underspend of £0.34m (7%) in the month.
- The main driver of underspend was the NPR programme (£0.59m), which was offset with an overspend in the month on the IST programme (£0.25m).

Integrated & Smart Travel:

- There was programme-wide expenditure of £1.02m, with an overspend of £0.25m in the month, reducing year to date underspend to £0.26m (3%).
    - Overspend arose in Phase 1 (£0.28m) due to the rephasing of capex costs, with Northern civils work nearing completion. Work is ongoing, with all TOCs due to receive final cost submissions as the project nears completion.
    - There was minor rephasing of expenditure in Phase 2. YTD expenditure is in line with budget.

Northern Powerhouse Rail

- Expenditure of £3.57m represented an underspend of £0.59m (14%) in the month. YTD expenditure of £27.94m is 7% under budget.
    - Network Rail expenditure was £0.49m under budget in the month. This was mainly driven by more accurate forecasting of forecasted spend.
    - There was an acceleration of modelling expenditure in the month, although there was still a marginal underspend of £0.02m (4%).

- Underspend of £0.07m (9%) arose in other programme development areas, driven by survey work which is now anticipated to begin in February.
- Programme support costs were in line with budget.
- Underspend on communications and stakeholder engagement activity as DfT did not agree to any activity in the last funding letter.

Strategic Development Corridors (SDC)

- Expenditure totalled £0.06m in December, which was marginally under budget.

<u>Operations:</u>

Rail Operations

- Expenditure of £0.17m represented an underspend of £0.05m (23%) in the month. This is mainly within consultancy costs and is partly due to phasing and partly due to lower costs on journey time analysis project. In addition, there are savings due to vacancies following recent staff departures.

Operational Areas

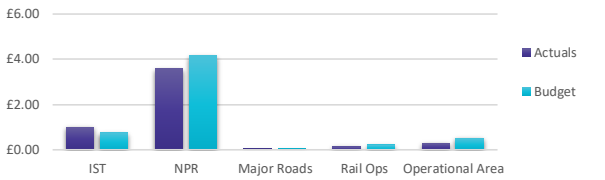
- Expenditure of £0.44m in the month, represented an underspend of £0.22m against budget (44%). This includes:
  - £0.08m saving on ERP development contract in relation to the flexitime module.
  - £0.03m of underspend in the Strategy & Policy area, due to rephasing with expenditure expected to catch up.
  - £0.03m of underspend in the Communications area, a combination of savings and rephased activity.
  - £0.02m ICT of saving in relation to Azure service development.

Activity Dashboard

TRANSPORT FOR THE NORTH	PERIOD	9	DEC
FINANCE DASHBOARD	BUDGET CYCLE	REVISION 2	2020/21

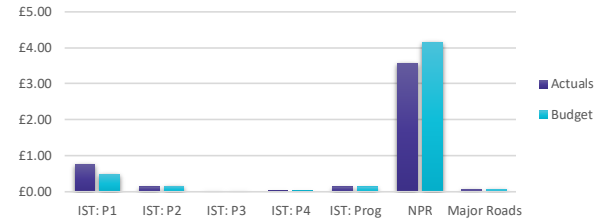
PERIOD ACTUALS VERSUS BUDGET

	Actuals £m	Budget £m	Var. £m	Var. %
Integrated and Smart Ticketing	£1.02	£0.77	-£0.25	-33%
Northern Powerhouse Rail	£3.57	£4.16	£0.59	14%
Major Roads	£0.06	£0.06	£0.01	8%
Programmes	**£4.64**	**£4.99**	**£0.34**	**7%**
Rail Operations	£0.17	£0.22	£0.05	23%
Operational Areas	£0.29	£0.51	£0.22	44%
	£5.11	**£5.72**	**£0.62**	**11%**



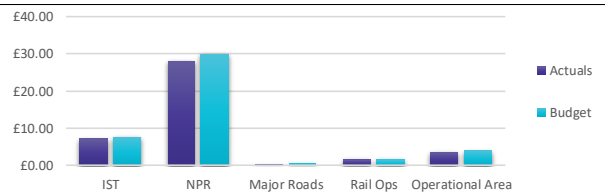
PERIOD ACTUALS VERSUS BUDGET: PROGRAMMES

	Actuals £m	Budget £m	Var. £m	Var. %
IST: Phase 1	£0.75	£0.48	-£0.28	-58%
IST: Phase 2	£0.13	£0.15	£0.01	10%
IST: Phase 3	£0.00	£0.00	£0.00	-
IST: Phase 4	£0.01	£0.01	£0.00	9%
IST: Programme	£0.13	£0.14	£0.01	7%
Northern Powerhouse Rail	£3.57	£4.16	£0.59	14%
Major Roads	£0.06	£0.06	£0.01	8%
	£4.64	**£4.99**	**£0.34**	**7%**



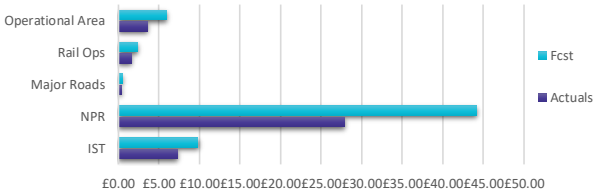
YEAR TO-DATE ACTUALS VERSUS BUDGET

	Actuals £m	Budget £m	Var. £m	Var. %
Integrated and Smart Ticketing	£7.28	£7.54	£0.26	3%
Northern Powerhouse Rail	£27.94	£29.94	£2.00	7%
Major Roads	£0.41	£0.44	£0.03	8%
Programmes	**£35.63**	**£37.92**	**£2.29**	**6%**
Rail Operations	£1.60	£1.70	£0.10	6%
Operational Areas	£3.61	£4.01	£0.40	10%
	£40.84	**£43.63**	**£2.79**	**6%**



YEAR TO-DATE ACTUALS VERSUS FORECAST TO OUTTURN

	Actuals £m	F/cast £m	Var. £m	Var. %
Integrated and Smart Ticketing	£7.28	£9.81	£2.53	26%
Northern Powerhouse Rail	£27.94	£44.16	£16.22	37%
Major Roads	£0.41	£0.55	£0.15	27%
Programmes	**£35.63**	**£54.52**	**£18.90**	**35%**
Rail Operations	£1.60	£2.40	£0.80	33%
Operational Areas	£3.61	£5.94	£2.33	39%
	£40.84	**£62.87**	**£22.03**	**35%**



FUNDING YEAR TO DATE

Funding Stream	Actuals £m	Budget £m	Var. £m	Var. %
TDF - Rail	£27.23	£29.24	£2.01	7%
IST - Capital and Revenue	£7.28	£7.54	£0.26	3%
Core Grant	£5.13	£5.68	£0.55	10%
Rail North Grant & Contributions	£1.02	£0.97	-£0.05	-5%
TDF - Roads	£0.00	£0.00	£0.00	-
Trading Income	£0.18	£0.20	£0.02	9%
	£40.84	**£43.63**	**£2.79**	**6%**

FUNDING FORECASTS TO OUTTURN

	Actuals £m	F/cast £m	Var. £m	Va
TDF - Rail	£27.23	£43.21	£15.98	37
IST - Capital and Revenue	£7.28	£9.81	£2.54	26
Core Grant	£5.13	£8.28	£3.15	38
Rail North Grant & Contributions	£1.02	£1.30	£0.28	21
TDF - Roads	£0.00	£0.00	£0.00	-
Trading Income	£0.18	£0.26	£0.09	32
	£40.84	**£62.87**	**£22.03**	**35**

HR Update

Human Resources Update

Salaried Establishment as at **8 January 2021**

Established/Fixed-term (Transition) Posts

Area	Established Posts (Over 2 years)	Fixed-term (Transition) Posts (Up to 2 Years)	Total
CEO/Chair	2 (1.17 FTE)	-	2 (1.17 FTE)
Support Services	30 (29.32 FTE)	6 (6.00 FTE)	36 (35.32 FTE)
Operational & Delivery	91 (89.10 FTE)	38 (37.60 FTE)	129 (126.70 FTE)
Total Establishment	**123 (119.59 FTE)**	**44 (43.60 FTE)**	**167 (163.19 FTE)**
Strength (in post)	104 (101.27 FTE)	26 (25.60 FTE)	130 (126.87 FTE)
Appointed (start date pending)	1 (1.00 FTE)	0 (0.00 FTE)	1 (1.00 FTE)
Active/Pending Recruitment	3 (3.00 FTE)	0 (0.00 FTE)	3 (3.00 FTE)
Vacant – On-hold	15 (14.32 FTE)	18 (18.00 FTE)	33 (32.32 FTE)

Chief Executive Recruitment - *Aligned to TfN's constitution both the recruitment process and final appointment will be subject to TfN Board approval. It is anticipated recruitment will commence by W/E 22 January 2021.*
Barry White leaves TfN on 15th May 2021.

Agency Resource - Covering Vacant Posts

Area	Posts (FTEs)
Support Services	2 Post (2.00 FTE)
Operational & Delivery	2 Posts (2.00 FTE)
Total	**4 Posts (4.00 FTE)**

Consultancy Resource - Covering Vacant Posts

Area	Posts (FTEs)
Support Services	0 Post (0.00 FTE)
Operational & Delivery	10 Posts (9.80 FTE)
Total	**10 Posts (9.80 FTE)**

HR Metrics – 2020/21 Year to Date

Corporate Sickness Level:	**2.9%**
Employment Policy Application:	**3.7%**
Employee Turnover (Voluntary Leavers):	**7%**
% of Employees from an Ethnic Minority Background:	**14%**
% of Employees declaring a Disability:	**11%**
Gender Mix - % of Female Employees: % of Male Employees:	**40%** **60%**

KPIs

Key Performance Indicators

Transport for the North's Key Performance Indicators (KPIs) are outlined in the published Business Plan for 2020-21. The below table outlines the programme and organisational KPIs and provides a summary of the year-end position.

Key		Number of KPIs with this status
Achieved		**4**
On Track		**5**
In Progress		**3**
Delay		**3**
Delay – beyond this year end (BTYE)		**1**

Area	KPI	Detail	Progress	Status
Corporate	1	**Agree with Government the phasing and prioritisation of the Integrated Rail Plan for High Speed North. December 2020**	In Progress TfN has responded to the publication of the Rail Needs Assessment and has provided advice to the Board on the next steps. The Integrated Rail Plan is now expected early in 2021.	
Northern Powerhouse Rail	2	**Agree and submit Strategic Outline Case to Government. January 2021**	Delay The SOC timeline has been rephased due to the impacts of Covid-19 and was approved at TfN Board on 29 April 2020. The revised SOC submission date is March 2021.	
Integrated and Smart Travel	3	**Complete the delivery of the Integrated and Smart Travel on Rail Project (Phase 1). November 2020**	Delay MerseyRail have installed all 66 PVals. Northern are still on schedule to complete this financial year. However, upgrades to gates at Manchester stations and Bradford Interchange have been delayed until February 2021.	
Integrated and Smart Travel	4	**Complete the delivery of Phase 2 of the Integrated and Smart Travel Programme (informed customers). March 2021**	On Track The phase remains on track to meet the KPI. The Fares Tool has been transitioned to DfT for national use in December and the project is scheduled to close in January 2021. DMT (Disruption Messaging Tool) and ODH (Open Data Hub) are in Business As Usual. Final enhancements to DMT remain on schedule to 'go live' in January 2021.	
	5		Delay	

Integrated and Smart Travel		**Agree a plan for the delivery of contactless payments on rail, in collaboration with the DfT and Rail Delivery Group (Phase 3). December 2020**	A decision on future funding had been deferred until the delayed outcome of the Spending Review. DfT informed TfN in January that funding for the programme would not continue beyond the current financial year. Discussions with DfT over the future of the programme are ongoing.
Major Roads	6	**Agree and approve the Transport for the North Major Roads Report. March 2021**	Delay BTYE The technical report has been completed. The publication of the final Major Roads Report has been postponed so the report can take account of both the TfN Decarbonisation Strategy, and DfT's delayed Transport Decarbonisation Plan. This will not have any negative implications for other programmes.
Strategic Rail	7	**Implement the recommendations in the Blake-Jones review. June 2020**	Acheived The Blake-Jones Action Plan was approved at Rail North Committee in July 2020 and the team continues to embed the actions into the business as usual operating model. There are longer-term issues on funding for additional resource, and a response is awaited from DfT.
Strategic Rail	8	**Develop a TfN response to the Williams Review. Within three months of publication**	On Track A response to the Williams Review will be developed within three months of its publication; the date of which is yet to announced.
Strategic Rail	9	**Support the industry and Rail North Partnership in the response to and recovery from Covid-19, including a strong focus on the needs of passengers and businesses, together with the short-term investment needed to support the recovery. March 2021**	In Progress Strategic Rail is proactively supporting the industry through the crisis and recovery, for example through the Rail North Officer Group (Operations). A plan to support the economic recovery by investment in infrastructure has been developed and submitted to DfT as part of the TfN Economic Recovery Plan and work has been completed on developing a "quick win" programme which has been shared with the DfT's Acceleration Unit.
Investment Programme	10	**Update and refresh the TfN Investment Programme, based on an agreed Assurance Framework and using the outputs of the SDC Qualitative Sequencing process. September 2020**	Achieved The update of the Investment Programme following the qualitative sequencing process, and applying the developing Assurance Framework, has been achieved.
Strategy	11	**Develop a Decarbonisation Strategy for approval by the TfN Board and ensure that this is embedded in TfN's Investment Programme Assurance Framework. March 2021**	On Track Analytical work on Decarbonisation Pathways is well advanced and work on strategy underway. Initial drafts of the Decarbonisation Strategy have been shared with partner officers in preparation for consideration at the next Partnership Board (February).

Strategy	12	**Develop an inclusive and sustainable growth framework that will sit alongside the Strategic Transport Plan and ensure that this is embedded in TfN's Investment Programme Assurance Framework. March 2021**	In Progress Following completion of KPI 16, work is ongoing to finalise the approach to the assessment of the TfN's Investment Programme utilising TfN's Decarbonisation Trajectory (to be agreed through Decarbonisation Strategy), Future Travel Scenarios and accompanying Decarbonisation Pathways developed by TAME.
Strategy	13	**Develop a Freight Strategy for approval by the TfN Board and ensure that this is embedded in TfN's Investment Programme Assurance Framework. March 2021**	On Track Work to develop the TfN Freight Strategy remains on track and main analytical work nearly completed. We plan to provide an update to Members in February, at the next Partnership Board. Further engagement with officers will be arranged in early 2021.
Modelling and Analysis	14	**Complete and deploy the Analytical Framework throughout TfN's programmes. March 2021**	On Track Substantial progress has been made in preparation of the Analytical Framework for NPR and IPBA programmes, with the programme of activities to March 2021 fully mapped. Delivery is still subject to risk, as evidenced by the recent change to the NPR open-year assumption which creates a number of remedial tasks. These risks are being proactively managed by TAME programme leads.
Organisation	15	**Develop and provide a Comprehensive Spending Review submission to Government. At date set by HMT**	Achieved A CSR submission was provided to the DfT on 28 August in line with departmental deadlines. On 21 October the Chancellor announced a revised one-year process to conclude at the end of November. TfN submitted a supplemental SR submission to the Department, reflecting the move to a single year settlement, on 6 November.
Organisation	16	**Develop and adopt the Northern Transport Charter. June 2020**	Achieved The team completed work on the remaining Northern Transport Charter (NTC) proposals which were endorsed and adopted by the Board in July. There is now ongoing follow-on work about how to embed demonstrating TfN's capability for greater devolution in next year's business plan.

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Transport for the North Audit & Governance Committee – Item 5

Subject: Internal Audit Update

Author: James Lyon

Sponsor: Iain Craven

Meeting Date: Thursday 18 February 2021

1. Purpose of the Report:

1.1 To enable RSM, as TfN's Internal Auditor, to report upon the progress of the annual audits of TfN's systems and governance.

2. Executive Summary:

2.1 The Internal Audit Reports produced by RSM are attached as Items 5.1 – 5.4

2.2 RSM may provide a further verbal update of the Internal Audits during the Audit & Governance Committee.

3. Recommendation:

3.1 That the Committee notes the Internal Audit Update.

4. Appendices:

4.1 Item 5.1 – Internal Audit Progress Report
Item 5.2 – Investment Assurance Programme Review
Item 5.3 – New Payment (Commissioning) Processes
Item 5.4 – Income and Debtor Management

List of Background Documents:

There are no background documents.

Required Considerations

Equalities:

Age		No
Disability		No
Gender Reassignment		No
Pregnancy and Maternity		No
Race		No
Religion or Belief		No
Sex		No
Sexual Orientation		No

Consideration	Comment	Responsible Officer	Director
Equalities	A full Impact assessment has not been carried out because it is not required for this report	Julie Openshaw	Dawn Madin

Environment and Sustainability

	No

Consideration	Comment	Responsible Officer	Director
Sustainability / Environment	A full impact assessment has not been carried out because it is not required for this report.	Julie Openshaw	Dawn Madin

Legal

Yes	

Consideration	Comment	Responsible Officer	Director
Legal	The legal implications have been considered and are included in the report.	Julie Openshaw	Dawn Madin

Finance

Yes	

Consideration	Comment	Responsible Officer	Director
Finance	There financial implications are detailed in the report.		Iain Craven

Resource

	No

Consideration	Comment	Responsible Officer	Director
Resource	There are no resource implications as a result of the report.	Julie Openshaw	Dawn Madin

Risk

	No

Consideration	Comment	Responsible Officer	Director
Risk	There are no risks associated with the content of this report.	Julie Openshaw	Dawn Madin

Consultation

	No

Consideration	Comment	Responsible Officer	Director
Consultation	A consultation has not been carried out because it is not necessary for this report.	Julie Openshaw	Dawn Madin

TRANSPORT FOR THE NORTH

Internal Audit Progress Report

18 February 2021

Contents

1 Key messages

The internal audit plan for 2020/21 was approved by the Audit and Governance Committee at the February 2020 meeting. As the developments around Covid-19 will continue to impact on all areas of the organisation's risk profile, we will work closely with management to deliver an internal audit programme which remains flexible and 'agile' to ensure it meets your needs in the current circumstances.

This report provides an update on progress against the audit plan and summarises the results of our work to date.

Three audit assignments have been completed since the last Audit and Governance Committee meeting. These relate to the New Payment (Commissioning) Process (6.20/21) review which concluded that 'substantial assurance' could be taken (no management actions raised), the Investment Programme Assurance review (7.20/21) which concluded that 'substantial assurance' could be taken (one 'medium' priority management action agreed) and the Income and Debtor Management (8.20/21) review which concluded that 'substantial assurance' could be taken (one 'low' priority management action agreed). A summary of the outcome of the reviews is provided in section 2. **[To discuss and note]**

No changes to the internal audit plan 2020/21 have been made since the last Audit and Governance Committee meeting. **[To note]**

The internal audit plan and strategy 2021/22 to 2023/24 has been provided as a separate agenda item for consideration by the Committee. The potential areas of coverage have also been discussed with the Finance Director. **[To note]**

2 Reports

2.1 Summary of final reports being presented to this committee

This section summarises the reports that have been finalised since the last meeting.

Assignment	Opinion issued	Actions agreed		
		L	M	H
New Payment (Commissioning) Process (6.20/21) Through the work performed, we confirmed that TfN has an established framework in place in relation to authorising the commissioning of purchases orders and utilisation of the Dynamics365 system for approvals, which includes a requirement for requisitions to be authorised in line with the Scheme of Delegation. The framework is supported by overarching Financial Regulations, policies and process maps that take the form of rules and guidance for undertaking the commissioning process and these documents are accessed via TfN's intranet. Our sample testing of approval levels for commissioning of purchase orders confirmed that the approval levels in Dynamics365 for a sample of requisitions was in line with the Scheme of Delegation, and that the storage of evidence (invoices, goods received notes by way of example) were in the form of shared folders that can only be accessed by the Finance Department. We have also undertaken data analytics testing using data from the quarter two 2020/21 Transparency (expenditure) report to identify potential duplicate payments made during 2020/21. The conclusion of our analysis does not require any further investigation from management. In light of our findings, we have not raised any management actions.	Substantial Assurance 	0	0	0
Investment Programme Assurance review (7.20/21) Through our work we confirmed that established processes are in place for providing updates on the Investment Programme to TfN senior management and Board members; (this includes updates provided historically for the qualitative sequencing process and updates relating to the forthcoming Investment Programme Benefits Analysis (IPBA) process). In addition to this, through our sample testing we confirmed that the information provided in the project documentation and	Substantial Assurance 	0	1	0

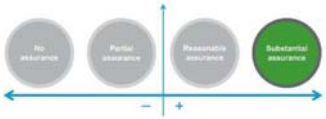
Assignment	Opinion issued	Actions agreed		
		L	M	H
Board/Committee update reports was consistent with source records and supporting evidence for those actions and activities we tested. Further to the above, we also obtained evidence to confirm that an Assurance Framework is being developed by management to set-out the structures and processes that will support the delivery of the Investment Programme following the completion of the forthcoming IPBA process. One management action is included in this report, which relates to the mapping of actions between the Northern Transport Charter, the Investment Programme and the Business Plan KPIs. However, this matter has not impacted upon our assurance opinion provided				
Income and Debtor Management (8.20/21) Through our work, we were able to confirm that TfN has an established framework in place in relation to income and debtor management, which includes the recording and monitoring of grant funding and income received from sales invoices, as well as the reporting of financial information to the TfN Board and Audit and Governance Committee. In addition, through our sample testing we confirmed that controls were operating as intended for all areas reviewed. However, we identified one developmental area where controls could be strengthened in relation to establishing regular review of the Grant Acceptance and Management Policy. This has not impacted the positive opinion provided.	Substantial Assurance 	1	0	0

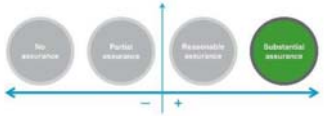
2.2 Themes arising from control observations

	Advisory	Low	Medium	High
Policies and / or procedures	0	3	1	0
Non-compliance with policies / procedures	0	0	2	0
Design of the control framework	0	1	1	0
Management or performance information	0	2	1	0
Poor record keeping	0	1	0	0
Board Assurance Framework	0	0	0	0
Training	0	0	0	0
Governance	0	0	0	0
Information Governance	0	0	0	0
Follow Up of management actions raised in previous audits	1	1	2	0
Total	**1**	**8**	**7**	**0**

We have not identified any themes that indicate areas of concern through the work completed to date.

Appendix A – Progress against the internal audit plan 2020/21

Assignment and Executive Lead	Status / Opinion issued	Actions agreed				Target Audit and Governance Committee (as per IA plan 2020/21 / *change control*)	Actual Audit and Governance Committee
		A	L	M	H		
Risk Management - Risk Register Deep Dive (1.20/21) (Finance Director)		0	1	0	0	June 2020	June 2020
Contract Management (2.20/21) (Finance Director)		0	2	2	0	September 2020	September 2020
Follow up (3.20/21) (Finance Director)	Good progress	1	1	2	0	March 2021 / *September 2020* Please refer to Appendix B below.	September 2020
Human Resources – Recruitment and Selection (4.20/21) (Director of Business Capabilities)		0	1	0	0	December 2020	November 2020
IT Audit – Cyber Security Review (5.20/21) (Director of Business Capabilities)		0	2	2	0	March 2021 / *December 2020*	November 2020
New Payment (Commissioning) Process (6.20/21) (Finance Director)		0	0	0	0	September 2020 / *February 2021*	February 2021

Assignment and Executive Lead	Status / Opinion issued	Actions agreed				Target Audit and Governance Committee (as per IA plan 2020/21 / *change control*)	Actual Audit and Governance Committee
		A	L	M	H		
Investment Programme Assurance (formerly Risk and Governance Assurance Framework) (7.20/21) (Finance Director)		0	0	1	0	February 2021	February 2021
Income and Debtor Management[1] (8.20/21) (Finance Director)		0	1	0	0	N/A / *February 2021*	February 2021

[1] This review replaced the cancelled Flexi-time review.

Appendix B – Other matters

On-going liaison and internal audit plan 2021/22

Ongoing liaison has taken place between RSM and Iain Craven throughout the year to discuss progress against the internal audit plan 2020/21 and ongoing developments at TfN; including and not limited to Lisa Randall's one to one meeting with Iain Craven to discuss any TfN updates, contract dates and the upcoming Committee papers. Further to this, RSM's Andrew Mawdsley met with the Finance Director on 28 January 2021 to discuss coverage of the internal audit plan 2021/22. The internal audit plan 2021/22 and three year strategy is presented as a separate agenda item at this meeting for the Committee's consideration and approval.

Updates, briefings and invites

The following updates, briefings and invites have been issued since the last Audit and Governance Committee meeting:

- Employment Matters (November 2020 and February 2021) – this is summarised below and we have incorporated a link to the full newsletter for further reading;
- Government workforce schemes update (November 2020 – issued separately);
- Coronavirus Job Retention Scheme (CJRS) and CJRS Extension deadlines (November 2020 – issued separately); and
- We invited management at Transport for the North to our:
    - Job Support Scheme webinar that took place 3 November 2020;
    - Coronavirus Job Retention Scheme Extension webinar that took place 10 November 2020; and
    - A Practical Guide to the Off-Payroll Rules webinar taking place 25 February 2021.

Employment Matters – November 2020 - https://www.rsmuk.com/ideas-and-insights/employment-matters

The Year of Remote Working: What more can you do to help staff work from home?

With further UK lockdowns, the Government is encouraging employees to continue (or begin) working from home. Many find themselves remote working for what can only be described as the 'long-haul'. We look at how organisations support most of their workforce still working remotely and ensure teams remain productive during this time.

Employees are creating new expectations on flexibility, working conditions and their work/life balance. Staff are championing a hybrid remote-office model for the post-coronavirus working world. With the ongoing pandemic and latest lockdown many offices have remained open for employees who need a different working space other than their own homes. Businesses have kept occupancy levels level low and continued to offer coronavirus secure alternative spaces. This has been particularly beneficial for workers with an environment not totally conducive to work and who can access their office safely.

The wider remote workforce has faced new challenges such as suffering from a form of 'virtual fatigue' (spending extra time online and participating in regular virtual meetings and communications) and continuing to feel pressure to work hard at home whilst threatened by burnout. Many employers have reacted with simple steps to support the workforce and protect positive wellbeing. The CIPD has published a long list of top tips for managing remote working but here are just a few for managers to consider during these unusual times.

1. Agree ways of working - how will tasks be delegated, how will progress be monitored, what support will be in place to ensure more junior members of the team have access to more experienced team colleagues when they need it.
2. Show the big picture but prepare to flex - if there is some work that is more pressing help teams to make that a priority by making sure they are clear on the deliverables attached to the work. Help them to reorganise other parts of their role that can be re-distributed to ensure all of the Company's goals are achieved. Review and revise plans if they need to change and communicate this openly with teams.
3. Set expectations and then trust - if goals are clear then trust your team members to do the job. There is nothing more de-motivating than micromanaging for individuals who are responsible and accountable already.
4. 'Meet up' - be it a virtual team huddle, or a smaller group meeting on Teams, or when times permit it a walk and talk either in person or remotely. Organisations have embraced the technology platforms, but many have reported feeling 'zoomed out'. Some platforms are also mobile so dial in occasionally as it can stop team members from feeling like they are stuck at their desks for extended periods. It can be refreshing to connect in different ways so be creative.
5. 'Read the room' - look out for how people are feeling, this can be in the way the act, the way they say things or the things they don't say. Home in on what's not being said and check regularly people are okay and keep talking not just about work but make time for actual conversations away from work. This can help to keep the social bonds that many are missing from seeing each other every day. It can also help to prevent loneliness especially for those who do not live with others or who may be forced to isolate.

Although many may look back at 2020 as the chance to have a 'leisure wear' work wardrobe, the larger consequence of a societal and cultural shift of remote working will only be fully realised in time. This amplifies the importance for employers to support and manage their staff to keep them engaged and efficient both now and post-pandemic.

Coronavirus Job Retention Scheme Extended (CJRSE)

At 8pm on Saturday 31 October 2020 the Coronavirus Job Retention Scheme (CJRS), which was due to end that day, was extended for a further month. On 5 November, the Government confirmed that the extension was until the end of March 2021. The Scheme was published on 10 November at 6pm and claims could be made from 8am on 11 November.

The Government has issued this guidance for the initial period from 1 November 2020 to 31 January 2021 with a planned review in January 2021 to decide whether economic circumstances are improving enough to ask employers to contribute more.

A fifth Treasury Direction setting out the legislation for the CJRSE until 31 January 2021 was published at 5pm on Friday 13 November. A further Treasury direction will be issued for the scheme applying after 31 January 2021.

Employers who cannot maintain their workforce because their operations have been affected by coronavirus can furlough employees and apply for a grant to cover a portion of their usual monthly wage costs where they record employees as being on furlough. The fifth Treasury Direction, as others previously, states that it is integral to the purpose of CJRS that the amounts paid to an employer pursuant to a CJRSE claim are only made by way of reimbursement of the expenditure incurred or to be incurred by the employer in respect of the employee to which the claim relates whose employment activities have been adversely affected by the coronavirus and coronavirus disease or the measures taken to prevent or limit its further transmission.

To claim, employers must pay to the employee 80 per cent of their employee's current salary for hours not worked, up to a maximum of £2,500pm. The £2,500 cap is proportional to the hours not worked. Employer contributions during the CJRS extension until 31 January 2021 will be the same as in August 2020. This could be changed from February following the review in January 2021, but any change is unlikely to be known until the new year. This means that for hours not worked by their employee, employers will only be asked to cover National Insurance and employer pension contributions.

Employers will have to pay the employee's wages for the hours they work as normal, as well as employer National Insurance and employer pension contributions. The extended CJRS (CJRSE) is more generous for employers than CJRS was in October.

For further information visit: https://www.rsmuk.com/ideas-and-insights/job-retention-costs-reimbursement-support

Social security and Brexit: what's likely to change and how should employers prepare?

Despite the Brexit transition period ending on 31 December, there is still much uncertainty regarding if a 'deal' will be reached and what, if any, final agreed position will be post 1 January 2021.

Either way, there will very likely be an impact on employers and the social security positions of their UK-touching globally-mobile employees.

The current landscape: an overview

The UK is currently subject to the European Social Security Regulations in respect of:

- UK employees who spend time working in another EEA location (and Switzerland); and
- employees from EEA locations (and Switzerland) who spend time working in the UK.

These regulations ensure that employees who work across the EEA only pay social security in one country. Where applicable, the regulations enable an employee to remain within the social security system of their country of employment (which would also ordinarily be their home location) for a period of time (usually for up to 24 months, although this can be extended by agreement) whilst working temporarily in another EEA location.

In terms of UK-touching globally-mobile employees, the application of the regulations would commonly result in a UK employee remaining within the UK National Insurance system when working in another EEA country. The same process would also apply to EEA employees working in the UK whereby they would remain subject to social security in their home location.

To ensure the application and coordination of the regulations across the EEA, the Form A1 regime is in place to administer this process. Under the regime, employees need to obtain a Form A1 (typically from the authorities in their home location) to confirm the country to which they need to make social security contributions. This, in turn, confirms that they are exempt from having to make social security contributions in the other EEA location they are working in. Compliance with the Form A1 regime continues to be a hot-topic for employers and an area of increased focus by authorities across the EEA.

The Posted Worker Directive and mandatory registration

The Posted Worker Directive (PWD) was updated in July 2020 to ensure a 'level-playing field' in respect of a number of employment related terms and conditions for employees who work temporarily in another EEA location.

Because of the PWD, several EEA countries have introduced mandatory registration requirements which employers must to adhere to when sending employees to work in their country. These include, for example:

- prior notification of any new employees;
- registration of the employee;
- work and salary details; and
- providing a Form A1.

The registration requirements vary country-to-country and can give rise to many practical and administrative challenges for employers, such as identifying the specific requirements in the EEA location concerned and ensuring timely completion of these ahead of any overseas posting.

What will the post-Brexit landscape look like?

HMRC's most recent guidance, as set out in their October 2020 Employer Bulletin, confirms that the UK will apply the following approach to EEA social security coordination up to 31 December 2020:

- where a UK employee is sent to work in an EEA location before 1 January 2021, HMRC will still issue a Form A1 in respect of the period of posting (subject to the usual limits) including where the period goes beyond 1 January 2021. This can be used as confirmation that UK National Insurance will apply for the period of the Form A1. HMRC will not currently issue Form A1 for postings after 1 January 2021 whilst the current Brexit negotiations continue;
- where an EEA employee comes to work in the UK before 1 January 2021 and they have a Form A1 which confirms continuation in their home country social security scheme, this will still apply and no National Insurance will be due for the period stated on the Form A1. This includes periods beyond 1 January 2021 where the posting to the UK took place before this date. Similarly, it is anticipated that EEA locations will not issue Forms A1 to employees who are due to start work in the UK after 1 January 2021 whilst the negotiations continue; and
- the UK has reached a reciprocal agreement with the Republic of Ireland which ensures that the current social security coordination rules in respect of moves by UK and Irish employees will continue to apply post 1 January 2021.

Whilst the above sets out the approach HMRC intends to take from a UK perspective, it is not yet clear if the EU will take a similar approach with regard to UK employees working overseas in an EEA location even when they commenced their assignment prior to 31 December 2020 and have a Form A1 in place. For example, the EU may take the contrasting view that regard will need to be given to the local domestic rules and any existing social security reciprocal agreement (which may be in place with the overseas country concerned) when determining if social security is due in the overseas EEA location.

In that respect, there is still much uncertainty regarding the post-Brexit landscape. If a deal is reached, it is possible that any such agreement will mirror and ensure a broad continuance of the current position. In a no-deal scenario, a number of points may arise including:

- determining an employee's social security position on a country-by-country basis;
- reliance on historical social security agreements;
- awaiting refreshed HMRC guidance;
- the UK entering into new country-by-country social security reciprocal agreements;
- continuance of the need to provide PWD style data (or increased data) in EEA locations and additional registration requirements; and
- ensuring appropriate healthcare coverage/insurance is in place for employees working across the EEA. Currently, some coverage in the host EEA location may be available to an employee via obtaining an EHIC card and a Form S1, however, these schemes would likely be removed.

All these matters have the potential to give rise to a wide range of additional compliance, administrative and practical considerations for employers.

What should you do to prepare?

In anticipation of the end of the Brexit transition period, there are various actions which employers should take, including:

- identifying UK employees working across the EEA and EEA employees working in the UK and/or who may be in the future;
- identifying any additional employees who are home working internationally across the EEA because of the coronavirus pandemic;
- ensuring Forms A1 have been obtained and are up to date;
- ensuring PWD registrations have been completed as applicable; and
- reviewing healthcare coverage and provision of health insurance.

How can RSM help?

We are working with a number of employers to prepare them for the post-Brexit landscape and to assist with their social security compliance processes and procedures. We have extensive experience in this area and our recent work has included:

- conducting Brexit awareness workshops;
- assisting with implementing processes and procedures for tracking individuals to ensure compliance; and
- assisting with the Form A1 process.

Post-Brexit workers' rights

The UK has left the EU and the transition period following Brexit comes to an end on 31 December 2020.

In most cases there will be no change to employment legal rights from 1 January 2021. The rights of UK and EU employees working in the UK will not change from 1 January 2021.

There will be some changes to rules on:

- employer insolvency for UK employees working in the EU; and
- membership of European Works Councils.

Much of UK employment law comes from the EU, including discrimination rights, collective consultation obligations, transfer of undertakings regulations, family leave, working time regulations and duties to agency workers. However, some EU employment law brought into effect employment protections already provided by UK law. For example, UK equal pay, race and disability discrimination laws preceded EU anti-discrimination obligations. Similarly, there was a UK right of return from maternity leave before EU maternity leave rights were implemented. Therefore, it is important to remember in considering what may change after the Brexit transition period ends that many UK workers' rights were in place before the UK joined the European Community.

Also, when it comes to employment protections, UK law often goes further than EU law. For example, the UK offers a greater statutory annual leave allowance and more generous maternity and paternity leave rights than EU law.

What does this mean in practice? It is unlikely that there will be immediate changes to workers' rights after the end of the transition period. It will largely remain business as usual, with little need to flex existing workplace practices.

However, as EU imported legislation is reviewed and considered by the UK courts, we could start to see changes and even unintended consequences.

Maintaining the status quo

The government plans to transfer EU case law and regulatory workers' protections as at the end of the transition period into UK law.

Therefore, most EU-derived employment legislation will remain applicable in the UK immediately after the end of the transition period but on a different constitutional basis, for an indefinite period, unless and until altered by the appropriate UK legislative body.

The government has committed to protecting workers' rights and to maintaining for example the Equality Act protections, which aim to protect workers from discrimination in the workplace.

Businesses may well like to see changes in areas such as in the need to retain workforce terms of employment after TUPE transfers on mergers and acquisitions or integrations, or workers' accrual of statutory holiday leave during sickness absence. An Employment Bill in 2020 was announced in the Queen's' Speech in December 2019 but no such changes were referenced.

Possible considerations

Under post-Brexit arrangements, the Supreme Court and High Court of Justiciary (HCJ) (sitting as a criminal court of appeal) in Scotland are no longer bound by any retained case law, particularly Court of Justice of the European Union (CJEU) decisions that were handed down before the end of the transition period (and after the end of the transition period). As a result of the European Union (Withdrawal) Act 2018 (Relevant Court) (Retained EU Case Law) Regulations 2020, the power to depart from retained EU case law when interpreting retained EU law, has been extended to the Court of Appeal in England and Wales, the Inner House of the Court of Session and the Court of Appeal of Northern Ireland, and other appellate courts (relevant courts).

It is also important to remember that public sector and private companies have been used to different legal regimes when it comes to employment rights around equality: public sector organisations are subject to directly enforced EU rights while the private sector is subject primarily to UK legislative incorporation of those rights.

There are also areas where EU law has not been fully incorporated into UK legislation or regulation. This has led to the ECJ stepping in during its cases to override the UK's interpretation and secure a new route to compliance.

The Civil Jurisdiction and Judgments (Amendment) (EU Exit) Regulations 2019 (SI 2019/479), which will come into force at the end of the transition period (11pm on 31 December 2020), sets out a number of amendments to legislation on civil judicial cooperation in civil and commercial matters, including rules of jurisdiction and recognition and enforcement of judgments.

After the end of the transition period, the rules governing jurisdiction in all cross-border disputes, including those involving parties domiciled in the EU (or in other states party to the Lugano Convention 2007), will be governed by the domestic law of each UK jurisdiction. In England and Wales, that comprises the common law, together with various statutory provisions. After the end of the transition period, the rules governing recognition and enforcement of foreign judgments in cross-border disputes are generally contained in the common law. Care is needed in respect of exclusive jurisdiction and choice of law clauses and the position may yet be impacted by whether there is a no deal position at the end of the Brexit transition period.

The full picture is unlikely to materialise immediately after Brexit; changes may have a long lead time. The smartest organisations, however, will remain vigilant to early signs of landscape shifts and take proactive steps to prepare, plan and adapt.

Employment Matters – November 2020

Coronavirus Job Retention Scheme claims: How will you check your claims are correct?

The Coronavirus Job Retention Scheme (CJRS) brings in three new concepts, all of which are utilised in determining the amount that can be claimed. These concepts are:

- furloughed workers/employees;
- regular wage or salary/reference pay (based on set HMRC calculations); and
- for flexi furloughed employees: Usual hours (based on set HMRC calculations) less worked hours are furloughed hours.

Employers who claimed based on the initial guidance back in March 2020 may have worked out their own version of how calculations should be done. This may have been done for variable paid employees (engaged before 19 March 2020) where the 2019/20 average is required, as the initial guidance was less than clear. Those employers may not have revised their calculations each month and spotted changes or the expansion of the HMRC guidance, making it very clear over the following months how HMRC thought the calculations should be done.

Since the introduction of the penalty legislation, many employers have started to review claims. If you've made mistakes or you haven't reviewed your previous claims, we recommend acting as soon as possible. Where mistakes have been made, consider what action needs to be taken to rectify the mistakes.

In order to tackle claims review, the differing versions of the CJRS need to be explored. There are three versions of the scheme to consider:

- V1: CJRS original fully furloughed scheme, 1 March 2020 to 30 June 2020
- V2: CJRS flexible scheme, 1 July to 31 October 2020
- V3: CJRSE flexible scheme, 1 November 2020 – 30 April 2021.

The employment tax and NIC implications of employer provided coronavirus tests and vaccines

As many employers will be aware, the provision of medical tests, medical treatment, and immunisations by an employer is generally considered a reportable benefit, meaning that employees are liable to tax, and employers are liable to NIC on the earnings arising when such a benefit is provided.

There are some exceptions to this general rule, for example when an employer provides employees with immunisations against seasonal flu, the benefit arising could be regarded as trivial and exempt from tax and NIC when certain conditions are met.

There are also potential tax exemptions for employer provided annual health checks, eye tests, medical treatment when an employee is working abroad, and certain medical treatment which enables an employee to return to work, although each of these exemptions comes with limitations and conditions attached.

For employer provided coronavirus tests the above rules have been temporarily adapted and new rules apply, albeit for a limited period of time.

What are the new rules?

In July 2020, the government and HMRC updated their position so that any coronavirus tests provided by the government, as part of the national testing scheme, as well as other employer provided antigen tests, would temporarily not be treated as a benefit in kind. So, if an employer:

- employs healthcare workers and other eligible front-line staff who can get a coronavirus test through the national testing scheme during the current tax year to 5 April 2021; and/or
- provides coronavirus antigen testing kits to its employees, outside of the government's national testing scheme, either directly or by purchasing tests that are carried out by a third party in the current tax year to 5 April 2021; and/or
- no benefit arises, no income tax nor NIC will be due, and there is no need to report the benefit to HMRC.

Furthermore, employers and their employees will temporarily not be liable to tax or NIC where an employer makes an advance payment to an employee for, or reimburses an employee for the cost of, a coronavirus antigen test. Strictly, for NIC purposes, this temporary measure only applies from 25 January 2021, but for payments for such tests made to employees during the 2020/21 tax year before 25 January 2021, HMRC will refrain from collecting the tax and NIC due.

Are there any limitations?

Yes, there are.

Firstly, the measures highlighted above only apply to coronavirus antigen tests which determine whether someone has an active case of the coronavirus, and do not extend to coronavirus antibody or other tests which seek to identify whether someone has had the coronavirus before.

The HMRC guidance defines a coronavirus antigen test as a test "which can detect the presence of a viral antigen or viral ribonucleic acid (RNA) specific to severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2)".

Secondly, these measures are currently only applicable for the tax year to 5 April 2021 and will therefore end on 5 April 2021. This may put a strain on some employers from 6 April 2021 (especially those employing key workers and those in particular industries such as retail and hospitality) who are trying to protect their staff and businesses by requiring employees to get tested regularly or before returning to work, and then meeting the cost.

Without these measures, an employer paying for an employee's coronavirus antigen test from 6 April 2021 will be providing a benefit or earnings equal to the cost of the test, resulting in tax and/or NIC costs for both the employee and employer, as well as the additional administration associated with reporting the benefits to HMRC.

We along with the professional bodies are therefore calling for HMRC to extend these measures beyond 5 April 2021 given the ongoing pandemic. Watch this space for an update if the position changes.

What about coronavirus vaccines?

Employer provided vaccines are not currently an option but once a vaccine is available commercially, employers might want to obtain and provide these for their staff via a third party. Some employers have already announced their intentions to require employees to be vaccinated. The provision by an employer of such a vaccine would give rise to a benefit in kind, liable to tax and NIC, unless an exemption or similar measure applied and provided a different outcome.

At present, the only existing tax and NIC exemption that might be relevant here is the trivial benefits exemption (see our previous article 'Applying the trivial benefit in kind exemption'). However, HMRC's previous guidance on trivial benefits before the trivial benefit exemption was introduced on 6 April 2016 states that only seasonal flu injections can be regarded as trivial, and no other sort of medical treatment or immunisation. We will have to wait and see if HMRC update their guidance on the use of the trivial benefit exemption for coronavirus vaccines when they become commercially available. The use of the exemption may, in any event, depend on the cost of such a vaccine and whether this costs more than £50.

