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TRANSPORT FOR THE NORTH

# Transport for the North
# Audit & Governance Committee
# Agenda

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| **Date of Meeting** | **Friday 25 February 2022** |
| **Time of Meeting** | **11.00 am** |
| **Venue** | **MS Teams** |

**Filming and broadcast of the meeting**

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| Item No. | Agenda Item | Page |
|---|---|---|
| **1.0** | **Welcome & Apologies**<br>The Chairman to welcome members to the meeting. | Verbal Report |
| **2.0** | **Declarations of Interest**<br>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**<br>To approve as a correct record the Minutes of the Audit & Governance Committee consultation call held on 19 November 2021. | 3 - 8 |
| **4.0** | **Monthly Operating Report (January 2022)**<br>To note and discuss the Transport for the North Monthly Operating Report. | 9 - 36 |
| **5.0** | **Internal Audit Update**<br>To note the reports from RSM Risk Assurance Services<br>- Cyber Security Audit<br>- Progress Report, February 2022<br>- Internal Audit Strategy & Plan 2022/23<br>- RSM Conformance with IIA Standards | 37 - 104 |
| **6.0** | **External Audit Update** | 105 - 140 |

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| | To note the report from Mazars<br>- Progress Report<br>- Annual Report | |
| **7.0** | **Treasury Management Strategy**<br>To note and provide feedback upon the proposed Treasury Management Strategy for 2022/23. | 141 - 206 |
| **8.0** | **Review & Preparation of the Annual Governance Statement**<br>To note the report and provide feedback on the draft Annual Governance Statement. | 207 - 232 |
| **9.0** | **Corporate Risk Register**<br>To highlight the significant risks associated with Transport for the North's ongoing programmes and the updates to the Risk Register. | 233 - 274 |
| **10.0** | **Election of new Committee Chair**<br>To begin the process of electing a new Chair of Audit & Governance Committee from the current Independent Members for formal ratification at the next in-person meeting of the Committee. | Verbal Report |
| **11.0** | **Future Meeting Dates**<br>Confirmation of the dates and format (virtual vs in-person) for the 2022/23 meetings of the Audit & Governance Committee. | Verbal Report |

# Transport for the North Audit & Governance Committee – Minutes

**Meeting:** Transport for the North Audit and Governance Committee Consultation Call

**Date:** Friday 19 November 2021, 11:00 – 12:20

**Venue:** MS Teams remote meeting

**Attendees:**

| | |
|---|---|
| Chris Melling (Chair) | Independent Member |
| Cllr Keith Little (Vice-Chair) | Cumbria County Council |
| Kevin Brady | Independent Member |
| David Pevalin | Independent Member |
| Graham Bell | Independent Member |
| Cllr Heather Scott | Tees Valley |

**Invitees:**

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|---|---|
| Campbell Dearden | External Audit, Mazars |
| Andrew Mawdsley | Internal Audit, RSM UK |
| Lisa Randall | Internal Audit, RSM UK |

**Officers**:

| | |
|---|---|
| Iain Craven | Finance Director |
| Paul Kelly | Financial Controller |
| Tasnim Maniza | Interim Risk Manager |
| Manjit Dhillon | Senior Lawyer |
| James Lyon | Legal Assistant |

**Apologies:**

| | |
|---|---|
| Cllr Liam Robinson | Liverpool City Region |
| Karen Murray | External Audit, Mazars |

**1.0 Welcome and Apologies** **Action**

1.1 The Chair welcomed Members to the consultation call, apologies as noted above.

**2.0 Declarations of Interest** **Action**

2.1 There were no declarations of interest.

**3.0 Minutes of the Last Meeting and Matters Arising**

3.1 The Chair advised that, due to the meeting being held as a Consultation Call, the Committee was unable to formally approve the minutes of 16 September 2021.

3.2 There were no comments arising from the minutes.

**RESOLVED:** To note the minutes of the consultation call held on 16 September 2021 as a true and accurate record prior to formal approval at the next in-person meeting.

**4.0 Monthly Operating Report (September 2021)**

4.1 Iain Craven advised that, due to timings of report publication for this meeting, this was the September report. However, the October report was now on the website. It was also noted that the long-delayed Integrated Rail Plan had now been published.