Social security and Brexit: new rules for globally mobile employees and six actions for employers

After many months of speculation, the UK and the EU finally agreed a post-Brexit trade agreement to apply from 1 January 2021 onwards. An important component of the post-Brexit UK/EU trade agreement is the rules around social security contributions for employees who spend time working across the EU.

This article summarises the agreement from a social security coordination perspective and highlights the practical and administrative actions that employers of globally mobile employees should take now.

Our article on 16 November provides a brief summary of the previous social security coordination rules that applied before the end of the Brexit transition period.

How should employers tackle the coronavirus vaccinations

The coronavirus vaccine roll out is now underway and, if all continues to go to plan, all employees will be given the chance to have the vaccination in 2021. The matter of whether employers insist employees take the vaccine when it's offered to them, how to deal with employees who refuse it and the impact the vaccine may have on return to workplace strategies is now being discussed.

Employers should now be considering how to approach this development and whether to issue a policy covering their position.

Will people be forced to get the vaccine?

The Government does not have the power to force citizens to get the vaccine. This has led employers to consider their options in enforcing vaccination on their employees in order to protect their workforce and the business overall.

Organisations are likely to find some employees deciding that they do not want the vaccine. For example when it comes to vaccines some religious groups and vegans have concerns over the use of animal products – and these groups are protected by The Equality Act 2010. The government are running an awareness campaign which employers can use to signpost employees.

Do employers have the right to discipline and dismiss employees who refuse the vaccination?

Firstly, employers should always consider an employee's reasons for not wanting to be vaccinated before it makes any decisions about disciplinary action in order to avoid claims against it in relation to unfair dismissal or discrimination. There are some groups of people, such as those with severe allergies and pregnant women, who have been advised not to have the vaccine or will not be routinely offered it.

Secondly, it's important to consider alternatives to vaccination, such as permanent homeworking or moving to a role that does not require face to face contact, which may avoid the requirement for a vaccine.

Whether you can ask that your employees have the vaccine will depend on a number of factors and it has yet to be decided in employment law as a potential 'reasonable management instruction' justifying disciplinary action.

In some sectors it may be easier for organisations to implement a policy which makes vaccination a requirement of employment so that vulnerable patients are protected. For example, frontline health care professionals who are responsible for the care of others and often vulnerable patients. Regardless of the sector, making vaccination compulsory could lead to issues and therefore it's important to consider all aspects before blanket approaches are adopted.

Is encouragement the best option?

Most employees will likely be keen to take advantage of the vaccine for reasons around social interaction, for example to enable them to see colleagues and potentially work in shared workspaces some of the time. The best course of action for most employers will likely be that of encouraging vaccination by publicising the benefits.

Staff may be worried about having the vaccine and discussing their concerns and signposting to them where they can find accurate and impartial information may help alleviate those fears. Taking it a step further may be to consider, when possible, leading by example.

Should employers implement a Coronavirus Vaccination policy?

Some employees may be concerned about taking time off during their working days to have the vaccine and employers may like to take the opportunity to let employees know how the time will be treated. Putting a policy in place could help employers who want to encourage take up as well as creating an opportunity to reiterate stance and approach to employees in an open and transparent way.

Eventually it may become possible for employers to provide vaccination to its employees in the same way some companies offer the flu vaccine, although this is likely to be some way off given the global demand. For now, it is more important for employers to reflect on how they will adapt to the rollout of the vaccine and begin preparing their approach.

Post assignment surveys

We are committed to delivering an excellent client experience every time we work with you. Your feedback helps us to improve the quality of the service we deliver to you. Currently, following the completion of each product we deliver we attached a brief survey for the client lead to complete.

We would like to give you the opportunity to consider how frequently you receive these feedback requests; and whether the current format works. Options available are:

- After each review (current option).
- Monthly / quarterly / annual feedback request.
- Executive lead only, or executive lead and key team members.

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TRANSPORT FOR THE NORTH

Investment Programme Assurance Review

Internal audit report 7.20/21

Final

9 February 2021

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1. EXECUTIVE SUMMARY

With the use of secure portals for the transfer of information, and through electronic communication means, remote working has meant that we have been able to complete our audit and provide you with the assurances you require. It is these exceptional circumstances which mean that 100 per cent of our audit has been conducted remotely. Based on the information provided by management, we have been able to complete the work in line with the agreed scope.

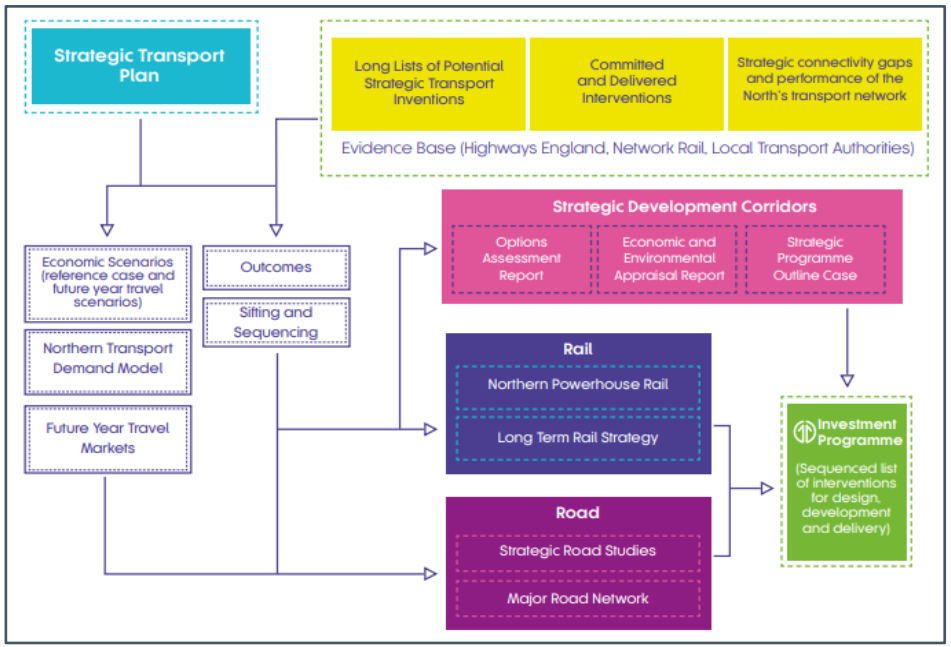
Background

Transport for the North's (TfN's) initial Investment Programme, published within the Strategic Transport Plan (STP) in February 2019, set out TfN's advice to the Government on the long-term priorities for enhanced pan-Northern transport connectivity. The Investment Programme has a horizon year of 2050, to align with the STP, and sets out TfN's view of the appropriate pipeline of investment in strategic transport to deliver its plans. This will enable TfN and its partners to secure funding and delivery of the different transport schemes; and aims to provide greater certainty for Local Transport and Highway Authorities to deliver complementary investment.

To support this, the TfN Business Plan for 2019/20 identified a need to *'commence work on sequencing of the Investment Programme, building on the business case development work being undertaken on Northern Powerhouse Rail, Trans-Pennine Route Upgrade, the Strategic Development Corridors (SDCs), and the work programmes delivering the Long-Term Rail Strategy'*. This was designed to then lead on to a review and update of the Investment Programme.

At the start of 2020, the qualitative sequencing process was undertaken to develop a delivery timeline for approximately 230 projects/schemes in the Investment Programme. This was not a ranking or prioritising exercise, but it was designed to create realistic, time-defined delivery milestones based on a number of factors, including economic, sustainability and social outcomes, as well as deliverability, affordability and political acceptance. These criteria were assessed with input from a range of sources, including input from partners, reference to the established Strategic Transport Plan and Investment Programme, and wider research/data.

The process for developing the first stage of the Investment Programme was set out in the following diagram (as included in various update reports provided to Board and Committee meetings):



The qualitative sequencing process was completed in spring 2020 and the sequencing framework placed the schemes into one of three delivery time periods. These are as follows:

- Pre-2027
- 2027-2033
- Post-2033

Once the sequencing framework had been agreed, three sequencing strategies were produced, based on the differing funding scenarios that may arise (these three sequencing strategies/delivery programmes, were approved by TfN Board in July 2020), as follow:

- Strategy 1 (S1): More funding (£11.2bn) and a more rail focused investment programme. This is likely to be the most challenging to deliver within the pre-2033 period.
- Strategy 2 (S2): More funding (£9.8bn) with a higher level of earlier investment in road schemes over the period up to 2033.
- Strategy 3 (S3 BAU): Business-As-Usual (£6bn).

TfN has also produced four future travel scenarios that illustrate how different outcomes across economic growth, land-use policy, technology uptake, behaviour trends and national climate change policy might affect different travel demand outcomes in the North. The scenarios have been reviewed in light of the Covid-19 pandemic, making adjustments as a result of significant changes to patterns of travel (such as increases in working from home or active travel stimulus) and economic activity.

It is intended that the three sequenced versions of the delivery programme will be tested using TfN's suite of economic and transport models, which will be used to make a recommendation to the TfN Board (this quantitative assessment process is referred to as the 'Investment Programme Benefits Analysis').

In 2020, TfN made a decision to pause work on the Investment Programme between summer 2020 and spring 2021. This was reported through the appropriate governance groups, and in the Budget Revision 1 Report taken to the July 2020 TfN Board. The primary reason for this was to manage resources within TfN's Modelling and Analytics Team (which is currently focused on the Northern Powerhouse Rail Business Case), and to allow time for further development and testing of the transport modelling tools.

In an update report to the Operational Board Team (OBT) in December 2020, management reported that the Investment Board Benefits Analysis (IPBA) work will start in April 2021 following a competitive procurement process to appoint the main supplier. A Strategic Programme Outline Case (SPOC) will subsequently be prepared in-house in spring 2022 for approval by the TfN Board in summer 2022. Management envisage that the SPOC will form a substantive part of the next Strategic Transport Plan due to be prepared in 2022/23.

Our audit was designed to consider the reporting of information in relation to the Investment Programme to senior management and Board members. This also included consideration of way in which Investment Programme risks and actions are monitored, and the Assurance Framework that supports this.

Conclusion

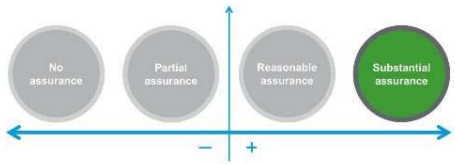
Through our work we confirmed that established processes are in place for providing updates on the Investment Programme to TfN senior management and Board members; (this includes updates provided historically for the qualitative sequencing process and updates relating to the forthcoming Investment Programme Benefits Analysis (IPBA) process). In addition to this, through our sample testing we confirmed that the information provided in the project documentation and Board/Committee update reports was consistent with source records and supporting evidence for those actions and activities we tested.

Further to the above, we also obtained evidence to confirm that an Assurance Framework is being developed by management to set-out the structures and processes that will support the delivery of the Investment Programme following the completion of the forthcoming IPBA process.

One management action is included in this report, which relates to the mapping of actions between the Northern Transport Charter, the Investment Programme and the Business Plan KPIs. However, this matter has not impacted upon our assurance opinion provided below.

Internal audit opinion:

Taking account of the issues identified, the Board can take substantial assurance that the controls upon which the organisation relies to manage this area are suitably designed and are being consistently applied.



Key findings

The following key findings were identified during our review:

By reference to relevant meeting minutes and supporting papers, we confirmed that updates in relation to the Investment Programme have been undertaken in accordance with the TfN governance structure during the last 12 months. This includes updates in relation to the qualitative sequencing process and the proposed plans relating to the IPBA. This also includes reporting of the decision to pause the Investment Programme between summer 2020 and spring 2021.

An action plan was maintained by the Project Team during the qualitative sequencing process between July 2019 and May 2020, which was used to monitor the completion of the identified actions during the sequencing process (the action plan was referred to and updated during weekly project management calls). Management are proposing to develop a new action plan for the IPBA process when the process commences in spring 2021. In addition to the action plan, the Project Team also used a risk register to monitor the risks relating to the qualitative sequencing process (the risk register was updated/maintained between spring 2019 and spring 2020). Following on from this, a further risk register has also been developed in relation to the IPBA process, which captured any ongoing risks from the qualitative sequencing exercise (this was developed in summer 2020). The new risk register will be used to support delivery of the IPBA process going forward.

We selected a sample of completed actions and activities recorded in the different Investment Programme update reports and monitoring documents, and we performed testing to determine whether each action/activity was supported by relevant evidence demonstrating the existence or completion of the stated action/activity (our sample related to actions/activities recorded in the last six months). No exceptions were noted as part of this testing.

The Northern Transport Charter (NTC) sets a future direction for TfN built around four strategic ambitions. The NTC includes a series of ‘actions’ and ‘changes’ that are essential to realise the strategic ambitions. As part of the audit, we reviewed all seven of the actions included in the NTC to determine whether each action was linked or was relatable to the information included in the Investment Programme document and the TfN Business Plan 2020/21. The information was relatable to common themes across the three documents in the majority of cases, however, we noted that there is currently no process in place for providing updates against the actions/changes included within the NTC, and there are no documented links between the NTC actions, the Investment Programme objectives and the Business Plan KPIs. A management action relating to this matter is included in Section 2 of this report.

At a corporate level, TfN has established procedures in place for the assessment and reporting of risk information across the organisation. We obtained a copy of the most recent Corporate Risk Register available at the time of our review (as presented to the Audit and Governance Committee in November 2020), and we confirmed that some of the risks and the related controls were linked to the activities being undertaken in relation to the Investment Programme. For example, one of the risk themes included in the Corporate Risk Register is: 'Delivery of Robust and Compelling Evidence to Support Investment Programmes'. We also confirmed that the Corporate Risk Register update report provided to the Audit and Governance Committee in relation to the above risk contained a detailed narrative to describe the status of the risk as that point, which made specific reference to the work undertaken on the Investment Programme.

TfN's Key Performance Indicators (KPIs) are outlined in the published Business Plan for 2020/21. These include four KPIs that make specific reference to the Investment Programme. We obtained a copy of a recent Monthly Monitoring Report (as reporting to the November 2020 Audit and Governance Committee meeting), and we confirmed that the report contained a specific update on the Investment Programme. In addition to this, we also confirmed that the Monthly Monitoring Report referred to above contained an update on each of the four Investment Programme-related KPIs included in the 2020/21 TfN Business Plan.

An 'Assurance Framework' is being developed by TfN to support the Investment Programme, which will be finalised following completion of the IPBA process. We confirmed that updates in relation to the Investment Programme Assurance Framework have been provided to TfN senior management during the last 12 months. In addition to this, we obtained a working copy of a draft TfN 'Assurance Framework' document which is being developed by management to set-out the structures and processes that will support the delivery of the Investment Programme following the completion of the IPBA process (development of the Assurance Framework document commenced in January 2020, however, the document was put on hold due to the decision to pause work on the Investment Programme between summer 2020 and spring 2021).

As the Assurance Framework document was still in a state of development at the time of our review (January 2021), we were unable to test the approval or application of the document. However, by reference to the draft document, we were able to confirm that an assurance framework is being developed to support the Investment Programme going forward. As such, no management action has been raised in our report relating to this matter.

Area of good practice for consideration

We noted that the action plan maintained by the Project Team during the qualitative sequencing process that took place between July 2019 and May 2020, included a 'lessons learned' tab to record areas that could be enhanced moving forward. Whilst we acknowledge that management are proposing to develop a new action plan for the IPBA process commencing in spring 2021, we would consider it good practice to retain the 'lessons learned' tab to identify additional areas that could be enhanced during this process. In addition, management should consider recording how any lessons learned have been actioned to enable clear monitoring through to completion.

2. DETAILED FINDINGS AND ACTIONS

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Area: Links to the Northern Transport Charter			
Control / Process	**Links between the Northern Transport Charter, the Investment Programme and the TfN Business Plan** Northern Transport Charter: The Northern Transport Charter (NTC) sets a future direction for TfN framed around four strategic ambitions. The NTC also identifies a series of 'actions' and 'changes' that are essential to realise the strategic ambitions (these actions/changes are specifically stated in the NTC document). Investment Programme: A publicly available 'Investment Programme' document was produced in 2019/20 prior to the start of the Programme, which set out the plans relating to the development and delivery of the Programme. TfN Business Plan: TfN's Key Performance Indicators (KPIs) for the current period are outlined in the published Business Plan for 2020/21. These include four KPIs which make specific reference to the Investment Programme. Updates against the KPIs are included in Monthly Operating Reports presented at Board/Committee level.	**Assessment:** **Design** **Compliance**	 Partial N/A
Findings / Implications	We noted that there is currently no process in place for providing updates on each of the actions/changes stated in the Northern Transport Charter (NTC). In addition to this, we noted that no documented process has been undertaken to formally map or link the actions included in the NTC to the Investment Programme objectives/actions and the TfN Business Plan. As part of our audit, we reviewed all seven of the actions included in the NTC to determine whether each action was linked or was relatable to the information included in the Investment Programme document and the TfN Business Plan 2020/21. The information was relatable to common themes across the three documents in the majority of cases, however, in the absence of clear documented links between each of the documents, it may be difficult for stakeholders to obtain assurance that actions are being undertaken to deliver the objectives of the NTC. In addition to the above, we noted that the four Investment Programme-related KPIs included in the TfN 2020/21 Business Plan make reference to the 'Assurance Framework'. Through the work undertaken during the audit, we are aware that the development of the Assurance Framework is dependent on the outcomes of the Investment Programme Benefits Analysis process and, as such, the Assurance Framework will not be fully developed until spring 2022.		

	We recognise the reason for the delay in the development of the Assurance Framework, however, we note that the one of the update comments reported in the November 2020 KPI update report stated that: 'The update of the Investment Programme following the qualitative sequencing process, and applying the developing Assurance Framework, has been achieved'. We recognise that management have delivered against the main elements of the Investment Programme-related KPIs, however, there could be greater clarity regarding the consistency of the message in terms of the development of the Assurance Framework. Therefore, management may wish to consider the nature of the Investment Programme-related KPIs and the way in which these are reported on in the future (this is especially the case given the level of uncertainty experienced to date in terms of funding and delivery timeframes).			
Management Action 1	A documented mapping exercise should be undertaken to formally link the actions included in the Northern Transport Charter to the Investment Programme objectives/actions and the KPIs included in the TfN Business Plan. In addition to this, management may wish to consider the nature of the Investment Programme-related KPIs and the way in which performance against the KPIs is reported going forward (e.g. to allow for more flexibility with the KPIs and the related update reporting).	**Responsible Owner:** Tim Foster, Interim Strategy and Programme Director	**Implementation Date:** To be confirmed as part of 2021/22 Business Plan	**Priority:** Medium

APPENDIX A: CATEGORISATION OF FINDINGS

Categorisation of internal audit findings	
Priority	**Definition**
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The following table highlights the number and categories of management actions raised as a result of this audit.

Area	Agreed actions		
	Low	Medium	High
Progress updates and reporting	0	0	0
Actions plans and risk logs	0	0	0
Links to the Northern Transport Charter	0	1	0
Total	**0**	**1**	**0**

APPENDIX B: SCOPE

Scope of the review

The scope was planned to provide assurance on the controls and mitigations in place relating to the following area:

Objective of the area under review
To ensure that information reported in relation to the TfN Investment Programme is consistent with supporting records and the current status of activities.

An 'Assurance Framework' is currently being developed to support TfN's Investment Programme. Once in place, the Assurance Framework will consist of a general set of rules, processes and governance that TfN will use on a day-to-day basis to manage its activities in relation to the Investment Programme. This represents a change in direction from TfN's initial proposal to develop a more traditional Assurance Framework that seeks to provide assurance on the management of the organisation's strategic risks.

When planning the audit the following areas for consideration and limitations were agreed:

Our review was designed to consider the progress made in relation to the TfN Investment Programme and the reporting of the Programme to senior management and Board members. The following areas were specifically covered during the review:

- Whether routine progress updates have been provided to relevant TfN Committees/Boards in relation to the work undertaken to develop the Investment Programme;
- Whether action plans and risk logs are in place to support the development of the TfN Investment Programme. Where appropriate we undertook testing to confirm the completion of actions that have been recorded as complete in the Investment Programme action plan/update reports; and
- Whether the planned activities included in the Northern Transport Charter are traceable to operational plans and/or actions already completed in relation to the TfN Investment Programme.

Where appropriate we have also considered the level of update reporting and monitoring undertaken in relation to the TfN Investment Programme.

Limitations to the scope of the audit assignment:

- We have undertaken an assessment of the adequacy of aspects of the control framework and we have performed limited testing to confirm its operation in practice;
- The scope of the work was limited to those areas examined and reported upon in the areas for consideration in the context of the objectives set out for this review;

- We did not consider any other areas than those specifically stated within the areas for consideration above;
- Testing was completed on a sample basis only;
- We have not provided an opinion on the design of the governance framework that supports delivery of the Investment Programme;
- We have not commented on the achievability of the Northern Transport Charter or the TfN Investment Programme objectives;
- We have not commented on decisions made in regard to funding or the utilisation of funds;
- We have not provided assurance that all relevant investment schemes and projects have been identified. Furthermore, we have not commented on the prioritisation of schemes/projects;
- We did not seek to confirm the achievement or delivery of strategic objectives;
- The results of our work were reliant on the quality and completeness of the information provided to us; and
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

Due to the exceptional circumstances resulting from the Covid-19 pandemic, our audit was carried out remotely through the use of secure portals for the transfer of information, and through electronic communication means.

Debrief held	3 February 2021	**Internal audit contacts**	Lisa Randall, Head of Internal Audit lisa.randall@rsmuk.com 07730 300 309
Draft report issued	5 February 2021		
Responses received	9 February 2021		William Simpson, Manager william. simpson@rsmuk.com 07800 617 012
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Final report issued	9 February 2021	**Client sponsor**	Iain Craven, Finance Director
		Distribution	Iain Craven, Finance Director
			Tim Foster, Interim Strategy and Programme Director
			Owen Wilson, Major Roads Strategy Manager

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TRANSPORT FOR THE NORTH

New Payment (Commissioning) Process

Internal audit report 6.20/21

Final

5 February 2021

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EXECUTIVE SUMMARY

With the use of secure portals for the transfer of information, and through electronic communication means, remote working has meant that we have been able to complete our audit and provide you with the assurances you require. It is these exceptional circumstances which mean that 100 per cent of our audit has been conducted remotely. Based on the information provided by you, we have been able to sample test, or complete full population testing using data analytics tools.

Why we completed this audit

We have undertaken a review of the Transport for North's ('TfN') new commissioning process and revised control framework as part of the agreed 2020/21 internal audit plan.

During July 2020 electronic workflows to approve the commissioning of purchases at TfN went 'live' within the Dynamic365 system which was already in operation. Prior to the implementation of electronic workflows, approval for the commissioning of purchases was obtained through paper authorisation that were physically signed and retained in the Finance Department's workspace. TfN now consider it mandatory for the commissioning of purchases to be approved electronically and paper-based forms are no longer accepted for processing as stipulated within the Procurement Policy and supporting guidance.

The electronic system has been designed internally to ensure that the approval for the commissioning of purchases, from when the requisition is raised prior to the payment being fulfilled, is captured for each requisition in one central location. Furthermore, storage of evidence in relation to each payment is also held electronically in one central drive that is accessed by the Finance Department. Post-implementation reviews of the updated commissioning system has been undertaken by TfN management since the system went live in July 2020 and management consider the system to be operating as intended.

As part of our review, we have assessed the revised control framework in place for the commissioning of purchase orders to ascertain specifically whether requisitions have been authorised accordingly, evidence has been stored centrally, and authorisation levels in accordance with the Scheme of Delegation correspond with the commissioning of purchase orders.

Conclusion

Through the work performed, we confirmed that TfN has an established framework in place in relation to authorising the commissioning of purchases orders and utilisation of the Dynamics365 system for approvals, which includes a requirement for requisitions to be authorised in line with the Scheme of Delegation. The framework is supported by overarching Financial Regulations, policies and process maps that take the form of rules and guidance for undertaking the commissioning process and these documents are accessed via TfN's intranet.

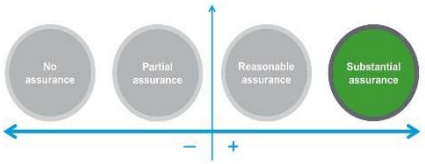
Our sample testing of approval levels for commissioning of purchase orders confirmed that the approval levels in Dynamics365 for a sample of requisitions was in line with the Scheme of Delegation, and that the storage of evidence (invoices, goods received notes by way of example) were in the form of shared folders that can only be accessed by the Finance Department.

In light of our findings above, including our additional key findings below, we have not made any management actions.

We have also undertaken data analytics testing using data from the quarter two 2020/21 Transparency (expenditure) report to identify potential duplicate payments made during 2020/21. The conclusion of our analysis does not require any further investigation from management. Full details are provided at Appendix A of this report.

Internal audit opinion:

Taking account of the issues identified, the Board can take substantial assurance that the controls upon which the organisation relies to manage this area are suitably designed, consistently applied and operating effectively.



Key findings

TfN has in place a Payment Policy, a Procurement Policy and process maps that make reference to the new commissioning process, in addition to outlining the roles and responsibilities of the members of staff that are required to contribute to the day-to-day processes of purchase orders.

Financial Regulations and a Scheme of Delegation matrix outlines the approval levels for commissioning purchase orders with defined different values. As part of the implementation of the Dynamics365 system, the approval levels were uploaded into the system by the IT Department with oversight from the Financial Accountant. We obtained a report from the Dynamics365 system that confirmed that approval levels are aligned to the Scheme of Delegation.

We undertook testing on a sample of requisitions raised in Dynamics365 system since the new commissioning process went live in July 2020. The purpose was to confirm whether the requisition was approved in line with the Scheme of Delegation, whether the system recorded the approval process, and whether evidence of the commission payment was stored in the form of 'payment packs' in the shared folders (Note - our testing covered all but one range (£181,302 to £1,000,000). This was because we could not find values between these two ranges in our period considered). Our sample testing did not identify any exceptions.

Testing on a sample of treasury payments, relating to one-off payments to suppliers, which are made outside of the system was also undertaken. A 'Treasury Payments Template' form is required to be completed by the budget holder and then reviewed and authorised by the Procurement Officer and Financial Controller. Each of our sample of two treasury payments were supported with checks on supplier/contractor bank details, attached invoices and confirmation of payments (bank transaction extract), which was in line with the Procurement Policy.

For a sample of budget holders, we confirmed that budget holder reports are available on file for three months (July, August and September 2020). Through review of each budget holder report, we confirmed that each report included a 'Commissions' sheet that showed the status of each commission payment requested by the budget holder. Commentary following the budget holder meetings was also recorded to evidence the discussions between the Budget Holder and a representative from the Finance Department.

Through a review of the reporting framework we confirmed that TfN has published Transparency (expenditure) reports on a quarterly basis via the website, which is publicly accessible, to comply with the Local Government Transparency Code issued by the Department for Communities and Local Government (February 2015). Further to this, the TfN Board also receives financial updates by the Finance Director on a routine basis throughout the financial year to inform Trustees on year-to-date expenditure, budgets and other financial information.

Additional areas of good practice for consideration

We have identified the following area that management may wish to take into consideration to further develop processes:

We noted that when amendments to the access levels within Dynamics365 are required, in the event of a member of new starters, changes to existing staff roles or staff leaving TfN, an Access Request form is required to be submitted and approved by the Financial Controller prior to the IT Team carrying out the amendment. Whilst we acknowledge that the commissioning module of the system is new and there has not been any need to make user access level amendments at the time of our review, TfN may wish to consider carrying out a regular (e.g. quarterly / annual) review of access levels within the Dynamics365 system. This will support the controls already in place in regard to system access and enable instances of inappropriate access rights to be identified and amended on a regular basis.

APPENDIX A: DATA ANALYTICS

The following is a summary of findings from our analytical work as agreed within the Scope.

Area: Duplicate payments made to suppliers / contractors	
Criteria:	Identify possible duplicate payments made to suppliers contractors from the Transparency Reports.
Source Data/Reports:	• Transparency (expenditure) reports published by TfN containing individual expenditure transactions over £500.
Period Covered:	1 July – 30 September 2020
Testing Undertaken:	We undertook a duplicate test on the following criteria across all of the months considered: • Payment date; • Payment source; • Supplier name; • Amount; and • Expenditure type.
Results:	Our analytics concluded that out of 273 entries within the Transparency (expenditure) report, 79 (28.9%) entries related to potential duplicate payments. Following this, we provided our results to the Financial Accountant for comment, and it was identified that each payment referred to separate invoices and were in fact not duplicates. In all cases, the Financial Accountant informed us that they related to weekly agency worker invoices, monthly rental (Bruntwood) and monthly licence costs (Trapeze), where invoices for two separate months have been settled simultaneously. As such, for all 79 potential duplicate payments we obtained screenshots of the system and confirmed that each entry from our results could be traced back to different invoices.
Issues Identified:	No issues identified.
Overall Conclusion:	No issues identified.
Output Report Reference:	N/A

APPENDIX B: BENCHMARKING

Benchmarking

We have included some comparative data to benchmark the number of management actions agreed, as shown in the table below. In the past year, we have undertaken a number of audits of a similar nature across our client base.

Level of assurance	Percentage of reviews	Results of the audit
Substantial assurance	15%	✓
Reasonable assurance	62%	
Partial assurance	15%	
No assurance	8%	

Management actions	Average number in similar audits	Number in this audit
	3	0

Our benchmarking data above shows that the level of assurance achieved by TfN is above average where we have provided in the main, a reasonable level of assurance. In addition to this, on average we have made three management actions when undertaking similar reviews whereas no actions have been made as part of this review.

APPENDIX C: CATEGORISATION OF FINDINGS

Categorisation of internal audit findings	
Priority	**Definition**
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The following table highlights the number and categories of management actions made as a result of this audit.

Area	Control design not effective*		Non Compliance with controls*		Agreed actions		
					Low	Medium	High
Policy and procedure framework	0	(2)	0	(2)	0	0	0
Payment authorisation levels	0	(2)	0	(2)	0	0	0
Sample testing	0	(3)	0	(3)	0	0	0
Monitoring and reporting framework	0	(3)	0	(3)	0	0	0
Data analytics	0	(1)	0	(1)	0	0	0
Total					**0**	**0**	**0**

* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

APPENDIX D: SCOPE

Scope of the review

The scope was planned to provide assurance on the controls and mitigations in place relating to the following area:

Objective of the area under review
To assess the controls in place that support the commissioning of purchase orders for payments made to external parties following the changes made to the related workflows.

The audit will consider the following;

- Financial Regulations, policies and documented procedures for the commissioning of purchase orders and processing of payments to external parties;
- Purchase order and payment authorisation levels, including consideration of the way in which authorisation levels are agreed/approved and communicated to staff across TfN (this will include consideration of the inputting of authorisation levels workflows to the electronic commissioning system);
- We will test a sample of payments made to external parties during the current financial year to determine whether the commissioning of purchase orders has been approved prior to being completed in accordance with agreed authorisation levels. Our review will also take consideration of transactions processed outside of the system, if applicable;
- The processes for ensuring evidence is in place to support the commissioning of purchase orders and authorisation of payments to external parties, including the processes used for storing evidence; and
- Monitoring and reporting of purchase order and payment information.

In addition, we will use data analytics software tools to analyse payments data for external parties for the period July 2020 to September 2020. The results of our data analytics will be used to carry out sample testing in areas were potential control design and compliances issues have been identified. The data analytics testing will be carried out in the following area as agreed with management:

- Duplicate purchase orders relating to payments made to external parties.

to the scope of the audit assignment:

- Our work will focus specifically on the controls that support payments to external suppliers and, as such, we will not review controls for the authorisation of payments made to TfN employees or HMRC, for example;
- We will not review TfN's procurement or value for money processes as part of this audit;
- We will not comment on the suitability of suppliers sourced or transactions undertaken by TfN through its procurement processes;
- We will not review system back-up controls for the finance system or any of TfN's other IT systems;
- Whilst we will review the processes in place for ensuring that approval levels on the system have been assigned to authorised approvers, we will not provide assurance that system users have accessed their accounts in an appropriate and compliant manner (i.e. we cannot provide assurance that users have not shared their login details with other parties);
- We will perform testing on a sample basis from transactions in the current financial year;
- We will not review the processes in place for setting up new suppliers in the Finance system;
- We will not provide an opinion on the appropriateness of authorisation levels allocated to TfN staff within the Scheme of Delegation;
- The results of our work are reliant on the quality and completeness of the information provided to us; and
- Our work does not provide any guarantee against errors, loss or fraud or provide an assurance that error, loss or fraud does not exist.

Debrief held	20 October 2020	**Internal audit Contacts**	Lisa Randall, Head of Internal Audit lisa.randall@rsmuk.com / 07730 300 309
Additional Information provided	2 November 2020		
Draft report issued	9 November 2020		Alex Hire, Senior Manager alex.hire@rsmuk.com / 07970 641 757
Responses received	5 February 2021		
			Andrew Mawdsley, Assistant Manager andrew.mawdsley@rsmuk.com / 07734 683 992
Final report issued	5 February 2021	**Client sponsor**	Iain Craven, Finance Director
		Distribution	Iain Craven, Finance Director

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TRANSPORT FOR THE NORTH

Income and Debtor Management

Internal audit report 8.20/21

Final

9 February 2021

1. EXECUTIVE SUMMARY

With the use of secure portals for the transfer of information, and through electronic communication means, remote working has meant that we have been able to complete our audit and provide you with the assurances you require. It is these exceptional circumstances which mean that 100 per cent of our audit has been conducted remotely. Based on the information provided by management, we have been able to complete the work in line with the agreed scope

.

Why we completed this audit

TfN's budgeted expenditure for 2020/21 is fully funded from grants, local contributions, contracted income, and reserves. The main elements of TfN funding are dependent on the Department for Transport's (DfT) approval to release funds. Funding allocations are confirmed by DfT on an annual or multi-annual basis and TfN submits drawdown requests for the different grant allocations throughout the year, as required.

The following funding information relating to the 2020/21 budget was provided in the TfN budget and Monthly Operating report for December 2020:

	Planned Funding (£m)	Q2 Budget Revision (£m)	Funding Received to Date (£m)	Funding Forecast Outturn (£m)
Core Grant	10.00	10.00	5.13	8.28
Integrated and Smart Travel (IST) Grant	15.78	14.99	7.28	9.81
Transport Development Funding Grant	59.00	50.50	27.23	43.21
Rail Operation Grants and Contributions	1.88	1.58	1.20	1.57
Total In Year Grants	**86.66**	**77.07**	**40.84**	**62.87**

Of the £77.07m funding identified in the quarter two budget revision, £75.49m relates to funding received from DfT and £1.58m relates to rail operation grants and contributions from local partners, for which sales invoices are raised.

The TfN budget forecast is revised on a quarterly basis. The narrative contained within the December Operating report stated that 'a final budget revision exercise was carried out in December to be approved by TfN Board in January. However, this was rendered out of date by the DfT Funding Letter received on 4 January 2021 which reduced in year Core funding by £3m and significantly changed the context of TfN's financial planning for the remainder of the financial year.'

We have undertaken a review of TfN's income and debtor management processes to provide assurance on the existence of a control framework and assess whether controls are operating as intended.

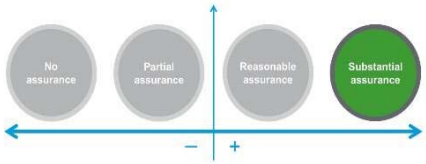
Conclusion

Through our work, we were able to confirm that TfN has an established framework in place in relation to income and debtor management, which includes the recording and monitoring of grant funding and income received from sales invoices, as well as the reporting of financial information to the TfN Board and Audit and Governance Committee.

In addition, through our sample testing we confirmed that controls were operating as intended for all areas reviewed. However, we identified one developmental area where controls could be strengthened in relation to establishing regular review of the Grant Acceptance and Management Policy. This has not impacted the positive opinion provided below.

Internal audit opinion:

Taking account of the issues identified, the Board can take substantial assurance that the controls upon which the organisation relies to manage this area are suitably designed, consistently applied and operating effectively.



Key findings

We identified the following findings during our review:

The TfN Constitution provides details on responsibilities in relation to income and debtor management. This is supported by documented accounts receivables procedure notes accessible to relevant members of staff.

An established review cycle for the Grant Acceptance and Management Policy is not in place to ensure that the Policy is regularly updated to reflect current practices in operation.

The Finance Director, in consultation with appropriate TfN officers, prepares annual estimates of income to identify the expected level of income / funding for the year. We confirmed that the 2020/21 budget was approved by the Board in March 2020 and quarterly budget revisions, including amendments to expected income, have been reported to the Board during 2020/21.

From our testing carried out in relation to grant funding received in 2020/21 we confirmed that grant funding determination letters were in in place for all grant funding received. Whilst we identified two instances where the funding received by TfN differed from the value stated on the initial grant funding letter from DfT we were informed by management that funding allocations and payment schedules are subject to changes by DfT throughout the year and therefore, the actual amount received can differ from the original funding letter.

From our sample testing carried out in relation to sales invoices raised in 2020/21 for contribution from local partners, we confirmed that all sales invoices reviewed had been approved via an invoice request form. We noted that in each case the form did not record the date of approval on the form. However, in all cases we were able to determine the date that the form was submitted for processing following approval to confirm that invoice had been approved and processed in a timely manner. Therefore, we have not raised a management action at this time.

Management undertake month end balance sheet reconciliations to track funding that has been received throughout the year. The reconciliation spreadsheet, along with the funding contribution trackers enables management to monitor whether all expected income has been requested and received. Due to the nature of TfN's income (funded by government grant funding and invoicing of local partners), we were informed by management that long standing debts and write off of bad debts do not occur. This was verified through our review of the TfN 2019/20 audited accounts. Therefore, no further debtor management processes are required such as escalation of debt to external agencies which other organisations will use.

We confirmed that for 2020/21, reporting on expenditure against funding is provided in monthly operating reports and finance updates presented at TfN Board and Audit and Governance Committee meetings.

Additional findings

As part of our review, we conducted benchmarking to compare the TfN's income and debtor management processes with those we have seen in place at other organisations, to identify areas of good practice.

We identified the following good practice that the TfN is displaying:

- Quarterly budget revisions are made as part of the TfN budgetary control procedures; and
- Expected funding income from TfN partner organisations is tracked through additional monitoring spreadsheets to ensure expected sales invoices are raised.

We identified the following good practice within our (grant funded) client base that the TfN may wish to consider:

- We were informed by management that the monthly control account reconciliations are completed by the Financial Accountant and do not require further approval. Whilst we recognise that this is in line with the processes we have seen in place at TfN during previous year reviews. Due to the size and structure of the Finance Team, management may wish to consider formally documenting the approval of monthly control account reconciliations to demonstrate clear segregation of duties.

2. DETAILED FINDINGS AND ACTIONS

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Area: Policies and Procedures				
Control	A Grant Acceptance and Management Policy is in place to provide staff with guidance on how TfN determines whether to accept grants, and how those grants will be managed. The Policy is accessible to all staff via the TfN SharePoint site.		**Assessment:** **Design** ✓ **Compliance** Partial	
Findings / Implications	Through our review we identified that the Grant Acceptance and Management Policy was last reviewed and updated in April 2018. We were informed by management that the Policy is amended if changes are made to processes, but the Policy is not subject to a set periodic review. In addition, we noted that the Policy does not contain a version control section to ensure that amendments made to the Policy following review, date of the last review and relevant Committee approval, are clearly documented (including instances where the Policy has been reviewed but no changes were required). The absence of a formal periodic review and version control section may result in the Policy reflecting outdated processes, which leads to the application of incorrect procedures by staff.			
Management Action 1	Management will establish a timeframe for the periodic review of the Grant Acceptance and Management Policy and ensure that reviews are carried out in line with the agreed timeframe. In addition, a version control section will be added to the Policy to capture changes made to the Policy following review, date of review dates and relevant approval at oversight Committee.	**Responsible Owner:** Paul Kelly, Financial Controller	**Date:** 30 June 2021	**Priority:** Low

APPENDIX A: CATEGORISATION OF FINDINGS

Categorisation of internal audit findings	
Priority	**Definition**
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The following table highlights the number and categories of management actions made as a result of this audit.

Area	Control design not effective*		Non Compliance with controls*		Agreed actions		
					Low	Medium	High
Policies, Procedures and Planning	0	(3)	1	(3)	1	0	0
Income and Debt Management	0	(5)	0	(5)	0	0	0
Reporting	0	(1)	0	(1)	0	0	0
Total					**1**	**0**	**0**

* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

APPENDIX B: BENCHMARKING

Benchmarking

We have included some comparative data to benchmark the number of management actions agreed, as shown in the table below. In the past year, we have undertaken a number of audits of a similar nature across our client base.

Level of assurance	Percentage of reviews	Results of the audit
Substantial assurance	36.7%	✓
Reasonable assurance	43.1%	
Partial assurance	18.9%	
No assurance	1.3%	

Management actions	Average number in similar audits	Number in this audit
	4	1

Our benchmarking data above shows that the level of assurance achieved by TfN is above average where we have provided in the main, a reasonable level of assurance. In addition to this, on average we have made four management actions when undertaking similar reviews whereas one action has been made as part of this review.

APPENDIX C: SCOPE

The scope below is a copy of the original document issued.

Scope of the review

The internal audit assignment has been scoped to provide assurance on how Transport for the North manages the following area:

Objective of the area under review
To ensure the existence of a robust control framework for the management of debtors and the recovery of income, ensuring turnover is maximised and cashflow levels are managed appropriately.

The audit will consider the following;

- Financial Regulations, including responsibilities for income and debtor management.
- Policies and documented procedures for income and debtor management.
- Financial planning and budgeting process to identify the expected level of income / funding for the year.
- Processes for raising timely sales invoices and recording of funding.
- Debtor management including deadlines for issuing reminders.
- Aged debt reporting.
- Escalation procedures for long-standing debt, including to external agencies.
- Authorisation for write offs of irrecoverable debt.
- Reporting on income (including monitoring of funding conditions) and debtors to relevant Committees and Board.

Limitations to the scope of the audit assignment:

- Our audit is limited to reviewing the areas specified above. No other areas of the TfN's financial system or processes will be reviewed.
- Testing will be undertaken on a sample basis.
- Our work will not confirm that customer credit terms are suitable, only that they have been agreed.
- We cannot confirm that all income due to TfN has been received.

- We will not comment on whether debts are irrecoverable, or should be written off.
- We will not review the debt collection processes employed by external agencies or partners.
- The results of our work are reliant on the quality and completeness of the information provided to us; and
- Our work does not provide any guarantee against errors, loss or fraud or provided an assurance that error, loss or fraud does not exist.

Debrief held	1 February 2021
Draft report issued	5 February 2021
Responses received	9 February 2021
Final report issued	9 February 2021

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Client sponsor	Iain Craven, Finance Director
Distribution	Iain Craven, Finance Director

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TRANSPORT FOR THE NORTH

Internal Audit Strategy 2021/22 - 2023/24 (including the Internal Audit Plan for 2021/22)

Presented at the Audit and Governance Committee meeting of: 18 February 2021

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EXECUTIVE SUMMARY

In preparing our Internal Audit Plan for 2021/22 we have worked closely with management to produce an audit programme which remains mindful of the continuing developments and challenges around Covid-19. Whilst this plan is presented for consideration by the Audit and Governance Committee, we will continue to hold regular meetings with management, during the year, to deliver an internal audit programme which remains flexible and 'agile' to ensure it meets your needs in these ever changing circumstances.

The key points to note from our plan are:

2021/22 Internal Audit priorities: Internal audit activity for 2021/22 is based on analysing your corporate objectives and risk profile as well as other factors affecting you in the year ahead, including changes within the sector. Our detailed plan for 2021/22 is included at Section 1.

Level of Resource: The level of resource required to deliver the plan is broadly in line with 2020/21, with the daily rate increased in line with the contract extension agreed for 2021/22. We will continue with our approach of introducing the use of technology when undertaking our operational audits. During 2020/21 we embraced more ways of using technology to undertake our audit work including; the use of MS Teams meetings, secure web portals for audit data sharing (Huddle) and data analytics technology. This will strengthen our sampling and focus our audit testing. Refer to Appendix A.

Core Assurance: As discussed with the Finance Director, the focus of our internal audit strategy relates to the Corporate Risk Theme of 'TfN Operations'. We do not propose to duplicate other assurance mechanisms that Transport for the North (TfN) has in place, and our service will allow for a complimentary assurance and scrutiny framework with reporting to the Audit and Governance Committee.

'Agile' approach: Our approach to working with you has always been one where we will respond to your changing assurance needs. By employing 'agile' or a 'flexible' approach to our service delivery, we are able to change the focus of audits / audit delivery; keeping you informed of these changes in our progress papers to Audit and Governance Committee during the year.

CONTENTS

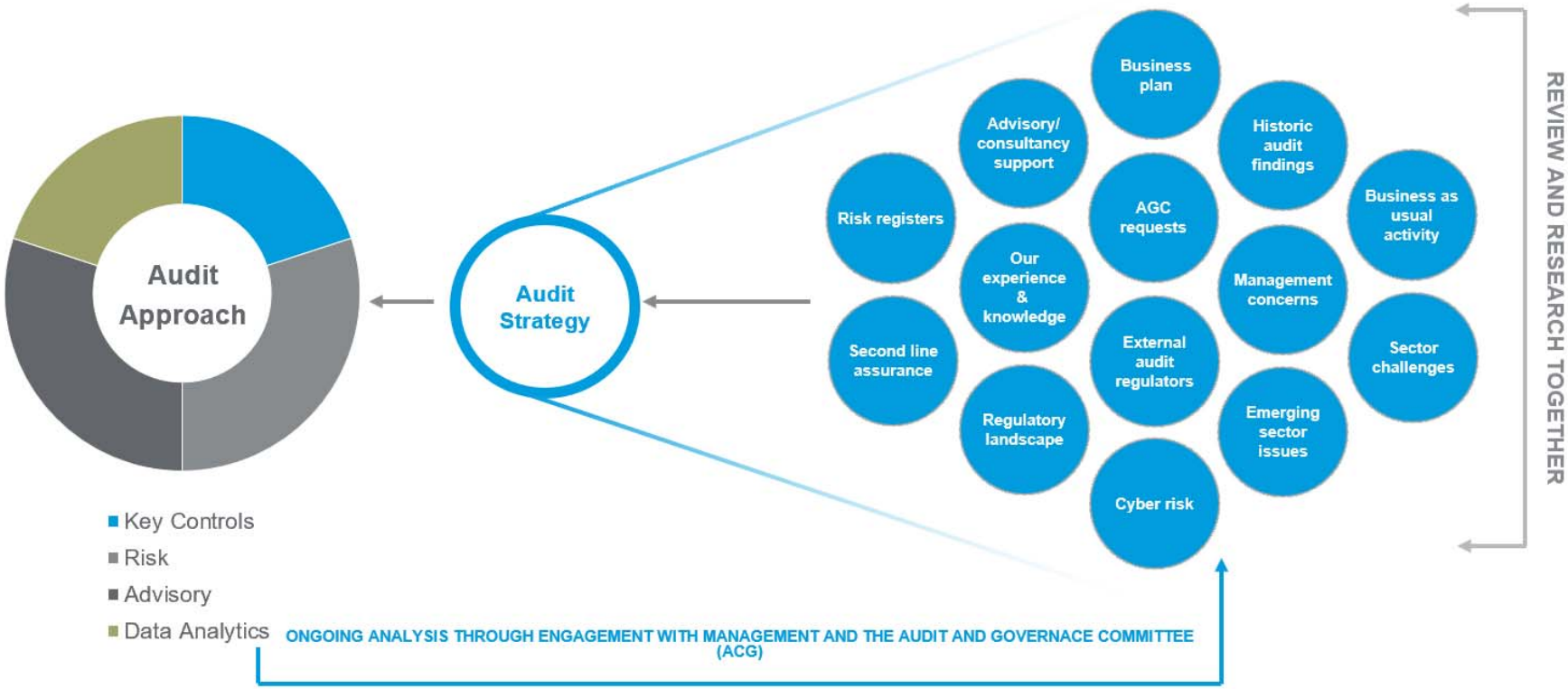
1. YOUR INTERNAL AUDIT PLAN 2021/22

Our approach to developing your internal audit plan is based on analysing your corporate objectives, risk profile and assurance framework as well as other factors affecting Transport for the North in the year ahead.

Risk management processes

We have evaluated your risk management processes and consider that we can place reliance on your risk register to inform the internal audit strategy. We have used various sources of information (see Figure A below) and discussed priorities for internal audit coverage with the Finance Director. Our service will allow for a complimentary assurance and scrutiny framework with reporting to the Audit and Governance Committee.

Figure A: Audit considerations – sources considered when developing the internal audit strategy:



Based on our understanding of the organisation, the information provided to us by stakeholders, and the regulatory requirements, we have developed an annual internal plan for the coming year and a high-level strategy (see Section 2 and Appendix B for full details).

2. INTERNAL AUDIT PLAN 2021/22

The table below shows each of the reviews that we propose to undertake as part of the internal audit plan for 2021/22. The table details core areas of assurance which may warrant internal audit coverage. This allows us to ensure that the proposed plan will meet the organisation's assurance needs for the forthcoming and future years. As well as assignments designed to provide assurance or advisory input around specific risks, the strategy also includes: time for tracking the implementation of actions and an audit management allocation.

Audit area and high-level scope	Audit approach	Proposed timing	Proposed Audit and Governance Committee meeting
Core assurance			
Governance Effectiveness Framework We will review the effectiveness of the governance arrangements in place at TfN during and post Covid-19 to identify the extent to which the arrangements documented in the TfN Constitution have been followed. We will also identify areas of the governance framework that could be improved based on good practice we have seen in place at other organisations. Our review will consider the following areas: • Review of the arrangements set out in the TfN Constitution, including whether approved and up to date terms of reference are in place; • Explore expectations / views of stakeholder (e.g. Members and staff) regarding governance arrangements (methodology to be agreed); • Review of governance reports provided to the TfN Board; • Members induction process; • Calendars of business and meeting cycles, to ensure that these are being complied with (by reference to minutes); and • Registers of interest processes, to assess whether all relevant documentation has been completed and is up to date. In addition, we will issue questionnaires to members and key staff (to be agreed with management) to gain insight into TfN's governance arrangements and conduct at meetings, to compare with good practice.	Assurance	Quarter 1	July 2021
Risk Management Strategy Our review will consider whether the content of the TfN Risk Management Strategy is in line with good practice we have seen at other organisations, and also consider how TfN's new Risk Management software supports the effective management and reporting of risks. In addition, we will assess how risk	Assurance	Quarter 2	September 2021

Audit area and high-level scope	Audit approach	Proposed timing	Proposed Audit and Governance Committee meeting
management procedures are embedded in relation to the TfN Investment Programme's Benefit Analysis (IPBA) project.			
Purchase to Pay Framework Our review will consider the processes utilised by TfN in relation to the purchase to pay framework. This will include controls with regard to authorisation of requisitions and payments made to suppliers and assessment of authority levels in place across the organisation.	Assurance	Quarter 3	December 2021
Flexi-time (deferred from 2020/21) This review will consider the consistent application of the organisation's policy and benchmark practices to compare the method adopted of authorising and recording flexi hours carried forward to that seen at other organisations. This review has been carried forward from 2020/21. Where appropriate we will incorporate the use of data analytics in our review.	Assurance	Quarter 3	December 2021
IT Audit: Cyber Security or GDPR Governance Our Follow Up review scheduled for quarter one 2021/22 will consider the implementation of the management actions agreed in the 2020/21 Cyber Security review (report reference 5.20/21), for which 'reasonable' assurance could be taken (two 'medium' and two 'low' priority management actions were agreed). If our Follow Up review identifies that the Cyber Security management actions have not been fully implemented, we will undertake a further Cyber Security review in 2021/22, which will be undertaken by our specialists within our Technology Risk Assurance Team, and will include a review of the tools and systems management used to manage cyber security, including intrusion detection and monitoring, malware, and mobile device management. If our Follow Up review identifies that the 2021/22 Cyber Security management actions have been implemented, we will carry out a GDPR governance review that will be scoped to provide a factual analysis of TfN's data protection controls framework against GDPR requirements and obligations introduced in May 2018.	Assurance	Quarter 4	September 2021
Advice and Support			
To be agreed.	Advisory	TBC	TBC

Audit area and high-level scope	Audit approach	Proposed timing	Proposed Audit and Governance Committee meeting
Other Internal Audit Activity			
Follow Up To meet internal auditing standards, and to provide assurance on action taken to address management actions previously agreed by management.	Follow Up	Quarter 1	July 2021
Management This will include: • Annual planning; • Preparation for, and attendance at, Audit and Governance Committee meetings; • Regular liaison and progress updates; • Liaison with external audit and other assurance providers; and • Annual summary.	N/A	Ongoing throughout the year	N/A

A detailed planning process will be completed for each review, and the final scope will be documented in an Assignment Planning Sheet. This will be issued to the key stakeholders for each review.

2.1 Working with other assurance providers

The Audit and Governance Committee is reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not, seek to cover all risks and processes within the organisation.

We will however continue to work closely with other assurance providers, such as external audit to ensure that duplication is minimised, and a suitable breadth of assurance obtained.

APPENDIX A: YOUR INTERNAL AUDIT SERVICE

Your internal audit service is provided by RSM Risk Assurance Services LLP. The team will be led by Lisa Randall as your Head of Internal Audit, who will be supported operationally by Alex Hire, Senior Manager and Andrew Mawdsley, Assistant Manager.

Fees

Our fee to deliver the plan is £26,250 (excluding VAT) for a total of 50 days.

Core team

The delivery of the 2021/22 audit plan will be based around a core team. However, we will complement the team with additional specialist skills where required.

Conformance with internal auditing standards

RSM affirms that our internal audit services are designed to conform to the Public Sector Internal Audit Standards (PSIAS).

Under PSIAS, internal audit services are required to have an external quality assessment every five years. Our risk assurance service line commissioned an external independent review of our internal audit services in 2016 to provide assurance whether our approach meets the requirements of the International Professional Practices Framework (IPPF) published by the Global Institute of Internal Auditors (IIA) on which PSIAS is based.

The external review concluded that ""there is a robust approach to the annual and assignment planning processes and the documentation reviewed was thorough in both terms of reports provided to audit committee and the supporting working papers." RSM was found to have an excellent level of conformance with the IIA's professional standards.

The risk assurance service line has in place a quality assurance and improvement programme to ensure continuous improvement of our internal audit services. Resulting from the programme, there are no areas which we believe warrant flagging to your attention as impacting on the quality of the service we provide to you.

Our next external review will be conducted during 2021 and we will inform the Audit and Governance Committee of its findings.

Conflicts of interest

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under internal auditing standards.

APPENDIX B: INTERNAL AUDIT STRATEGY 2021/22 – 2023/24

The table below provides an overview of the audit coverage to be provided through RSM's delivery of the internal audit strategy. This has been derived from the process outlined in Section 1 above.

The table sets out the areas covered by internal audit as part of previous internal audit plans. Where assurance opinions were provided as a result of the assignments completed, this is indicated in colour in accordance with the key below, against the relevant audit in the year column.

Assurance Provided	
	Red - Minimal Assurance / Poor Progress
	Amber/red - Partial Assurance / Little Progress
	Amber/green - Reasonable Assurance / Reasonable Progress
	Green - Substantial Assurance / Good Progress
	Advisory / AUP
	IDEA

Audit area	Internal Audit – Third Line of Assurance (independent review / assurance)					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Risk Management				✓		✓
Corporate Governance (2018/19 and 2020/21 opinion informed by Committee attendance and governance elements of individual audits)	✓	Strategic Development Corridors Programme Northern Powerhouse Rail	✓	Governance Effectiveness Framework	✓	✓
Core Financial Systems	Payment Authorisation, Expenses and Procurement Cards.	Treasury Management	New Payment (Commissioning) Process	Purchase to Pay Framework	Payroll	Value for Money Reporting

Assurance Provided	
	Red - Minimal Assurance / Poor Progress
	Amber/red - Partial Assurance / Little Progress
	Amber/green - Reasonable Assurance / Reasonable Progress
	Green - Substantial Assurance / Good Progress
	Advisory / AUP
	IDEA

Internal Audit – Third Line of Assurance

(independent review / assurance)

Audit area	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Payroll		Income Management (in progress)			
IT Audit	Cyber Security	SharePoint	Cyber Security	Follow Up plus either Cyber Security or GDPR Governance	✓	✓
Procurement Framework / Contract Management	Procurement Framework		Contract Management			✓
Absence Management and Wellbeing					✓	
Human Resources – Recruitment and Selection						
Assurance Framework			Investment Programme Assurance (in progress)			
Stakeholder Engagement/Communications					✓	
Performance Management and Appraisals						✓

Assurance Provided	
	Red - Minimal Assurance / Poor Progress
	Amber/red - Partial Assurance / Little Progress
	Amber/green - Reasonable Assurance / Reasonable Progress
	Green - Substantial Assurance / Good Progress
	Advisory / AUP
	IDEA

Audit area	Internal Audit – Third Line of Assurance (independent review / assurance)					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Health and Safety					✓	
Flexi-time				✓		
Advice and Support	✓	✓	✓	✓	✓	✓
Follow Up	✓	✓	✓	✓	✓	✓
Management	✓	✓	✓	✓	✓	✓

APPENDIX C: INTERNAL AUDIT CHARTER

Need for the charter

This charter establishes the purpose, authority and responsibilities for the internal audit service for Transport for the North. The establishment of a charter is a requirement of the Public Sector Internal Audit Standards (PSIAS) and approval of the charter is the responsibility of the Audit and Governance Committee.

The internal audit service is provided by RSM Risk Assurance Services LLP ("RSM").

We plan and perform our internal audit work with a view to reviewing and evaluating the risk management, control and governance arrangements that the organisation has in place, focusing in particular on how these arrangements help you to achieve its objectives. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Core principles for the professional practice of internal auditing;
- Definition of internal auditing;
- Code of ethics; and
- The Standards.

Mission of internal audit

As set out in the PSIAS, the mission articulates what internal audit aspires to accomplish within an organisation. Its place in the IPPF is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the mission.

"To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight".

Independence and ethics

To provide for the independence of internal audit, its personnel report directly to Lisa Randall (acting as your Head of Internal Audit). The independence of RSM is assured by the internal audit service reporting to the Finance Director.

The Head of Internal Audit has unrestricted access to the Chair of Audit and Governance Committee to whom all significant concerns relating to the adequacy and effectiveness of risk management activities, internal control and governance are reported.

Conflicts of interest may arise where RSM provides services other than internal audit to Transport for the North. Steps will be taken to avoid or manage transparently and openly such conflicts of interest so that there is no real or perceived threat or impairment to independence in providing the internal audit service. If a potential conflict arises through the provision of other services, disclosure will be reported to the Audit and Governance Committee.

The nature of the disclosure will depend upon the potential impairment and it is important that our role does not appear to be compromised in reporting the matter to the Audit and Governance Committee. Equally we do not want the organisation to be deprived of wider RSM expertise and will therefore raise awareness without compromising our independence.

Responsibilities

In providing your outsourced internal audit service, RSM has a responsibility to:

- Develop a flexible and risk based internal audit strategy with more detailed annual audit plans. The plan will be submitted to the Audit and Governance Committee for review and approval each year before work commences on delivery of that plan.
- Implement the internal audit plan as approved, including any additional tasks requested by management and the Audit and Governance Committee.
- Ensure the internal audit team consists of professional audit staff with sufficient knowledge, skills, and experience.
- Establish a quality assurance and improvement program to ensure the quality and effective operation of internal audit activities.
- Perform advisory activities where appropriate, beyond internal audit's assurance services, to assist management in meeting its objectives.
- Bring a systematic disciplined approach to evaluate and report on the effectiveness of risk management, internal control and governance processes.
- Highlight control weaknesses and required associated improvements together with corrective action recommended to management based on an acceptable and practicable timeframe.
- Undertake follow up reviews to ensure management has implemented agreed internal control improvements within specified and agreed timeframes.
- Report regularly to the Audit and Governance Committee to demonstrate the performance of the internal audit service.

For clarity, we have included the definition of 'internal audit', 'senior management' and 'board'.

- Internal audit – a department, division, team of consultant, or other practitioner (s) that provides independent, objective assurance and consulting services designed to add value and improve an organisation's operations. The internal audit activity helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.
- Leadership Team - who are the team of individuals at the highest level of organisational management who have the day-to-day responsibilities for managing the organisation.
- Board - the highest level governing body charged with the responsibility to direct and/or oversee the organisation's activities and hold organisational management accountable. Furthermore, "Board" may refer to a committee or another body to which the governing body has delegated certain functions (e.g. an Audit and Governance Committee).

Client care standards

In delivering our services we require full cooperation from key stakeholders and relevant business areas to ensure a smooth delivery of the plan. We proposed the following KPIs for monitoring the delivery of the internal audit service:

- Discussions with senior staff at the client take place to confirm the scope six weeks before the agreed audit start date.
- Key information such as: the draft assignment planning sheet are issued by RSM to the key auditee four weeks before the agreed start date.
- The lead auditor to contact the client to confirm logistical arrangements at least 15 working days before the commencement of the audit fieldwork to confirm practical arrangements, appointments, debrief date etc.
- Fieldwork takes place on agreed dates with key issues flagged up immediately.
- A debrief meeting will be held with audit sponsor at the end of fieldwork or within a reasonable time frame.
- Draft reports will be issued within 10 working days of the debrief meeting and will be issued by RSM to the agreed distribution list / Huddle.
- Management responses to the draft report should be submitted to RSM.
- Within three working days of receipt of client responses the final report will be issued by RSM to the assignment sponsor and any other agreed recipients of the report.

We continue to closely monitor and implement official guidelines from the Government and health organisations in respect of Covid-19. All our staff must adhere to the relevant RSM Policies, including limiting time on site and completing the relevant approvals prior to any site visit.

Authority

The internal audit team is authorised to:

- Have unrestricted access to all functions, records, property and personnel which it considers necessary to fulfil its function.
- Have full and free access to the Audit and Governance Committee.
- Allocate resources, set timeframes, define review areas, develop scopes of work and apply techniques to accomplish the overall internal audit objectives.
- Obtain the required assistance from personnel within the organisation where audits will be performed, including other specialised services from within or outside the organisation.

The Head of Internal Audit and internal audit staff are not authorised to:

- Perform any operational duties associated with the organisation.
- Initiate or approve accounting transactions on behalf of the organisation.
- Direct the activities of any employee not employed by RSM unless specifically seconded to internal audit.

Reporting

An assignment report will be issued following each internal audit assignment. The report will be issued in draft for comment by management, and then issued as a final report to management, with the executive summary being provided to the Audit and Governance Committee. The final report will contain an action plan agreed with management to address any weaknesses identified by internal audit.

The internal audit service will issue progress reports to the Audit and Governance Committee and management summarising outcomes of audit activities, including follow up reviews.

As your internal audit provider, the assignment opinions that RSM provides the organisation during the year are part of the framework of assurances that assist the Board in taking decisions and managing its risks.

Data protection

Internal audit files need to include sufficient, reliable, relevant and useful evidence in order to support our findings and conclusions. Personal data is not shared with unauthorised persons unless there is a valid and lawful requirement to do so. We are authorised as providers of internal audit services to our clients (through the firm's terms of business and our engagement letter) to have access to all necessary documentation from our clients needed to carry out our duties.

Quality Assurance and Improvement

As your external service provider of internal audit services, we have the responsibility for maintaining an effective internal audit activity. Under the standards, internal audit services are required to have an external quality assessment every five years. In addition to this, we also have in place an internal quality assurance and improvement programme, led by a dedicated team who undertake these reviews. This ensures continuous improvement of our internal audit services.

Any areas which we believe warrant bringing to your attention, which may have the potential to have an impact on the quality of the service we provide to you, will be raised in our progress reports to the Audit and Governance Committee.

Fraud

The Audit and Governance Committee recognises that management is responsible for controls to reasonably prevent and detect fraud. Furthermore, the Audit and Governance Committee recognises that internal audit is not responsible for identifying fraud; however internal audit will be aware of the risk of fraud when planning and undertaking any assignments.

Approval of the internal audit charter

By approving this document, the internal audit strategy, the Audit and Governance Committee is also approving the internal audit charter.

FOR FURTHER INFORMATION CONTACT

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Transport for the North
Audit & Governance Committee – Item 7

Subject: External Audit Update

Author: James Lyon

Sponsor: Iain Craven

Meeting Date: Thursday 18 February 2021

1. Purpose of the Report:

1.1 To enable Mazars, as TfN's External Auditor, to report upon the progress of the annual audit of the Financial Statements.

2. Executive Summary:

2.1 The Annual Audit Letter, Audit Strategy Memorandum and the External Audit Progress Report, produced by Mazars are attached as Items 7.1, 7.2 and 7.3

2.2 Mazars may provide a further verbal update of the External Audit during the Audit & Governance Committee.

3. Recommendation:

3.1 That the Committee notes the External Audit Update.

4. Appendices:

4.1 Item 7.1 – Annual Audit Letter 2019/20
Item 7.2 – Audit Strategy Memorandum
Item 7.3 – External Audit Progress Report

List of Background Documents:

There are no background documents.

Required Considerations

Equalities:

Age		No
Disability		No
Gender Reassignment		No
Pregnancy and Maternity		No
Race		No
Religion or Belief		No
Sex		No
Sexual Orientation		No

Consideration	Comment	Responsible Officer	Director
Equalities	A full Impact assessment has not been carried out because it is not required for this report	Julie Openshaw	Dawn Madin

Environment and Sustainability

	No

Consideration	Comment	Responsible Officer	Director
Sustainability / Environment	A full impact assessment has not been carried out because it is not required for this report.	Julie Openshaw	Dawn Madin

Legal

Yes	

Consideration	Comment	Responsible Officer	Director
Legal	The legal implications have been considered and are included in the report.	Julie Openshaw	Dawn Madin

Finance

Yes	

Consideration	Comment	Responsible Officer	Director
Finance	The financial implications are detailed in the report.	Paul Kelly	Iain Craven

Resource

	No

Consideration	Comment	Responsible Officer	Director
Resource	There are no resource implications as a result of the report.	Julie Openshaw	Dawn Madin

Risk

	No

Consideration	Comment	Responsible Officer	Director
Risk	There are no risks associated with the content of this report.	Haddy Njie	Iain Craven

Consultation

	No

Consideration	Comment	Responsible Officer	Director
Consultation	A consultation has not been carried out because it is not necessary for this report.	Julie Openshaw	Dawn Madin

Annual Audit Letter

Transport for the North

Year ending 31 March 2020

mazars

Contents

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Transport for the North (TfN) for the year ended 31 March 2020. Although this letter is addressed to TfN, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	Our auditor's report issued on 18 November 2020 included our opinion that the financial statements: • give a true and fair view of TfN's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and • have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20
Other information published alongside the audited financial statements	Our auditor's report included our opinion that: • the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	Our auditor's report concluded that we are satisfied that in all significant respects, TfN has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.
Reporting to the group auditor	In line with group audit instructions, issued by the NAO on 4 November, we reported to the group auditor in line with the requirements applicable to TfN's WGA return.
Statutory reporting	Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to TfN.

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to TfN and whether they give a true and fair view of TfN's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to TfN's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, stated that in our view, the financial statements give a true and fair view of TfN's financial position as at 31 March 2020 and of its financial performance for the year then ended.

There are no other matters to bring to your attention.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit and Governance Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Operating Expenditure	£1.014 million
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£30,000
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - Senior officer remunerations	£5,000

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in TfN's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit and Governance Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
Management override of controls In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits	We addressed this risk through performing audit work over: • Accounting estimates impacting on amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.	We did not identify any material issues to bring to your attention.

Our response to significant risks cont.

Identified significant risk	Our response	Our findings and conclusions
Defined benefits liability valuation The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. In 2019/20, the local government pension assets and liabilities are subject to triennial revaluation.	We addressed this risk by undertaking the following procedures: • Critically assessing the competency, objectivity and independence of the Greater Manchester Pension Fund's Actuary, HymansRobertson; • Liaising with the auditors of the Greater Manchester Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate; • Testing payroll transactions at TfN to provide assurance over the pension contributions which are deducted and paid to the Pension Fund by TfN; • Reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office; and • Agreeing the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in TfN's financial statements.	We did not identify any material issues to bring to your attention.

2. AUDIT OF THE FINANCIAL STATEMENTS

Key areas of management judgement and enhanced risks

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

Identified area of management judgement	Our response	Our findings and conclusions
Management judgement Intangible Asset valuation –Integrated and Smart Travel (IST) –Phase 3 During 2019/20 TfN acknowledged that due to insufficient bus operator support for the IST proposals an "active pause" was implemented in relation to Phase 3 of the IST project. Consequently, some £4.3m of previously capitalised expenditure has been reversed and the costs charged to revenue. TfN had previously secured Department for Transport agreement that DoT would fund the revenue implications in the event of the scheme not progressing as planned. There is a risk over the completeness and accuracy of the transactions that have now been accounted for as revenue expenditure.	We addressed this risk by: • Reviewing the process undertaken by TfN to establish that the value of previously capitalised costs attributable to Phase 3 is materially correct; • Testing a sample of transactions reversed and charged to revenue; and • Reviewing the appropriateness of the accounting treatment and associated disclosures.	A number of amendments were required to the financial statements to reflect the change in accounting treatment related to the £4.3m impairment of the Phase 3 Abbot scheme and the financing of the £4.3m revenue grant received from the Department for Transport. Following the amendments, we are satisfied that the accounting treatment is appropriate. There are no other material issues to bring to your attention.

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We did not identify any deficiencies in internal control as part of our audit.

3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Unqualified

Our audit approach

We are required to consider whether TfN has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, TfN had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Our auditor's report, stated that that, is all significant respects, TfN put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2020.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	There is evidence that TfN acts in the public interest, demonstrating and applying the principles and values of sound governance. Transport for the North's governance arrangements are set out in its Constitution which was reviewed and updated in 2019/20. Approved and adopted Code of Corporate Governance in place, consistent with the principles of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government. Risk management arrangements are in place. Risks are reported to the North's Operating Board, Audit and Governance Committee, Department for Transport (DfT) and Transport for the North Board. Scrutiny Committee in place with elected Members appointed by the 20 Constituent Authorities. Audit and Governance Committee established consisting of five Board Members and three Independent Members. Work is continuing on the Assurance Framework in 2020/21 to provide for a consistent evidence-based decision making process. Long term Strategic Transport Plan Investment Programme in place. All major work programmes also have Programme Boards which are attended by representatives of the DfT.	Yes

3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	TfN has a framework to monitor and measure progress and performance to help ensure that value for money is achieved. During 2019/20 Transport for the North has developed a new monthly operating report providing both qualitative and quantitative performance information. We are not aware of any significant data quality issues in terms of financial or performance information. In 2020/21, TfN will seek to publish a Northern Transport Charter setting out the case for local decision-making over transport investment.	Yes
Sustainable resource deployment	TfN achieved a £0.92m surplus on its revenue position for 2019/20. The financial position has been reported to the Audit and Governance Committee during the year. There has been a £30m underspend on the capital programme. This has been largely due to the cancellation of the Phase 3 ABBOT scheme within the Integrated and Smart Travel programme. The decision to develop alternative options also contributed to higher revenue costs. This is covered in more detail in our significant risk on the following page. The Core Grant allocations held in the General Fund Reserve provide the basis for the medium-term financial plan. TfN is party to a Memorandum of Understanding (MoU) with the Department for Transport that gives it the required comfort that it will continue to receive the necessary funding to discharge its statutory obligations into the future.	Yes
Working with partners and other third parties	There are many examples of TfN working with partners and other third parties. A Partnership Board is in place to advise on matters relating to transport in the area including elected and Local Enterprise Partnership representatives from all areas of the North, along with the Secretary of State for Transport and representatives from Highways England, Network Rail and HS2 Ltd. During 2019/20, the membership was widened to include groups representing the interests of those with disabilities, environmental concerns, TUC representatives and passenger transport user groups. Transport for the North carries out extensive stakeholder engagement through its Engagement team and the wider organisation. In 2020/21, TfN will be working in collaboration with the DfT on the High Speed North Integrated Rail Plan setting out the next 20 years of investment in HS2, NPR and other major rail schemes in the North.	Yes

3. VALUE FOR MONEY CONCLUSION

Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at TfN being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant audit risks.

Risk	Work undertaken	Conclusion
Phase 3 – Integrated and Smart Ticketing Project During 2019/20 TfN concluded that Phase 3 of the Integrated and Smart Ticket project, to develop an information system to manage accounts-based ticketless transport transactions should not progress as the bus operators confirmed that they were unwilling to accept the system based on the proposal at that time. Consequently, in July 2019 the TfN Board agreed to an "active pause" as it became clear that the project could not continue in its current form.	We reviewed the governance and decision making arrangements that lead to TfN concluding that the project could not proceed in line with existing project plans.	In the July 2019, the TfN Board considered a report setting out a number of options following the decision to pause the project. Two options were proposed for further evaluation and these were again considered by the Board in September with a more detailed feasibility analysis in the October meeting. These options were reported to the December meeting of the Overview and Scrutiny Board. Our review confirms that it contained a detailed and clear analysis of the remaining options and included a discussion of the key benefits and risks. A further report to the January TfN Board proposed a way forward for Phase 3 of the Integrated and Smart Travel (IST) Programme (Option A). This recognised both developments within the bus industry in terms of investment in contactless payment technology, and the possible implications of rail industry reform. However, ultimately, TfN was unable to commit to further expenditure without a greater degree of certainty that the proposed system will be fully utilised by public transport providers noting that in a de-regulated market, TfN has no ability to require bus operators to adopt the system. It was therefore recommended not to pursue Option A and that the current procurement is cancelled. TfN obtained legal advice on the implications of cancelling the procurement at this stage, and confirmed that they had the right to cancel the procurement. On the basis of work completed, we conclude that for 2019/20, Transport for the North had appropriate governance and decision-making arrangements in place in respect of the decision not to proceed with Phase 4 of the Integrated and Smart Ticket project.

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	**No matters to report**
Completion of group audit reporting requirements	**Below testing threshold**
Other information published alongside the audited financial statements	**Consistent**

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as TfN's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

issue a report in the public interest;

make statutory recommendations that must be considered and responded to publicly;

apply to the court for a declaration that an item of account is contrary to law; and

issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 24 November 2020.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of TfN. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

5. OUR FEES

Fees for work as TfN's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit and Governance Committee in February 2020.

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	33,000	33,000
Plus additional fees in respect of accounting for the impairment of the Phase 3 – Integrated and Smart Ticketing Project	4,200*	4,200*

* Subject to agreement by PSAA and confirmation from PSAA of 2019/20 scale rates for additional work.

Fees for other work

We confirm that we have not undertaken any non-audit services for TfN in the year.

6. FORWARD LOOK

Financial outlook

TfN achieved a £0.92m surplus on its revenue position for 2019/20 with a £30m underspend on the capital programme. This has been largely due to the cancellation of the Phase 3 ABBOT scheme within the Integrated and Smart Travel programme. The Core Grant allocations held in the General Fund Reserve provide the basis for the medium-term financial plan.

TfN will continue to have a critical strategic oversight role for the Investment Programme across TfN work programmes in 2020/21. It will have to manage its medium-term financial plan by ensuring that its financial resource is aligned to the Business Plan objectives in a sustainable manner and managing key inherent financial risk that arises from TfN's organisational and legal design.

The COVID-19 pandemic and the consequences of local and regional lockdowns and restrictions will have a significant impact on the UK economy for years to come. There is also uncertainty stemming from the UK's new trading arrangements with the European Union. While this may not directly impact on TfN's supply chains, the impact on the overall economy may create indirect pressures.

How we will work with TfN

Our 2020/21 audit will focus on the risks that the challenges noted above present to TfN's financial statements and ability to maintain proper arrangements for securing value for money. We have commented on the changes to the Value for Money requirements in the new Code of Audit Practice in the next section.

We will continue to support TfN through our audit work and through our attendance at Audit and Governance Committee where we will inform the Committee about our progress on the audit, report our key findings and share our insight on any changes we are aware about in the sector. We will continue to offer accounting workshops to finance officers, and the audit team will continue to work with officers to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

6. FORWARD LOOK

Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1st April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work on value for money arrangements will focus on three criteria, specified in the revised Audit Code:

- Financial sustainability: how the body plans and managers its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Under the new Audit Code we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and the our view as to whether recommendations have been implemented satisfactorily.

The guidance supporting the new Audit Code is being developed by the National Audit Office and we will provide you with any further updates to our approach arising from this guidance when it is released.

6. FORWARD LOOK

Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings will now be considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review

CONTACT

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Audit Strategy Memorandum

Transport for the North

Year ending 31 March 2021

mazars

Contents

mazars

The Audit and Governance Committee
Transport for the North
2nd Floor
4 Piccadilly Place
Manchester

M1 3BN

Mazars LLP
One St Peter's Square
Manchester
M2 3DE

8 February 2021

Dear Audit and Governance Committee Members

Audit Strategy Memorandum – Year ending 31 March 2021

We are pleased to present our Audit Strategy Memorandum for Transport for the North for the year ending 31 March 2021. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 8 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Transport for the North which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit,

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07721 234 043

Yours faithfully

Signed: [redacted]
Karen Murray (Feb 9, 2021 16:05 GMT)

Karen Murray
Mazars LLP

01

Section 01:

Engagement and responsibilities summary

1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of Transport for the North (TfN) for the year to 31 March 2021. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or the Audit and Governance Committee, as those charged with governance, of their responsibilities.

Going concern

TfN is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. The Chief Finance Officer is responsible for the assessment of whether is it appropriate for TfN to prepare it's accounts on a going concern. basis As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements and the adequacy of disclosures made.

Value for money

We are also responsible for reaching a conclusion on the arrangements that TfN has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management and Internal audit as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

Reporting to the NAO

We report to the NAO on TfN's Whole of Government Accounts (WGA) submission. TfN is below the threshold requiring a detailed review of your WGA submission,

Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of TfN and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom

02

Section 02:

Your audit engagement team

2. Your audit engagement team

Karen Murray

Engagement Partner

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Campbell Dearden

Engagement Manager

Email: campbell.dearden@mazars.co.uk

Telephone: 07881 283 348

03

Section 03:

Audit scope, approach and timeline

3. Audit scope, approach and timeline

Audit scope

Our audit is designed to comply with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

Our audit approach is a risk based. It is driven by the factors we consider likely to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise: tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.

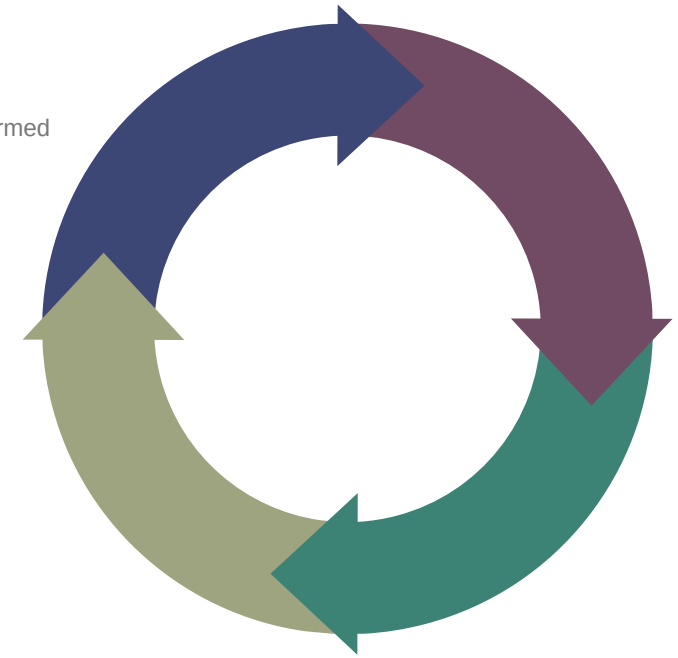
3. Audit scope, approach and timeline

Planning (January-March 2021)

- Planning visit and developing our understanding of TfN
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

Interim (March-April 2021)

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls [and application controls]
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary



Completion (July 2021)

- Final review and disclosure checklist of financial statements
- Final partner review
- Agreeing content of letter of representation
- Reporting to the Audit and Governance Committee
- Reviewing subsequent events
- Signing the auditor's report

Fieldwork (June-July 2021)

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting

3. Audit scope, approach and timeline

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

Management makes use of experts in specific areas when preparing TfN's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management's expert	Our expert
Defined benefit liability valuation and disclosures	Hymans Robertson Actuary for the Greater Manchester Pension Fund	National Audit Office, Prepared by PwC

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to TfN that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by TfN and our planned audit approach.

Items of account	Service organisation	Audit approach
Payroll	Hawsons	We plan to obtain our assurance by understanding the process and controls that TfN has in place to assure itself that transactions are processed materially correctly. Our testing will include sample testing of transactions.

04

Section 04:

Significant risks and other key judgement areas

4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

Significant risk

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement ('RMM') at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk

This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

Revenue recognition

Auditing standards include a rebuttable presumption that there is a significant risk in relation to the timing of income recognition, and in relation to judgements made by management as to when income has been earned.

We do not consider this to be a significant risk for TfN for the following reasons:

- there is little incentive to manipulate revenue recognition. Local Authorities (LAs) - including those providing transport oversight - do not have annual financial targets or performance incentives linked to the achievement of a certain required financial position;
- opportunities to manipulate revenue recognition are limited, particularly at TfN given the relationship with the Department for Transport and the fact that nearly 100% of income is provided by the Department for Transport grant and verifiable; and
- the culture and ethical frameworks of local authorities/local government, including TfN, means that all forms of fraud are difficult to rationalise i.e. culture and ethics mitigate against fraud being acceptable.

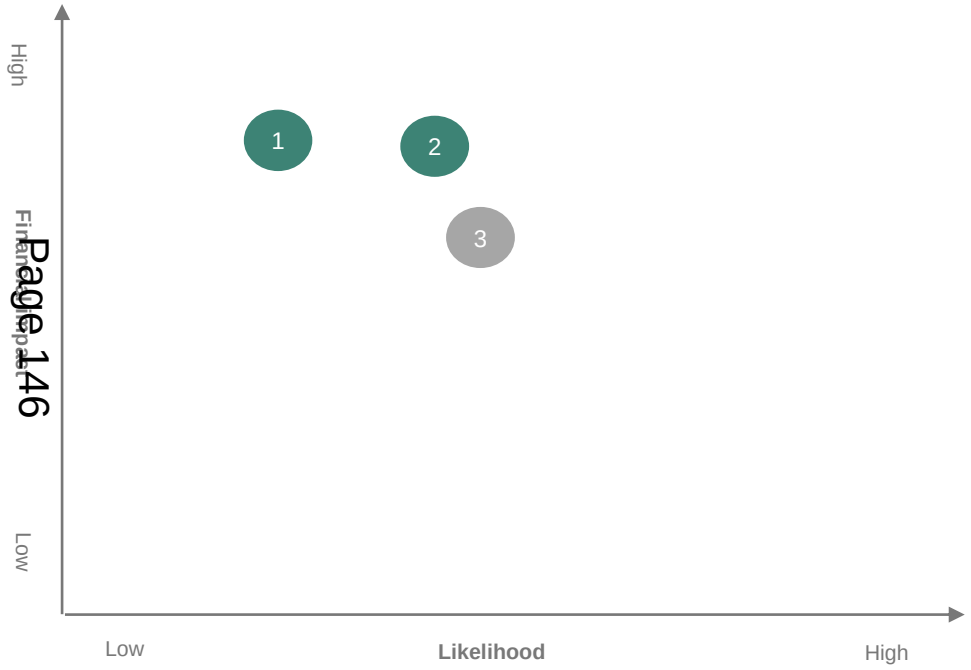
Revenue recognition is covered in our 'normal' work-plan even when not recognised as a significant risk, which includes as part of our testing strategy:

- cut-off procedures which are focussed on those areas of the accounts susceptible to manipulation of revenue recognition; and
- Substantive testing, both non-sampling and sampling, of income and expenditure which includes testing of the cut-off and completeness assertions.

4. Significant risks and other key judgement areas

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of TfN. We have summarised our audit response to these risks on the next page.



1 Management override of controls

2 Net defined benefit liability valuation

3 Intangible assets novation to the local authority

Key: Significant risk Enhanced risk / significant management judgement

4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit and Governance Committee.

Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	**Management override of controls** This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	●	○	○	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	**Net defined benefit liability valuation** The net pension liability is likely to represent a material element of TfN's balance sheet. TfN is an admitted body of Greater Manchester Pension Fund, which had its last triennial valuation completed as at 31 March 2019. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in TfN's overall valuation. Financial assumptions and demographic assumptions will be used in the calculation of TfN's valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of TfN's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in valuing TfN's pension obligation are not reasonable or appropriate to TfN's circumstances. This could have a material impact to the net pension liability in 2020/21.	○	●	●	We will undertake the following procedures: • Critically assess the competency, objectivity and independence of the Greater Manchester Pension Fund's Actuary, HymansRobertson; • Liaise with the auditors of the Greater Manchester Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This includes the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate; • Test payroll transactions at TfN to provide assurance over the pension contributions which are deducted and paid to the Pension Fund by TfN; • Review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This includes comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office; and • Agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in TfN's financial statements.

4. Significant risks and other key judgement areas

Other key areas of management judgement and enhanced risks

	Description	Fraud	Error	Judgement	Planned response
3	**Intangible assets novation to the local authority** Intangible assets related to the Phase 2 IST project are planned to be novated to the local authority when they become operational. The timing of this is uncertain but it could be prior to 31 March 2021, in which case the accounting entries would need to be recognised in the 2020/21 financial statements. There is a risk that the accounting treatment for the novation of intangible assets to the local authority will not be in line with the CIPFA Code of Local Authority Accounting,		●	●	We will discuss with management and review the accounting treatment of the novation of the intangible assets in the financial statements to ensure that this is in line with the Code if this becomes operational in 2020/21.

05

Section 05:

Value for Money

Page 150

6. Value for Money

The framework for Value for Money work

We are required to form a view as to whether TfN has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our view, and sets out the overall criterion and sub-criteria that we are required to consider.

The new Code of Audit Practice (the Code) has changed the way in which we report our findings in relation to Value for Money (VFM) arrangements from 2020/21. Whilst we are still required to be satisfied that TfN has proper arrangements in place, we will now report by exception in our auditor's report where we have identified significant weakness in those arrangements. This is a significant change to the requirements under the previous Code which required us to give a conclusion on TfN's arrangements as part of our auditor's report.

Under the new Code, the key output of our work on VFM arrangements will be a commentary on those arrangements which will form part of the Auditor's Annual Report.

Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

1. **Financial sustainability** – how TfN plans and manages its resources to ensure it can continue to deliver its services
2. **Governance** – how the TfN ensures that it makes informed decisions and properly manages its risks
3. **Improving economy, efficiency and effectiveness** – how TfN uses information about its costs and performance to improve the way it manages and delivers its services

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the TfN's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to TfN and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

Planning and risk assessment	Obtaining an understanding of the TfN's arrangements for each specified reporting criteria. Relevant information sources will include: • NAO guidance and supporting information • Information from internal and external sources including regulators • Knowledge from previous audits and other audit work undertaken in the year • Interviews and discussions with staff and members
Additional risk based procedures and evaluation	Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.
Reporting	We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report. Our commentary will also highlight: • Significant weaknesses identified and our recommendations for improvement • Emerging issues or other matters that do not represent significant weaknesses but still require attention from the TfN.