4.2 Progress as outlined in the report was positive, with considerable engagement with the new Great British Railways transition team, and the development of policies including decarbonisation, freight & logistics strategies, and the Major Roads Report.

4.3 Funding remained uncertain with the latest indication that it would be January before TfN received notification of its settlement.

4.4 The initial response to the IRP had been generally negative across the north. However, TfN was still working through the detail of the plan in order to provide a more substantive response at TfN board on 24 November. The current implications as understood by TfN would mean a change of governance as TfN's role changed from that of co-client to being a co-sponsor.

4.5 The Committee acknowledged that limited time had passed since publication but asked TfN to report back as to how the plan as published would impact TfN's risk register, the funding arrangements and business planning timelines.

**RESOLVED:** The report was noted, as were the significant implications of the publication of the IRP.

**5.0 Internal Audit Update (R)**

To note the reports from RSM Risk Assurance Services
- Purchase to Pay
- Flexi-Time System
- Progress Report

5.1 The reports were taken as read and a brief summary of the testing of the Purchase-to-Pay process and the Flexi-Time system was given. RSM thanked TfN for the support given throughout the audits and emphasised the assurance given in both reports.

5.2 Kevin Brady queried the operation of the controls within the Flexi-Time System in relation to the management of working from home. It was noted that TfN had adopted flexible working prior to the pandemic and therefore its systems and processes were set up to facilitate remote working. RSM provided a good level of assurance that the system had been well embedded and positively received within a relatively short space of time.

5.3 The Progress Report was noted as being on schedule with no issues of concern. A meeting would be held shortly between TfN and RSM to agree the internal audit programme for 2022/23 and Iain Craven asked the Committee if they had any specific requests for audit items to notify him.

5.4 Kevin Brady questioned the timing of the Follow Up Report detailing management actions; Andrew Mawdsley reminded the Committee that the Follow Up had taken place in April 2021 in order to then determine the timings of the audit plan for the remainder of the year.

**RESOLVED:** The reports, and the positive assurance contained within, were noted.

**6.0 External Audit Progress Report (R)**

6.1 Campbell Dearden reminded the Committee that Mazars had recently issued their unqualified opinion on TfN's financial statements adding that only 9% of opinions had been given by that stage across the UK public sector and he thanked TfN's finance team for their work.

6.2 He advised that Mazars were yet to receive the guidance on the work required in relation to Whole of Government Accounts, which was now expected in December. However, TfN was below the threshold for detailed testing so the sign off was expected to be relatively quick.

6.3 The Value for Money statement was due for final issue by end of December, with Mazars expecting to issue a draft shortly with no concerns raised about the timings.

**RESOLVED:** The audit report was noted and there were no further questions arising.

**7.0 Preparation of the Annual Governance Statement**

7.1 Manjit Dhillon reminded the Committee of the sequence of reports due throughout the year to review the Annual Governance Statement with reference to any changes in policy and procedure within TfN.

7.2 The review would also consider any impact arising from the recent publication of the IRP and the Committee would be kept appraised of the Statement throughout its review process, with the final report due for publication in May 2022.

7.3 Graham Bell asked if the report would present only the outcomes of the review or if it would also detail the challenges. Iain Craven advised that the normal process was to present the finished article as part of the financial statements, However, he noted that he would be happy to include and challenges that had arisen as that would be consistent with TfN's existing Scrutiny arrangements whereby TfN Board were advised of any comments or issues that had been identified by Scrutiny Committee in the reports that are presented to it.

**RESOLVED:** The report timelines were agreed by the Committee.

**8.0 Financial Update (R) incorporating:**

- Year to Date Position
- Budget Revision 2
- Incremental Grant Claim
- Mid-Year Treasury Management Update
- Opting into PSAA Regime

8.1 Paul Kelly presented a slide pack covering the matters included in the report.

8.2 TfN's year-to-date position reflected an underspend of £2.95m, mostly accrued from delays in the NPR programme caused by the delay in the publication of the IRP.