5. Value for Money

Identified risks of significant weaknesses in arrangements

The NAO's guidance requires us to carry out work at the planning stage to understand the TfN's arrangements and to identify risks that significant weaknesses in arrangements may exist.

Although we have not fully completed our planning and risk assessment work, the table below outlines the risks of significant weaknesses in arrangements that we have identified to date. We will report any further identified risks to the Audit and Governance Committee on completion of our planning and risk identification work.

	Risk of significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Planned procedures
1	**Reductions in core funding** TfN's 'Core' funding allocation of £6m for 2021/22 is a £4m reduction on the current allocation for 2020/21 and is £5.2m less than that requested in the CSR for 2021/ 22 (£11.2m). The gap in funding for 2021/22 will largely be met by charging core costs to NPR programmes and drawing on general fund balances. There is a risk that arrangements will not be in place to ensure that all costs will be fully funded for 2021/22 and that a proper and realistic budget will be set.	●	○	○	We will review the 2021/22 financial plan including consideration of any proposed charging of 'core' costs to the NPR programme.

06

Section 06:

Fees for audit and other services

6. Fees for audit and other services

Fees for work as TfN's appointed auditor

Area of work	2020/21 Proposed Fee	2019/20 Actual Fee
Code Audit Work	33,000**	37,200*

*Includes agreed additional fees of £4,200 for 2019/20

**The NAO issued guidance for complying with the requirements of the new Code of Audit Practice in October 2020 after PSAA set the scale fee. Rather than estimate the impact at this stage we will discuss any need for additional fees if the need arises and on the basis of the actual procedures to carry out

07

Section 07:

Our commitment to independence

7. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

The Ethical Standard 2019 is applicable for any non-audit services commencing on or after 15 March 2020.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- All partners and staff are required to complete an annual independence declaration;
- All new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- Rotation policies covering audit engagement partners and other key members of the audit team; and
- Use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Karen Murray in the first instance.

Prior to the provision of any non-audit services, Karen Murray will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

No threats to our independence have been identified. Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

08

Section 08:

Materiality and other misstatements

Page 157

8. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	1,014
Performance materiality	811
Specific materiality: Senior Officers Remunerations (per bandings)	5
Trivial threshold for errors to be reported to the Audit and Governance Committee	30

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- Have a reasonable knowledge of business, economic activities and accounts;
- Have a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented and audited to levels of materiality;
- Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- Will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of gross operating expenditure at the Surplus or Deficit on Provision of Services level. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Audit and Governance Committee.

We consider that gross operating expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

8. Materiality and misstatements

Materiality (continued)

We expect to set a materiality threshold at 2% of gross operating expenditure at the Surplus or Deficit on Provision of Services level. Based on the audited financial statements for 2019/20, we anticipate the overall materiality for the year ending 31 March 2021 to be in the region of £1.014m (£0.897m in the prior year).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality.

Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit and Governance Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £30k based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Karen Murray.

Reporting to the Audit and Governance Committee

The following three types of audit differences will be presented to the Audit and Governance Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

A

Appendix: Key communication points

Page 160

Appendix: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) 'Communication with Those Charged with Governance' and ISA 265 (UK) 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Auditor's Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

Appendix: Key communication points

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: • Uncorrected misstatements and their effect on our audit opinion; • The effect of uncorrected misstatements related to prior periods; • A request that any uncorrected misstatement is corrected; and • In writing, corrected misstatements that are significant.	Audit Completion Report
With respect to fraud communications: • Enquiries of the Audit and Governance Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • A discussion of any other matters related to fraud.	Audit Completion Report and discussion at the Audit and Governance Committee, Audit Planning and Clearance meetings

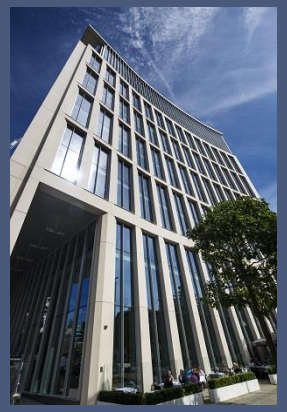
Appendix: Key communication points

Required communication	Where addressed
Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management; • Inappropriate authorisation and approval of transactions; • Disagreement over disclosures; • Non-compliance with laws and regulations; and • Difficulty in identifying the party that ultimately controls the entity.	Audit Completion Report
Significant findings from the audit including: • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • Significant difficulties, if any, encountered during the audit; • Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • Written representations that we are seeking; • Expected modifications to the audit report; and • Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit and Governance Committee in the context of fulfilling their responsibilities.	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report

Appendix: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Governance Committee may be aware of.	Audit Completion Report and the Audit and Governance Committee meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty; • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and The adequacy of related disclosures in the financial statements.	Audit Completion Report
Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods	Audit Completion Report
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report

Mazars



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*where permitted under applicable country laws.

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Audit Progress Report

Transport for the North

February 2021

mazars

1. Audit Progress
2. National Publications

01

Section 01:

Audit Progress

Audit Progress

Purpose of this report

This report provides the Audit and Governance Committee (A&G) with an update on progress in delivering our responsibilities as your external auditors. It will be presented to the A&G on 18 February 2021.

2019/20 Audit

We completed our external audit of TfN's 2019/20 financial statements and value for money conclusion in November 2020, signing the audit report on 18 November 2020. We provided the A&G with an update at its meeting on 19 November 2020.

We are presenting the Annual Audit Letter as a separate agenda item to the A&G on 18 February 2021 representing the final conclusion of the 2019/20 audit.

2020/21 Audit

We have commenced our initial planning for the 2020/21 audit and will present our Audit Strategy Memorandum to the A&G meeting on 18 February 2021. We hold regular discussions with TfN's officers and these help us to keep up to date with emerging issues that may impact on our external audit.

We reported during 2019/20 that the National Audit Office had updated their Code of Audit Practice and that this new Code applies from the 2020/21 audit. The new Code changes the work that auditors will be required to do, and the related reporting, on TfN's arrangements to deliver value for money in their use of resources. We summarise the impact of these changes on the next page.

Audit Progress

External audit work on TfN's arrangements to deliver value for money in its use of resources

The changes to the reporting requirements means that from 2020/21 we will no longer include a value for money conclusion in our Financial Statements Audit Report. We will report our commentary on TfN's arrangements to deliver value for money in a new Auditor's Annual Report (which replaces the Annual Audit Letter). The NAO Code requires that where auditors identify weaknesses in TfN's arrangements they should report recommendations to TfN promptly through the year.

In carrying out our work we will comply with the NAO's guidance on value for money work, which identifies that the work must have regard to the following specific criteria:

- **Financial sustainability**: how the body plans and manages its resources to ensure it can continue to deliver its services;
- **Audit and Governance**: how the body ensures that it makes informed decisions and properly manages its risks; and
- **Improving economy, efficiency and effectiveness**: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

We will keep the A&G up to date on our progress as we complete our audit work.

02

Section 02:

National Publications

National Publications

	Publication/update	Key points	Page
CIPFA			
1	Code of Practice on Local Authority Accounting in the United Kingdom: Disclosure Checklist for 2020/21 Accounts	2020/21 Disclosure checklist	9
2	Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for 2020/21 Accounts	2020/21 Code Guidance Notes	9
3	Service Reporting Code of Practice for Local Authorities 2021/22	2020/21 SeRCOP Guidance	9
4	Guidance for Head of Internal Audit Annual Opinions 2020/21	Guidance	10
5	A Guide to Local Authority and Public Sector Asset Management	Step-by-step guide	10
6	Financial Scrutiny Practice Guide	Guidance for Audit and Governance Committee members	10
National Audit Office			
7	Local auditor reporting application	Data on local auditor reporting presented through an interactive map	11
8	Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19	Guidance for Audit and Governance Committee members	11

National Publications

	Publication/update	Key points	Page
MHCLG			
9	Local authority financial reporting and external audit: government response to the Redmond review	MHCLG's response to Sir Tony Redmond's independent review	12
10	Local Authority Financial Reporting and external audit: independent review	The Redmond report	12
Financial Reporting Council			
11	Local Audit Inspections	FRC Audit Quality report	13-14
PSAA			
12	Quarterly Quality Monitoring Report for the financial year 2021-22: Q2	PSAA Audit Quality report	15
Home Office			
13	Public Service Pension Schemes Guidance	Consultation on the Remedy to McCloud / Sergeant litigation	16

NATIONAL PUBLICATIONS
CIPFA

1. Code of Practice on Local Authority Accounting in the United Kingdom: Disclosure Checklist for 2020/21 Accounts, January 2021

The 2020/21 version of the disclosure checklist has been updated to reflect the reporting requirements introduced by the 2020/21 Code of Practice. This annual publication is for finance practitioners in local authorities and external audit agencies and firms in England, Scotland and Wales.

The checklist is in the form of a series of questions. If the answer to any question is no, then a justification for departing from the Code should be given and potentially disclosed in the accounts, where the impact of departures is material.

https://www.cipfa.org/policy-and-guidance/publications/d/disclosure-checklist-202021-print

2. Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for 2020/21 Accounts, January 2021

This edition of the Guidance Notes provides detailed guidance on the key accounting changes introduced by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) 2020/21, and includes amendments to implement amendments to accounting standards, reference to arrangements for the application of accounting standards arising as a consequence of the UK's withdrawal from the EU and legislative amendments. The example financial statements have also been updated to reflect these changes.

https://www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-guidance-notes-202021-print

3. Service Reporting Code of Practice for Local Authorities 2021/22, January 2021

Modern local government is constantly developing and adapting to its current economic climate. Transparency initiatives, performance and best value regimes are evolving in expectation of the government becoming more sophisticated.

SeRCOP is reviewed annually to ensure that it develops in line with the needs of local government, transparency, best value and public services reform.

In England, SeRCOP is given legislative backing under the Local Government Act 2003. In Scotland SeRCOP's Service Expenditure Analysis (SEA) and guidance is used by the Scottish Government as the basis for specifying the requirements of the Local Financial Returns (LFRs).

https://www.cipfa.org/policy-and-guidance/publications/s/service-reporting-code-of-practice-for-local-authorities-202122

NATIONAL PUBLICATIONS
CIPFA

4. Guidance for Head of Internal Audit Annual Opinions 2020/21, November 2020

The annual opinion on the overall adequacy and effectiveness of the organisation's framework of Audit and Governance, risk management and control is a requirement of the Public Sector Internal Audit Standards (PSIAS). It is an important source of assurance that supports a local government body's annual Audit and Governance statement.

If sufficient assurance is not available from internal audit work completed and other sources of assurance that the head of internal audit may seek to place reliance on then they should publish a limitation of scope to explain the position and impact on the annual opinion. The guidance sets out the steps heads of internal audit, together with the leadership team and audit committee (Audit and Governance Committee), should take.

To further support the guidance CIPFA held a free webinar on 15 December.

https://www.cipfa.org/policy-and-guidance/standards/guidance-for-head-of-internal-audit-annual-opinions-202021

5. A Guide to Local Authority and Public Sector Asset Management, November 2020

This step by step guide to asset management in the public sector has been produced by CIPFA Property. It takes the reader on the asset management journey, from the development of strategic asset management policies and strategies designed to deliver corporate objectives through to the development, implementation, challenge and review of asset management practices and portfolios.

https://www.cipfa.org/policy-and-guidance/publications/a/asset-management-in-the-public-sector-a-practitioners-guide

6. Financial Scrutiny Practice Guide, June 2020

The impact of the COVID-19 pandemic on local authority finances and uncertainty regarding the delayed fair funding review on top of a decade of progressively more significant financial constraints has placed local government in a hugely challenging position. Accordingly, CIPFA state that for the foreseeable future, local authority budgeting will be even more about the language of priorities and difficult choices than ever before. In response CIPFA have produced guidance proposing ways to move budget and finance scrutiny beyond set-piece scrutiny 'events' in December and quarterly financial performance scorecards being reported to committee. Effective financial scrutiny is one of the few ways that local authorities can assure themselves that their budget is robust and sustainable, and that it intelligently takes into account the needs of residents.

https://www.cipfa.org/policy-and-guidance/reports/financial-scrutiny-practice-guide

NATIONAL PUBLICATIONS
National Audit Office

7. Local auditor reporting application, December 2020

The local auditor reporting application presents the opinions of local auditors on local public bodies' financial statements and conclusions on whether they have proper arrangements in place to secure value for money. The data is presented through an interactive map which allows users to explore auditor reporting for nine different types of local body and two different audit years. The interactive map also contains pop-ups to enable users to access further information about the body, such as the local auditor's report or annual audit letter.

https://www.nao.org.uk/other/local-auditor-reporting-application/

8. Guide for Audit and Risk Committees (Audit and Governance Committee) on Financial Reporting and Management during COVID-19, June 2020

The National Audit Office's (NAO) guide sets out that audit and risk committees (Audit and Governance Committee) are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and Audit and Governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, making it more difficult for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for.

This guide aims to help audit and risk committee (Audit and Governance Committee) members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak, including on:

- annual reports;
- financial reporting;
- the control environment; and
- regularity of expenditure.

In each section of the guide the NAO has set out some questions to help audit and risk committee (Audit and Governance Committee) members understand and challenge activities. Each section can be used on its own, although we would recommend that A&G members consider the whole guide, as the questions in other sections may be interrelated.

The guide may also be used as members consider reporting in the 2020-21 period when more specific and detailed reporting on the outbreak will be required.

https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/

NATIONAL PUBLICATIONS
MHCLG

9. MHCLG's response to Sir Tony Redmond's independent review, December 2020

The response of the Ministry of Housing, Communities and Local Government to Sir Tony Redmond's Independent review into the oversight of local audit and the transparency of local authority financial reporting. The Redmond Review made 23 recommendations relating to the quality, timeliness and sustainability of local audit, and the transparency of local authority accounts. The department has grouped its response into 5 themes, which are summarised in Annex A to the response.

Amongst the responses MHCLG confirmed that they intend to amend existing regulations to extend the deadline for publishing audited local authority accounts from 31 July to 30 September, for a period of two years (i.e. covering the audit of the 2020/21 and 2021/22 accounting years). At the end of this period they will review whether there is a continued need to have an extended deadline.

They also confirmed that they did not intend to create an Office of Local Audit and Regulation (OLAR) stating in their response that they "do not wish to re-create the costly, bureaucratic and over-centralised Audit Commission". They added that they "will commit to explore the full range of options as to how best to deliver Sir Tony's finding that a 'system leader' is required. This will include close consideration of whether existing bodies could take on this function."

https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-government-response-to-the-redmond-review/local-authority-financial-reporting-and-external-audit-government-response-to-the-independent-review

10. Local Authority Financial Reporting and external audit: independent review, September 2020

This independent review, led by Sir Tony Redmond at the invitation of the Ministry of Housing, Communities and Local Government, considered the effectiveness of external audit and transparency of financial reporting in local authorities. The Redmond Report concluded that audit fees were at least 25% lower than is required to fulfil current local audit requirements effectively. Audit fees in the local authority sector have fallen significantly over the last five years, whereas audit fees in other sectors have significantly risen although audit suppliers have sought to bridge the gap with increasing fee variations, which averaged eight per cent in 2018/19. The report also suggests local authority accounts are currently too complex to make audit completion by 31 July feasible.

Redmond makes a number of recommendations in relation to:

- external audit regulation
- smaller authorities audit regulation
- financial resilience of local authorities
- transparency of financial reporting

https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review

NATIONAL PUBLICATIONS
Financial Reporting Council

11. Major Local Audits – Audit Quality Inspection, October 2020

The framework for the inspection of local audit work

Responsibility for the inspection of local audit work is now with the Financial Reporting Council (FRC) for 'major local audits' (those with annual expenditure which exceeds £500m) and the ICAEW for those bodies which do not meet the major local audit definition. As part of their inspection of major local audits for the 2018/19 financial year, the Audit Quality Review (AQR) team of the FRC reviewed two of our major local audits and found these to require significant improvements in respect of our audit of the financial statements. The same reviews indicated that our work on value for money arrangements for those audits was of a good standard. Our non-major local audits for 2018/19 were not subject to inspection by the ICAEW.

Our response to the FRC's findings

We are committed to delivering high-quality audits to all of our clients and have responded robustly to the AQR's findings. Our Local Audit Quality Plan incorporates the risks to audit quality identified from a range of sources and identifies that actions we have put in place, or are taking, to mitigate these risks. Our Audit Quality Team is responsible for the maintenance of the plan which is also subject to oversight and scrutiny from the firm's Audit Board.

In addition, we have undertaken a detailed root cause analysis project to identify and understand the drivers of poor audit quality in some of our local audit work. This has focused on all local audits where the need for improvement or significant improvements have been identified either through external inspections or our programme of internal quality monitoring reviews.

We have taken steps to respond to the AQR's specific findings in relation to our work in the following areas of the audit:

- Testing the valuation of property assets;
- Exercising appropriate oversight of group audits, including the direction, supervision and review of the work of component auditors; and
- Document judgements made as part of the audit process, specifically those in relation to our testing of income and expenditure.

We have also strengthened our standard procedures in relation to the audit of net defined benefit pension liabilities arising from our clients' membership of local government pension schemes.

The FRC's report on its inspection findings in relation to the quality of major local audits for the year ended 31 March 2019, can be found here. This also includes our detailed response to their findings on our financial statement audits.

NATIONAL PUBLICATIONS
Financial Reporting Council

11. Major Local Audits – Audit Quality Inspection, October 2020 (continued)

What this means for the TfN

As outlined above, we take the weaknesses identified by the FRC extremely seriously, and our response to the improvement areas has been robust. It is clear that on areas of the audit such as the valuation of property assets (potentially intangible assets where relevant) and the audit of defined benefit pension liabilities, we must do more to meet the regulator's expectations. This is means the time we spend on these areas of the audit will increase and the level of challenge we apply in auditing these areas will also increase. Your finance team and your experts will have seen the increase in the scope and scale of work we have undertaken in 2019/20 in terms of the granularity and depth of testing and changes to our sample sizes in a number of key areas.

Going forward, our response and the increase in the challenge we make, is likely to include the engagement of our own experts (for example, valuation experts) to fully consider the methodologies and judgements applied by the TfN's own experts. There will be consequential effects on the fee that we are likely to request from TfN to undertake the audit.

NATIONAL PUBLICATIONS
Public Sector Audit Appointments Limited

12. Quarterly Quality Monitoring Report for the financial year 2021-22: Q2, September 2020

Under the transitional arrangements, which followed the abolition of the Audit Commission, PSAA were responsible for monitoring the quality of the work undertaken by the audit suppliers at principal bodies. PSAA published the last report under these transitional arrangements in Autumn 2019 and Mazars received an overall amber rating, which matched the '*combined regime'* score across the 5 suppliers. This was slightly disappointing as in 2018 Mazars had been the only supplier awarded a green rating and the downgrading reflected weaknesses in the approach to auditing Property, Plant and Equipment and Pensions, which were common across suppliers.

PSAA explain in their latest quality monitoring report that they have appointed the Financial Reporting Council (FRC) and Institute of Chartered Accountants in England and Wales (ICAEW) to review audit quality from 2018/19 onwards and the results will be published in their 2020 Annual Monitoring Report, during 2021. However, they have continued to monitor delivery of local authority engagements and report any non-compliance with the terms of appointment.

The report indicates that in 2018/19 43% of local authority audits were not delivered by the 31 July 2019 deadline and eight per cent remained outstanding at 30 September 2020. Mazars were the top performer in terms of audit delivery with 20% of opinions late and two per cent still outstanding. Mazars were found to be fully compliant with the terms of appointment.

The report also notes that whilst only 18% of 2019/20 audits were reported as being at risk of being late this number was expected to increase and this forecast transpired to be accurate. The actual percentage of 2019/20 local authority audits outstanding at 30 November 2020 was 55%, an increase on 2018/19 (PSAA press release 4 December 2020).

https://www.psaa.co.uk/managing-audit-quality/audit-quality-monitoring-reports-from-2018-19/quarterly-reports/

The PSAA Press release regarding late 2019/20 opinions can be found at:

https://www.psaa.co.uk/2020/12/news-release-2019-20-audited-accounts/

NATIONAL PUBLICATIONS
Home Office

13. Public Service Pension Schemes Guidance, September 2020

This consultation, which ended in October 2020 sets out options for how the Government will remove the discrimination against some younger pension scheme members identified in the McCloud / Sergeant judgements. These options involve providing members with a choice of which set of pension scheme benefits, those under their old scheme or the new scheme, they would like to receive for the remedy period and whether to make that choice immediately or defer it until retirement. The Government is expected to publish its response and final policy decision shortly.

https://www.gov.uk/government/publications/public-service-pension-schemes-guidance

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Transport for the North Audit & Governance Committee – Item 8

Subject: Treasury Management Strategy 2021/22

Author: Paul Kelly, Financial Controller

Sponsor: Iain Craven, Finance Director

Meeting Date: Thursday 18 February 2021

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 attached to this report as Appendix 1. 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 Also appended as Appendix 2 is a copy of TfN's Treasury Management Practices, which set out at a procedural level how TfN manages its treasury affairs. These are aligned to the CIPFA Treasury Management code which was last updated in 2017. There is a consultation exercise currently underway with responses due by 12 April 2021. Any amendments or recommendations appropriately addressed in the future.

2. Recommendation:

2.1 To note the proposed Treasury Management Strategy for 2021/22.

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 2020/21 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.

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 Asset 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 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.

3.24 This reserve strategy affords TfN a degree of flexibility in that it can use cash balances over its minimum threshold (£2m) 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 reflect its reserve strategy profile.

Investment Policy

3.27 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.

3.28 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").

3.29 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.

3.30 TfN has adjusted its investment strategy, particularly around creditworthiness following the adoption of the Link Asset Services system.

3.31 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 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.

Length of Investments

3.32 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
b) At any point, at least £1m will be held in same-day access funds or accounts.

Counterparty Credit Ratings

3.33

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 relate creditworthiness. This system is outlined in more detail in Appendix 1 but, typically, TfN will not invest with counterparties with a long-term Fitch rating of less than 'A-'.

Country Sovereign Ratings

3.34 Recognising the support that individual nations and central banks offer to banking institutions, TfN will:

a) Invest with counterparties from countries with a minimum sovereign credit rating of 'AA-' from Fitch.

Investment Classes

3.35 TfN will limit investments to the following Sterling denominated classes:

a) Term deposits with financial institutions and public bodies;
b) Redeemable share purchases in same-day access AAA rated constant and low volatility net-asset value money market funds.

Investment Values

3.36 TfN will limit its exposure to individual institutions by:

a) Investing no more than £5m in individual institutions and funds;
b) The sole caveats to this are necessary investments with TfN's own bank and investments with the DMADF.

Investment Returns

3.37 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. Appendices:

7.1 Appendix 1 – Treasury Management Strategy Template and Appendices
Appendix 2 – Treasury Management Practices

List of Background Documents

Required Considerations

Equalities:

Age	~~Yes~~	No
Disability	~~Yes~~	No
Gender Reassignment	~~Yes~~	No
Pregnancy and Maternity	~~Yes~~	No
Race	~~Yes~~	No
Religion or Belief	~~Yes~~	No
Sex	~~Yes~~	No
Sexual Orientation	~~Yes~~	No

Consideration	Comment	Responsible Officer	Director
Equalities	A full Impact assessment has not been carried out because it is not considered necessary for this report	Paul Kelly	Iain Craven

Environment and Sustainability

~~Yes~~	No

Consideration	Comment	Responsible Officer	Director
Sustainability / Environment	A full impact assessment has not been carried out because it is not considered necessary for this report.	Paul Kelly	Iain Craven

Legal

Yes	~~No~~

Consideration	Comment	Responsible Officer	Director
Legal	Legal implications are addressed within the report	Julie Openshaw	Dawn Madin

Finance

Yes	~~No~~

Consideration	Comment	Responsible Officer	Director
Finance	The financial implications have been considered and are included in the report.	Paul Kelly	Iain Craven

Resource

~~Yes~~	No

Consideration	Comment	Responsible Officer	Director
Resource	There are no resource implications within this report.	Paul Kelly	Iain Craven

Risk

Yes	~~No~~

Consideration	Comment	Responsible Officer	Director
Risk	There are no material risks to be considered within this report.	Paul Kelly	Iain Craven

Consultation

~~Yes~~	No

Consideration	Comment	Responsible Officer	Director
Consultation	A consultation has not been carried out because it is not considered necessary for this report.	Paul Kelly	Iain Craven

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Treasury Management Strategy Statement

Annual Investment Strategy

2021/22

1.INTRODUCTION

1.1 Background

Transport for the North is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with Transport for the North's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of Transport for the North's capital plans. As Transport for the North does not have the power to raise short or long-term credit, this activity is limited to ensuring grant drawdowns are aligned to expenditure plans.

The contribution the treasury management function makes to Transport for the North is critical to ensure liquidity and the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to Transport for the North.

CIPFA defines treasury management as:

> *"The management of the local authority's borrowing, 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."*

Transport for the North has not engaged in any commercial investments and has no non-treasury investments.

1.2 Reporting requirements

1.2.1 Capital Strategy

A capital strategy report is designed to show how local authorities will finance and fund long-term investment plans. They are designed to evidence that investment plans are both affordable in the short-term and sustainable in the long-term.

Transport for the North has no powers to enter into credit liabilities, so cannot borrow to finance investment. Transport for the North also owns no assets which could be disposed of to generate capital receipts. Finally, Transport for the North has no revenue raising powers, which could be used to raise cash for capital investment.

Instead, Transport for the North is an entirely grant funded organisation. All capital investments are grant funded, with no additional financing or funding issues.

Transport for the North's capital expenditure profiles are outlined later in this appendix.

1.2.2 Treasury Management reporting

Transport for the North Board is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers the aspects relevant to Transport for the North – notably management of cash and investments:
   - the capital plans, (including prudential indicators);
   - the treasury management strategy, (how the investments are to be organised), including treasury indicators; and
   - an investment strategy, (the parameters on how investments are to be managed).

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision

c. **An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The following bodies within TfN's governance receive Treasury Management Reporting:
- The Scrutiny Committee;
- The Audit & Governance Committee;
- The Executive Board; and,
- The TfN Board.

1.3 Treasury Management Strategy for 2020/21

The strategy for 2021/22 covers two main areas:

Capital issues
- the capital expenditure plans and the associated prudential indicators.

Treasury management issues
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of Transport for the North;
- prospects for interest rates;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. Transport for the North will review training requirements for members in the new financial year.

The training needs of finance officers involved in treasury management are periodically reviewed.

1.5 Treasury management consultants

Transport for the North uses Link Asset Services, Treasury solutions as its external treasury management advisors.

Transport for the North recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. Transport for the North will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 THE CAPITAL PRUDENTIAL INDICATORS 2020/21 – 2022/23

Regulation requires Transport for the North to present its capital prudential indicators. This reflects that, for most authorities, capital expenditure plans are a key driver of treasury management activity. This is principally because those plans will be underpinned by financing strategies that use debt or cash balances to finance activity.

Transport for the North's statutory position means that is not able to raise credit, and its funding environment means that it is unlikely to generate significant long-term cash surpluses. Instead, Transport for the North's capital investment plans will be funded from grant awards.

These factors mean the capital prudential indicators are largely insignificant, though they do reflect the parameters in which Transport for the North operates.

2.1 Capital expenditure

This a summary of Transport for the North's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to note the capital expenditure forecasts:

Capital expenditure £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m	£m
Total	4.55m	£6.14m	£0.00m	£0.00m	£0.00m

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources.

Financing of capital expenditure £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Grants	4.55m	£6.14m	£0.00m	£0.00m	**£m**
Net financing need for the year	£0m	£0m	£0m	£0m	£0.00m

The reduction in capital expenditure reflects movements in TfN's Integrated and Smart Ticketing ("IST") programme. That programme consisted of three phases of activity:

1. ITSO on Rail
2. Customer Information
3. Accounts Based Back Office

Phases 1 and 2 of the programme are due to conclude their capital delivery activity in financial year 2020/21.

The previously planned capital delivery activity for Phase 3 has been withdrawn following the shortfall in bus-operator support for the planned delivery model.

2.2 Core funds and expected investment balances

Transport for the North's cash balances are largely determined by its reserve strategy and working capital fluctuations. Transport for the North is funded on a needs basis, so only draws upon grant it requires to meet its expenditure plans. It does, however, hold cash in reserve to guard against financial shock. In the table

below working capital broadly represents cash owed to creditors held from one accounting period to the next:

Year End Resources £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Fund balances / reserves	£6.48m	£5.2m	£3.2m	£2.2m	£2.0m
Total core funds	£6.48m	£5.2m	£3.2m	£2.2m	£2.0m
Working capital*	£12.83m	£8.9m	£5.5m	£5.5m	£5.5m
Expected investments	£19.31m	£14.1m	£8.7m	£7.7m	£7.5m

*Working capital balances shown are estimated year-end; these may be higher mid-year

2.3 Prospects for interest rates

TfN has appointed Link Asset Services as its treasury advisor in part to assist in formulating a view on interest rates. The following table gives Link's central view.

Link Group Interest Rate View 9.11.20

These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 16th December, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the near-term as economic recovery is expected to be only gradual and, therefore, prolonged. These forecasts were based on an assumption that a Brexit trade deal would be agreed by 31.12.20: as this has now occurred, these forecasts do not need to be revised.

Investment and borrowing rates

- Investment returns are likely to remain exceptionally low during 2020/21 with little increase in the following two years.

3 ANNUAL INVESTMENT STRATEGY

3.1 Investment policy – management of risk

Transport for the North's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

Transport for the North's investment priorities will be security first, portfolio liquidity second and then yield, (return).

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. Transport for the North has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration Transport for the North will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. Transport for the North has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 5.4 under the categories of 'specified' and 'non-specified' investments.

    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
    - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Transport for the North will not use these investment categories.

5. **Non-specified investments limit.** Transport for the North has determined that it will not invest in any non-specified investment categories.

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 3.3.

7. **Transaction limits** are set for each type of investment in paragraph 3.3.

8. Transport for the North will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.1).

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 3.2).

10. Transport for the North has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of Transport for the North in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling**.

12. As a result of the change in accounting standards for 2018/19 under **IFRS 9,** Transport for the North will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18.)

However, Transport for the North will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.2). Regular monitoring of investment performance will be carried out during the year.

3.2 Changes in risk management policy from last year.

There have been no changes in Treasury Management policy over the last year.

3.3 Creditworthiness policy

Transport for the North applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by Transport for the North to determine the suggested duration for investments.

This approach is then tempered by Transport for the North's funding environment, and in particular its funding relationship with the Department for Transport. This environment sees Transport for the North directly funded every quarter for activity, and thus negates the need for, and the possibility of, running up significant cash balances over a long duration.

Transport for the North will therefore use counterparties within the following durational bands:

- Yellow 3 months
- Dark pink 3 months
- Light pink 3 months
- Purple 3 months
- Blue 3 months
- Orange 3 months
- Red 3 months
- Green 1 month
- No colour not to be used

The Link Asset Services' creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Before consideration of underlying sovereign rating, typically the minimum credit ratings criteria Transport for the North use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored weekly. Transport for the North is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting Transport for the North's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings Transport for the North will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from Transport for the North's lending list.

Sole reliance will not be placed on the use of this external service. In addition Transport for the North will also use market data and market information, information on any external support for banks to help support its decision making process.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

See Appendix 4.7 for an indicative counterparty list	**Colour (and long term rating where applicable)**	**Money and/or % Limit**	**Transaction limit**	**Time Limit**
Banks *	**yellow**	**100%**	**£5m**	**3 months**
Banks	**purple**	**100%**	**£5m**	**3 months**

Banks	**orange**	**100%**	**£5m**	**3 months**
Banks – part nationalised	**blue**	**100%**	**£5m**	**3 months**
Banks	**red**	**100%**	**£5m**	**3 months**
Banks	**green**	**100%**	**£5m**	**1 month**
Banks	**No colour**	**Not to be used**	**£0m**	**-**
Limit 3 category – TfN's banker^	**n/a**	**100%**	**n/a**	**3 days**
DMADF	**UK sovereign rating**	**unlimited**	**n/a**	**3 months**
Local authorities	**n/a**	**100%**	**£5m**	**3 months**
	Fund rating	**Money and/or % Limit**		**Time Limit**
Money Market Funds CNAV	**AAA**	**100%**	**£5m**	**liquid**
Money Market Funds LVNAV	**AAA**	**100%**	**£5bm**	**liquid**

** Please note: the yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt –see appendix 5.4.*

^ Transport for the North retains the ability to directly invest its cash surpluses with its own bank above the defined transaction limit where necessary. This includes managing unexpected cash flows, dealing with urgent matters, or where other options are not available.

UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. Transport for the North will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

3.4 Country limits

Due care will be taken to consider the exposure of Transport for the North's total investment portfolio to non-specified investments, countries, groups and sectors.

a) **Non-specified investment limit.** Transport for the North has determined that it will not use non-specified investment products.

b) **Country limit.** Transport for the North has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of *AA-*** from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 4.4. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

3.5 Investment strategy

Investment Durations

Transport for the North's approach to investments is influenced by its funding environment. Transport for the North has no revenue raising powers, nor ability to raise credit. This limits its ability to raise surplus cash unilaterally, and also obviates the need for retaining significant amounts of cash to pay down debt obligations.

Transport for the North is funded on a needs basis from the Department for Transport, receiving periodical grants to meet its cash requirements. This funding arrangement is supplemented by a reserve strategy that enables Transport for the North to retain cash balances from its flexible Core Grant to mitigate against financial shock.

These arrangements mean that it is unlikely Transport for the North will have significant amounts of surplus cash that does not have a short-term call upon it. This in turn engenders a short-term view on investments, with the primacy of consideration being on security and liquidity.

Transport for the North considers that it will not invest for time-periods beyond 3 months.

Investment returns expectations.

Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

2020/21	0.10%
2021/22	0.10%
2022/23	0.10%
2023/24	0.10%
2024/25	0.25%
Later years	2.00%

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly

successful vaccines may become available and widely administered to the population.

- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields, (and so PWLB rates), in the UK.

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to Transport for the North's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end. Transport for the North's funding environment is such that it will limit itself to investments of periods not greater than 3 months.

Transport for the North is asked to approve the following treasury indicator and limit:

Upper limit for principal sums invested for longer than 365 days			
£m	**2020/21**	**2021/22**	**2022/23**
Principal sums invested for longer than 365 days	£0m	£0m	£0m
Current investments as at 15.01.19 in excess of 1 year maturing in each year	£0m	£0m	£0m

3.6 Investment risk benchmarking

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

Security – Transport for the North has opted for a particularly prudent approach to security
Liquidity – in respect of this area Transport for the North seeks to maintain:

- Liquid short-term deposits of at least £1m available with a day's notice in its own bank.
- Weighted average life benchmark is expected to be no greater than 3 months.

Yield - local measures of yield benchmarks are:

- Investments – internal returns above the 7-day LIBID rate

3.7 End of year investment report

At the end of the financial year, Transport for the North will report on its investment activity as part of its Annual Treasury Report.

4 APPENDICES

1. Prudential and treasury indicators and MRP statement
2. Economic background and interest rate forecasts
3. Treasury management practice 1 – credit and counterparty risk management (option 1)
4. Treasury management practice 1 – credit and counterparty risk management Approved countries for investments
5. Treasury management scheme of delegation
6. The treasury management role of the section 151 officer
7. Indicative counterparty list

4.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2020/20 – 2023/24 AND MRP STATEMENT

Transport for the North's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

4.1.1 Capital expenditure

Capital expenditure £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Integrated & Smart Ticketing Programme	£4.55m	£6.14m	£0.00m	£0.00m	£0.00m
Total	**£4.55m**	**£6.14m**	**£0.00m**	**£0.00m**	**£0.00m**

4.1.2 Affordability prudential indicators

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream. Transport for the North does not have powers to raise credit, so has no costs of capital.

%	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Total	0%	0%	0%	0%	0%

4.2 ECONOMIC BACKGROUND

- **UK.** The key quarterly meeting of the Bank of England Monetary Policy Committee kept **Bank Rate** unchanged on 5.11.20. However, it revised its economic forecasts to take account of a second national lockdown from 5.11.20 to 2.12.20 which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of **quantitative easing (QE) of £150bn**, to start in January when the current programme of £300bn of QE, announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target".
- Its forecasts appeared, at that time, to be rather optimistic in terms of three areas:
    - The economy would recover to reach its pre-pandemic level in Q1 2022
    - The Bank also expected there to be excess demand in the economy by Q4 2022.
    - CPI inflation was therefore projected to be a bit above its 2% target by the start of 2023 and the "inflation risks were judged to be balanced".
- Significantly, there was no mention of **negative interest rates** in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it "stands ready to adjust monetary policy", the MPC this time said that it will take "whatever additional action was necessary to achieve its remit". The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.
- One key addition to **the Bank's forward guidance in August** was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase, (or decrease), through to quarter 1 2024 but there could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the MPC concern. **Inflation** is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor due to base effects from twelve months ago falling out of the calculation, and so is not a concern. Looking further ahead, it is also unlikely to be a problem for some years as it will take a prolonged time for spare capacity in the economy, created by this downturn, to be used up.

- **Public borrowing** was forecast in November by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities

for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.

- Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. While the one month second national lockdown that started on 5th November caused a further contraction of 5.7% m/m in November, this was much better than had been feared and showed that the economy is adapting to new ways of working. This left the economy 'only' 8.6% below the pre-crisis level.

- **Vaccines – the game changer.** The Pfizer announcement on 9th November of a successful vaccine has been followed by approval of the Oxford University/AstraZeneca and Moderna vaccines. The Government has a set a target to vaccinate 14 million people in the most at risk sectors of the population by 15th February; as of mid-January, it has made good, and accelerating progress in hitting that target. The aim is to vaccinate all adults by September. This means that the national lockdown starting in early January, could be replaced by regional tiers of lighter restrictions, beginning possibly in Q2. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines have radically improved the economic outlook so that it may now be possible for GDP to recover to its pre-virus level as early as Q1 2022. These vaccines have enormously boosted confidence that **life could largely return to normal during the second half of 2021**. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for when life returns to normal.

- Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant risk is if another mutation of COVID-19 appears that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development, and vaccine production facilities are being ramped up around the world.

- There will still be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a **reversal of globalisation** as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, **digital services** are one area that has already seen huge growth.

- **Brexit.** The final agreement of a trade deal on 24.12.20 has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. As the forecasts in this report were based on an assumption of a Brexit agreement being reached, there is no need to amend these forecasts.

- **Monetary Policy Committee meeting of 17 December.** All nine Committee members voted to keep interest rates on hold at +0.10% and the Quantitative Easing (QE) target at £895bn. The MPC commented that the successful rollout of vaccines had reduced the downsides risks to the economy that it had highlighted in November. But this was caveated by it saying, "Although all members agreed that this would reduce downside risks, they placed different weights on the degree to which this was also expected to lead to stronger GDP growth in the central case." So, while vaccines are a positive development, in the eyes of the MPC at least, the economy is far from out of the woods in the shorter term. The MPC, therefore, voted to extend the availability of the Term Funding Scheme, (cheap borrowing), with additional incentives for small and medium size enterprises for six months from 30.4.21 until 31.10.21. (The MPC had assumed that a Brexit deal would be agreed.)

- **Fiscal policy.** In the same week as the MPC meeting, the Chancellor made a series of announcements to provide further support to the economy: -
  - An extension of the COVID-19 loan schemes from the end of January 2021 to the end of March.
  - The furlough scheme was lengthened from the end of March to the end of April.
  - The Budget on 3.3.21 will lay out the "next phase of the plan to tackle the virus and protect jobs". This does not sound like tax rises are imminent, (which could hold back the speed of economic recovery).

- The **Financial Policy Committee** (FPC) report on 6.8.20 revised down their expected credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment, "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

- **US.** The Democrats gained the presidency and a majority in the House of Representatives in the November elections: after winning two key Senate seats in Georgia in elections in early January, they now also have a very slim majority in the Senate due to the vice president's casting vote. President Biden will consequently have a much easier path to implement his election manifesto. However, he will not have a completely free hand as more radical Democrat plans may not be supported by all Democrat senators. His initial radical plan for a fiscal stimulus of $1.9trn, (9% of GDP), is therefore likely to be toned down in order to get through both houses.

- **The economy** had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a fourth wave. The latest upturn poses a threat that the recovery in the economy could stall. This is **the single biggest downside risk** to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, individual states might feel it necessary to return to more draconian lockdowns.

- The restrictions imposed to control the spread of the virus are once again weighing on the economy with employment growth slowing sharply in November and declining in December, and retail sales dropping back. The economy is set for further weakness into the spring. **GDP growth** is expected to rebound markedly from the second quarter of 2021 onwards as vaccines are rolled out on a widespread basis and restrictions are loosened.

- After Chair Jerome Powell unveiled the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The FOMC's updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

- The Fed's meeting on **5 November** was unremarkable - but at a politically sensitive time around the elections. At its **16 December** meeting the Fed tweaked the guidance for its monthly asset quantitative easing purchases with the new language implying those purchases could continue for longer than previously believed. Nevertheless, with officials still projecting that **inflation** will only get back to 2.0% in 2023, the vast majority expect the Fed funds rate to be still at near-zero until 2024 or later. Furthermore, officials think the balance of risks surrounding that median inflation forecast are firmly skewed to the downside. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping Treasury yields low – which will also have an influence on gilt yields in this country.

- **EU.** In early December, the figures for Q3 GDP confirmed that the economy staged a rapid rebound from the first lockdowns. This provides grounds for optimism about growth prospects for next year. In Q2, GDP was 15% below its pre-pandemic level. But in Q3 the economy grew by 12.5% q/q leaving GDP down by "only" 4.4%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate during Q4 and in Q1 of 2021, as a second wave of the virus has seriously affected many countries. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the countries most affected by the first wave.

- With **inflation** expected to be unlikely to get much above 1% over the next two years, **the ECB** has been struggling to get inflation up to its 2% target. It is currently

unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. The ECB's December meeting added a further €500bn to the PEPP scheme, (purchase of government and other bonds), and extended the duration of the programme to March 2022 and re-investing maturities for an additional year until December 2023. Three additional tranches of TLTRO, (cheap loans to banks), were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The Bank's forecast for a return to pre-virus activity levels was pushed back to the end of 2021, but stronger growth is projected in 2022. The total PEPP scheme of €1,850bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle before later in quarter 2 of 2021.

- **China.** After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

- **Japan.** A third round of fiscal stimulus in early December took total fresh fiscal spending this year in response to the virus close to 12% of pre-virus GDP. That's huge by past standards, and one of the largest national fiscal responses. The budget deficit is now likely to reach 16% of GDP this year. Coupled with Japan's relative success in containing the virus without draconian measures so far, and the likelihood of effective vaccines being available in the coming months, the government's latest fiscal effort should help ensure a strong recovery and to get back to pre-virus levels by Q3 2021 – around the same time as the US and much sooner than the Eurozone.

- **World growth.** World growth will has been in recession in 2020 and this is likely to continue into the first half of 2021 before recovery in the second half. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

INTEREST RATE FORECASTS

Brexit. The interest rate forecasts provided by Link in paragraph 3.3 were predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31.12.20. There is therefore no need to revise these forecasts now that a trade deal has been agreed. Brexit may reduce the economy's potential growth rate in

the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is still subject to some uncertainty due to the virus and the effect of any mutations, and how quick vaccines are in enabling a relaxation of restrictions.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

4.3 TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT OPTION 1

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 3 months**, meeting the minimum 'high' quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. Transport for the North will not use investment classes that fall under this category.

	Minimum credit criteria / colour band	Max % of total investments/	Max. maturity period
DMADF – UK Government	UK sovereign rating	**100%**	**3 months**
UK Government gilts	UK sovereign rating	100%	3 months
UK Government Treasury bills	UK sovereign rating	100%	3 months
Bonds issued by multilateral development banks	AAA (or state your criteria if different)	100%	3 months
Money Market Funds CNAV	AAA	100%	Liquid
Money Market Funds LNVAV	AAA	100%	Liquid
Local authorities	N/A	100%	3 months
Term deposits with banks and building societies	Blue Orange Red Green No Colour		3 months 3 months 3 months 1 month Not for use

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by Transport for the North. To ensure that Transport for the North is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

4.4 APPROVED COUNTRIES FOR INVESTMENTS

Based on lowest available rating

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Hong Kong
- U.K.

AA-

- Belgium
- Qatar

4.5 TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Transport for the North Board

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.
- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;

(ii) Scrutiny Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

(**iii) Audit and Governance Committee**

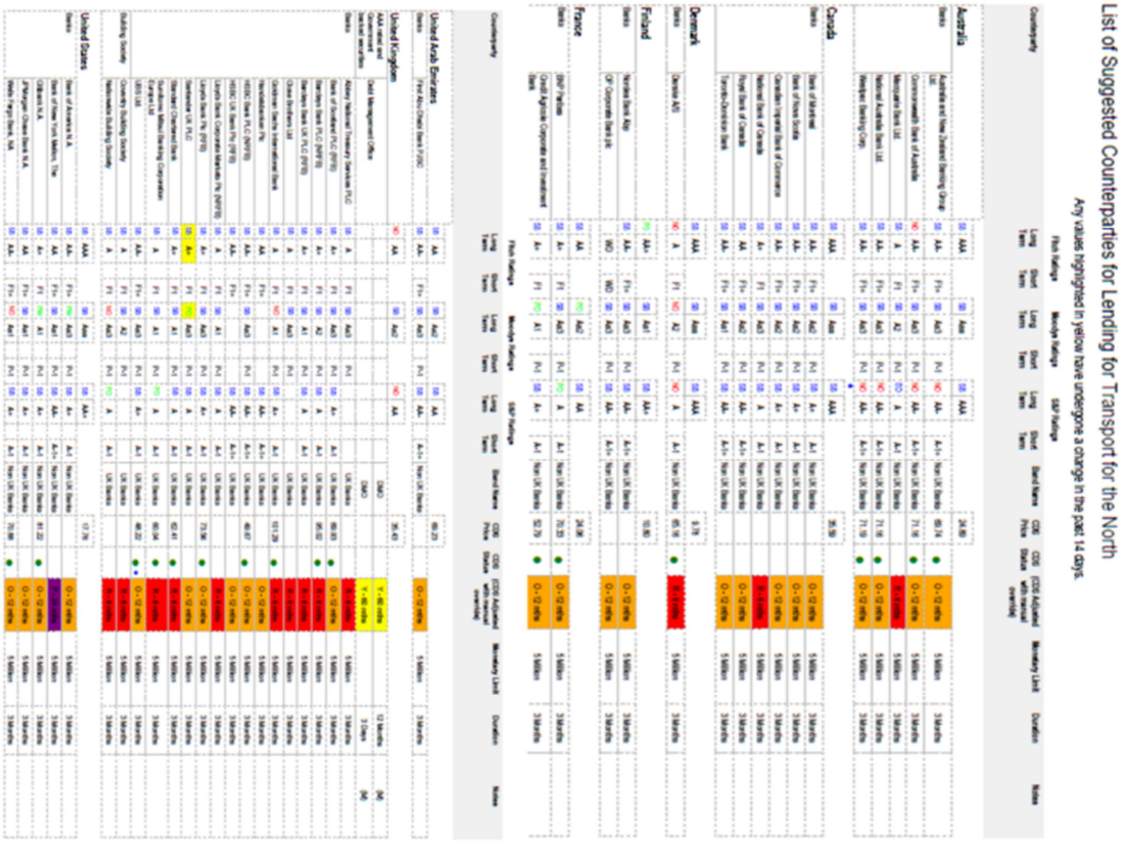
- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

4.6 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer (Transport for the North Finance Director)

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

4.7 INDICATIVE COUNTERPARTY LIST



List of Suggested Counterparties for Lending for Transport for the North

Any values highlighted in yellow have undergone a change in the past 14 days.

Counterparty	Fitch Ratings Long Term	Fitch Ratings Short Term	Moody's Ratings Long Term	Moody's Ratings Short Term	S&P Ratings Long Term	S&P Ratings Short Term	Bank Name	CDS Price	CDS Status	CDS Adjusted with manual overlay	Monetary Limit	Duration	Notes
Australia													
Australia and New Zealand Banking Group Ltd	NR	NR	Aa3	P-1	AA-	A-1+	Non UK Banks	65.74		0-12 mths	5 Million	3 Months	
Commonwealth Bank of Australia	AA-	F1+	NR	P-1	AA-	A-1+	Non UK Banks	71.16		0-12 mths	5 Million	3 Months	
Westpac Banking Corp.	AA-	F1+	NR	P-1	AA-	A-1+	Non UK Banks	71.19		0-12 mths	5 Million	3 Months	
National Australia Bank Ltd.	AA-	F1+	Aa3	P-1	AA-	A-1+	Non UK Banks	71.16		0-12 mths	5 Million	3 Months	
Macquarie Bank Ltd.	A	F1	A2	P-1	A	A-1	Non UK Banks	71.16		0-12 mths	5 Million	3 Months	
Canada													
Bank of Montreal	AA-	F1+	Aa2	P-1	AA-	A-1+	Non UK Banks			0-12 mths	5 Million	3 Months	
Bank of Nova Scotia	AA-	F1+	Aa2	P-1	AA-	A-1+	Non UK Banks			0-12 mths	5 Million	3 Months	
Canadian Imperial Bank of Commerce	AA-	F1+	Aa2	P-1	AA-	A-1+	Non UK Banks			0-12 mths	5 Million	3 Months	
National Bank of Canada	A	F1	A2	P-1	A	A-1	Non UK Banks			0-12 mths	5 Million	3 Months	
Royal Bank of Canada	AA-	F1+	Aa2	P-1	AA-	A-1+	Non UK Banks			0-12 mths	5 Million	3 Months	
Toronto-Dominion Bank	AA-	F1+	Aa1	P-1	AA-	A-1+	Non UK Banks			0-12 mths	5 Million	3 Months	
Denmark													
Danske A/S	A	F1	A2	P-2	A	A-1	Non UK Banks	65.18		0-12 mths	5 Million	3 Months	
Finland													
Nordea Bank Abp	AA-	F1+	Aa1	P-1	AA-	A-1+	Non UK Banks			0-12 mths	5 Million	3 Months	
OP Corporate Bank plc	BBB	F3	Aa3	P-2	AA-	A-1+	Non UK Banks			0-12 mths	5 Million	3 Months	
France													
BNP Paribas	AA-	F1+	Aa2	P-1	AA	A-1+	Non UK Banks	70.33		0-12 mths	5 Million	3 Months	
Credit Agricole Corporate and Investment Bank	A+	F1	A1	P-1	A	A-1	Non UK Banks	52.79		0-12 mths	5 Million	3 Months	
Germany													
DZ BANK AG Deutsche Zentral-Genossenschaftsbank	AA-	F1+	Aa1	P-1	AA	A-1+	Non UK Banks	51.72		0-12 mths	5 Million	3 Months	
Landesbank Baden-Württemberg	A	F1	A2	P-2	A	A-1	Non UK Banks	41.47		0-12 mths	5 Million	3 Months	
Landesbank Hessen-Thueringen Girozentrale	A	F1	A2	P-2	A	A-1	Non UK Banks			0-12 mths	5 Million	3 Months	
Landesbank Berlin AG	A	F1	A2	P-2	A	A-1	Non UK Banks			0-12 mths	5 Million	3 Months	
NRW.BANK	AAA	F1+	Aaa	P-1	AAA	A-1+	Non UK Banks			0-12 mths	5 Million	3 Months	
Netherlands													
ABN AMRO Bank N.V.	AA-	F1	A1	P-2	A	A-1	Non UK Banks	51.07		0-12 mths	5 Million	3 Months	
Bank Nederlandse Gemeenten N.V.	AA-	F1+	Aaa	P-1	AAA	A-1+	Non UK Banks			0-12 mths	5 Million	3 Months	
Cooperatieve Rabobank U.A.	AA-	F1+	Aa3	P-1	A+	A-1	Non UK Banks	45.48		0-12 mths	5 Million	3 Months	
ING Bank N.V.	A	F1	A2	P-2	A	A-1	Non UK Banks	41.87		0-12 mths	5 Million	3 Months	
Nederlandse Waterschapsbank N.V.	AAA	F1+	Aaa	P-1	AAA	A-1+	Non UK Banks			0-12 mths	5 Million	3 Months	
Singapore													
DBS Bank Ltd.	AA-	F1+	Aa1	P-1	AA-	A-1+	Non UK Banks			0-12 mths	5 Million	3 Months	
Oversea-Chinese Banking Corp. Ltd.	AA-	F1+	Aa1	P-1	AA-	A-1+	Non UK Banks			0-12 mths	5 Million	3 Months	
United Overseas Bank Ltd.	AA-	F1+	Aa1	P-1	AA-	A-1+	Non UK Banks			0-12 mths	5 Million	3 Months	
Sweden													
Skandinaviska Enskilda Banken AB	AAA	F1+	Aaa	P-1	AAA	A-1+	Non UK Banks	9.47			5 Million	3 Months	
Svenska Handelsbanken AB	AA-	F1+	Aa2	P-1	AA-	A-1+	Non UK Banks			0-12 mths	5 Million	3 Months	
Swedbank AB	AA-	F1+	Aa2	P-1	AA-	A-1+	Non UK Banks	15.06		0-12 mths	5 Million	3 Months	
Switzerland													
Credit Suisse AG	A	F1	A1	P-1	A	A-1	Non UK Banks	104.98		0-12 mths	5 Million	3 Months	
UBS AG	AA-	F1+	Aa2	P-1	AA-	A-1+	Non UK Banks	48.22		0-12 mths	5 Million	3 Months	
United Arab Emirates													
First Abu Dhabi Bank PJSC	AA-	F1+	Aa3	P-1	AA-	A-1+	Non UK Banks	60.23		0-12 mths	5 Million	3 Months	
United Kingdom													
Debt Management Office	AA	F1+	Aa2	P-1	AA	A-1+	DMO	36.40		1-36 mths	Unlimited	12 Months	
All Sovereign Guaranteed securities													
Alliance National Treasury Services PLC	A	F1	A2	P-2	A	A-1	UK Banks			0-12 mths	5 Million	3 Months	
Bank of Scotland PLC (RFB)	A	F1	A2	P-2	A	A-1	UK Banks	68.03		0-12 mths	5 Million	3 Months	
Barclays Bank PLC (RFB)	A	F1	A2	P-2	A	A-1	UK Banks	96.03		0-12 mths	5 Million	3 Months	
Barclays Bank UK PLC (RFB)	A	F1	A2	P-2	A	A-1	UK Banks			0-12 mths	5 Million	3 Months	
Close Brothers Ltd	A	F1	A2	P-2	A	A-1	UK Banks	101.38		0-12 mths	5 Million	3 Months	
Goldman Sachs International Bank	A	F1	A2	P-2	A	A-1	UK Banks			0-12 mths	5 Million	3 Months	
Nationwide Plc	A	F1	A2	P-2	A	A-1	UK Banks	46.67		0-12 mths	5 Million	3 Months	
HSBC Bank PLC (RFB)	AA-	F1+	Aa3	P-1	AA-	A-1+	UK Banks			0-12 mths	5 Million	3 Months	
HSBC UK Bank Plc (RFB)	AA-	F1+	Aa3	P-1	AA-	A-1+	UK Banks			0-12 mths	5 Million	3 Months	
Lloyds Bank Corporate Markets Plc (RFB)	A	F1	A2	P-2	A	A-1	UK Banks			0-12 mths	5 Million	3 Months	
Lloyds Bank Plc (RFB)	A	F1	A2	P-2	A	A-1	UK Banks	71.38		0-12 mths	5 Million	3 Months	
Santander UK PLC	A	F1	A2	P-2	A	A-1	UK Banks	65.41		0-12 mths	5 Million	3 Months	
Standard Chartered Bank	AA-	F1+	Aa3	P-1	A+	A-1+	UK Banks	60.34		0-12 mths	5 Million	3 Months	
Sumitomo Mitsui Banking Corporation Europe Ltd	A	F1	A1	P-1	A	A-1	UK Banks	46.22		0-12 mths	5 Million	3 Months	
Coventry Building Society	A	F1	A2	P-2	A	A-1	UK Banks			0-12 mths	5 Million	3 Months	
Nationwide Building Society	A	F1	A2	P-2	A	A-1	UK Banks			0-12 mths	5 Million	3 Months	
United States													
Bank of America N.A.	AA-	F1+	Aa3	P-1	AA-	A-1+	Non UK Banks	57.78		0-12 mths	5 Million	3 Months	
Bank of New York Mellon, The	AA-	F1+	Aa3	P-1	AA-	A-1+	Non UK Banks			0-12 mths	5 Million	3 Months	
Citibank N.A.	AA-	F1+	Aa3	P-1	AA-	A-1+	Non UK Banks	81.22		0-12 mths	5 Million	3 Months	
JPMorgan Chase Bank N.A.	AA-	F1+	Aa3	P-1	AA-	A-1+	Non UK Banks			0-12 mths	5 Million	3 Months	
Wells Fargo Bank, N.A.	AA-	F1+	Aa1	P-1	AA-	A-1+	Non UK Banks	70.98		0-12 mths	5 Million	3 Months	

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Treasury Management Policy and Practices 2021/22

Contents

The Treasury Management Policy Statement

The treasury management policy statement

TfN defines its treasury management activities as:

1. The management of the organisation'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.
2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
3. TfN acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

TfN recognises that it does not have the vires to access credit in any form, and therefore that is treasury management activity is limited to its cash flow, banking, and investing activity.

Clauses to be formally adopted

1. TfN will create and maintain, as the cornerstones for effective treasury management:
   - a Treasury Management Policy Statement (TMSS), stating the policies, objectives and approach to risk management of its treasury management activities
   - suitable Treasury Management Practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

   The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the CIPFA Treasury Management Code (the Code), subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.
2. TfN will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
3. TfN delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Finance Director, and for the execution and administration of treasury management decisions to the Finance Director, who will act in accordance with the organisation's policy statement and TMPs
4. This organisation nominates the Audit and Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

TMP 1 RISK MANAGEMENT

The responsible officer (in the case of Transport for the North, The Finance Director) will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

1. Credit and Counterparty Risk Management

Credit and counter-party risk is the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

This organisation regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods And Techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

1.1. Policy on the use of credit risk analysis techniques

1.1.1. TfN will use credit criteria in order to select creditworthy counterparties for placing investments with.

1.1.2. Credit ratings will be used as supplied from all three rating agencies - Fitch, Moodys and Standard & Poors

1.1.3. Treasury Management Consultants will provide regular updates of changes to all ratings relevant to TfN.

1.1.4. The responsible officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising maturity periods, type, group, sector, country and counterparty limits. This organisation will use the Sector creditworthiness service based on using colours determined by minimum combinations of ratings to derive maturity limits as follows: -

- Yellow 3 months
- Purple 3 months
- Blue 3 months (only applies to nationalised or semi nationalised UK Banks)
- Orange 3 months
- Red 3 months
- Green 1 months
- No Colour not to be used

In addition, a credit default swap overlay is used as a further safeguard to give early warning of potential creditworthiness problems which may only belatedly lead to actual changes in credit ratings.

As this methodology is complex, readers are referred to the document produced by Link Asset Services "Treasury Solutions Credit Policy Guide December 2015" for a full explanation.

1.1.5. Credit ratings for individual counterparties can change at any time. The Finance Director is responsible for applying approved credit rating criteria for selecting approved counterparties. Treasury management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties.

1.1.6. This organisation will not rely solely on credit ratings in order to select and monitor the creditworthiness of counterparties. In addition to credit ratings it will therefore use other sources of information including: -

- The quality financial press
- Market data
- Information on government support for banks and
- The credit ratings of that government support

1.1.7. Maximum maturity periods and amounts to be placed in different types of investment instrument are shown below. At present the maximum investment period for Specified Investments is 3 months. That limit reflects TfN's funding arrangements.

1.1.8. Diversification: this organisation will avoid concentrations of lending and borrowing by adopting a policy of diversification. It will therefore use the following: -

- Maximum amount to be placed with any one institution - £5m, with a sole caveat for necessary investments with TfN's own bank.
- Country limits – a minimum sovereign rating of AA- is required for an institution to be placed on our approved lending list. However, UK banks will be considered regardless of the UK's sovereign rating at the time of investment.

1.1.9. Investments will not be made with counterparties that do not have a credit rating in their own right.

1.1.10. The definition of 'high credit quality' in order to determine what are specified investments as opposed to non-specified investments which do not have high credit ratings is set out at the end of TMP1 in schedule 1. TfN will not use non-specified investments.

1.2 Liquidity Risk Management

This is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.

This organisation will ensure it has adequate cash resources to enable it to discharge its affairs and mitigate insolvency risk. TfN will work with the Department for Transport as its principal funder to ensure that it is able to draw down grant for budgeted costs in a timely manner and will maintain a reserve strategy designed to enable the organisation to react to financial shock.

1.2.1. Amounts of approved minimum cash balances and short-term investments

TfN's current accounts with its own bank are interest bearing. TfN will aim to hold not less than £1m at any time with its own bank in same day access accounts and will aim to hold not more than £5m to limit its exposure risk. TfN recognises that there will be occasions when both aspirations may not be able to be met due to unforeseen cash flow adjustments. In those circumstances TfN will redress the situation as soon as practicably possible.

1.2.2. Details of:

a. Standby facilities
TfN's investment strategy is designed to ensure it has ready access to sufficient cash balances to both manage its day-to-day business and manage financial shock. TfN will retain at least £1m in liquid cash with its own bank at any point and ensure that investments do not exceed 3 months.

b. Bank overdraft arrangements
TfN has no vires to access credit so has no overdraft facility.

c. Short-term borrowing facilities
TfN has no vires to access credit, so no borrowing facilities.

d. Insurance/guarantee facilities
Whilst retaining general insurance provisions, TfN does not specifically insure financial transactions nor enter into factoring arrangements. TfN's operations are underpinned by an effective guarantee from the Department for Transport to support an orderly winddown of the organisation and its commitments in the event of governmental funding being withdrawn.

1.3 Interest Rate Risk Management

This represents the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

For TfN, this risk is relatively negligible as it has no debt and expenditure that is sensitive to fluctuations in interest rates. Instead, interest rate fluctuations only impact upon the rate of interest generated on short-term deposits held to manage cash flow.

To limit this exposure, TfN treats deposit investment income as ancillary un-budgeted income. Accordingly, fluctuations in interest rates and cash balances does not impact upon TfN's ability to resource its expenditure plans.

1.3.1 Policies concerning the use of instruments for interest rate management.

a. forward dealing
   Consideration will be given to dealing from forward periods dependent upon market conditions.

b. callable deposits
   TfN may use callable deposits as part as of its Annual Investment Strategy (AIS).

1.4 Exchange Rate Risk Management

This represents the risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

TfN does not have expenditure denominated in foreign currencies and does not expect to do so into the future.

1.5 Refinancing Risk Management

Without access to credit TfN is not exposed to risk around the refinancing of maturing debt.

1.5.1. Debt/Other Capital Financing, Maturity Profiling, Policies and Practices

Without access to credit, TfN does not have risk associated with the maturity profiles of a debt portfolio.

1.5.2. Projected Capital Investment Requirements

The Financial Controller will prepare a three-year plan for capital expenditure for TfN. Without access to credit, these expenditure plans will be fully funded from either discrete capital or revenue grant.

The definition of capital expenditure used in the Code will follow recommended accounting practice as per the Code of Practice on Local Authority Accounting.

1.5.3 Policy Concerning Limits on Affordability and Revenue Consequences of Capital Financing

Without access to credit, the long-term affordability of TfN's capital expenditure plans is predicated on the receipt of government grants. Capital expenditure will not be undertaken without access to grant funding.

1.6 Legal and Regulatory Risk Management

This represents the risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

This organisation will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority

and compliance in respect of the transactions they may affect with the organisation, particularly with regard to duty of care and fees charged.

This organisation recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably possible to do so, will seek to minimise the risk of these impacting adversely on the organisation.

1.6.1. References to Relevant Statutes and Regulations

The treasury management activities of TfN shall comply fully with legal statute, guidance, Codes of Practice and the regulations of TfN. These are:

- Local Government Finance Act 1988 section 114 – duty on the responsible officer to issue a report if TfN is likely to get into a financially unviable position.
- Requirement to set a balanced budget - Local Government Finance Act 1992 section 32 for billing authorities and section 43 for major precepting authorities.
- Local Government Act 2003
- S.I. 2003 No.2938 Local Government Act 2003 (Commencement No.1 and Transitional Provisions and Savings) Order 2003 13.11.03
- S.I. 2003 No.3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and associated commentary 10.12.03
- S.I. 2004 No.533 Local Authorities (Capital Finance) (Consequential, Transitional and Savings Provisions) Order 2004 8.3.04
- S.I. 2004 No.534 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2004 8.3.04
- S.I. 2004 no. 3055 The Local Authorities (Capital Finance and Accounting) (Amendment) (England) (No. 2) Regulations 2004
- S.I. 2006 no. 521 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2006
- S.I. 2007 no. 573 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007
- Local Government and Public Involvement in Health Act 2007 s238(2) – power to issue guidance; to be used re: MRP
- S.I. 2008 no. 414 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2008
- S.I. 2009 no. 321 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2009
- S.I. 2009 no. 2272 The Local Authorities (Capital Finance And Accounting) (England) (Amendment) (No.2) Regulations 2009
- S.I. 2009 no. 3093 The Local Government Pension Fund Scheme (Management and Investment of Funds) Regulations 2009
- S.I. 2010 no. 454 (Capital Finance and Accounting) (Amendment) (England) Regulations 2010
- Localism Act 2011
- S.I. 2012 no. 265 Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2012
- S.I. 2012 No. 711 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 2) Regulations 2012
- S.I. 2012 No. 1324 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.3) Regulations 2012
- S.I. 2012 No. 2269 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 4) Regulations 2012
- S.I. 2013 no. 476 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2013

- S.I. 2015 no. 234 Accounts and Audit Regulations 2015

Guidance and codes of practice

- CLG Revised Guidance on Investments 1.4.2010
- CLG guidance on minimum revenue provision – Feb 2012
- CIPFA's Treasury Management Codes of Practice and Guidance Notes 2011,
- CIPFA Prudential Code for Capital Finance in Local Authorities revised 2011
- CIPFA Prudential Code for Capital Finance in Local Authorities – guidance notes for practitioners 2013
- CIPFA Local Authority Capital Accounting - a reference manual for practitioners 2014 Edition
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996
- CIPFA Standard of Professional Practice on Treasury Management 2002
- CIPFA Standard of Professional Practice on Continuous professional Development 2005
- CIPFA Standard of Professional Practice on Ethics 2006
- The Good Governance Standard for Public Services 2004
- LAAP Bulletins
- IFRS - Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice
- PWLB circulars on Lending Policy
- The Non-Investment Products Code (NIPS) - (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.
- Financial Conduct Authority's Code of Market Conduct
- TfN's Standing Orders relating to Contracts
- TfN's Financial Regulations
- TfN's Scheme of Delegated Functions

1.6.2 Procedures for Evidencing TfN's Powers/Authorities to Counterparties

TfN has no powers to access credit.

TfN will make available on request the scheme of delegation of treasury management activities contained in this document which states

- which officers carry out specified duties
- which officers are the authorised signatories

Required Information on Counterparties

Lending shall only be made to counterparties on the Approved Lending list. This list has been compiled using advice from TfN's treasury advisers (Link Asset Services) based upon credit ratings supplied by Fitch, Moodys and Standard & Poors.

1.6.3 Statement on TfN's Political Risks and Management of Same

The Finance Director shall take appropriate action with TfN, the Chief Executive Officer and the Chair of TfN to respond to and manage appropriately political risks.

1.6.4 Monitoring Officer

It is the duty of the monitoring officer to ensure that the treasury management activities of TfN are lawful.

1.6.5. Chief Financial Officer

The Chief Financial Officer is the Finance Director. The duty of this officer is to ensure that the financial affairs of TfN are conducted in a prudent manner and to make a report to TfN if he has concerns as to the financial prudence of its actions or its expected financial position.

1.7 Fraud, Error and Corruption, and Contingency Management

This represents the risk that TfN fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

TfN will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

TfN will therefore:-

a) Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
b) Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.
c) Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
d) Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

1.7.1. Details of Systems and Procedures to be Followed, Including Internet Services

Authority

- The Scheme of Delegation to Officers sets out the delegation of duties to officers.
- All investments are negotiated by the responsible officer or authorised persons.

Procedures

- The Barclays.net electronic banking procedures includes internet access to TfN's bank account for both account information and payment transactions.
- Access to the Barclays.net system, and all approvals thereon, are secured through biometric scanners unique to the fingerprint of each individual
- Authorisation of payments, the creation and amendment of bank templates, and administrative changes all require two approvers to consent
- Individual payment transactions require three individuals: one transactor and two approvers
- Payment files are generated from the Microsoft Dynamics 365 system, downloaded into a secure Sharepoint file, and then uploaded into the Barclays.net system
- Checks are then made against templates to ensure data has not been compromised in transmission

- Manual bank payments not generated from the Accounts Payable module will be supported by a package of information and wet ink signatures from appropriate approvers to mimic the Accounts Payable approval process

Investment transactions

- All investment placements must be pre-approved by two authorised approvers, with transaction templates being completed by a third officer
- Investment redemptions must be approved by one approver, with transaction templates being completed by a second officer
- Investment redemptions must only be made into the same account that funds were transmitted from unless prior approval has been secured from two of TfN's authorised signatories (Finance Director and Monitoring Officer)
- The Financial Controller will retain documentation of all investment decisions, whilst bank transactions will also be retained to show approvals of cash transactions through the Barclays.net system

Regularity and security

- Investments are only made to institutions on the Approved List of Counterparties.
- All investments will be made and returned to TfN's Barclays General account.
- Counterparty limits are set for every institution that TfN invests with.
- Brokers, agents, and direct bank contacts have a list of named officials authorised to agree deals.
- There is a separation of duties between dealers and the checking and authorisation of all deals. All deals require pre-approval by two approvers with an independent third check on details.
- TfN's bank holds a list of officials who are authorised signatories for treasury management transactions.
-
- The Barclays.net system can only be accessed via a biometric scanner recognising the unique fingerprint of an authorised user
- All transactions that involve cash leaving the bank account require two approvers and one transactor who is not an approver
- All administrative changes within the Barclays.net system require two approvers
- All inter-account transfers require one approver.
- There is adequate insurance cover for employees involved in loans management and accounting.

Checks

- The bank reconciliation is carried out weekly from the bank statement to the financial ledger.
- An analysis of the investment portfolio is prepared to support each investment decision .
- An investment income listing is produced quarterly when a review is undertaken against the budget for interest earnings and debt costs.

Calculations

- The Financial Controller will maintain analysis to ensure investment income paid to TfN is correct

1.7.2. Emergency and Contingency Planning Arrangements Disaster Recovery Plan.

TfN's main Business Continuity Plan includes a detailed section covering the essential financial systems and procedures, including banking, payments and revenue collection. All members of the Finance team are familiar with this plan and new members will be briefed on it. The plan is reviewed and updated at regular intervals with both paper and electronic copies being available.

TfN's plan is based upon remote working and access to Cloud and web-based systems.

All computer files are backed up in the Cloud to enable files to be accessed from remote sites.

1.7.3. Insurance Cover Details

A full suite of insurance policies is maintained by TfN insurance brokers including:

- Premises
- Business Interruption Employers liability
- Legal expenses
- Terrorism
- Directors and officers liability
- Employment practices liability
- Corporate legal liability
- Business travel
- Cyber security and
- Professional Indemnity Insurance

1.8 Market Risk Management

This represents the risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

TfN will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

1.8.1. Details of Approved Procedures and Limits for Controlling Exposure to Investments Whose Capital Value May Fluctuate (Gilts, CDs, Etc.)

TfN will not invest in instruments which are susceptible to capital fluctuations. TfN will limit its investments to term deposits and constant and low volatility net asset money market funds.

TMP 2 PERFORMANCE MEASUREMENT

2.1 Evaluation and Review of Treasury Management Decisions

TfN has a number of approaches to evaluating treasury management decisions, including:

a. Weekly review reports from our treasury management consultants detailing current markets, forecasts and model portfolio returns.
b. Monthly reviews carried out by the Finance Director and Financial Controller.
c. Annual review of performance and strategy with our treasury management consultants.
d. Comparative reviews.

2.1.2 Reviews with our treasury management consultants

The Financial Controller meets with Link Asset Services every 6 months to review the performance of the investment portfolios and discuss emerging market issues.

2.1.3 Annual Review after the end of the financial year

In addition to the mid-year Treasury Management report to the TfN Board, the end of March out-turn report includes an annual treasury management report which reviews the performance of the investment portfolio. This report contains the following:

a. total investments at the beginning and close of the financial year and average investment rates
b. investment strategy for the year compared to actual strategy
c. explanations for variance between original strategies and actual
d. actual investment rates available through the year
e. comparison of return on investments to the investment benchmark
f. compliance with Prudential and Treasury Indicators

2.1.4 Comparative reviews

When data becomes available, comparative reviews are undertaken to see how the performance of the authority on investments compares to other comparable authorities. Data can be sourced from CIPFA Treasury Management statistics published each year for the last complete financial year and Link Asset Services' model portfolio.

Any comparative review will note the particular funding arrangements which define TfN's approach to cash flow management and its resulting investment strategy.

2.2 Benchmarks and Calculation Methodology:

2.2.1 Investment

The performance of investment earnings will be measured against the 7 day LIBID rate.

2.3 Policy concerning methods for testing Value for Money in Treasury Management

2.3.1 Frequency and processes for tendering

TfN's bank was appointed on a three-year contract, and its Treasury Advisors on a one-year contract with options for extension. The length of future appointments will be considered at the point of retender exercises.

2.3.2 Banking services

TfN's banking arrangements were procured via a competitive tender. TfN's bank was appointed in March 2018 for a three year period.

2.3.3 Money-broking services

TfN may use money broking services in order to make deposits and will establish charges for all services prior to using them. TfN will also make use of money-market fund portals, and will review options prior to contracting.

2.3.4 Consultants'/advisers' services

TfN's retains professional external advice from Link Asset Services.

2.3.5 Policy on External Managers (Other than relating to Superannuation Funds)

TfN's policy is not to appoint external investment fund managers.

TMP 3 DECISION-MAKING AND ANALYSIS

3.1 Investment and New Instruments/Techniques:

3.1.1 Records to be kept

The following records will be retained*:*

- Internal investment decision templates.
- Investment confirmation documentation received from direct investments.
- Broker confirmation slips as necessary.
- Bank approval documentation.

3.1.2 Processes to be pursued

- Cash flow analysis.
- Investment maturity analysis.
- Ledger reconciliation.
- Investment returns review

3.1.3 Issues to be addressed

3.1.3.1. In respect of every treasury management decision made TfN will:

a) Above all, be clear about the nature and extent of the risks to which TfN may become exposed
b) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained
c) Ensure that the appropriate internal approvals have been secured
d) Be content that the documentation is adequate both to deliver TfN's objectives and protect TfN's interests, and to deliver good housekeeping
e) Ensure that third parties are judged satisfactory in the context of TfN's creditworthiness policies, and that limits have not been exceeded
f) Be content that the terms of any transactions have been fully checked against the market and have been found to be competitive.

TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 Approved Treasury Management Activities

- Investment management
- Cash management, including the management of cash flows
- Bank account management and administration

4.2 Approved Instruments for Investments

Refer to the Treasury Management Strategy.

4.3 Approved Techniques

- Forward dealing
- The use of structured products such as callable deposits

4.4 Investment Limits

The Treasury Management Strategy Statement sets out the limits and the guidelines for use of each type of investment instrument.

TMP 5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

5.1 Allocation of responsibilities

(i) TfN Board

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual treasury management strategy
- approval of capital strategy and capital programme
- approval of annual revenue budget

(ii) Audit & Governance Committee

- recommendation of amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- approval of the division of responsibilities
- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

5.2 Principles and Practices Concerning Segregation of Duties

5.2.1 TfN ensures a division of duties in the following manner:

<u>Investment placement – internal parameters</u>
Deals must be pre-approved by two authorised approvers, with documentation reviewed in advance by a third officer.

<u>Investment placement – money market funds</u>
The ICD money market portal is configured to allow for a pool of traders and a pool of approvers. All transactions require one individual from the pool to enter transactions, and one individual from the pool to approve the transaction.

<u>Accounts Payable – payment proposals</u>
Every payment proposal must be proposed by one officer and then approved by a second. One of the Financial Controller, Finance Manager, or Assistant Accountant must then upload the payment file to Barclays.net.

<u>Bank transactions</u>
All transactions must be approved by two authorised approvers, with the bank transaction being entered by a third officer. An approver cannot also be a transactor.

<u>Investment redemption</u>
All redemptions must be pre-approved by one authorised approver, with documentation reviewed in advance by a second officer.

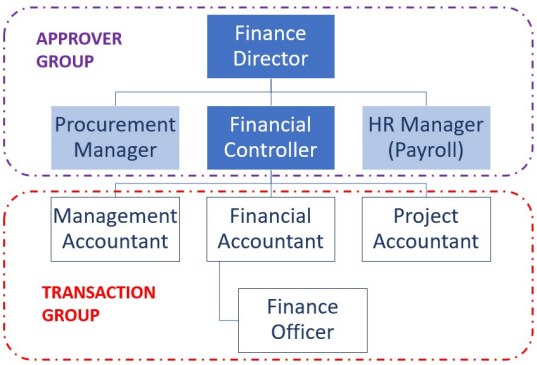
<u>Ledger input</u>
All banking journals require approval from an officer different to he/she who entered the journal.

<u>Bank reconciliations</u>
Bank reconciliations must be approved by the Finance Director (or Financial Controller in his/her absence) and be prepared by a second officer.

Bank administration
Bank administration changes can only be proposed by the Finance Director or the Financial Controller, and require both officers to approve the transaction.

Authorised officers for account opening
The Finance Director, the Monitoring Officer, and the Chief Executive are authorised officers for the purposes of account opening. Changes to account conditions requires approval from those officers signatory to the account opening.

5.3 Treasury Management Organisation Chart



5.4.1. The responsible officer

The responsible officer is the person charged with professional responsibility for the treasury management function and in TfN is the Finance Director (This post is also the S151 officer.) This officer will carry out the following duties: -

a) recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
b) submitting cyclical treasury management policy reports
c) submitting budgets and budget variations
d) receiving and reviewing management information reports
e) reviewing the performance of the treasury management function
f) ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
g) ensuring the adequacy of internal audit, and liaising with external audit
h) recommending the appointment of external service providers.
i) The responsible officer has powers to make the most appropriate form of investments in approved instruments.
j) The responsible officer may delegate his power to invest to members of his staff, principally the Financial Controller, to act as temporary cover for leave/sickness.
k) The responsible officer will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
l) It is also the responsibility of the responsible officer to ensure that TfN complies with the requirements of The Non Investment Products Code

(formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

5.4.2. Financial Controller

The responsibilities of this post will be: -

a) execution of transactions
b) adherence to agreed policies and practices on a day-to-day basis
c) maintaining relationships with counterparties and external service providers
d) supervising staff
e) monitoring performance on a day-to-day basis
f) submitting management information reports to the responsible officer
g) identifying and recommending opportunities for improved practices

5.4.3. The Head of the Paid Service – the Chief Executive

The responsibilities of this post will be: -

a) Ensuring that the system is specified and implemented
b) Ensuring that the responsible officer reports as required to TfN Board and Audit and Governance Committee on treasury policy, activity and performance.

5.4.4. The Monitoring Officer

The responsibilities of this post will be: -

a) Ensuring compliance by the responsible officer with the treasury management policy statement and treasury management practices and that they comply with the law.
b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
c) Giving advice to the responsible officer when advice is sought.

5.4.5. Internal Audit

The responsibilities of Internal Audit will be: -

a) Reviewing compliance with approved policy and treasury management practices.
b) Reviewing division of duties and operational practice.
c) Assessing value for money from treasury activities.
d) Undertaking probity audit of treasury function.

5.5 Absence Cover Arrangements

The Financial Controller is also the deputy S151 Officer. The Financial Controller will also ensure that cover is available for the Financial Controller role and other officers as necessary.

5.6 Dealing Limits

The following posts are authorised to approve transactions. At all times at least two pre-approvals must be granted to enter into transactions:

- The Finance Director
- The Financial Controller
- The Procurement Manager

5.7 Policy on Brokers' Services

It is TfN's policy to rotate business between brokers.

5.8 Policy on Taping of Conversations

It is not TfN's policy to tape brokers conversations.

5.9 Direct Dealing Practices

TfN will deal directly with counterparties if it is appropriate and TfN believes that better terms will be available. Direct dealing includes transactions with money market funds and banks through fixed-term deposit accounts

5.10 Settlement Transmission Procedures

All investments will be settled through Barclays.net using the segregation of duties detailed.

5.11 Documentation Requirements

For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payment date(s), broker.

5.12 Arrangements Concerning the Management of Third-Party Funds.

TfN does not currently manage any third-party funds.

5.13 Authorised Signatories

The TfN Head of Paid Service, Finance Director, and Monitoring Officer are authorised signatories.

TMP 6 Reporting Requirements and Management Information Arrangements

6.1 Annual programme of reporting

a) Annual reporting requirements before the start of the year: -
   a. review of the organisation's approved clauses, treasury management policy statement and practices
   b. strategy report on proposed treasury management activities for the year comprising of the Treasury Management Strategy Statement and the Annual Investment Strategy
b) Mid-year Treasury Management Strategy report
c) Annual review report after the end of the year within the out-turn Financial Monitoring Report.

6.2 Annual Treasury Management Strategy Statement (TMSS)

1. The Treasury Management Strategy Statement sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the to the TfN Board for approval before the commencement of each financial year.

2. The formulation of the annual Treasury Management Strategy Statement involves determining the appropriate investment decisions.

3. The Treasury Management Strategy Statement, noting TfN's inability to access credit, is concerned with the following elements:
   a) Prudential and Treasury Indicators
   b) current Treasury portfolio position
   c) prospects for interest rates
   d) investment strategy
   e) creditworthiness policy
   f) policy on the use of external service providers
   g) any extraordinary treasury issue

4. The Treasury Management Strategy Statement will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable) and highlight sensitivities to different scenarios.

6.3 The Annual Investment Strategy

Included within the Treasury Management Strategy Statement is the report on the Annual Investment Strategy which sets out the following: -

a) TfN's risk appetite in respect of security, liquidity and optimum performance
b) The definition of high credit quality to determine what are specified investments as distinct from non-specified investments
c) Which specified and non-specified instruments TfN will use – if at all
d) Whether they will be used by the in-house team, external managers or both (if applicable)
e) TfN's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list
f) Which credit rating agencies TfN will use
g) How TfN will deal with changes in ratings, rating watches and rating outlooks
h) Limits for individual counterparties and group limits
i) Country limits
j) Levels of cash balances
k) Interest rate outlook
l) Budget for investment earnings
m) Policy on the use of external service providers

6.4 Policy on Prudential and Treasury Indicators

1. TfN approves before the beginning of each financial year a number of treasury limits which are set through Prudential and Treasury Indicators.
2. The responsible officer is responsible for incorporating these limits into the Annual Treasury Management Strategy Statement, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the responsible officer shall submit the changes for approval to the TfN Board

6.5 Mid-year review

TfN will review its treasury management activities and strategy on at least a six-monthly basis. This review will consider the following:

a) activities undertaken
b) variations (if any) from agreed policies/practices

c) interim performance report
d) regular monitoring
e) monitoring of treasury management indicators for local authorities.

6.7 Year-end performance report

A year-end performance report will go to TfN Board as part of the year-end outturn report. This report will contain the following information: -

a) any non-compliance with Prudential limits or other treasury management limits
b) the position on cash and cash equivalents

6.8 Publication of Treasury Management Reports

The Annual Treasury Management Strategy Statement, the Mid-Year Treasury Management Strategy Update, and the Annual Treasury Management Report is reviewed at the TfN Board. Meeting documents are available on TfN's website at https://transportforthenorth.com/

TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 Statutory/Regulatory Requirements

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices. TfN has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to TfN's treasury management activities.

7.2 Sample Budgets / Accounts / Prudential and Treasury Indicators

The Finance Director will prepare at least a three-year medium-term financial plan with Prudential and Treasury Indicators for treasury management which will incorporate the budget for the forthcoming year and provisional estimates for the following two years. This will bring together all the costs involved in running the function, together with associated income. The Finance Director will exercise effective controls over this budget and monitoring of performance against Prudential and Treasury Indicators and will report upon and recommend any changes required in accordance with TMP6.

7.3 List of Information Requirements of External Auditors.

- Calculation of interest on working balances
- Interest accrual calculation
- Annual Treasury Report
- Treasury Management Strategy Statement and Prudential and Treasury Indicators
- Review of observance of limits set by Prudential and Treasury Indicators
- External fund manager(s) valuations including investment income schedules and movement in capital values (if applicable)

7.4 Monthly Budget Monitoring Report

Monthly Budget Monitoring reports are produced for the Finance Director and are the basis of the financial information provided to Board members and other stakeholders via the Monthly Operating Report..

TMP 8 Cash and Cash Flow Management

8.1 Arrangements for Preparing/Submitting Cash Flow Statements

Cash flow projections are prepared annually and also prepared to support investment decisions.. The annual cash flow projections are prepared according to known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

8.2 Bank Statements Procedures

TfN reviews its bank accounts on a daily basis, and performs a weekly bank reconciliation exercise.

8.3 Payment Scheduling and Agreed Terms of Trade with Creditors

Our policy is to pay all creditors within the agreed terms of trading.

8.4 Arrangements for Monitoring Debtors / Creditors Levels

The Financial Controller is responsible for monitoring the levels of debtors and creditors.

8.5 Procedures for Banking of Funds

TfN does not permit receipt of funds from cash or cheque. All income is received through electronic banking.

8.6 Practices Concerning Prepayments to Obtain Benefits

TfN does not prepay liabilities unless there is a sound business reason that is aligned to TfN's risk appetite. Prepayments of liabilities would be authorised by the Financial Controller and where necessary the Finance Director.

TMP 9 Money Laundering

9.1 Proceeds of Crime Act 2002

Money laundering has the objective of concealing the origin of money generated through criminal activity. Legislation has given a higher profile to the need to report suspicions of money laundering. The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering. In summary, these are:

- concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
- being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention, use or control of criminal property
- acquiring, using or possessing criminal property.

These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money-laundering activity in the UK risks a criminal conviction. Other offences under the POCA include:

- failure to disclose money-laundering offences
- tipping off a suspect, either directly or indirectly
- doing something that might prejudice an investigation – for example, falsifying a document.

9.2 The Terrorism Act 2000

This act made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism, or resulting from acts of terrorism. All individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment.

9.3 The Money Laundering Regulations 2007, 2012 and 2015

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FSA) are required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions. In December 2007 the UK Government published the Money Laundering Regulations 2007, which replaced the Money Laundering Regulations 2003.

9.4 Local authorities

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and subsequent Terrorism Acts and may commit most of the principal offences under the POCA, but are not legally obliged to apply the provisions of the Money Laundering Regulations 2007, 2012 and 2015. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly TfN will do the following: -

a) evaluate the prospect of laundered monies being handled by them
b) determine the appropriate safeguards to be put in place
c) require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness
d) make all its staff aware of their responsibilities under POCA
e) appoint a member of staff to whom they can report any suspicions. This person is Finance Director
f) in order to ensure compliance is appropriately managed, TfN will require senior management to give appropriate oversight, analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures and other information to personnel.
g) The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is The Head of Legal Services and it shall be a requirement that all teams implement this corporate policy and procedures.