8.3 Budget Revision 2, compiled in the previous 2-3 weeks, built on Revision 1. However, there remained a significant degree of uncertainty in terms of draw-down against committed budget while the outcomes of the IRP were worked through. TfN had put in place a virement process to ensure that funding could be transferred to projects known to be viable and ensure that, as far as possible, the budgeted spending profile was maintained.

8.4 Iain Craven added that Budget Revision 2 would be presented to TfN Board on 24 November. However, the dependencies on the outcome of the IRP were such that a clearer picture would be presented in Budget Revision 3 due in January.

8.5 Cllr Heather Scott requested that a comment be made at TfN Board advising on the situation known to-date on the outcomes of the IRP

and the potential impacts on TfN's finances as well as a note to Board that Revision 2 had been seen by Audit & Governance Committee.

8.6 The incremental grant claim, ringfenced in-year funding from DfT intended to accelerate existing specific programmes, had not yet been finalised and the Committee were simply asked to note that it had been applied for.

8.7 TfN had been fully compliant with its Treasury Management Strategy and Paul Kelly advised that security and liquidity remained the primary focus of TfN's strategy since yields were so low as to be negligible.

8.8 The Committee were also asked to note TfN's intention to continue to procure its external audit services via Public Sector Audit Appointments (PSAA) and this intention would be taken to TfN Board on 24 November for approval. Iain Craven advised that the arrangement had saved a significant amount of work and the Committee provided unanimous support for proceeding with the procurement via PSAA.

**RESOLVED:** The reports were all noted along with the intention to provide a verbal update at TfN Board on 24 November alongside the information already circulated to Members.

**9.0 Risk Review**

9.1 Iain Craven advised of the recent changes in staffing that had caused some issues with collating and revising the risks and summarised the updates and changes. It was hoped that a more comprehensive update, taking into account the outcomes of the IRP, would be given at the next meeting. However, it was noted that the risks to-date had been dominated by delays to the IRP while future risks would be largely based on more material aspects of programme delivery and organisational impact.

9.2 The Committee noted the significant challenge of rewriting large parts of the risk register to map it across to TfN's new operating model as and when that was known; Graham Bell offered any support required to assist with this task and his offer was noted with thanks.

9.3 Kevin Brady picked up on this point, reflecting that the transition from the risks listed currently to the revised risks needed to be clearly outlined alongside TfN's limited control of mitigations for many of them and any change of role and/or ambition for the organisation. Iain Craven agreed noting the intention to take the revised register to TfN Board in March and he briefly acknowledged the specific risks within the register which would need updating.

9.5 The ongoing delay to TfN's funding settlement was also noted as a significant risk, with uncertainty likely until mid-January.

9.6 **RESOLVED:** The risk register was noted alongside the intention for a significant revision.

**10.0 Future Meetings**

10.1 The Chair proposed five meeting dates for 2022 asking the Committee for any responses and advising that holding appointments would be sent out shortly.

10.2 The intention was to hold three of the meetings virtually and the remaining two in person, one in Manchester and one in Leeds. The proposal was that the meetings in July and November would be in-person due to the need to recommend the accounts to TfN Board (July) and to sign off the Annual Governance Statement (February).

10.3 Kevin Brady asked if hybrid meetings could be considered; Iain Craven advised that currently they were not an option for public-facing meetings partly for technical reasons and partly in terms of quoracy and at this time in-person meetings should be considered as having no dial-in option.

**RESOLVED:** The Committee agreed the dates in principle with time allocated to allow diary checks before appointments were sent out.

**The meeting concluded at 12:20**

# Transport for the North Monthly Operating Report January 2021

TRANSPORT FOR THE NORTH

# Contents

# Introduction
## Summary from the Chief Executive

The TfN Board met on the 25 January 2022 and appointed Lord McLoughlin as the new independent Chair. Throughout January TfN has continued to understand the implications of the Government's Integrated Rail Plan for the Midlands and the North (IRP) both as a whole and for individual projects such as the Investment Programme Benefits Analysis (IPBA). January also saw further progress in determining the implications of the new delivery arrangements for Northern Powerhouse Rail (NPR), with TfN confirmed to be moving to a co-sponsor role after April 2022. TfN has begun the consultation process with staff identified as being in-scope for transfer to DfT under the requirements of TUPE. The target date for transfer of staff is 1st April 2022.