9.6 Methodologies for Identifying Deposit Takers

In the course of its treasury activities, TfN will only lend money to or invest with those counterparties that are on its approved lending list. These will be local authorities, the DMADF, and authorised deposit takers under the Financial Services and Markets Act 2000. The FSA register can be accessed through their website on www.fca.gov.uk.

All transactions will be carried out through the Barclays.net system.

TMP 10 Training and Qualifications

TfN recognises that relevant individuals will need appropriate levels of training in treasury management due to its increasing complexity. There are two categories of relevant individuals: -

a) Finance officers employed by TfN
b) Members charged with governance of the treasury management function

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. TfN operates a Personal Development Review system which identifies the training requirements of individual members of staff engaged on treasury related activities.

Additionally, training may also be provided on the job and it will be the responsibility of the Finance Director to ensure that all staff under his / her authority receive the level of training appropriate to their duties. This will also apply to those staff who from time to time cover for absences from the treasury management team.

10.1 Details of Approved Training Courses

Treasury management staff and members will go on courses provided by our treasury management consultants, CIPFA, or other relevant bodies.

10.2 Records of Training Received by Treasury Staff

The HR team will maintain records on all staff and the training they receive.

10.3 Record of Secondment of Senior Management

Records will be kept of senior management who are seconded into the treasury management section in order to gain first-hand experience of treasury management operations.

10.4 Statement of Professional Practice (SOPP)

1. Where the Chief Financial Officer is a member of ICAEW, there is a professional need for the CFO to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.
2. All staff involved in treasury management activities must also comply with the SOPP.

10.6 Member training records

Records will be kept of all training in treasury management provided to members.

10.7 Members charged with governance

Members charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

TMP 11 Use of External Service Providers

11.1 Details of Contracts with Service Providers, Including Bankers, Brokers, Consultants, Advisers

TfN will employ the services of other organisations to assist it in the field of treasury management. In particular, it will use external consultants to provide specialist advice in this ever more complex area. However, it will ensure that it fully understands what services are being provided and that they meet the needs of this organisation, especially in terms of being objective and free from conflicts of interest.

It will also ensure that the skills of the in-house Finance team are maintained to a high enough level whereby they can provide appropriate challenge to external advice and can avoid undue reliance on such advice.

Finance officers will therefore be required to allocate appropriate levels of time to using the following sources of information so that they are able to develop suitable levels of understanding to carry out their duties, especially in challenge and avoiding undue reliance.

- The quality financial press
- Market data
- Information on government support for banks
- The credit ratings of that government support

11.1.1 Banking Services

a) TfN's banking provider is Barclays Bank.

b) Barclays Bank is authorised to undertake banking activities by the FSA.

c) TfN's banking branch address is:

Barclays
Leicester
LE87 2BBB

d) TfN's banking contract commenced in 2018 for a three-year term.

e) The cost of banking services is variable depending on a schedule of tariffs set annually applied to volumes of transactions.

f) Banking charge payments are due monthly and quarterly.

11.1.2 Money-Broking Services

TfN does not have access to credit, so does not require the services of money-brokers.

11.1.3 Consultants'/Advisers' Services

Treasury Consultancy Services

TfN will seek to take expert advice on interest rate forecasts, annual treasury management strategy, timing for borrowing and lending, debt rescheduling, use of various borrowing and investment instruments, how to select credit worthy counterparties to put on its approved lending list etc.

The performance of consultants will be reviewed annually by the Finance Director to check whether performance has met expectations.

a) Name of supplier of service is Link Treasury Solutions. Their address is 65 Gresham Street, London, EC2V 7NQ
b) Regulatory status: investment adviser authorised by the FCA
c) Contract cost is £13,700.

11.1.4 Procedures and Frequency for Tendering Services

As per TfN's contract procedure rules.

TMP 12 Corporate Governance

12.1.1 List of documents to be made available for public inspection

a. TfN is committed to the principle of openness and transparency in its treasury management function and in all of its functions.

b. It has adopted the CIPFA Code of Practice on Treasury management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.

c. The following documents are available for public inspection: -

Treasury Management Strategy Statement
- Treasury Manage Practices

Annual Statement of Accounts

Annual Revenue Budget and MTFS

Capital Strategy

Minutes of Board / committee meetings

Third party expenditure via quarterly corporate spend analysis published on the website to comply with the coalition government's transparency agenda.

TMP 13 Treasury management practices for non-treasury investments

TfN does not undertake non-treasury investments.

Transport for the North Audit & Governance Committee – Item 9

Subject: Accounting Policies

Author: Paul Kelly, Financial Controller

Sponsor: Iain Craven, Finance Director

Meeting Date: Thursday 18 February 2021

1. Executive Summary:

1.1 This document sets out the accounting policies as adopted by TfN.

1.2 These policies are largely driven by the CIPFA Code of Practice on Local Authority Accounting (the Code) and are in turn selected and drafted in accordance with the requirements of International Financial Reporting Standards (IFRS).

1.3 The accounting policies are presented to the Committee for consideration ahead of the production of TfN's statutory accounts for financial year 2020/21.

2. Recommendation:

2.1 Note the accounting policies adopted by TfN as detailed in Appendix 1.

3. Issues:

3.1 Accounting policies are defined in the CIPFA Code of Practice on Local Authority Accounting (the Code) as "the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements."

3.2 Simply, the accounting policies set the parameters by which TfN will account for its financial activities.

3.3 The Code requires that TfN follow the requirements of IAS8 'Accounting Policies, Changes in Accounting Estimates and Errors' when selecting accounting policies.

3.4 The Code confirms that it specifies many of the accounting policies and estimation techniques that will be used by TfN when preparing and presenting their financial statements.

3.5 These policies have been selected and drafted by CIPFA in accordance with the requirements of International Financial Reporting Standards (IFRS) and adapted where necessary for local government circumstances. The Code requires this degree of uniformity to ensure that there is comparability and consistency across local authority statements.

3.6 Appendix 1 sets out the significant accounting policies adopted by TfN. The policies detailed in that document are not exhaustive and do not cover principles that are irrelevant to TfN's affairs. That includes policies and standards relating to credit related financial instruments; certain tax raising issues; and other items.

3.7 TfN has started from an assumption that the accounting policies prescribed by the Code will be followed. This recognises that departure is permitted only once it can be established that omission, or a different approach, does not risk a misreading of TfN's overall financial position, financial performance or cash flows that might be relevant to the decision-making needs of assessment of users of the financial statements.

3.8 The policies adopted by TfN do not diverge from those set out in the Code, but do, at times, refer to TfN's operational practicalities. This is evident where policies cut across basic issues such as how organisational recharges are applied across management structures and funding arrangements, and where local discretion is applied to issues such as capitalisation thresholds.

3.9 The policies adopted largely reflect Code compliant language which is, at times, inherently technical. TfN officers have compared the policies adopted to those of partner authorities for reasonableness. Comment is also offered within the Appendix document to outline how adoption of the individual policies may affect or otherwise TfN in relation to its unique idiosyncrasies and operating environment.

3.10 The Code requires that TfN apply the accounting policies consistently for similar transactions, other events and conditions. However, there are times when specific categories of similar transactions require different treatment. Where that is the case, the accounting policies specify differences.

3.11 Consistency is also required between accounting periods. This is required to both encourage comparability between one year and the next, but also discourage bodies from adjusting policies to suit the changing needs of their financial position.

3.12 To that end, the Code requires that accounting policy changes should only be made if the change is:

- Required by the Code; or,
- Will result in the financial statements providing reliable and more relevant financial information about the effects of transactions, other events or conditions on an organisation's financial position, financial performance and cash flows.

3.13 Accordingly, these policies are unlikely to change materially unless there is a more fundamental organisational change that would encourage TfN to reconsider its approach, or there was a Code requirement to change.

4. Options Considered:

4.1 The accounting policies presented in Appendix 1 are largely driven by IFRS and Code requirements.

5. Considerations:

5.1 The accounting policies presented in Appendix 1 are largely driven by IFRS and Code requirements.

6. Preferred Option:

6.1 The accounting policies presented in Appendix 1.

7. Appendices:

7.1 Appendix 1: Transport for the North Accounting Policies

Required Considerations

Equalities:

Age	~~Yes~~	No
Disability	~~Yes~~	No
Gender Reassignment	~~Yes~~	No
Pregnancy and Maternity	~~Yes~~	No
Race	~~Yes~~	No
Religion or Belief	~~Yes~~	No
Sex	~~Yes~~	No
Sexual Orientation	~~Yes~~	No

Consideration	Comment	Responsible Officer	Director
Equalities	A full impact assessment has not been carried out because it is not required for this report.	Paul Kelly	Iain Craven

Environment and Sustainability

~~Yes~~	No

Consideration	Comment	Responsible Officer	Director
Sustainability / Environment	A full impact assessment has not been carried out because it is not required for this report.	Paul Kelly	Iain Craven

Legal

Yes	~~No~~

Consideration	Comment	Responsible Officer	Director
Legal	Legal and regulatory implications are	Julie Openshaw	Dawn Madin

	addressed within the report.		

Finance

Yes	~~No~~

Consideration	Comment	Responsible Officer	Director
Finance	The financial implications have been considered and are included in the report.	Paul Kelly	Iain Craven

Resource

~~Yes~~	No

Consideration	Comment	Responsible Officer	Director
Resource	There are no resource implications associated with this report.	Stephen Hipwell	Dawn Madin

Risk

~~Yes~~	No

Consideration	Comment	Responsible Officer	Director
Risk	There are no material risks identified within the report.	Paul Kelly	Iain Craven

Consultation

~~Yes~~	No

Consideration	Comment	Responsible Officer	Director
Consultation	A consultation has not been carried out because it is not required for this report.	Paul Kelly	Iain Craven

APPENDIX 1

Transport for the North

Accounting Concepts and Policies

(Updated February 2021)

1.	**Going Concern Basis**
	TfN accounts for its operations on a going concern basis. This assumes that TfN will continue in operation for the foreseeable future.
	Comment
	Adoption of this policy reflects TfN's statutory status and the Department for Transport's explicit underwrite of the organisation's affairs as documented through the Memorandum of Understanding signed between TfN and the Department.
2.	**Qualitative Characteristics**
	The usefulness of financial statements is enhanced if they are comparable between similar organisations and between financial years. The Code of Practice promotes comparability by designating the form and content of the financial statements which includes a comparison with the previous financial period.
	Comment
	The accounts for 2020/21 will show prior year comparisons based on the audited statements from 2019/20.
3.	**Accruals of Income and Expenditure**
	Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular: Revenue from the sale of goods is recognised when the significant risks and rewards of ownership transfers to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to TfN. Revenue from the provision of services is recognised when the percentage of completion of the transaction can be reliably measured and it is probable that economic benefits or service potential associated with the transaction will flow to TfN. Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet. Expenses in relation to services received are recorded as expenditure when the services are received, rather than when payments are made. Interest receivables (deposit income) on investments is accounted for as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

	Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
	Comment
	TfN will not be required to account for interest payable on borrowings due the restrictions on its access to credit. Accounting for differences between effective interest rates and cash flows on receivables generated from TfN's cash management activity is likely to be negligible, reflecting the short-term and highly liquid nature of TfN's adopted Investment Strategy. TfN will consider materiality when accounting for timing differences between the receipt of services and payment (prepayments).
4.	**Cash and Cash Equivalents**
	Cash and cash equivalents represents cash and bank balances and short term investments. Cash and bank balances is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. All deposits placed within instant access call accounts, money market funds should be classified in the accounts as cash equivalents due to these being highly liquid investments which offer instant access to the funds and are therefore deposited to meet short term cash requirements. All fixed term investments are not classified as cash and bank balances as at the point of making the deposit TfN is unable to convert these to cash until the maturity date of the investment.
	Comment
	Cash and cash equivalents are likely to contain a combination of cash and term deposits.
5.	**Exceptional Items/Material Items of Income and Expenditure**
	When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts. Where they are disclosed is dependent on how significant the items are to the understanding of TfN's financial performance.
	Comment
	In the 2019/20 accounts, TfN disclosed the impairment of £4.32m of IST Phase 3 expenditure capitalised in the 2018/19 accounts. No similar adjustments are expected to be required in the 2020/21 accounts.

6.	**Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**
	Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment. Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effects of transactions, other events and conditions on TfN'S financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.
	Comment
	It should be noted that the impairment of the IST Phase 3 capitalised expenditure was not considered a prior period adjustment. This reflected that the decision to write down that expenditure was made following events in 2019/20, with the accounting as recognised in 2018/19 standing at the point of audit and publication.
7.	**Events After the Reporting Period**
	Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period, and the date the Statement of Accounts is authorised for issue. Three types of event can be identified: 1. Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts are adjusted to reflect such events. 2. Those that are indicative of conditions that arose after the reporting period – the financial statements are not adjusted to reflect such events, but where a category of events would have a material effect disclosure is made in the notes of the nature of the events and their estimated financial effect. 3. Events taking place after the date of authorisation for issue are not reflected in the financial statements.
	Comment
	This is inherently an unpredictable item at this stage.
8.	**Financial Instruments**
	<u>Financial assets</u> Financial assets are classified into two types: 1. loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and,

	2. available for sale assets – assets that have a quoted market price and / or do not have fixed or determinable payments. <u>Loans and Receivables</u> Loans and receivables are recognised on the Balance Sheet when TfN becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement. When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument. This results in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan on the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year. The reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement. Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
	Comment
	TfN will not have any financial instrument liabilities due to the limitations on its access to credit. TfN's financial assets will likely be limited to cash equivalent categories such as money-market funds and instant access call accounts.

	Some consideration will need to be given to whether soft-loan accounting will be required in relation to travel pass loans extended to staff. Such loans are low value and short-term, but will likely straddle financial periods.
9.	**Government Grants & Contributions**
	Whether paid on account, by instalments, or in arrears, government grants and third party contributions and donations are recognised as due to TfN when there is reasonable assurance that: - TfN will comply with the conditions attached to the payments; and, - The grants or contributions will be received. Amounts recognised as due to TfN are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution, are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor. Monies advanced as grants and contributions for which conditions have not been satisfied are carried on the Balance Sheet as liabilities. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement. When capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. When it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure. Applying the principles of symmetry, where TfN awards a grant to a third party, the grant expenditure is recognised as payable when TfN has reasonable assurance that: 1. The grant recipient will comply with the conditions attached to the payments; and, 2. The grants or contributions will be paid. Capital grants are recognised in the Comprehensive Income and Expenditure Statement as Revenue Expenditure Funded by capital under statute (REFCUS) under the relevant service line. This expenditure is reversed out of the General Fund Balance in the Movement in Reserves Statement to the Capital Adjustment Account.
	Comment
	TfN is entirely grant and contribution funded, with only an immaterial amount of 'earned' deposit income. Grants are received from government, whilst contributions are made by the Rail North members to that activity. All of TfN's discrete grants come with conditions. Only TfN's core grant is suitably flexible to allow it to be classed as un-conditional.

	Northern Powerhouse Rail TDF and RN revenue grants and contributions are attributable to specific service lines and will be presented as income against those lines on the face of the CIES. Core grant will be presented as 'non-specific grant income' not attributable to a specific expenditure line. Capital expenditure is not shown on the face of the CIES. Instead, we will show depreciation over time. However, capital grants awarded to third parties (as in IST Programme Phase 1 and elements of Phase 2) are shown as revenue expenditure funded from capital under statute (REFCUS). This represents that the end party will use the funding to resource capital expenditure itself. Where the conditions on capital grants have been met, the grants are credited to 'Taxation and Non Specific Grant Income' in the CIES.
10.	**Leases**
	Leases are classified as finance leases where the terms of the lease substantially transfer all risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets. <u>Operating Leases</u> *TfN as Lessee:* Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent free period at the commencement of the lease). *TfN as Lessor:* Where TfN grants an operating lease over a property or an item of plant or equipment, the asset is retained on the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

	<u>Finance Leases</u> *TfN as Lessee:* Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of TfN are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the years in which they are incurred. Lease payments are apportioned between: - A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and, - A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement) Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life. - A prudent annual provision is made from revenue towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore replaced by revenue provision in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.
	Comment
	TfN is party to two operating leases related to its office accommodation. These leases are below the external auditors' definition of significant leases. Charges for the leases are made on the straight-line basis, which means that rent-free periods are smoothed over the life of the lease. Over the course of 2020/21 TfN has occupied additional adjoining space at 4 Piccadilly Place reflecting the growth in the NPR programme. Transport for Greater Manchester (TfGM) are the current formal lessee of this space, permitting TfN to occupy the space on a short-term arrangement. Work is underway with the landlord and TfGM to transfer the lease from TfGM to TfN. TfN will account for the additional 4PP space in the same manner as the existing space, reflecting that cash payments are depressed in the current year by a rent reduction. TfN has a 'device-as-a-service' contract with Hewlett Packard for the provision of supported ICT hardware. It is unlikely that TfN will enter into finance leases as a lessee as they represent implicit credit.

	The Committee should note that IFRS16 was originally anticipated to be adopted from 1 April 2020 but the introduction has been deferred. This will not be adopted until 1 April 2021 at the earliest. This new accounting standard removes the distinction between 'finance' and 'operating' leases. For TfN all leases will be recorded on the balance sheet as liabilities, at the present value of the future lease payments, along with an asset reflecting the right to use the asset over the lease term. Rental payments will be replaced by depreciation and interest costs. This is notable for TfN, as it currently incurs no interest costs reflecting its inability to enter into borrowing arrangements. An exemption for low value items may preclude TfN applying this treatment to the ICT hardware contract.
11.	**Overheads and Support Services**
	Costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance. Principally, programme areas in receipt of permissive discrete grant will be recharged for the incremental costs of support teams on a calculated basis as agreed by the Finance Director.
	Comment
	The second paragraph recognises that we will only recharge into programme areas, and only where the funding grant facilitates that recharge. This recognises that size and scale of the operational support areas flexed in accordance with the scale and requirements of the programme areas that they support. Recharges are made to ensure that the costs of delivering services are aligned to the resource available to them for transparency and accountability purposes, but also ensure that the organisation's subject matter experts are responsible for the initial contracting. As an example, the ICT manager is responsible for procuring kit and equipment for all the organisation's teams, but the costs of that equipment is recharged to the programme teams to ensure there is proper cost transparency on those programmes and that the appropriate grant resources the expenditure. Recharge costs are stripped out on the face of the CIES. This will lead to a mismatch between management reporting and the CIES that will be explained in the narrative statement.
12.	**Provisions, Contingent Liabilities and Contingent Assets**
	<u>Provisions</u> Provisions are made where an event has taken place that gives TfN a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

	Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the organisation becomes aware of the obligation, and measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the Comprehensive Income and Expenditure Statement. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the obligation is settled. <u>Contingent Liability</u> A contingent liability arises where an event has taken place that gives a probable obligation whose existence will only be confirmed by the occurrence, or otherwise, of uncertain future events that are not wholly within the control of the Group. Contingent Liabilities also arise in circumstances where a provision would otherwise be made but either it is not possible that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts. <u>Contingent Asset</u> A contingent asset arises where an event has taken place that provides a probable asset, whose existence will only be confirmed by the occurrence or otherwise of uncertain events not wholly within the control of the Group. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.
	Comment
	TfN is likely to carry a provision for : 1) A forecast obligation associated with remediation of the leased space occupied at 4 Piccadilly Place, should the lease transfer between TfN and TfGM be finalised.
13.	**Reserves**
	Specific amounts are set aside as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund. When the expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the (Surplus) / Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. Certain reserves are kept to manage the accounting processes for non-current assets and retirement benefits, and do not represent usable resources for TfN.

	Comment
	TfN will have a General Fund reserve (core grant reserve) and an earmarked 'Devolved Powers' reserve. The latter earmarking was agreed as part of the 2018/19 outturn process, so not recognised in the 2018/19 accounts.
14.	**Revenue Expenditure Funded from Capital under Statute**
	Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset that has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where TfN has determined to meet the cost of this expenditure from existing capital resources a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the revenue finances of TfN.
	Comment
	This is pertinent to Phase 1 of the IST programme.
15.	**Value Added Tax (VAT)**
	TfN neither provides services for consideration nor is able to recover the VAT incurred on expenditure. Costs are shown gross of VAT within the relevant service lines on the face of the CIES and on any capitalised expenditure
	Comment
	Ordinarily costs would be shown net, with the balance due to or from HMRC on the balance sheet.
16.	**Intangible Assets**
	Expenditure on non-monetary assets that do not have physical substance but are controlled by TfN as a result of past events (e.g. software development) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to TfN. Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and TfN will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. TfN determines a project to be technically feasible when its has passed an outline business case government approval gateway, or another appropriate review point undertaken by suitably qualified professionals. Expenditure is capitalised where it can be measured reliably as attributable to the asset and restricted to that incurred during the development phase.

	Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise TfN's goods or services. Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by TfN can be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Where an intangible asset has an indefinite useful life it shall not be amortised. Instead, it will be reviewed annually for impairment. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.
	Comment
	This will cover the majority of capital expenditure around the IST programme in Phase 2. TfN has previously commissioned external accounting advice from PWC that supports the proposal to hold the capital investment in these projects as an intangible asset. IST assets considered to be Intangible Assets are initially capitalised as "Assets Under Development" and once complete are transferred to "Operational Assets" and then subject to amortization. In Phase 2 there were 4 initiatives being developed. These were disruption messaging, open data hub, fares interrogation and knowledge network. In 2019/20 accounts£1.063m of "Assets Under Development", relating to the disruption messaging initiative, were transferred to "Operational Assets". According to policy these assets will be amortized in the year following this transfer. In 2020/21 at least one of the remaining IST initiatives is anticipated to be complete. Two could be retained until they are novated to the local authorities in 21/22. Technical advice will be sourced to support the accounting treatment.

	Work is underway, particularly with regards to future target operating models, to determine whether the intangibles developed have a definable useful asset life, or whether in fact they have an indeterminate life. A key consideration is likely to be around both expectations on future ownership and end-user demand for the assets, and the enabling contracts that underpin usage. In 2019/20 it should be noted that the £4.32m of Phase 3 IST intangible assets under construction was written down from the balance sheet this year. This reduced the value held on the balance sheet under this category. TfN also recognises the development of its ERP system under this heading. The ERP is operational and being depreciated. It is likely that there will be additional expenditure capitalised this financial year, reflecting the ongoing developments of the HR 'Talent' module. Any additional expenditure is amortized over the remaining life. In 2020/21 all ERP expenditure is expected to be fully amortized.
17.	**Property, Plant and Equipment**
	Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment. <u>Recognition</u> Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to TfN, and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential, (i.e. repairs and maintenance) is charged as an expense when it is incurred. TfN will apply a deminimis to recognition, capitalising individual items of expenditure with an initial cost of >£10k. <u>Measurement</u> Assets are initially measured at cost, comprising: 1. The purchase price; 2. Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; 3. The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. The cost of assets acquired, other than by purchase, is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of TfN). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by TfN.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. When gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried on the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost.
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective.
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included on the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

<u>Impairment</u>
Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. Assets Under Construction).

Depreciation is calculated on a straight line basis, over the useful life of the asset following the year of construction or acquisition, determined as follows:

- Buildings – straight line allocation over the useful life of the property as estimated by the valuer
- Infrastructure assets – the estimated useful life of each asset as determined by the valuer
- Vehicles/plant/equipment – straight line allocation over the useful life of the asset as advised by a suitably qualified officer.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately where they have significantly different useful lives. Components are also recognised where capital investment for replacement or enhancement of the asset establishes a material component.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the

	Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the (Surplus) / Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale. If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset on the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. Capital receipts are credited to the Capital Receipts Reserve, and can then only be used to finance new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. The written off value of disposals is not a charge against revenue, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.
	Comment
	As TfN is not an operational organisation, it has little in the way of assets and is unlikely to acquire PPE in any material way into the future. TfN's accommodation is leased, and its equipment is largely limited to ICT hardware and office furniture. A capitalisation threshold of £10k has been adopted for individual items of expenditure. This will likely catch the majority of incidental equipment purchases made through TfN's ICT refresh strategies and our approach to managing the accommodation space. Adopting this threshold means expensing purchases immediately but reduces administrative burden.
18.	**Employee Benefits**

	Benefits Payable During Employment Short term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to TfN. Termination Benefits Termination benefits are amounts payable as a result of a decision by TfN to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits. They are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement at the earlier of when TfN can no longer withdraw the offer of those benefits or when TfN recognises costs for a restructuring. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by TfN to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. Post-Employment Benefits Employees of TfN are enrolled in the Local Government Pension Scheme. TfN pays an employer's contribution into the Greater Manchester Pension Fund, which is a fully funded defined benefit scheme administered by Tameside Metropolitan Borough Council. The liabilities of the Greater Manchester Pension Fund attributable to TfN are included in the Balance Sheet on an actuarial basis using the projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees.

Transport for the North Audit & Governance Committee Meeting - Item 10

Subject: Corporate Governance Review and Preparation of the Annual Governance Statement

Author: Deborah Dimock, Solicitor

Sponsor: Iain Craven, Finance Director

Meeting Date: Thursday 18th February 2020

1. Purpose of the Report:

1.1 The purpose of this report is to advise Members of the progress made in carrying out the corporate governance review and for Members to consider the first draft Annual Governance Statement for the financial year 2021/2022.

2. Executive Summary:

2.1 Under Regulation 6(1) of the Accounts and Audit Regulations 2015, Transport for the North is required to carry out an annual review of the effectiveness of its system of internal controls and to publish a report of the review in its Annual Governance Statement.

2.2 This report sets out the progress the review team has made in preparing the Annual Governance Statement and a first draft is attached at Appendix 1.

3. Discussion:

3.1 Under the provisions of the Regulation 6(1)(a) of the Accounts and Audit Regulations 2015 Transport for the North is required to carry out an annual review of the effectiveness of its internal systems of control and to publish a report of that review. This report, the Annual Governance Statement, must be published before the beginning of June in each year along with the Statement of Accounts and Narrative Statement.

3.2 The system of internal controls are all the measures taken together which Transport for the North has put in place to safeguard the expenditure of public money and to ensure value for money. These include Transport for the North's financial regulations and contract procurement rules which are set out in the Constitution. It also

includes the risk management framework through which Transport for the North ensures that risks to its operations are identified and managed. The controls also include the oversight exercised by the Audit and Governance Committee.

3.3 In carrying out this annual review Transport for the North is required to comply with the guidance issued by CIPFA in its guidance "Delivering Good Governance". The Guidance sets out six principles of good governance:

A Behaving with integrity, demonstrating strong commitment to ethical values and respect for the rule of law

B Ensuring openness and comprehensive stakeholder engagement

C Defining outcomes in terms of sustainable economic, social and environmental benefits

D Determining the interventions necessary to optimise the achievement of the intended outcomes

E Developing the organisation's capacity including the capacity of its leaders and the individuals within it

F Managing risks and performance through robust internal control and strong public financial management

G Implementing good practices in transparency, reporting and audit to deliver effective accountability

3.4 We have assessed our activities against the six principles of good governance and provided evidence of the way in which Transport for the North has conducted itself in accordance with the principles:

- Identify systems processes and documentation that provide evidence of good governance
- Identify the individuals and committees responsible for monitoring and reviewing the systems, processes and documentation identified
- Identify any issues that have not been addressed and consider how they should be addressed
- Identify the individuals responsible for carrying out any identified actions

3.5 An initial step in the review has been to consider the measures in place to support the Anti-fraud and Corruption Policy and a report on this is included elsewhere on the Agenda for this meeting. Further reviews are underway into the governance arrangements of Transport for the North's significant partnerships and Officer Reference Groups, which will feed into the Annual Governance Statement.

3.6 The review team has also considered the governance challenges identified in the Annual Governance Statement prepared for 2019/20, assessed the extent to which these challenges have been met during

the current financial year, and updated the table included in the Annual Governance Statement 2019/20.

3.7 The review will also need to consider the future governance challenges that are likely to arise in 21/22 and these have been included in a table in the Statement.

4 Proposed Timetable for carrying out the Review

4.1 The final Annual Governance Statement will be brought to the Committee for approval and recommendation to TfN Board before its publication at the end of May 2021.

5. Recommendation:

5.1 It is recommended that the Audit and Governance Committee receive the report and approve the draft Annual Governance Statement.

6. Appendices:

Draft Annual Governance Statement 2020/21

List of Background Documents:

Annual Governance Statement 2019/20

Required Considerations

Equalities:

Age	No
Disability	No
Gender Reassignment	No
Pregnancy and Maternity	No
Race	No
Religion or Belief	No
Marriage and Civil Partnership	No
Sex	No
Sexual Orientation	No

Consideration	**Comment**	**Responsible Officer**	**Director**
Equalities	A full Impact assessment has not been carried out because the report does not propose any new strategy or service provision	Deborah Dimock	Julie Openshaw

Environment and Sustainability

Yes	No

Consideration	**Comment**	**Responsible Officer**	**Director**
Sustainability / Environment – including considerations regarding Active Travel and Wellbeing	A full impact assessment has not been carried out because the report does not propose any new strategy or service provision	Deborah Dimock	Julie Openshaw

Legal

Yes

Consideration	Comment	Responsible Officer	Director
Legal	The legal implications have been considered and are included in the report.	Deborah Dimock	Julie Openshaw

Finance

No

Consideration	Comment	Responsible Officer	Director
Finance	TfN Finance Team has confirmed there are no new financial implications.	Paul Kelly	Iain Craven

Resource

No

Consideration	Comment	Responsible Officer	Director
Resource	TfN HR Team has confirmed there are no new resource implications.	Stephen Hipwell	Dawn Madin

Risk

No

Consideration	Comment	Responsible Officer	Director
Risk	There are no new risks identified as a result of this report.	Haddy Njie	Iain Craven

Consultation

Yes

Consideration	Comment	Responsible Officer	Director
Consultation	No consultation has been carried since no new policies are being proposed.	Deborah Dimock	Julie Openshaw

Annual Governance Statement 2020/21

Introduction

This statement provides an overview of how Transport for the North's governance arrangements operate and reports on how they have been reviewed to ensure that they provide an effective system of internal control. It also summarises the governance challenges that the organisation faces, together with an explanation of what actions will be taken to implement improvements.

Transport for the North was established by the Sub-National Transport Bodies (Transport for the North) Regulations 2018 and came into being on the 1st April 2018, holding its inaugural meeting on 5th April 2018. This is therefore its third Annual Governance Statement and the organisation's Constitution, policies, procedures and systems continued to be developed during 2020/21. As a Sub-National Transport Body, Transport for the North's core functions are to prepare a transport strategy for the area and to provide advice to the Secretary of State regarding the exercise of transport functions in the area. Transport for the North is funded in these activities by the Department of Transport.

The Transport for the North Board is made up of the representatives of the twenty Constituent Authorities in the North who are the voting Members of the Board, together with representatives of the six Rail North Authorities and the Independent Chair of the Partnership Board who are all co-opted Members on the Board. At its inaugural meeting the Transport for the North Board also appointed, as co-opted members, the representatives of the eleven Local Enterprise Partnerships in the Transport for the North Area and representatives of Highways England, Network Rail and HS2.

Transport for the North's governance arrangements are set out in its Constitution. All decisions relating to the Constitution, approval of the Budget and Business Plan and adoption of the Strategic Transport Plan are reserved to the Transport for the North Board. Other decisions are delegated to Committees, the Chief Executive, and other senior officers under the arrangements set out in the Constitution. The Rail North Committee oversees the management of the performance of the Northern and TransPennine Express rail contracts under a Partnership Agreement with the Secretary of State for Transport. The arrangements under the Partnership Agreement have continued under the new arrangements which have seen the Northern franchise taken over by the Operator of Last Resort (OLR) and the TransPennine Express franchise moved onto an Emergency Measures Agreement during the Covid 19 pandemic.

The Regulations which established Transport for the North provided for the appointment of a Partnership Board to advise on matters relating to transport in the area. The membership of the Partnership Board mirrors the membership of the Transport for the North Board with the addition of a representative of the DfT. During 2019/20 Transport for the North decided to enlarge the Partnership Board and the Partnership Board now includes a representative from Disability UK, the Committee on Climate Change, Transport Focus and three regional TUC representatives.

Transport for the North has a Scrutiny Committee made up of elected Members appointed by the 20 Constituent Authorities whose role is to review the decisions of the Transport for the North Board and to make recommendations in relation to transport in the area. Transport for the North has decided to adopt a policy of "Scrutiny First" under which the Scrutiny Committee has an opportunity to comment on and influence decisions before they are made rather than scrutinising decisions which have already been taken.

Transport for the North has also established an Audit and Governance Committee consisting of five Board Members and three Independent Members, who have been publicly recruited on the basis of relevant skills, whose role is to provide assurance to the Board on governance, risk management and the internal control framework.

Since March 2020 Transport for the North, in common with the whole of the UK, has been affected by the Covid 19 pandemic. In response to the emergency, Transport for the North implemented its Business Continuity Plan and was able to move to full remote working. The implementation of the Business Continuity Plan has enabled the continuation of Transport for the North's governance arrangements and enabled its internal system of controls to continue to function.

Since March 2020 all Transport for the North's Boards and Committees have continued to meet through virtual meetings which have continued to be streamed live to the public.

1.0 Scope of Responsibility

1.1 Transport for the North is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. Transport for the North also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

1.2 In discharging this overall responsibility, Transport for the North is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

1.3 Transport for the North has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government. A copy of the Code of Governance is included in Transport for the North's Constitution and is on Transport for the North's website at http://www.transportforthenorth.com. Alternatively it can be obtained via a written request from
Head of Legal, Transport for the North, 4 Piccadilly Place, Manchester, M1 3BN.
This Annual Governance Statement demonstrates how Transport for the North has reviewed the effectiveness of its internal systems of control and

how it has complied with its adopted Code of Governance in carrying out its functions. It is published in accordance with the requirements of regulation 6(1) of the Accounts and Audit Regulations 2015.

2.0 Delivering Good Governance in Local Government

2.1 The governance framework comprises the systems, processes, culture and values, by which Transport for the North is directed and controlled and the processes through which it accounts to and engages with the community. It enables Transport for the North to monitor the achievement of its strategic objectives and to consider whether those objectives will lead to the delivery of its goal of transformational economic growth in the North of England, facilitated by improved transport infrastructure.

2.2 The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

2.3 The system of internal control consists of a number of processes, policies and procedures that have been put in place in order to identify and prioritise the risks to the achievement of Transport for the North's aims and objectives, to evaluate the likelihood and resultant impact of those risks materialising, and to manage them efficiently, effectively and economically.

2.4 The governance framework was in place at Transport for the North for the 2020/21 financial year and up to the date of approval of the Statement of Accounts.

3.0 The Corporate Governance Framework

Transport for the North has adopted a Corporate Governance Framework that incorporates the following Core Principles:

1. Focusing on the purpose of Transport for the North, and the outcomes for the community, and creating and implementing a vision for the area;
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles;
3. Promoting values for Transport for the North and demonstrating the value of good governance through upholding high standards of conduct and behaviour;
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
5. Developing the capacity and capability of Members and officers to be effective;
6. Engaging with local people and stakeholders to ensure robust public accountability,

7. Section 102I of the Local Transport Act2008 imposes a requirement on Transport for the North, in the preparation of its Strategic Transport Plan, to have regard to the promotion of economic growth and the social and environmental impacts of the implementation of its proposals. This includes having regard for the impact of decisions on future generations.

The table below sets out examples of how Transport for the North has met the principles set out in the CIPFA Framework and also adhered to its governance commitments set out in the Code of Governance and includes hyperlinks to sources of further information.

A Behaving with Integrity, demonstrating strong commitment to ethical values and respect for the rule of law	
Core Principle **Promoting values for Transport for the North and demonstrating the value of good governance through upholding high standards of conduct and behaviour**.	
How we met the principle	*Evidence*
Those Members of Transport for the North who are elected Members of a Local Authority are expected to adhere to the adopted Code of Conduct of their Local Authority while carrying out their duties in respect of Transport for the North. Other co-opted Members are expected to adhere to the Cabinet Office's Code of Conduct for Board Members of Public Bodies.	Constitution
Transport for the North has adopted a Code of Conduct for Officers and a Protocol on Member /Officer Relations, to which all officers are expected to adhere. Serious breaches of these Codes by officers would be investigated under the organisation's disciplinary code.	Code of Conduct for Officers Member/Officer Relations Protocol
Transport for the North's induction process for new recruits outlines the behaviours and values that are expected from officers.	Human Resources On-boarding Policies
Transport for the North has a zero-tolerance approach to fraud and corruption and has adopted strong Anti-Fraud & Corruption and Whistleblowing Policies. During 2020/21 the Audit and Governance Committee reviewed the systems and controls in place to prevent fraud and corruption.	Anti-Fraud and Corruption Policy Review of Anti – Fraud and Corruption Policy

During 2020/21 the Whistleblowing Policy was revised and a programme of training for employees is now being undertaken with the support of the charity Protect (formerly Public Concern at Work).	Whistleblowing Policy
Members are required to make a declaration of their disclosable pecuniary interests and also to declare any disclosable pecuniary interests in the business of the meeting at the start of all meetings of the Transport for the North Board or its Committees, and to take no part in such business, but to leave the meeting. Members Declarations of Interest are available on the Transport for the North website.	Constitution Declarations of Interest
Transport for the North has adopted a Code of Practice in relation to Gifts and Hospitality which was reviewed during 2019/20 and training on the Code was rolled out across the organisation. Guidance in relation to gifts and hospitality is included in the induction for all new employees.	Code of Practice on Gifts and Hospitality Employees Induction
A register of Gifts and Hospitality is maintained by the Monitoring Officer, in which officers are required to declare any gifts or hospitality of more than nominal value which they have been offered, whether or not it has been accepted. An annual reminder is issued to all Employees and the Monitoring Officer reviews the register annually.	Register of Gifts and Hospitality
Transport for the North has appointed a Monitoring Officer who works with Members and Officers to ensure that Transport for the North complies with its legal duties and all legal requirements. Transport for the North has an in-house legal team and the legal implications of all reports are considered and, where appropriate, legal advice provided within reports that inform decisions that are taken by Members. Legal advice is available to Members at all meetings of the Transport for the North Board and its Committees.	Constitution Board Reports
The Monitoring Officer has statutory reporting responsibilities in relation to any unlawful decisions or maladministration.	Constitution
The Finance Director as the Section 151 Officer has responsibility for ensuring proper arrangements for financial management and has statutory reporting duties in respect of unlawful expenditure and financially imprudent decision making.	

Transport for The North is committed to promoting Diversity and Inclusion across all areas of the business, which includes people leading the organisation and people working in it. During 20/21 Transport for the North established a cross organisational Diversity Working Group to develop a Diversity and Equalities Action Plan to ensure that respect for equality and diversity is embedded across the organisation both in employment practices and in the delivery of services and programmes.	
B Ensuring openness and comprehensive stakeholder engagement	
Core Principle **Engaging with local people and stakeholders to ensure robust public accountability**	
How we met the principle	*Evidence*
Transport for the North's website is set out in a clear and accessible way, providing clear access to reports and minutes from Board meetings, along with updates on our core programmes and links to relevant documents. Transport for the North is also active on social media, which regularly shares links to the website where more information can be found (across several channels to widen audience), including promoting public meetings.	Transportforthenorth.com website
All meetings of the Transport for the North Board and its formal Committees are held in public, unless information which is either confidential under section 100A or exempt under Part 1 of Schedule 12A of the Local Government Act 1972 is to be disclosed. Copies of all minutes and agendas of the Board and formal Committees are available on Transport for the North's website. All reports contain details of options considered and the advice provided by officers regarding legal and financial implications. The minutes include the reasons behind the decisions made. Transport for the North has a Freedom of Information Publication Scheme in place and seeks to publish information openly on its website wherever possible and practicable to do so.	Board and Committee Agenda and Minutes
During 2020/21 Transport for the North has held all its meetings virtually. It has continued to hold all meetings in public through live streaming the proceedings and proactively promoted this on all online channels, as well as directly to interested	Transport for the North's website

parties. All agenda and minutes continue to be available on the website.	
Live streams are publicised via Transport for the North's social media platforms public attendance at meetings through watching the live stream has greatly increased during 2020/21.	Transport for the North website
Under its Regulations, Transport for the North is required to establish a Partnership Board to advise it on all matters relating to transport to, from and within its area. The Partnership Board is a forum in which the elected Members of Transport for the North engage and consult with the business leaders of the area through representatives of the eleven northern Local Enterprise Partnerships and with the national transport delivery agencies Network Rail Highways England and HS2. During 2019/20 Transport for the North reviewed the membership of the Partnership Board and widened its membership to include representatives of the Northern, North West and Yorkshire & Humber Regional TUC areas, Disability Rights UK, Transport Focus and the Committee on Climate Change. This has broadened the interests represented on the Partnership Board particularly in relation to the environment and the interests of the travelling public.	Transport for the North Regulations Constitution
Transport for the North carries out extensive stakeholder engagement through its Engagement team and the wider organisation. Transport for the North Officers meet regularly with Parliamentarians, Members and officers of other Authorities, representatives of the Welsh and Scottish devolved governments, representatives of business organisations, and other stakeholders, such as community groups. The types of events vary from attending All Party Parliamentary Groups meetings in Parliament, including the Transport Across the North APPG for which TfN is the secretariat; to roundtable events, and speaking engagements across the North and the rest of the UK.	Memoranda of Understanding signed with the Welsh Government and Midlands Connect
The Transport for the North Conference was held virtually in December 2020 and was attended by 585 delegates. The sessions covered a variety of topics relevant to Transport for the North including: Putting passengers in the North first, High Speed Rail, Decarbonisation, Economic Recovery post-Covid-19, Business Priorities, Devolution, Active Travel, and Freight and Logistics. Speakers included TfN representatives, Board Members, Government	

Ministers, and other relevant stakeholders. Feedback received shows that 60% of delegates were very satisfied/satisfied with the event, with only 9% very dissatisfied/dissatisfied. Over 80% would attend another Transport for the North event. Over the past 12 months, Transport for the North has facilitated six virtual webinars branded as TfNTalks, covering Strategic Rail, the Future of Roads, Northern Growth, Northern Powerhouse Rail, Integrated and Smart Travel, and Business Priorities. In addition to TfN representatives, panellists included Board Members, local and national politicians, and relevant stakeholders. Transport for the North facilitates regular podcast episodes, which cover a large variety of topics, updates on Transport for the North's work and other salient events and issues. As with other Transport for the North events, the podcast includes TfN representatives, Board Members and other relevant stakeholders. To date, the podcasts have received a total listenership of 1,427. Transport for the North is committed to full public engagement. Extensive public consultation was carried out prior to the adoption of the Strategic Transport Plan and public consultation is currently being planned in relation to the Decarbonisation Strategy which will be rolled out in the Spring to enable the Strategy to be adopted before the Climate Change Conference in November 2021. Transport for the North will continue with its broader engagement to raise its public profile and awareness of Transport for the North programmes. Transport for the North has undertaken to engage fully with its Constituent Authorities and has established officer reference groups for all its major work programmes where officers from the different Local Authorities across the region have an opportunity to help formulate Transport for the North's policies and proposals at an early stage. Transport for the North has also brought together a number of informal Members Working Groups to ensure the views of Transport for the North's constituent authorities and their communities are heard and understood via their elected representatives. This engagement has contributed to the development of Transport for the North's different programmes and initiatives, including the	Strategic Transport Plan Decarbonisation Strategy Consultation

Northern Transport Charter and in support of business planning for 2021/2. During 2019/20 Transport for the North developed a new monthly operating report for Members, designed to support scrutiny and challenge of its programmes and operations. This report provides qualitative and quantitative performance information in a single report. The Monthly Operating Report has continued to deliver during 2020/21 providing members and the public with detailed information about the performance of Transport for the North's major programmes.	Monthly Operating Report
C Defining outcomes in terms of sustainable economic, social and environmental benefits	
Core Principle **Having regard to the promotion of sustainable economic growth, and the social and environmental impacts of its proposals and having regard for the impact of current decisions and actions on future generations.**	
How we met the principle	*Evidence*
The creation of sustainable economic growth is a key driver behind the Strategic Transport Plan. The initial Northern Powerhouse Independent Economic Review published in 2016 identified the persistent gap in GVA per capita and productivity performance in the North compared to the rest of the United Kingdom. The main purpose behind the establishing of Transport for the North is to achieve a rebalancing of the United Kingdom's economy through improvements to transport and connectivity between the major conurbations in the North and across the region.	Northern Powerhouse Independent Economic Review
In developing the Strategic Transport Plan (STP) we undertook a thorough evaluation of the environmental and sustainability impacts of the proposals contained in the Plan.	STP Evidence base
The STP outlined how the climate and environment will be factored in the design and development of transport interventions and plan. A "Pathway 2050" has been developed to collaborate with partners and the government to deliver the ambitions of the STP	Integrated Sustainability Appraisal

and local transport plans in tackling carbon impacts and reductions from transport.	
During 2020/21 Transport for the North has developed a Decarbonisation Strategy which it is planning to roll out for consultation during the Spring of 2021. This will adopt ambitious targets for decarbonisation across the North.	Decarbonisation Strategy
The Northern Transport Charter outlines an 'Inclusive and Sustainable North' as a key Transport for the North priority. This recognises that Transport for the North's investment programme must: contribute towards a reduction in carbon emissions; minimise the impact on the historical and natural environment; and, wherever possible, seek to deliver environmental enhancements.	The Northern Transport Charter
Proportionate environmental and sustainability assessments will be undertaken in relation to all proposals for infrastructure developments as part of the development or appraisal of options.	
Transport for the North's TAME function is also developing an Analytical Framework which consists of a series of analytical and modelling tools including NELUM (Northern Economic and Land Use Model), NoHAM (Northern Highways Assignment Model) and NorTMS (Northern Transport Modelling System). The tools contribute to the provision of evidence to support the promotion of the economic and social evidence-based analysis of Transport for the North's transformational programmes.	Transport for the North's Analytical Framework
The Analytical Framework reflects Transport for the North's commitment to evidence-based decision making and provides a consistent evidence base to support the decision-making process on the sequencing of future interventions. This provides comfort to our Members, Constituent Authorities and the Department for Transport that Transport for the North has fit-for-purpose decision making processes.	
All reports presented the Transport for the North Board and its formal Committees contain an assessment of the implications of the report in	Board Reports

terms of sustainability, environmental impact and equality impacts. The Strategic Plan and Investment Programme set out transport interventions which will benefit future generations beyond 2050.	Strategic Transport Plan and Investment Programme
D Determining the interventions necessary to optimise the achievement of the intended outcomes	
Core Principle **Focusing on the purpose of Transport for the North and the outcomes for the community and creating and implementing a vision for the area.**	
How we met the principle	*Evidence*
The Strategic Transport Plan for the area is based on a robust evidence base and sets out our vision for transformational change in relation to transport infrastructure in the North. The Investment Programme sets out an ambitious programme of infrastructure projects to be delivered over the period 2019 to 2050 that will implement Transport for the North's Strategic Transport Plan. Proposed projects have been developed in collaboration with local partners and represent the best options for securing transformational change. Transport for the North is committed to improving the standard of service provided by the railway network in the North and, under a partnership with the Secretary of State, manages the performance of the contracted railways in the region, Northern Rail and TransPennine Express. Through rigorous monitoring of the performance of these railways, Transport for the North has held their management to account and was instrumental in ensuring that the Northern Rail Franchise was taken back into public control. During the pandemic, Transport for the North was instrumental in developing the North of England Contingency Group which brought together all the main rail delivery partners to ensure that an emergency timetable was introduced to support front line workers and ensure they were able to travel to and from work during the pandemic lockdowns.	Strategic Transport Plan Evidence Base Investment Programme

During 2020/21, the Northern Powerhouse Rail (NPR) programme has continued to develop the strategic case for the NPR rail network to link all the major urban centres of the North by a fast-reliable rail link. During the year the NPR team has worked with partners to refine the options to enable Transport for the North to provide statutory advice to the Government on its preferred route and to enable it to submit to Government, in partnership with the DfT, a Strategic Outline Case demonstrating the benefits to the North of its proposals. The Strategic Transport Plan for the area is based on a robust evidence base and sets out our vision for transformational change in relation to transport infrastructure in the North. During 2020/21, the TfN Major Roads Team led work on completing qualitative sequencing of the Northern Investment Programme, identifying interventions which could be brought forward for earlier delivery and preparing for work in 2021/22 on benefits analysis of the Investment Programme. Drawing on evidence from the qualitative sequencing, we completed work on an Economic Recovery Plan in July and have shared the plan and supporting evidence with the DfT's Acceleration Unit. In December we completed work on developing Future Scenarios, which are integral to the appraisal of the Investment programme and to the development of TfN's Transport Decarbonisation Strategy. Throughout 2020/21, TfN has continued work with partners on promoting improvements to connectivity and reliability for all road users. Successes include further investment in the Major Road Network, including MRN programme entry for schemes in Cheshire East, Cumbria, York and North Yorkshire; and funding for development to OBC for schemes in Lancashire, Stockport, Transport North East, Tees Valley and Liverpool. 2020/21 has seen significant progress with delivery of the Road Investment Strategy, with TfN engaged in Highways England work on the development of plans for scheme delivery during RIS2 and RIS3.	