TfN continues to await confirmation of the core operational budget for 2022/23 and beyond. This uncertainty presents significant challenges to the Executive Team in terms of Business Planning. At the time of writing discussions are on-going with the Department.

Following considerations around an updated NPR remit to align with the priorities set out in the IRP, a revised programme remit paper was presented at NPR Delivery Group and Programme Board. The paper set out a way forward for NPR's infrastructure and business case activity and was endorsed by members of Programme Board.

The Strategic Rail team continues to engage with the Great British Rail (GBR) Transition Team as TfN looks to develop its more detailed proposal for how rail reforms might build on the existing Rail North Partnership working arrangements. TfN's support of the Manchester Recovery Task Force (MRTF) continues via Rail North Committee, and the team responded to GBR's call for evidence for their Whole Industry Strategic Plan (WISP).

The TfN Freight & Logistics Strategy was launched in early January using TfN's first virtual consultation room. The consultation throughout January was supported by a TfN Talks session, podcast, and the Transport Across the North All Party Parliamentary Group. The Strategy and Policy team continued to develop a number of policy position statements to inform the revised Strategic Transport Plan, and in January position statements on active travel and multimodal hubs went through Scrutiny Committee and Executive Board for feedback.

Investment Programme Benefits Analysis (IPBA) team members continue to develop the Strategic Programme and Outline Case (SPOC). DfT has requested that TfN's Major Roads team undertake a review of MRN and Large Local Major (LLM) interventions, with the process of holding one-to-one discussions with the scheme promoters underway.

# Northern Powerhouse Rail (NPR)

## Monthly Summary

A revised programme remit paper was agreed with the NPR Programme Board in January 2022, providing a clear way forward for both infrastructure and business case activity for the remainder of the 2021/22 financial year (FY). Discussions between DfT and the Technical Assurance, Modelling and Economics (TAME) team to confirm the analytical remit are ongoing.

## Activity Update

### Business Case

The Business Case team has continued to develop shortlisting history documentation and remains on track to complete drafts in February 2022. Regarding Rotherham Main Line (RML), the team is continuing to plan a review of the updated evidence to support the station sift, which is scheduled to take place on 17 February 2022. The infrastructure, modelling and analysis, commercial, land referencing and strategic information is being collated with the aim of completing the evidence review slides by 8 February. A partner drop-in session is planned ahead of the evidence review meeting to give an overview of objective of the meeting and answer any questions. After the sift has been completed, an option assessment report will be produced by the team and shared with Rotherham Metropolitan Borough Council (RMBC) to support their land business case.

### Infrastructure

Value engineering on options 5-1 and 5-2 of the Liverpool-Manchester corridor and Warrington station design commenced in period and will continue into next FY under new commercial arrangements between DfT, as client, and Network Rail. Separately, shorter studies regarding Bradford-Huddersfield connectivity and interventions that may be required at Bradford Interchange to support IRP outcomes have been instructed and are due to complete by 31 March 2022. The scope has been discussed with partners at various sessions in January including at delivery group on 13 January 2022. The remaining ground investigation work for Leeds-Hull commenced on 8 January 2022 and is due to complete on 2 February 2022. Completion of this activity will allow scope and costs along the route to be revised. Network Rail's Governance for Rail Investment Projects (GRIP) 2, which is the second Network Rail process stage that manages and controls investment projects, is scheduled to complete for Leeds-Sheffield on 10 February 2022 for current remitted activity. Should any additional scope items be agreed on the corridor between DfT and TfN, they will have to go through GRIP2 separately. Lastly, the systemwide train control strategy is due to be delivered on 17 February 2022.

### Technical Assurance, Modelling and Economics (TAME)

Northern Economic Land Use Model (NELUM) version 3 development was completed in the month and work has begun on producing the required supporting documentation outlining the changes and updates to the model. The Rail Model & Appraisal Partner (RMAP) contract is expected to be awarded in February 2022 and, following additional funding approval from DfT, scoping of additional activity is underway on Wider Economic & Social Impacts Partner (WESIP), Northern Transport Modelling System (NoRTMS) Development

Partner and Northern Modelling Integration Tools (NorMITs) Demand Partner contracts for the remainder of the FY.