This includes providing support for work on the A66 dualling and providing statutory advice on the Trans-Pennine Tunnel and M6-A1(M) studies. We completed data collection and analysis of journey time reliability, types of journey and geographical distribution of traffic using the Major Road Network (MRN) in 2019. This is the first time 24/7-year-round data has been collected across all MRN routes in the North and provides a pre-pandemic baseline. Throughout the year TfN has been monitoring the impact on travel patterns from restrictions resulting from the pandemic. These have had a profound impact on traffic levels and distribution of traffic on our highway network. We are sharing this data with partners and will use insights from the impact of Covid 19 to help inform future appraisal of investment proposals. One of Transport for the North's long-term ambitions for the North was to develop electronic ticketing across the North that could deliver the fair price promise and daily fare capping. This was being delivered through the IST Programme. Government funding cuts have meant that the current programmes have had to be curtailed. However Transport for the North retains its ambition to see contactless ticketing progressed across all modes of travel in the North and will continue to seek funding to enable this to be achieved.	
E Developing the organisation's capacity, including the capacity of its leaders and the individuals within it	
Core Principle **Developing the capacity and capability of members and officers to be effective**	
How we met the principle	*Evidence*
Transport for the North has adopted officer development programmes, including a thorough initial Corporate induction programme for all new officers and line managers. All new employees to Transport for the North are subject to a formal six-month probationary process	Corporate Induction Guidance

where performance is assessed alongside the provision of initial learning and development support and guidance.	Probationary Policy
Annual staff appraisals and half yearly reviews enable the management team to review both capacity and capability within their teams and identify any individual training and development needs. Key Performance objectives are captured in the online appraisal tool 'PERFORM' and training is delivered via the core curriculum of training.	Transport for the North Appraisal Guide
Role specific training needs are met through work-based learning and investment in software to enable effective outputs. Further career development is supported via the procurement of appropriate interventions to best meet individual and organisation needs. Where appropriate the organisation funds specialist training courses for officers and supports continuous professional development. Members of the Senior Management Team have undertaken leadership training. Transport for the North has incorporated Apprentices into the workforce plan at key points of entry. This is underpinned by strong relationships with Training Providers and internal support via Mentors and Line Managers. Mentors are provided with full Training. As Transport for the North introduces new policies and procedures, training sessions are held to make officers aware of these. Information on all policies and procedures is available on the Intranet and through our Learning Management system via e-learning modules. Transport for the North has invested in an e-learning and development tool "Learn" and all officers are encouraged to take advantage of this.	Learning and Development Policy
Employee well-being forms a core element of Transport for the North's learning and development programme with the management of mental health at the heart of this activity. In normal times well-being events are held on a quarterly basis and Mental-Health First Aiders are on hand at both our operational bases in Leeds and Manchester.	Mental-Health First Aiders Protocol

During the pandemic employees welfare has been particularly important and Transport for the North has held regular wellbeing sessions for all employees addressing mental and physical health and wellbeing including physical activity sessions such as Yoga, mental health sessions such as mindfulness and nutrition and healthy eating. Employees are encouraged to support each other through daily interactions on Yammer and through virtual social event.	
F Managing risks and performance through robust internal control and strong public financial management	
Core Principle **Taking informed and transparent decisions which are subject to effective scrutiny and managing risk**	
How we met the principle	*Evidence*
Transport for the North has adopted robust procedures for identifying, analysing and managing risk. To strengthen the robustness of the RMS, Transport for the North is implementing risk management software which will assist directorate and programme teams in the timely capture, escalation and reporting risks, as set out in the RMS. The Audit and Governance Committee is responsible for independently monitoring and assessing the adequacy and effectiveness of the risk management framework with particular focus on (i) the risk management strategy for managing key risks; (ii) risk ownership, accountability and the development of mitigating actions; (iii) the alignment of internal audit and other assurance planning through a risk-based approach to auditing; and (iv) receiving reports from management on the adequacy and effectiveness of the internal control and risk management framework.	Risk Management Strategy (RMS) Risk Management System (Part of Transport for the North's Risk Management Strategy) Constitution Governance Framework

Transport for the North has a Risk Manager who is responsible for reporting on risk to the Finance Director who reports to the Audit and Governance Committee. The organisation has adopted a robust process for identifying, assessing and mitigating risks and these are reported regularly to the internal Operations Board of Directors, to the Executive Board and to the Audit and Governance Committee. A risk report is also included in the Monthly Operating Report. In accordance with the Constitution, the Finance Director is responsible for the presentation of Corporate Risks to the Transport for the North Board.	Reports to Audit and Governance Committee and Transport for the North Board
Project management systems are in place for all programmes and programme Directors report regularly on performance to Programme Boards and to the Transport for the North Board.	
Transport for the North has put in place a strong system of financial governance to manage and control its financial affairs. The Finance Director has overall responsibility for ensuring the effectiveness of internal controls. The Finance Director is supported by the Finance Controller who has day to day responsibility for ensuring adherence to the adopted processes and procedures. Transport for the North has adopted rigorous procurement approval procedures which ensure that all procurements comply with its contract procurement rules.	Contract Procedure Rules
Robust people management policies and procedures have also been adopted and embedded within Transport for the North in relation to code of conduct, recruitment and selection, probationary management, performance management, conduct and capability and absence management. This framework of policies and procedures for managing individual performance, conduct, capability and attendance at work.	Recruitment & Selection, Probationary, Absence & Welfare, Performance Improvement, Disciplinary, Code of Conduct Policies
G Implementing good practices in transparency, reporting and audit to deliver effective accountability	
Core Principle	

Taking informed and transparent decisions which are subject to effective scrutiny and managing risk	
How we met the principle	*Evidence*
Transport for the North considers the available evidence when making decisions. Transport for the North commissions extensive research for all its programmes and explores different options before prioritising proposals. The Strategic Transport Plan is based on a robust evidence base and was subject to a 13-week statutory consultation exercise during which officers and Members considered in detail the representations made by members of the public and stakeholders. The Strategic Plan is available for public inspection on the website. Transport for the North has established a Scrutiny Committee made up of elected representatives from the 20 Constituent Authorities. The Board made a decision at its inaugural meeting to adopt a "Scrutiny First" model and so all major decisions are subject to scrutiny before they are presented to the Board. The Scrutiny Committee therefore has an opportunity to influence the Board's decisions before they are made, rather than reviewing decisions after they have been taken. The Committee meets regularly and is supported by Transport for the North officers. It subjects proposals to scrutiny before they are presented to the Transport for the North Board, with the recommendations of the Scrutiny Committee being included in the officer's final report to the Board. All policies and proposals developed by Transport for the North are considered first at Officer Reference Groups, made up of officers from all the Constituent Authorities, and then by the internal Operating Board of Transport for the North Directors. Policies and proposals are then further considered by the Executive Board comprising the Chief Executives (or their nominees) of all the Constituent Authorities, before being reported to the Transport for the North Board. All major work programmes also have Programme Boards, which are attended by representatives of	STP and Evidence base Constitution

the DfT, where the progress of these programmes is regularly reviewed against agreed milestones and where major decisions are discussed.	
The Northern Powerhouse Rail project is co-cliented with the DfT and a Memorandum of Understanding with the DfT was approved by the Transport for the North Board on the 12th March 2020 setting out governance arrangements including regular reporting of finances, performance and risk to a Programme Board.	Constitution
Transport for the North operates under Memorandum of Understanding with the Secretary of State for Transport and Officers of Transport for the North meet with representatives of DfT at regular Sponsorship Meetings.	Memorandum of Understanding with the Secretary of State
During 2020/21 Transport for the North has produced monthly monitoring reports that bring together performance and financial information to provide greater transparency in relation to ongoing operations. This report is provided to all members of the Transport for the North Board, the Scrutiny Committee and the Audit and Governance Committee so that all members have the information they need to challenge Transport for the North's performance.	Monthly Operating Report
The Rail North Partnership Team reports regularly to the Rail North Committee, and is responsible to the Rail North Partnership Board which is made up of officers of the Constituent Authorities and the DfT where decisions in relation to the management of the performance of the contracted railways are made.	Rail North Partnership Board
Transport for the North has adopted robust procedures for identifying, analysing and managing risk. The risks are presented for discussion to Transport for the North's Operating Board, Audit and Governance Committee, DfT, and Transport for the North Board.	Programme and Corporate Risk Reports
Transport for the North has an Audit and Governance Committee which is responsible for independently monitoring and assessing the	Constitution Corporate Governance Framework

adequacy and effectiveness of the risk management framework. The Audit and Governance Committee receives a risk report at every meeting and the Committee selects key risks which it wishes to explore in greater detail.	Constitution
The Audit and Governance Committee includes three Independent Members appointed after a public recruitment exercise to provide an independent focus and additional expertise to support the Committee in its role.	Reports to Audit and Governance Committee and Transport for the North Board
The Finance Director is responsible for the internal audit function. This has been contracted out to RSM which operates within an Annual Audit Plan that is approved by the Audit & Governance Committee. RSM attends each committee meeting and reports on progress against the Audit Plan. Mazars were appointed as Transport for the North's external Auditors via the PSAA. The firm attends every meeting of the Audit & Governance Committee where it provides updates on progress throughout the year at and can gain in-depth insights into the workings of Transport for the North.	Annual Audit Plan
In line with best practice, Transport for the North publishes financial transparency reports each quarter, detailing all individual items of expenditure greater than £500 and all procurement card spend.	Transparency Reports
Organisational organograms and salary information is also made available for public consumption on the external website.	Transport for the North's website

Annual Review of the Effectiveness of the Governance Framework

The effectiveness of key elements of the governance framework are assessed throughout the year by the Chief Executive and Directors meeting as the Operations Board (OBT), by internal audit and by the Audit and Governance Committee. Performance in relation to key risks is reported to (OBT) on a monthly basis and regularly to the Audit and Governance Committee and also to the Transport for the North Board. Significant risks and performance in relation to key programmes is also reported to the Executive Board of Senior Officers of the Constituent Authorities at a monthly meeting.

Governance Challenges identified in 2019/20 for 2020/21 and beyond

Subject	Action	Progress	Target Completion Date
Review of the Constitution	To review the Constitution to bring in changes flowing from the Blake-Jones Review and the wider Members' review of the role of Transport for the North.	The review was postponed awaiting the publication of the findings of the Williams Review.	Held in abeyance
Adoption of the Assurance Framework	Implement and embed the Assurance Framework in Transport for the North decision-making processes.	Further development of the decision-making process has been held in abeyance pending the anticipated White Paper on devolution.	Held in abeyance
Board Reporting	Embed and refine the Monthly Operating Report to ensure alignment of quantitative and qualitative reporting.	Monthly Operating Reports produced and circulated to Members on an ongoing basis.	Completed
Virtual Meetings in response to the Covid 19 Pandemic	Enable remote attendance by both Members and the public at meetings of the Transport for the North Board other Committees	Virtual Meetings established for all Boards and Committees and Virtual Meetings Procedure Rules adopted.	Completed

Governance Challenges identified for 2021/22 and beyond

Subject	Responsible	Target Date
Appointment of new Chief Executive	Dawn Madin	01/06/2021
Review of TfN Boards and Committees with particular reference to the General Purposes Committee	Julie Openshaw	31/03/2022
Review of Scrutiny function and in particular the policy of "Scrutiny first"	Julie Openshaw	31/03/2022

Conclusion

The governance arrangements as described above have been applied throughout this year and up to the date of the Annual Accounts providing an effective framework for identifying governance issues and taking mitigating action. Over the coming year Transport for the North will continue the operation of the governance framework and take steps to carry out the actions for improvement identified in the review of effectiveness to further strengthen its governance arrangements.

Signed …….

Chair of the Transport for the North Board

Signed…….

Chief Executive

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Transport for the North Audit & Governance Committee Meeting - Item 10.2

Subject: Corporate Governance Review – Monitoring of the Anti-Fraud and Corruption Policy

Author: Deborah Dimock, Solicitor

Sponsor: Iain Craven, Finance Director

Meeting Date: Thursday 18 February 2021

1. Purpose of the Report:

1.1 The purpose of this report is for Members to monitor the effectiveness of the Anti-Fraud and Corruption Policy.

2. Executive Summary:

2.1 Under the Terms of Reference of the Audit and Governance Committee, the Committee has a responsibility to monitor the effectiveness of the Anti-Fraud and Corruption Policy.

2.2 This review looks at the controls that TfN has put in place to ensure the security of its financial operations, the robustness of its procurement procedures and the probity of its activities which together operate to underpin its Anti-Fraud and Corruption Policy. The review will also form part of Transport for the North's annual review of the effectiveness of its system of internal controls which it is required to carry out under Regulation 6(1) of the Accounts and Audit Regulations 2015.

3. Discussion:

3.1 One of the responsibilities set out in the Terms of Reference of the Audit and Governance Committee is to monitor the Anti-Fraud Strategy.

TfN has adopted an Anti-Fraud and Corruption Policy in its Constitution which sets out our commitment to combatting fraud and corruption wherever it may arise in relation to any of TfN's activities. In order to achieve this, TfN has put in place a series of measures which together ensure the security of TfN's financial transactions and the probity and integrity of its operations. These include:

1. The roles of the Statutory Officers – the Finance Director as section 151 Officer and the Head of Legal as the Monitoring Officer
2. The Financial Regulations
3. The financial controls inherent in the financial system
4. The Contract Procurement Rules
5. The controls in the Procurement System
6. The Data Security Policy
7. Codes of Conduct for Members and Officers
8. The Gifts and Hospitality Policy
9. The Whistleblowing Policy
10. Internal Audit Reviews

3.2 The Constitution sets out the roles and responsibilities of the Finance Director, who is responsible for the proper administration of Transport for the North's financial affairs and compliance with the Accounts and Audit Regulations 2015. As Monitoring Officer the Head of Legal has a responsibility to report to the Transport for the North Board on any matter that is likely to, or has given rise to, any unlawfulness or maladministration in the affairs of Transport for the North. Neither the Finance Director nor the Monitoring Officer have needed to present a statutory report to the Board during 2020/21.

3.3 The Financial Regulations adopted as part of the Constitution set out rules in relation to accounting arrangements, budgetary control, control of expenditure and virements. Below this the Finance Director has established a framework of financial and accounting procedures to be operated by officers working for Transport for the North.

3.4 The Contract and Procurement Rules adopted as part of the Transport for the North's Constitution, set out the procedures to be followed by all officers undertaking procurement activities. The rules set out the way in which proposed contracts should be advertised, tendering arrangements, evaluation procedures, requirements around negotiations and award of contracts. These rules have been designed to ensure that all procurements comply with legal requirements as well as ensuring value for money through transparent and open competition.

3.5 A new electronic commissioning process in D365 was introduced in 2019/20 and was audited in 2020/21 when a "Substantial Assurance" audit opinion was received. The system incorporates the following controls which ensure that all procurement is carried out in accordance with the Contract and Procurement Rules. The approval workflows within the system reflect the scheme of delegation in that they:

- distinguish between programme and core activities,
- identify expenditure levels and relevant approvers, and
- waiver requirements.

3.6 Transport for the North's Financial Systems incorporate a number of financial processes and controls. The two main systems utilised by

Transport for the North are its ERP system (Microsoft Dynamics 365) and its banking system with Barclays.

3.7 Transaction processing through the ERP system is performed via a permanent system architecture. The transaction flow through this system involves appropriate segregation of duties and financial controls. These processes include:

- Invoice processing
- Goods receipting
- Invoice matching
- Payment processing
- Bulk BACS decision packs
- Vendpay journal and import to Barclays
- Approvers decision packs. These include a series of independent checks to confirm the processes above have been followed, eg every payment has an invoice, goods receipt, approved commissioning papers, purchase order and matches the bank details provided independently by the supplier.

3.8 Once the Vendpay journal has been imported into Barclays an independent system of financial control exists. These include:

- Biometric (i.e. finger-vein) identity verification technology to gain access.
- An automated sort code, account number and name check. If these do not match system records for any payee, a warning message is raised.
- The system flags any new banking settlement details, i.e. suppliers paid for the first time. This raises a warning flag to bring this to the awareness of the approver.
- Dual approval, using biometric technology.

During 2020/21 a number of phishing attempts at raising unauthorised payments were identified and rejected based on officers' scrutiny.

3.9 **The Data Security Policy**

Transport for the North has adopted a comprehensive Data Protection Policy to ensure the security of its data assets; to preserve the confidentiality, integrity and availability of its data assets; and to protect them from inappropriate access, modification or manipulation. Transport for the North has put in place a series of system protections to prevent unauthorised access to its systems. Acceptable Use and Data Security are included in the induction training for all new members of staff and the Data Security Policy is available on the staff Intranet. The IT team are notified of any attempted unauthorised access to the Transport for the North's IT systems and the guidance requires employees to immediately disconnect their IT equipment. No breaches of Transport for the North's security systems have been identified. A Cyber Security audit was undertaken during 2020/21 and provided "reasonable assurance" in relation to these processes.

3.10 **Codes of Conduct for Members and Officers**

TfN has elected not to adopt its own Members' Code of Conduct and to rely on Board Members complying with the Code of Conduct of their home Authority. Those co-opted Members who are not elected Members are expected to comply with the Cabinet Office Code of Conduct for Board Members of Public Bodies. All Local Authority Members' Codes of Conduct and the Cabinet Code of Conduct contain anti-corruption provisions ensuring that Members do not accept inappropriate gifts or hospitality and act only in the public interest. During 2020/2021 no complaint of misconduct has been received against any Member of the TfN Board.

TfN has adopted a Code of Conduct for Officers. This is included in the TfN Constitution and sets out the behaviours that TfN expects from its employees. This is then supported by TfN's employment policies, its induction and training and ultimately its disciplinary policy. During 2020/21 there have been no disciplinary procedures brought against officers relating to breaches of financial controls.

3.11 Transport for the North has also adopted a Gifts and Hospitality Policy with which officers are expected to comply in relation to any gifts and hospitality offered to them. Officers are expected to decline all but token gifts and minimal hospitality and are required to record all offers of gifts or hospitality received whether or not they have been accepted. Transport for the North revised its Gifts and Hospitality Policy during 2019/20 and the Monitoring Officer has reviewed all records of gifts and hospitality received during 202/21 to ensure that no inappropriate gift or hospitality have been received.

3.12 During 2020/21 Transport for the North revised and adopted a new Whistleblowing Policy. The Policy asserts TfN's commitment to the highest possible standards of openness, probity and accountability in all its activities and its commitment to encouraging employees and other workers who have legitimate concerns about wrongdoing in any of the organisation's activities to voice those concerns. The Policy provides clear guidelines for officers on how to raise concerns and training for TfN employees has been rolled out on the Intranet Employee Development site and special training workshops have been run by the charity Protect. No concerns have been raised under the Policy during 2020/21.

3.13 Internal Audit

Internal Audit is undertaken by RMS who prepare an Annual Audit Plan, which is approved by the Audit & Governance Committee. Internal Audit report audit findings to the Committee for consideration. This Plan includes an audit of the major financial systems to ensure that the checks and controls outlined above are in place.

4 Conclusion:

4.1 Taken together the measures which TfN have put in place to support the Anti-Fraud and Corruption Policy should provide reasonable assurance to the Committee that TfN has put in place appropriate anti-fraud and corruption protection.

5. Recommendation:

5.1 It is recommended that the Audit and Governance Committee receive the report and approve the systems in place to support the Anti-fraud and Corruption Policy.

6. Appendices:

None

List of Background Documents:

The Anti-Fraud and Corruption Policy

Required Considerations

Equalities:

Age	No
Disability	No
Gender Reassignment	No
Pregnancy and Maternity	No
Race	No
Religion or Belief	No
Marriage and Civil Partnership	No
Sex	No
Sexual Orientation	No

Consideration	**Comment**	**Responsible Officer**	**Director**
Equalities	A full Impact assessment has not been carried out because the report does not propose any new strategy or service provision	Deborah Dimock	Julie Openshaw

Environment and Sustainability

Yes	No

Consideration	**Comment**	**Responsible Officer**	**Director**
Sustainability / Environment – including considerations regarding Active Travel and Wellbeing	A full impact assessment has not been carried out because the report does not propose any new strategy or service provision	Deborah Dimock	Julie Openshaw

Legal

Yes

Consideration	Comment	Responsible Officer	Director
Legal	There are no new legal implications as a result of this report	Deborah Dimock	Julie Openshaw

Finance

No

Consideration	Comment	Responsible Officer	Director
Finance	TfN Finance Team has confirmed there are no new financial implications.	Paul Kelly	Iain Craven

Resource

No

Consideration	Comment	Responsible Officer	Director
Resource	TfN HR Team has confirmed there are no new resource implications.	Stephen Hipwell	Dawn Madin

Risk

No

Consideration	Comment	Responsible Officer	Director
Risk	There are no new risks identified as a result of this report.	Haddy Njie	Iain Craven

Consultation

Yes

Consideration	Comment	Responsible Officer	Director
Consultation	No consultation has been carried since no new policies are being proposed.	Deborah Dimock	Julie Openshaw

Transport for the North Audit & Governance Committee

Subject: Updated Corporate Risk Register

Author: Haddy Njie, Risk Manager

Sponsor: Iain Craven, Finance Director

Meeting Date: Thursday 18 February 2021

1. Purpose of the Report:

1.1 Transport for the North has updated the Corporate Risk Register (CRR) to continue to reflect the Key Performance Indicators (KPIs) and business objectives outlined in the Business Plan for Financial Year 2020/21. The update of the CRR includes the identification of new risks, re-assessments of risk impact scores and highlighting issues resulting from the reduced funding envelope announced on 4 January 2021. In addition to the principal risks and issues associated with the organisation's KPIs, the business continues to manage the impacts of the coronavirus pandemic and the national lockdown on programme delivery and business operations.

1.2 The intention of the report is to provide the Audit and Governance Committee Members with an update on the organisational risks and issues relating to the business objectives which can be found in the Corporate Risk Register.

1.3 Paragraph 19.1 of Transport for the North's constitution states that Audit and Governance committee is to "provide independent review and assurance to members on risk management and control framework". Therefore, this report will assist committee members in discharging that duty.

2. Executive Summary:

2.1 It is essential that Transport for the North recognises, understands and manages the range of corporate risks that could negatively impact on its ability to achieve its objectives. The terms of reference for the Audit and Governance Committee include the requirement to "monitor Transport for the North's risk and performance management arrangements including review of the risk register, and progress with mitigating actions ".

2.2 Transport for the North's corporate risks stem from the agreed KPIs and from a range of other sources, some of which are beyond Transport for the North's direct control. The challenges and uncertainty faced by Transport for the North create both threats that need to be addressed, and opportunities that can potentially be exploited. Transport for the North's Corporate Risk Register is presented at Appendix 11.1.

3. Consideration:

3.1 Transport for the North's approach to managing risk is described in its Risk Management Strategy ("RMS") which sets out guidance for how risks are identified, assessed, managed and reported. The RMS has been applied in updating the Corporate Risk Register.

3.2 It is essential that Transport for the North and its programme teams recognise, understand and manage the risks that could negatively impact on the ability to achieve its objectives and priorities.

3.3 The Audit and Governance Committee is asked to consider the internal and external corporate risks that the organisation is facing. In addition, Committee members are asked to consider issues that arose from 4 January funding announcement impacting TfN's stated objectives and its ability to deliver the full range of its members' aspirations. Transport for the North is seeking feedback from the Committee on the Corporate Risk Register in line with 1.3 above.

4. Recommendation:

4.1 Committee Members are asked to consider the report and provide comments regarding the risk and issue information provided.

4.2 As part of TfN's ongoing risk reporting, a new template has been produced. Audit & Governance are invited to consider the document and provide feedback. With the approval of the Committee, TfN will aim to adopt the new format in advance of the March Board meeting.

5. Appendices:

5.1 Item 11.1 – Transport for the North's Corporate Risk Register.
Item 11.2 – Draft template: new format Corporate Risk Register

Required Considerations

Equalities:

Age	~~Yes~~	No
Disability	~~Yes~~	No
Gender Reassignment	~~Yes~~	No
Pregnancy and Maternity	~~Yes~~	No
Race	~~Yes~~	No
Religion or Belief	~~Yes~~	No
Sex	~~Yes~~	No
Sexual Orientation	~~Yes~~	No

Consideration	Comment	Responsible Officer	Director
Equalities	A full impact assessment has not been carried out because it is not required for this report.	Haddy Njie	Iain Craven

Environment and Sustainability

~~Yes~~	No

Consideration	Comment	Responsible Officer	Director
Sustainability / Environment – including considerations regarding Active Travel and Wellbeing	A full impact assessment has not been carried out because it is not required for this report.	Haddy Njie	Iain Craven

Legal

Yes	~~No~~

Consideration	Comment	Responsible Officer	Director
Legal	A full legal impact assessment has been carried out and can be found in the report.	Debbie Dimmock	Julie Openshaw

Finance

Yes	~~No~~

Consideration	Comment	Responsible Officer	Director
Finance	The Finance Team has reviewed this report and confirmed that the financial implications are included within the report.	Paul Kelly	Iain Craven

Resource

Yes	~~No~~

Consideration	Comment	Responsible Officer	Director
Resource	There are resource considerations and can be in the report.	Stephen Hipwell	Dawn Madin

Risk

Yes	~~No~~

Consideration	Comment	Responsible Officer	Director
Risk	A full corporate risk assessment activity took place which can be found in Item XX.	Haddy Njie	Iain Craven

Consultation

~~Yes~~	No

Consideration	Comment	Responsible Officer	Director
Consultation	A consultation has not been carried out because it is not required for this report.	Haddy Njie	Iain Craven

Draft Transport for the North Corporate Risk Register

Financial Year 2020/21

Updated: 09/02/21

TRANSPORT FOR THE NORTH

Introduction to Transport for the North's Corporate Level Risks

It is essential that Transport for the North (TfN) recognises, understands and manages the range of risks that could negatively impact on its ability to achieve the objectives set out in the 2020/2021 Business Plan. TfN's approach to managing risk is set out in its Risk Management Strategy which provides guidance for how risks are identified, assessed, managed and reported. Each programme and corporate function within TfN has its own risk register that is updated on either a monthly or fortnightly cycle, with clear reporting in line with governance arrangements. At the apex of these arrangements is the half-yearly reporting of the corporate level risks to the TfN Board.

TfN uses programme information to identify cross cutting risk themes that are sufficiently significant, either in their own right or in aggregate, to be reported to and discussed by the Board as risks requiring corporate focus. TfN's corporate risks stem from a range of sources, some of which are beyond TfN's direct control. The challenges and uncertainty faced by TfN create both threats that need to be addressed, and opportunities that can potentially be exploited.

The 2020/21 corporate risk register presents the corporate risks that might directly have an impact on TfN's business plan objectives. To ensure effective management of risks, the report provides information regarding the proximity of the risk, potential consequences for TfN's objectives and priorities, and the mitigaiton measures in place to manage the downside risks.

Table 1 summarises TfN's corporate level risks and the senior owner or owners (whilst each individual risk can only have one owner, the aggregation of risks into corporate level themes can result in corporate risk categories that include risks with more than one owner). **Table 2** outlines TfN's defined Probability Impact Criteria to undertake the qualitative assessment of the risks in order to produce a risk exposure score for each risk. **Table 3** provides guidance regarding the assessment and classification of TfN's level of control on the proposed mitigation risk plans. **Table 4** provides a detailed analysis of each risk theme, the mitigating actions that have been adopted, and the mitigation level of controllability. The last of these provides the user with information to help understand the extent to which TfN is able to influence or control the risk outcomes.

Table 1: Summary of TfN's Corporate Risk Themes, Probability / Impact Assessments and Ownerships

Corporate Risk Theme	Risk Probability	Nature of Risk Impact	Current Risk Impact	Post Mitigation Risk Impact	Risk and Mitigation Strategy Owner
The Covid-19 Pandemic prevents or delays TfN from delivering its objectives	**Medium**	• Business deliverables may not be completed on time if: (i) a significant number of staff within TfN or its supply chain are affected by COVID-19. (ii) TfN engagement, decision making / governance processes are impacted by the availability of Constituent Authority or departmental colleagues. (iii) Covid-19 related uncertainty causes wider policy announcements to be delayed. • There is the potential for additional costs to be incurred through the measures that might be put in place to address the issues caused by Covid-19.	**High**	**Medium**	**TfN Chief Executive** (Barry White)
TfN Reputational and Political Engagement	**An Issue**	• TfN could lack the powers or the influence to deliver the economic, social and sustainability benefits to the North that it set out in the Strategic Transport Plan. • The reduced core funding and no funding for the IST programme means: 1) TfN will no longer be able to deliver its IST aspirations as set out in its CSR submission. 2) TfN's ability to deliver in line with member aspirations will be reduced, impacting negatively on its ability to contribute to the levelling up agenda.	**An Issue**	**An Issue**	**TfN Chief Executive / Finance Director** (Barry White / Iain Craven)

Corporate Risk Theme	Risk Probability	Nature of Risk Impact	Current Risk Impact	Post Mitigation Risk Impact	Risk and Mitigation Strategy Owner
Embedding the Strategic Transport Plan across Programmes (STP)	**Low**	• Programmes of work develop in a way that does not contribute to, or runs counter to, the overall objectives and plan set out in the STP, resulting in the failure to achieve the aims of the STP.	**High**	**Medium**	**Strategy and Programme Director** (Tim Foster)
Delivery of Robust and Compelling Evidence to Support Investment Programmes	**Medium**	• An insufficiently compelling evidence base, particularly around the programme level economic case, may delay or prevent strategic transport infrastructure investments being made, with consequential impacts on TfN's ability to deliver its objectives. • The inability to make a transformational case could damage TfN's reputation with partners as an organisation who's key objective is to take a leadership role in delivering innovative business cases to secure investments.	**Medium**	**Low**	**Strategy and Programme Director / TfN Programme Directors** (Tim Foster / Tim Wood, Peter Molyneux, David Hoggarth, Jeremy Acklam)
Transport Decarbonisation and Climate Change Emergencies	**Medium**	• There is a risk that TfN falls behind in developing appropriate and timely policy positions to support decarbonisation of transport, and thereby fails to integrate them into its strategic transport development plans. This would potentially result in an investment programme that is misaligned to partner / central government policies.	**Medium**	**Low**	**Strategy and Programme Director** (Tim Foster)
TfN Operations	**An Issue**	• Failure to achieve Value for Money could impact on TfN's ability to access funding in the future.	**An Issue**	**High**	**Finance Director / Business Capabilities Director**

Corporate Risk Theme	Risk Probability	Nature of Risk Impact	Current Risk Impact	Post Mitigation Risk Impact	Risk and Mitigation Strategy Owner
		• Funding reductions may (will, in the case of IST) mean that TfN is unable to deliver the full range of its members aspirations. • Failure to recruit and retain the right people with the right skills could negatively impact on TfN's ability to deliver its objectives.			(Iain Craven / Dawn Madin)
TfN Compliance with Relevant Laws and Regulations	**Low**	• Potential reputational impacts with both stakeholders and the public. • Financial impact including fines or other penalties for breach of statutory obligations such as Data Protection, Freedom of Information or Health and Safety legislation. • There is also a potential financial impact including fines costs and/or other penalties for breach of regulatory laws such as Data Protection, Freedom of Information, Health and Safety or Procurement.	**High**	**Medium**	**Business Capabilities Director / Head of Legal Services** (Dawn Madin / Julie Openshaw)
Revised Framework - Delivery of Contactless on Rail and Local Smart Ticketing	**An Issue**	• In the absence of a funding allocation TfN is no longer able to roll out Contactless on Rail across the North, or to support local schemes. This will result in failure to deliver part of TfN's multi-operator, multi-mode ticketing aspirations with consequential impact on customer satisfaction for the passengers in the North of England. • This will result in damage to TfN's reputation as a consequence of not achieving its IST.	**An Issue**	**An Issue**	**IST Programme Director** (Jeremy Acklam)
The Northern Powerhouse Rail (NPR) Strategic	**An Issue**	• The assured cost increase has affected the BCRs and is therefore likely to unfavourably impact the delivery of a compelling business case.	**An Issue**	**High**	**NPR Programme Director** (Tim Wood)

Corporate Risk Theme	Risk Probability	Nature of Risk Impact	Current Risk Impact	Post Mitigation Risk Impact	Risk and Mitigation Strategy Owner
Outline Case (SOC)		• The SoS has requested that TfN consider deferring submission of the SOC until after the publication of the IRP. This is being considered in a separate paper to this board. • The outcome of the IRP may impact on the Northern Powerhouse Rail programme, including the timing of the submission of SOC, the next sequence of delivery, and the OBC.			
Rail Operations (Franchise Management and Investment)	**Very High**	• Less investment in services and infrastructure as a result of weaker business cases. • Lower passenger numbers post COVID-19 could reduce the viability of some existing services.	**Very High**	**Very High**	**Strategic Rail Programme Director** (David Hoggarth)

Table 2: Transport for the North's Probability Impact Scoring Criteria

TfN's Probability Impact Criteria, as illustrated below, is a risk management tool that enables the risk likelihood and impact to be calculated to produce an aggregated risk severity and exposure for each risk. The corporate risks are plotted according to the probability of occurrence and the impact upon an activity should the risk happen.

The risk ranking score is generated by performing a qualitative assessment across the risk theme as a whole, informed by multiplying the scoring for each risk.

Rating Number	Probability (%)	Rating	Impact Rating Definition
5	100% likelihood that the risk will materialise	**An Issue**	One or more of the implications will have an effect on business plan objectives.
4	81-100	**Very High**	• Financial Implication: **£>2m** • Schedule Implication: **> 12 (months)** • National long-term negative media coverage, significant loss of trust and credibility • Severe relationship issues with partners and/or third parties (such as Local Authorities, public)
3	51-80	**High**	• Financial Implication: **£1m - £2m** • Schedule Implication: **9 - 12 (months)** • National short-term negative media coverage • There is evidence of relationship issues with partners/or and third parties (such as Local Authorities, public)
2	21-50	**Medium**	• Financial Implication: **£500K - £1m** • Schedule Implication: **3 - 9 (months)** • Local media damage • No or minor strained relationship with partners and/or third parties (such as Local Authorities, public)
1	< = 20	**Low**	• Financial Implication: **£0 - £500K** • Schedule / Time delay Implication: **0 - 3 (months)** • Local media attention quickly remedied • No strain relationship with partners and/or third parties (such as Local Authorities, public)

Table 3: Qualitative Assessment of the Levels of Controllability on the Mitigation Action Plans

In order to assist the user to understand how TfN's key risks are impacted by the mitigation activities set out in this document, TfN has assessed the level of control on the mitigation risk action plans and the extent to which TfN is able to influence or control those risk outcomes.

The following corporate risks have been subject to an evaluation by identifying the:

- **Controllable Mitigations:** these are mitigation strategies that TfN has the power / ability to implement and as a result, contribute to the successful mitigation of the associated risk.
- **Dependency Mitigations (Controllable):** The identified mitigations require a collaborative effort with relevant partners or other stakeholders in order to be successful in the management of the action plans. Although, the mitigations are deemed as dependency, TfN may be able to deploy additional resources to increase its ability to influence risk outcomes.
- **Dependency Mitigations (Limited Control):** The identified mitigations must be a collaboration with the relevant internal and external parties and requires a buy-in. For example, national and local political buy-in. Without joint involvement, the likelihood of the risk materialising increases. Whilst TfN can attempt to influence
- the factors impacting on these risks, it has a low level of control over if/how these mitigations are implemented.

Guideline: Level of Mitigation Controllability

Mitigation Control Level	Mitigation Control Level Assessment
Controllable Mitigations	High
Dependency Mitigations (Controllable)	Medium
Dependency Mitigations (Limited Control)	Low

Table 4: Qualitative Risk Analysis of TfN's Corporate Level Risks

Risk ID: TCR01
Risk: The COVID-19 Pandemic Prevents or Delays TfN from Delivering its Objectives

Risk Description	The coronavirus pandemic is a threat that is directly impacting upon the delivery of TfN's programmes and Business Plan Key Performance Indicators (KPIs). The third national lockdown and associated measures to prevent the disease from spreading have extended homeworking across the entire organisation (as well as the country as a whole including significant supply chains). This has created four key risks for Transport for the North (TfN) business operations: 1) The potential for significant number of staff within TfN or its supply chain might be affected by the coronavirus, or by steps taken by suppliers to respond to the economic pressures caused by the pandemic; 2) TfN engagement, decision making / governance processes might be impacted by the availability of Constituent Authority or departmental colleagues; 3) The COVID-19 related uncertainty causes wider policy announcements to be delayed; and 4) The pandemic reduces the efficiency with which certain activities can be delivered and therefore increases the costs associated with delivering them.
Risk Proximity	Short-Term to Medium-Term
Risk Probability	(1) Low (2) Medium (3) An Issue (4) Low
Assessed Risk Impact	(1)High (2) High (3) High (4) Medium
Potential Impact (Qualitative Description)	• TfN's key programme and business deliverables may not be completed on time if the number of staff affected by the COVID-19 is significant. • In addition, TfN's ability to take forward its programmes will be affected if partner officers and other stakeholders are unable to fully engage in Client Reference groups and other TfN governance processes. • Impacts on central government decision-making in key areas such as the Integrated Rail Plan, the Environment Bill, and the Williams Review will also impact upon TfN's ability to drive programmes.

Mitigation Action Plans and Level of Controllability

Mitigation No.	Mitigation Strategies / Action Plans	Mitigation Control Level Assessment	Mitigation Control Level
1	Organisational and Individual Directorate Contingency Plans have been developed and are now in place. These are further underpinned by TfN Corporate Business Continuity Plan (BCP). This includes identification of a core Crisis Management Team to coordinate all business-critical activities should these plans need to be instigated, and to maintain effective communication with employees.	High	Controllable Mitigations
2	Programme and policy teams have identified and focused on the critical organisational outputs and deployed available resources in the achievement of those priorities.	High	Controllable Mitigations
3	Programme teams continue to re-programme delivery plans and communicate changes to partners. They also continue to work with consultants and partners and where possible provide support.	High	Dependency Mitigations (controllable)
4	To continue to deliver the TfN Business Plan where possible so as to minimise delays in delivering outputs and allow activity to be expedited once policy decisions by central Government have been communicated.	High	Dependency Mitigations (Limited Control)

Corporate Risk and Mitigation Owners	Risk Owner (Barry White) Mitigation Ownership (Heads of Services) – Departmental Contingency Plans

Risk ID: TCR02
Risk Theme: Transport for the North's Reputational and Political Engagement

Risk Description	Given the range of priorities facing central government, local partners, and other stakeholders, including the challenges of the COVID-19 pandemic, there is a risk that: (1) Central Government's intention with regard to the future role of Sub-national Transport Bodies (STBs) is unclear. This uncertainty disrupts TfN's ability to recruit and retain talented staff and may prevent the organisation from fulfilling its objectives and delivering its programme of works. DfT's preference is for STBs to give their views in private rather than in public, which if agreed to, goes wider than the current Communications MoU. Clarity on this position is required and DfT has indicated that it is considering proposing changes to the MoU and/or Partnership Agreement. (2) On 4 January, Transport for the North received funding notification from the department that indicated a cessation of IST funding and a 40% reduction in the current level of Core funding from £10m to £6m. This will mean that TfN will no longer be able to deliver its IST aspirations as set out in its CSR submission. Further, TfN's ability to deliver in line with member aspirations will be reduced. This latter impact has been ameliorated by the agreement with DfT to allow £2.5m of expenditure previously charged to Core funding to be met from programme funding. (3) There is a mismatch between the expectations placed upon TfN regarding its ability to deliver improvements to the Northern transport system in the short to medium term, and the limited extent of its statutory powers and functions that focus on the provision of strategic advice rather than infrastructure delivery.
Risk Proximity	Short to Medium term
Risk Probability	(1) Very High (2) An Issue (3) Very High
Assessed Risk Impact	(1) Very High (2) An Issue (3) Very High
Potential Impact (Qualitative Description)	• TfN could lack the powers or the influence to deliver the economic, social and sustainability benefits to the North that it set out in the Strategic Transport Plan. • The reduced Core funding and no funding for the IST programme makes it difficult for TfN to "speak with one voice", influence decisions and deliver transformational transport initiative to achieve the levelling up agenda and improve transport connectivity for North of England's transport passengers. • Failure to make timely decisions with regard to projects and programmes, and could delay or prevent the benefits of strategic transport infrastructure from being delivered.

	• TfN's credibility could be negatively impacted by being unable to deliver across an "expectation gap" between its actual statutory responsibilities and powers and its percieved role.

Mitigation Action Plans and Level of Controllability

Mitigation No.	Mitigation Strategies / Action Plans	Mitigation Control Level Assessment	Mitigation Control Level
1	TfN aspirations in relation to its future role and associated powers have been set out in the Northern Transport Charter. TfN's 2021/22 Business Plan will include activity to develop capability and additional evidence on investment plans aligned with the Northern Transport Chater proposals.	Medium	Dependency Mitigations (Controllable)
2	Engagement with Members and constituent authorities at a political and officer level, stakeholders and partners, to continue to represent the 'one voice'.	Medium	Dependency Mitigations (Limited Control)
3	Structured engagement with central government officials and decision-makers and responding to any DfT proposals to update the Communications MoU/Partnership Agreement once seen.	Medium	Dependency Mitigations (Limted Control)
4	TfN to focus on contributing to the recovery phase of the Covid-19 pandemic by ensuring we have on-going dialogue with DfT, including the DfT acceleration unit and with NTAC on the Economic Recovery Plan proposals.	Medium	Dependency Mitigations (Limited Control)
5	TfN to highlight where necessary the limits of its powers and when directed to seek to extend its influence for greater decision making.	Medium	Dependency Mitigations (Limited Control)

Corporate Risk and Mitigation Owners	Iain Craven (Funding risks) / Barry White (Political and Reputational risk)

Risk ID: TCR03
Risk Theme: Embedding the Strategic Transport Plan (STP) across Programmes

Risk Description	The Strategic Transport Plan (STP) was adopted by TfN in February 2019. It sets out the "Why, What and How" of TfN's approach to facilitating inclusive and sustainable transformational economic growth across the North. If TfN programmes (and research) are not aligned with the STP, it would prove difficult to contribute to the delivery of the STP. In addition, it could impact on the development of additional detailed policy positions resulting in sub-optimal outputs from investments when measured against TfN's overarching objectives.
Risk Proximity	On-going
Risk Probability	Low
Assessed Risk Impact	High
Potential Impact (Qualitative Description)	Programmes of work develop in a way that does not contribute to, or runs counter to, the overall objectives and plan set out in the STP, resulting in the failure to achieve the aims of the STP or leads to sub-optimal impacts from transport investments.

Mitigation Action Plans and Level of Controllability

Mitigation No.	Mitigation Strategies / Action Plans	Mitigation Control Level Assessment	Mitigation Control Level
1	Co-ordination mechanisms have been established within TfN and with partners (such as the Strategic Oversight Group) to facilitate the co-ordination of programmes of work.	High	Controllable Mitigations
2	An assurance framework is in place which will allows the organisation to manage changes in the investment programme consistent with the vision of the STP. This will be further developed as required to support TfN's role in any future investment process.	High	Controllable Mitigations
3	A robust benefits realisation framework is being developed to enable the evaluation of programme KPIs and allow the assessment of outcomes in relation to STP objectives.	High	Controllable Mitigations

Corporate Risk and Mitigation Owner	Tim Foster

Risk ID: TCR04
Risk Theme: Delivery of Robust & Compelling Evidence to Support Investment

Risk Description	One of the objectives of the developing analytical framework is to allow the capture of the economic impacts of transformational transport schemes. Further developments are underway to ensure robust evidence of economic transformation can be captured and quantified or qualified through the Analytical Framework. There is a risk that TfN might be unable to make a timely, robust, credible, evidence-based case to support NPR and the wider Investment Programme. This risk could lead to either delays to the delivery of business cases or limited ability to represent transformational benefits which could thus be discounted by decision makers due to a reduction in the quality and assurance rating of the analysis. This could limit TfN's ability to deliver agreed outputs outlined in the Strategic Transport Plan (STP). In addition, following the funding announcement on 4th January and the reduced funding envelope, this may impact on TfN's ability to complete the stated objectives including working to achieve robust evidence-based business cases to support timely programme deliverables.
Risk Proximity	Short and Medium Term
Risk Probability	(1) Medium
Assessed Risk Impact	(1) High
Potential Impact (Qualitative Description)	• An insufficiently compelling evidence base, particularly around the programme level economic case may delay or prevent strategic transport infrastructure investments being made, with consequential impacts on TfN's ability to deliver its objectives. • The inability to make a transformational case could damage TfN's reputation with partners as an organisation who's key objective is to take a leadership role in delivering innovative business cases to secure investments.

Mitigation Action Plans and Level of Controllability

Mitigation No.	Mitigation Strategies / Action Plans	Mitigation Control Level Assessment	Mitigation Control Level
1	TAME staff are working closely with DfT officials to build confidence in the robustness of Analytical Framework tools, dedicating resources to responding to requests for information in a professional and timely manner. Indepedent peer reviews of Analytical Framework tools are being commissioned through TAME's new Expert Panel, helping to provide evidence of quality to DfT.	Medium	Controllable Mitigations
2	Programme timescales have been adjusted where it is sensible to make those adjustments without significantly impacting delivery against TfN's core objectives.	High	Controllable Mitigations
3	Scope is being managed in consultation with DfT, TfN Partners and Peer Reviewers to ensure essential functionality for robustly representing transformation is prioritised and "added value" functionality is deprioritised where appropriate. This will ensure that the approach is proportionate for the stage of scheme development.	Medium	Dependency Mitigations (Limited Control)
4	Added value work will be brought into programmes at a later stage in the form of sensitivity analysis, ensuring that work undertaken to date can still provide value to TfN programmes.	High	Controllable Mitigations
5	The TAME team structure was revised and additional senior resources were introduced with improved engagement with TfN programmes to ensure Analytical Framework development and application activities meet the needs of the programmes.	High	Controllable Mitigations
6.	The team is assessing various ways to reduce the impact of the current funding challenges. These include completing more work in-house and reducing reliance on consultants and professional services.	High	Controllable Mitigations

Corporate Risk and Mitigation Owners	Tim Foster

Risk ID: TCR05
Risk Theme: Transport Decarbonisation and Climate Change Emergencies

Risk Description	The UK government has set a climate change ambition that the UK will have net zero greenhouse gas emissions by 2050, this is an ambitious target which moves from the previous government position of 80% reduction. Within the Strategic Transport Plan (STP), TfN has committed to develop a "Pathway to 2050" which will manifest itself within a decarbonisation strategy outlining how net zero emissions can be delivered within the North and the trajectory for change. The impact of the Covid-19 pandemic has been accounted for within our Future Travel Scenario. In order to deliver on this ambition, TfN needs to collaborate with, and gain consensus from, partners to identify targets / policies for TfN to accelerate carbon reductions from the transport sector. There is a risk that TfN falls behind in developing appropriate and timely policy positions to support decarbonisation of transport, and thereby fails to deliver on the decarbonisation commitment made in the STP This would potentially result in an investment programme that is misaligned to partner / central government policies.
Risk Proximity	Long-Term
Risk Probability	Medium
Assessed Risk Impact	Medium (Reputation), Medium (Time), High (Relationship)
Potential Impact (Qualitative Description)	• There is a risk that TfN falls behind in developing appropriate and timely policy positions to support decarbonisation of transport, and thereby fails to integrate them into its strategic transport development plans. This would potentially result in an investment programme that is misaligned to partner / central government policies. • Failure to develop relevant policy positions adversely impacts on TfN credibility and influence as a Sub-National Transport Body. • In the absence of an agreed policy framework with regard to decarbonisation and sustainability, TfN's programmes may not be adequately addressing decarbonisation and climate change issues. This would adversely impact upon TfN's ability to deliver successful business cases. • In the absence of an agreed decarbonisation and sustainability policy frameworks, TfN's programmes may not be adequately addressing decarbonisation and climate change issues. In the medium to long term, this might contribute towards an excess of agreed global temperature rise (as defined by the Paris Agreement) and climate change which might impact upon the resilience of the North's transport infrastructure.

Mitigation Action Plans and Level of Controllability

Mitigation No.	Mitigation Strategies / Action Plans	Mitigation Control Level Assessment	Mitigation Control Level
1	The carbon pathways, which forms part of the decarbonisation strategy has been developed.	High	Controllable Mitigations
2	TfN has appointed an Environmental and Sustainability Officer responsible for developing the environmental policy; and to ensure the integration of the work into the development of TfN's transport strategies.	High	Controllable Mitigations
3	To ensure that the decarbonisation and broader sustainability / environmental policies that are developed by TfN are properly reflected in both strategic and project level decision making, including through the IPBA process, and therefore appropriately weighted within TfN decision making processes.	High	Controllable Mitigations

Corporate Risk and Mitigation Owners	Tim Foster

Risk ID: TCR06
Risk Theme: Transport for the North's Business Operations

Risk Description	TfN is fully funded through the Department for Transport (DfT) but it is responsible for its own financial affairs. There is a requirement for the business to demonstrate Value for Money (VfM) to ensure the delivery of programmes are achieved efficiently and effectively. As a result: (1) There is a continued risk of the failure to deliver programmes' outputs in a way that achieves VfM in TfN expenditure; (2) TfN was informed by the department that the funding for both its Core operations and the IST programme would be cut, in the case of the latter in its entirety. TfN is currently preparing a business plan for budget year 2021/22. In addition to these cuts, TfN faces uncertainty in relation to post-IRP arrangements and funding in future years. This short- to meduim- term uncertainty will impact on TfN's ability to manage / deliver multi-year activity and may also negatively impact on its ability to recruit and retain suitably qualified staff. (3) It has been publicly announced that the Chief Executive (CE) is departing TfN in May 2021. Should a timely replacement (or interim cover arrangements) not be secured this will impact on TfN's leadership capabilities, alongside having a potential impact on the delivery of TfN strategic objectives and priorities. Although unrelated, it should also be noted that the CEO's resignation (alongside the recent resignation of the Strategy & Programme Director) is at a time when TfN has been subject to funding cuts, notably to the IST programme, and continues to face significant uncertainties (IRP, Williams, Devolution White Paper) which all have the potential to impact on wider employee morale and confidence.
Risk Proximity	(1) On-going (2) On-going (3) Medlium-Long Term
Risk Probability	(1) Low (2) An Issue (3) Medium
Assessed Risk Impact	(1) High (2) An Issue (3) Possible financial impact in Q2 & Q3 F/Y 21/22 (High), Relationship (High)
Potential Impact (Qualitative Description)	• Failure to achieve Value for Money could impact on TfN's ability to access funding in the future. • Funding reductions may (will in the case of IST) mean that TfN is unable to deliver the full range of its members' aspirations. • Failure to recruit and retain the right people with the right skills could negatively impact on TfN's ability to deliver its objectives and priorities.

Mitigation Action Plans and Level of Controllability

Mitigation No.	Mitigation Strategies / Action Plans	Mitigation Control Level Assessment	Mitigation Control Level
1	Clear and well documented processes and procedures to be in place. VfM and governance to be undertaken by both internal and external audits.	High	Controllable Mitigations
2	Commissioning processes include OBT sign-off of expenditure, and explicit approval for expenditure against a schedule of delegations.	High	Controllable Mitigations
3	Engagement with stakeholders to ensure the case for TfN's funding is supported by members, business and in Parliament.	High	Controllable Mitigations
4	TfN continues, where funding conditions / certainty allows, to hire suitable qualified officers in all senior positions in a timely manner, but also including critical programme and back office roles. There is on-going training and communication across the organisation.	Medium	Dependency Mitigations (Limited Control)
5	A comprehensive People Strategy has been developed and is in place covering reward, workforce/skills planning, succession planning, recruitment and selection, talent and performance management.	High	Controllable Mitigations
6	A leadership programme is being delivered in the final two quarters of FY 2020/21 to further support the leadership capability within the organisation.	High	Controllable Mitigations
7	To continue to brief and update staff through the monthly updates, regular bulletins, employee forum and SMT meetings with regards to budget setting, IRP, Williams and other current uncertainties TfN is facing to keep them fully appraised and address any questions or concerns in a timely fashion.	High	Controllable Mitigations
8	Following the approval of TfN Board, the recruitment search of a replacement for the CE position has commenced to enable TfN to complete an appointment (and/or any interim cover arrangements) prior to the current CEO's departure.	High	Controllable Mitigations
Corporate Risk and Mitigation Owners	Iain Craven (Funding risks) / Dawn Madin (HR related risks)		

Risk ID: TCR07
Risk Theme: Compliance with the Relevant Laws and Regulations

Risk Description	Transport for the North is a statutory body with limited statutory powers and duties. There is a risk that in carrying out its functions, TfN fails to comply with applicable law or exceed its powers.
Risk Proximity	On-going
Risk Probability	Low
Assessed Risk Impact	Financial (Medium) Reputation (High)
Potential Impact (Qualitative Description)	• If TfN fails to adhere to applicable law, or acts outside its powers, there could be reputational impacts with both stakeholders and the public which may impact its ability to meet its objectives and/or legal proceedings against TfN. • There is also a potential financial impact including fines costs and/or other penalties for breach of regulatory laws such as Data Protection, Freedom of Information, Health and Safety or Procurement. • The ICO may issue a decision notice or the HSE may issue an enforcement notice if it found that TfN was in breach of information or health and safety legislation. • TfN could be subject to substantial financial damages for breach of the Public Contracts Regulations. • Important work may be delayed by a failure to comply with necessary obligations such as statutory consultation.

Mitigation Action Plans and Level of Controllability

Mitigation No.	Mitigation Strategies / Action Plans	Mitigation Control Level Assessment	Mitigation Control Level
1	TfN has suitably qualified officers in all senior positions, particularly the HoPS, S151 and Monitoring officer. In addition, TfN has employed an in-house legal team.	High	Controllable Mitigations
2	TfN ensures there are clear and well documented processes and procedures in place.	High	Controllable Mitigations
3	Ongoing training on laws and legislations and communication across the organisation.	High	Controllable Mitigations
4	To ensure that there is continuous legal review to TfN's Boards and Committees.	High	Controllable Mitigations
5	TfN employs in house legal and procurement specialists and regularly procures external legal advice on commissioning and procurement.	High	Controllable Mitigations

Corporate Risk and Mitigation Owners	Dawn Madin / Julie Openshaw

Risk ID: TCR08
Risk Theme: Revised Framework - Delivery of Contactless on Rail and Local Smart Ticketing

Risk Description	The Department for Transport has informed TfN that there is no allocation for the continuation of the IST (although, TfN exploring options with the Department with a clear objective of securing a settlement that better represents the North's ambitions) This means that there will be no progress in bringing forward Phase 3 (contactless on rail) and TfN's proposals to mitigate the failure of the major bus operators to engage with its ABBOT proposals – namely the proposal to provide support to local schemes (Phase 4). This means that TfN will no longer be able to pursue the IST Programme objectives as set out in its CSR submission and previously shared with the Board.
Risk Proximity	Short-Term
Risk Probability	An Issue
Assessed Risk Impact	An Issue
Potential Impact (Qualitative Description)	• This means that hat the IST programme ceases and, except for finishing off Phases 1 & 2, we are going to be unable to carry out further programme work – although we are exploring in wider business planning some options to consider retaining some IST capability within TfN. • This will result to TfN's reputational being affected as the stated strategic objectives will not be met.

Mitigation Action Plans and Level of Controllability

Mitigation No.	Mitigation Strategies / Action Plans	Mitigation Control Level Assessment	Mitigation Control Level
1	TfN to submit the IST schemes for consideration by the Northern Transport Acceleration Council. In addition, To meet with the Secretary of State to press the case for IST funding.	Medium	Dependency Mitigations (Limited Control)
2	TfN is exploring how to retain some IST capability within the organisation.	High	Controllable Mitigations

Corporate Risk and Mitigation Owners	Jeremy Acklam

Risk ID: TCR09
Risk Theme: Northern Powerhouse Rail (NPR) Business Case Delivery and Programme Development

Risk Description	Northern Powerhouse Rail is a high-profile programme that involves Northern partners, DfT, NR and HS2. TfN is due to submit a Strategic Outline Case (SOC) for NPR, which includes reduced options from those at Strategic Outline Business Case (SOBC), phasing scenarios and a preferred NPR network In addition, NPR has secured partner endorsement for four (4) phasing scenarios for the SOC and obtained agreement to sifting outputs as well as collective agreement to a preferred network. In February, NPR programme team is scheduled to take evidence for the SOC to the TfN Board to reach confirmation on the preferred NPR network with members ahead of the scheduled formal SOC submission of the SOC by TfN in March 2021. However, DfT has requested, initially via the SoS's 2/12/20 response to TfN's advice on NPR following the November Board, that the IRP should precede the SOC. The IRP timing has continued to slip and the SoS has since requested that TfN/DfT, as co-clients, delay the submission of the SOC from March 2021 to allow the IRP to be published first, before the SOC is finalised. If agreed to, it would delay the submission and delivery of the SOC but may speed up the overall process by moving to single options in more corridors sooner. There are risks and issues that might affect the successful delivery of the SOC. These are listed below: **Issues** 1) **Infrastructure costs:** Network Rail's assured costs have demonstrated an increase of costs for NPR preferred network to £45bn (Q1 2015 including 66% OB), which is an increase of 15% from the SOBC level. This increase is due to several factors and it is both an issue as well as making it more challenging to develop a compelling and viable Strategic Outline Case planned to be submitted in March 2021 (subject to TfN Board decision following advice from SoS). 2) **Benefit Cost Ratios (BCRs):** The issue remains that risk that the BCRs associated with the transformational programme previously endorsed by members (SOBC Feb 2019) will show a reduction relative to the previous business case, making it more reliant on the quality of the Strategic Case. **Risks** 3) **Partner engagement to support decision making:** The mitigation of the infrastructure costs and BCRs have resulted to an increased challenge to achieve a March 2021 SOC submission date. To support Partner engagement, an additional TfN Board date has been scheduled for 18 February 2021 and the March TfN Board has been rescheduled from 10 March 2021 to 24 March 2021.

	4) **Integrated Rail Plan (IRP) conclusion:** The IRP was due to be published by the government in December 2020, however this did not happen, and a revised publication date is yet to be provided. The IRP and its conclusions carry the following risks: a) The outcome of the IRP process may result in a change in government's approach to NPR, which in turn may drive consequential changes in the SOC that may not be acceptable to TfN as the co-client. This is exacerbated by the content of the NIC's Rail Needs Assessment released on 15 December and the ongoing delay in the release of the IRP. b) The later the IRP is made available to TfN, the less time it will have to understand the impacts of the review on the work done to date, address the conclusions, manage the consequential impacts and/or update the SOC if appropriate – DfT, as noted above, have proposed delaying the SOC. In addition to the IRP impacting on TfN's ability to submit a SOC in March 2021, there is a risk that the outcome of the IRP could impact the next stage of the NPR programme, both in terms of funding available for FY21/22 and permitted development, which looks to deliver the continuation of the programme Business Case, Outline Business Cases (OBC), continued design & development to enhance to the maturity of the NPR network. It could also accelerate elements of the programme if more corridors move to single options sooner. Therefore, uncertainty around IRP outcomes presents a possible opportunity, as well as a significant risk, to the programme. Finally, in addition to risks listed above, the coronavirus pandemic has also played a significant part in delivery since spring 2020, which has resulted in the programme re-phasing SOC delivery in FY 20/21. It is also worth noting the existing issues for Manchester Piccadilly in relation to making decision making.
Risk Proximity	Short to Medium Term
Risk Probability	(1) An Issue (2) An Issue (3) Medium (4) Very High
Assessed Risk Impact	(1) An Issue (2) An Issue (3) Very High (4) Very High
Potential Impact (Qualitative Description)	• The assured cost increase will affect the BCRs and therefore likely to unfavourably impact the delivery of a compelling business case in March 2021. • Following SoS advice for the publication of the IRP to precede the SOC submission, it is likely that TfN might be unable to submit in March 2021. This could impact on future funding and the scope of the SOC. • The outcome of the IRP may influence the Northern Powerhouse Rail programme, the timing of submission of SOC, the next sequence of delivery and the OBC.

Mitigation Action Plans and Level of Controllability

Mitigation No.	Mitigation Strategies / Action Plans	Mitigation Control Level Assessment	Mitigation Control Level
1	An agreement has been reached on phasing of NPR for use in the SOC. As part of next year's activity, which is set out in the NPR Business Plan, the team has identified further work to support in achieving single route option across all corridors. As this work progresses in FY21/22, it may impact on the phasing agreed for the Strategic Outline Case.	Medium	Dependency Mitigations (Limited Control
2	When constructing / revising the roadmap, TfN includes review and input by DfT as co-client, partners and delivery partners. The Roadmap activity is to be broken out into two areas: - Business Case Roadmapping, and - Life-Cycle programming. This is currently being planned as part of the NPR Business Planning process. Early thoughts on each may be used in this FY.	Medium	Dependency Mitigations (Limited Control)
3	Network Rail's (NR) activity has been expanded to undertake a re-assurance exercise on costs for retained options as well as the preferred ways forward. Network Rail (NR) delivered assured costs for the preferred way forward options on 15 December 2020 and assured costs for retained options have started to be delivered to the Programme, the first set were delivered on 20 January 2021 and the second is scheduled for 12 February 2021.	High	Controllable Mitigations
4	The TfN Modelling & Analysis team is continuing to enhance the NoRMS model to provide further enhancements to Level 1 benefits, which capture direct benefits to rail users. The Level 2 benefits which captures the static wider economic benefits, where it is assumed that NPR doesn't change the location of households and businesses is also being enhanced. These enhancements are done alongside NeLUM which provides the transformational Level 3 benefits, which capture the dynamic wider	High	Controllable Mitigations

	economic impacts where it is estimated how much relocation takes place as a result of NPR. A final iteration of NoRMS, iteration 2 will include a 2018 demand uplift and should also increase overall benefits Iteration 2 will be used to inform the SOC by undertaking sensitivity tests to the main work undertaken in the Iteration 1D model, Iteration 2 outputs are intended to be presented in the March Board and will also be included in the IPDC submission. To support the required pace of the model development programme, a model development 'call-off' arrangement has been put in place to protect SOC timescales.		
5	TfN is continuing to work with DfT to ensure the strategic case and wider economic impacts of the scheme are based on robust, compelling analysis in order to increase the prominence and recognition of these elements of the case relative to the conventional BCR.	Medium	Dependency Mitigations (Limited Control)
6	TfN is to present an options paper to February's TfN Board inviting members to form a view on delaying the SOC until after the IRP is published.	Medium	Dependency Mitigations (Limited Control)

Corporate Risk and Mitigation Owners	Tim Wood / Tim Foster (IRP)

Risk ID: TCR10
Risk Theme: Rail Operations – Franchise and Delivery

Description	Following a change in guidance to work from home where possible, and the subsequent lockdown since January 2021, there has been a significant drop in demand for rail services. The effects of the coronarivus panedmic and chaning work practiceson demand may take many years to recover to previous levels which could lead to the following risks: (1) There remains a risk that the passenger enhancements (such as the completion of new train programmes and additional services) will be delayed as driver training takes longer due to new working practises. (2) There is a risk that the current services could be cut due to the increased subsidy that is being covered by the Treasury. In addition, the reduced current services could further impact future schemes, making schemes less viable as they have to be assessed against lower demand forecasts. (3) DfT Re-prioritisation and the Williams Review: The coronavirus pandemic has meant DfT had to prioritise its focus and resources in responding to the pandemic. This has led to the delay in the publication of the Williams Review. In addition, the government may choose to focus on centrally deliverable initiatives such as franchise delivery and focus less on devolution. As a result, this may not align with the strategy of Members and would require a wider response from TfN.
Risk Proximity	Short, Medium and Long-term
Risk Probability	(1) Very High (2) Very High (3) Very High
Assessed Risk Impact	(1) Very High (2) Very High (3) Very High **Note:** The post-mitigation risk assessment is rated Very High (VH) following the adoption of some of the identified mitigations. This is the same rating as the current risk assessment as TfN does not have the full range of levers within its current powers and responsibilities to implement the mitigations i.e. in order to effectively carry out the mitigations. The avoidance and reduction of the assessed impacts are contingent on partners and members taking further actions.

Potential Impact (Qualitative Description)	• If there is a delay in investment and delayed rolling stock, passenger frustration will continue to be frustrated and experience poor quality services. Severe adverse reputational impact and pressure from partners. • Less investment in services and infrastructure as a result of weaker business cases. • It could affect TfN's reputation by impacting on a significant part of its rail transformational programmes and overall agenda. • The franchise system is being replaced by service contracts directly funded by HMT, potentially diminishing TfN's role and influence over operations. • Low passenger numbers post Covid could reduce viability of some existing services.

Mitigation Action Plans and Level of Controllability

Mitigation No.	Mitigation Strategies / Action Plans	Mitigation Control Level Assessment	Mitigation Control Level
1	To continue to use our influence in the monthly Rail North Partnership Board, Rail North Committee and North of England Contingency Group to shape the re-introduction of services, new rolling stock and infrastructure developments and re-build passenger confidence.	Medium	Dependency Mitigations (Limited Control)
2	To continue with the close working relationship and communication with TfN member authorities on deliverables and risks - feeding back information through TfN governance structures.	Medium	Dependency Mitigations (Limited Control)
3	To continue to track train service performance and delivery via regular reporting dashboards.	Medium	Dependency Mitigations (Limited Control)
4	Strategic Rail and Rail North Partnership (RNP) to work together to support Network Rail and Operators in producing recovery plans that meet passengers' needs and rebuild confidence.	Medium	Dependency Mitigations (Limited Control)
5	To implement Blake Jones action plan to provide greater focus on passengers and ensure transparency with members as the COVID19 restrictions ease.	Medium	Dependency Mitigations (Limited Control)
6	TfN will continue to make the case for reform that supports the North's ambitions and will respond to the Williams White Paper once published.	High	Controllable Mitigations

Corporate Risk and Mitigation Owner	David Hoggarth

TRANSPORT FOR THE NORTH

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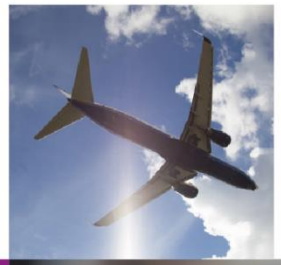
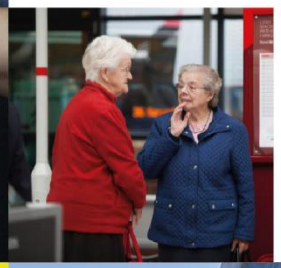
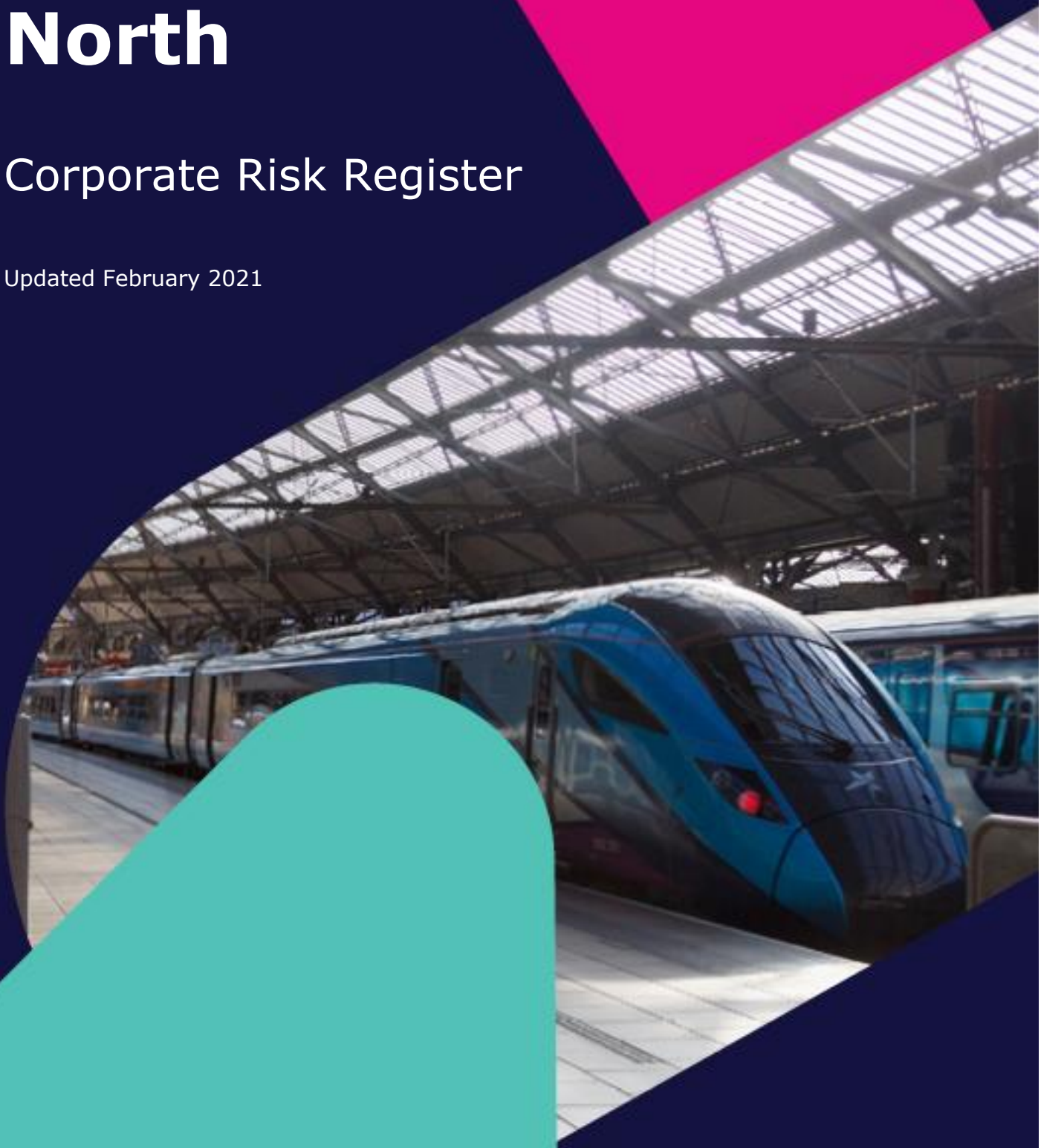




Transport for the North

Corporate Risk Register

Updated February 2021



TRANSPORT FOR THE NORTH

Introduction to Transport for the North's Corporate Level Risks

It is essential that Transport for the North (TfN) recognises, understands and manages the range of risks that could negatively impact on its ability to achieve the objectives set out in the 2020/2021 Business Plan. TfN's approach to managing risk is set out in its Risk Management Strategy which provides guidance for how risks are identified, assessed, managed and reported. Each programme and corporate function within TfN has its own risk register that is updated on either a monthly or fortnightly cycle, with clear reporting in line with governance arrangements. At the apex of these arrangements is the annual reporting of the corporate level risks to TfN Board.

TfN uses programme information to identify cross cutting risk themes that are sufficiently significant, either in their own right or in aggregate, to be reported to and discussed by the Board as risks requiring corporate focus. TfN's corporate risks stem from a range of sources, some of which are beyond TfN's direct control. The challenges and uncertainty faced by TfN create both threats that need to be addressed, and opportunities that can potentially be exploited.

The 2020/21 corporate risk register presents the corporate risks that might directly have an impact on TfN's business plan objectives. To ensure effective management of risks, the reports provides full risk information such as the proximity of the risk, potential consequences on TfN's objectives and priorities and the mitigaiton measures in place to manage the downside risks.

Table 1 summarises TfN's corporate level risks and the senior owner(s).

Table 2 outlines TfN's defined Probability Impact Criteria to undertake the qualitative assessment of the risks in order to produce a risk exposure score for each risk.

Table 3 provides a guideline in regard to the assessment of TfN's level of control on the proposed mitigation risk plans.

Table 4 provides a detailed analysis of each risk, the mitigating actions that have been adopted and the mitigation level of controllability as it is important to understand the extent to which TfN is able to influence or control the risk outcomes.

Section 1: Summary of Corporate Risk Themes, Probability & Impact Assessments and Ownerships

Corporate Risk Theme	**The Covid-19 Pandemic prevents or delays TfN from delivering its objectives**			
Risk Probability		**Medium**		
Nature of Risk Impact	Fusce posuere, magna sed pulvinar ultricies, purus lectus malesuada libero, sit amet commodo magna eros quis urna. tristique senectus et netus et malesuada fames ac turpis egestas. Proin pharetra nonummy pede.			
Current Risk Impact			**High**	
Post-Mitigation Impact		**Medium**		
Risk/Mitigation Owner(s)	**TfN Chief Executive** (Barry White)			
Corporate Risk Theme	**TfN Reputational and Political Engagement**			
Risk Probability	An Issue			
Nature of Risk Impact	Fusce posuere, magna sed pulvinar ultricies, purus lectus malesuada libero, sit amet commodo magna eros quis urna. tristique senectus et netus et malesuada fames ac turpis egestas. Proin pharetra nonummy pede.			
Current Risk Impact				**Very High**
Post-Mitigation Impact			**High**	
Risk/Mitigation Owner(s)	**TfN Chief Executive / Finance Director** (Barry White / Iain Craven)			
Corporate Risk Theme	**Embedding the Strategic Transport Plan (STP) Across Programmes**			
Risk Probability	**Low**			
Nature of Risk Impact	Fusce posuere, magna sed pulvinar ultricies, purus lectus malesuada libero, sit amet commodo magna eros quis urna. tristique senectus et netus et malesuada fames ac turpis egestas. Proin pharetra nonummy pede.			
Current Risk Impact			**High**	
Post-Mitigation Impact		**Medium**		
Risk/Mitigation Owner(s)	**Strategy & Programme Director** (Tim Foster)			
Corporate Risk Theme	**Delivery of Robust and Compelling Evidence to Support Investment Programmes**			
Risk Probability		**Medium**		
Nature of Risk Impact	Fusce posuere, magna sed pulvinar ultricies, purus lectus malesuada libero, sit amet commodo magna eros quis urna. tristique senectus et netus et malesuada fames ac turpis egestas. Proin pharetra nonummy pede.			
Current Risk Impact		**Medium**		
Post-Mitigation Impact	**Low**			
Risk/Mitigation Owner(s)	**Strategy and Programme Directors** (Tim Foster)			

Corporate Risk Theme	**Transport Decarbonisation and Climate Change Emergencies**			
Risk Probability		**Medium**		
Nature of Risk Impact	Fusce posuere, magna sed pulvinar ultricies, purus lectus malesuada libero, sit amet commodo magna eros quis urna. tristique senectus et netus et malesuada fames ac turpis egestas. Proin pharetra nonummy pede.			
Current Risk Impact		**Medium**		
Post-Mitigation Impact	**Low**			
Risk/Mitigation Owner(s)	**Strategy & Programme Director** (Tim Foster)			
Corporate Risk Theme	**TfN Business Operations**			
Risk Probability		**Medium**		
Nature of Risk Impact	Fusce posuere, magna sed pulvinar ultricies, purus lectus malesuada libero, sit amet commodo magna eros quis urna. tristique senectus et netus et malesuada fames ac turpis egestas. Proin pharetra nonummy pede.			
Current Risk Impact			**High**	
Post-Mitigation Impact		**Medium**		
Risk/Mitigation Owner(s)	**Finance Director / Business Capabilities Director** (Iain Craven / Dawn Madin)			
Corporate Risk Theme	**TfN Compliance with Relevant Laws and Regulations**			
Risk Probability	**Low**			
Nature of Risk Impact	Fusce posuere, magna sed pulvinar ultricies, purus lectus malesuada libero, sit amet commodo magna eros quis urna. tristique senectus et netus et malesuada fames ac turpis egestas. Proin pharetra nonummy pede.			
Current Risk Impact			**High**	
Post-Mitigation Impact		**Medium**		
Risk/Mitigation Owner(s)	**Business Capabilities Director / Head of Legal Services** (Dawn Madin / Julie Openshaw)			
Corporate Risk Theme	**Revised Framework - Delivery of Contactless on Rail and Local Smart Ticketing**			
Risk Probability	An Issue			
Nature of Risk Impact	Fusce posuere, magna sed pulvinar ultricies, purus lectus malesuada libero, sit amet commodo magna eros quis urna. tristique senectus et netus et malesuada fames ac turpis egestas. Proin pharetra nonummy pede.			
Current Risk Impact				**Very High**
Post-Mitigation Impact			**High**	
Risk/Mitigation Owner(s)	**IST Programme Director** (Jeremy Acklam)			

Corporate Risk Theme	**The Northern Powerhouse Rail (NPR) Business Cases and Programme Development**			
Risk Probability	An Issue			
Nature of Risk Impact	Fusce posuere, magna sed pulvinar ultricies, purus lectus malesuada libero, sit amet commodo magna eros quis urna. tristique senectus et netus et malesuada fames ac turpis egestas. Proin pharetra nonummy pede.			
Current Risk Impact			**High**	
Post-Mitigation Impact			**High**	
Risk/Mitigation Owner(s)	**NPR Programme Director** (Tim Wood)			
Corporate Risk Theme	**Rail Operations (Franchise Management and Investment)**			
Risk Probability				**Very High**
Nature of Risk Impact	Fusce posuere, magna sed pulvinar ultricies, purus lectus malesuada libero, sit amet commodo magna eros quis urna. tristique senectus et netus et malesuada fames ac turpis egestas. Proin pharetra nonummy pede.			
Current Risk Impact				**Very High**
Post-Mitigation Impact				**Very High**
Risk/Mitigation Owner(s)	**Strategic Rail Programme Director** (David Hoggarth)			

Section 2: Probability & Impact Scoring and Assessment Criteria

TfN's Probability Impact Criteria, as illustrated below, is a risk management tool that enables the risk likelihood and impact to be calculated to produce an aggregated risk severity and exposure for each risk. The corporate risks are plotted according to the probability of occurrence and the impact upon an activity should the risk happen.

The qualitative risk ranking (risk score) could be generated by multiplying the probability with the maximum of the impacts (i.e. financial, reputation etc.) for each risk.

Rating		Probability of the Risk Materialising (%)	Definition of Impact
5		100% likelihood that the risk will materialise	One or more of the implications will have an effect on business plan objectives and/or KPIs.
4		81-100	• Financial Implication: **£>2m** • Schedule Implication: **> 12 (months)** • National long-term negative media coverage, significant loss of trust and credibility • Severe relationship issues with partners and/or third parties (such as Local Authorities, public)
3		51-80	• Financial Implication: **£1m - £2m** • Schedule Implication: **9 - 12 (months)** • National short-term negative media coverage There is evidence of relationship issues with partners/or and third parties (such as Local Authorities, public)
2		21-50	• Financial Implication: **£500K - £1m** • Schedule Implication: **3 - 9 (months)** • Local media damage • No or minor strained relationship with partners and/or third parties (such as Local Authorities, public)
1		< = 20	• Financial Implication: **£0 - £500K** • Schedule / Time delay Implication: **0 - 3 (months)** • Local media attention quickly remedied No strain relationship with partners and/or third parties (such as Local Authorities, public)

Section 3: Qualititative Assessment on the Levels of Mitigation Control

In order to provide assurance on how TfN's corporate risks are impacted by the mitigation activities set out in this document, the identified mitigation action plans have been categorised between:
High Control,
Medium Control and
Low Control
to demonstrate TfN's level of influence and control on mitigations that have been identified to address those risk outcomes. These are set out below:

- **High Control:** TfN has direct control over the identified mitigation strategies. That is, TfN has the power and/or ability to fully implement the mitigations and as a result, contribute to the successful mitigation of the associated risk.
- **Medium Control:** TfN has some control over the identified mitigation, however, collaborative efforts are required with relevant partners or other stakeholders in order to be successful in the management of the action plans. TfN may be able to deploy additional resources to increase its ability to influence risk outcomes.
- **Low Control:** TfN has very limited control over the identified mitigations. It requires joint involvement or decision to be made co-client/stakeholders. Without joint involvement, the likelihood of the risk materialising increases. Whilst TfN can attempt to influence the factors impacting on such risks, it has a low level of control over how the mitigations are implemented.

Section 4: Qualititative Risk Analysis of TfN's Corporate Level Risks

Risk ID: TCR01
Risk Title: [insert title of risk as per Table 1]
Risk Proximity: Short – Medium Term
Risk Ownership: Chief Executive, Barry White

Description of Identified Risks:

(1) Lorem ipsum dolor sit amet, consectetuer adipiscing elit. Maecenas porttitor congue massa. Fusce posuere, magna sed pulvinar ultricies, purus lectus malesuada libero, sit amet commodo magna eros quis urna;
(2) Nunc viverra imperdiet enim. Fusce est. Vivamus a tellus;
(3) Pellentesque habitant morbi tristique senectus et netus et malesuada fames ac turpis egestas. Proin pharetra nonummy pede. Mauris et orci;
(4) Aenean nec lorem. In porttitor. Donec laoreet nonummy augue.

Impacts of Identified Risks:

- Suspendisse dui purus, scelerisque at, vulputate vitae, pretium mattis, nunc. Mauris eget neque at sem venenatis eleifend. Ut nonummy.
- Lorem ipsum dolor sit amet, consectetuer adipiscing elit. Maecenas porttitor congue massa. Fusce posuere, magna sed pulvinar ultricies.
- Suspendisse dui purus, scelerisque at, vulputate vitae, pretium mattis, nunc. Mauris eget neque at sem venenatis eleifend.

	Assessed Risk Impact			
	Low	**Medium**	**High**	Very High
Risk Probability				
Low		(4)	(1)	
Medium			(2)	
High				
Very High				
An Issue			(3)	

Mitigations of Identified Risks, Level of Control and Progress on Action Plans:

Mit #	Mitigation Summary	Control Level	Progress
1	[Summary of mitigations and actions]	**High Control** [Summary of why it is a High Control]	**Date:** [Summary of Progress]
2	[Summary of mitigations and actions]	**Medium Control** [Summary of why it is a Medium Control]	**Date:** [Summary of Progress]
3	[Summary of mitigations and actions]	**Low Control** [Summary of why it is a Low Control]	**Date:** [Summary of Progress]

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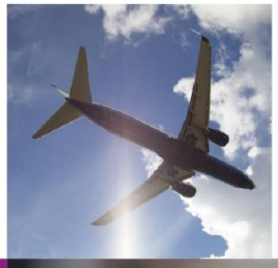

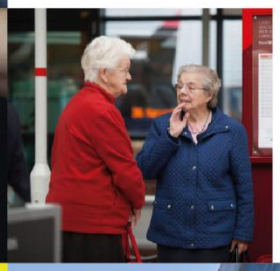

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