**Commercial Management**

Final accounting requirements are being discussed between NPR and TfN Finance teams. The Commercial Management team is continuing to review contracts that will conclude at the end of FY21/22 and prepare formal notice of termination as per the terms and conditions of contract.

## Risks

| Issue Summary | Plan | KPI |
|---|---|---|
| **TfN does not accept the conclusions in the IRP, therefore TfN is unable to agree how NPR is to be delivered going forward.** | Discussions remain ongoing between TfN and DfT related to the IRP. | 7-11 |
| **Risk Summary** | **Summary of Mitigating Measures** | **KPI** |
| **Transpennine Route Upgrade (TRU) integration.** There is a risk that the NPR programme may become misaligned from the TRU programme if there is a lack of proper integration between the programmes, and if there is no/minimal reciprocal representation within each programme's governance. This may result in avoidable costs and delays being incurred due to duplication of effort, rework and strategic misalignment. In addition, the lack of integration may lead to missed opportunities for cross-programme assurance. | 1. A regular monthly meeting, allowing for more collaboration on key infrastructure between NPR and TRU is in place between TfN and Network Rail colleagues.<br>2. TfN presence (NPR and Strategic Rail Directors) at periodic TRU oversight and TRU Programme Board meetings is to take place going forward. | 7, 8 |
| **Controlled loss of resources.** If a decision is made by DfT late in Q4 FY21/22 to not re-procure existing contracts, there is a risk that the programme may suffer knowledge loss, due to limited handover time between consultant and TfN resources. This may also impact delivery momentum on the programme early next financial year. | 1. Confirmation from DfT regarding procurement requirements and timings.<br>2. Information management to support programme delivery transition is underway. | 7-11 |
| **Uncontrolled knowledge/resource loss.** Due to the remaining uncertainty on TfN's role in the delivery of NPR as well as funding arrangements, there is a risk that key resource, and subsequently knowledge, may be lost across the programme in an uncontrolled manner (e.g., resources voluntarily leave the programme with short notice). | 1. Confirmation on future working arrangements and funding required to be clarified in Q4 FY21/22.<br>2. Programme to provide updates to TfN staff and consultant organisation on arrangements in FY22/23. | 7-11 |

## Programme and Look Ahead

### TfN Board

Papers for TfN Board were planned to reflect SOC development, however, DfT is yet to confirm SOC approach going forward. Once the approach is known, the forward look ahead can be updated.

# Strategic Rail

## Monthly Summary

TfN is continuing to develop its more detailed proposal for how the rail reforms might build on the existing Rail North Partnership working arrangements. Engagement has commenced with the GBR Transition Team and city region transport authorities.

TfN is continuing to shape the work of the Manchester Recovery Task Force (MRTF), supporting work on the blueprint linking infrastructure and services. Operators have consulted on the detailed timetables for December 2022. The team is working closely with the Rail North Partnership (RNP) on train operator Business Plans for next year, with a progress report presented to TfN Board on 25 January. TfN input is being led via the Rail North Committee. The Strategic Rail team prepared a response to the GBR Transition Team's call for evidence for their Whole Industry Strategic Plan (WISP), and (in collaboration with Atkins) a Combined Train Service Specification (CTSS) for 2050.

## Activity Update

Rail Operations

Passenger demand on Northern and TransPennine Express (TPE) is increasing again following the impact of the Omicron variant. The recovery is still significantly stronger in the North than the sector average nationally. Performance has been impacted by an increase in Covid-19 infections impacting on staffing levels for both Northern and TPE, leading to services being cancelled or reduced timetables across both operators.

TfN is working with the DfT and industry on revised proposals for the East Coast Main Line (ECML) timetable following the deferral of the proposed 2022 timetable change. TfN has commissioned consultants to begin co-ordinating the ECML 'blueprint' which will bring together the infrastructure requirements and timetable into a cohesive plan.

Rail Investment

Draft Terms of Reference for a Transpennine Route Upgrade (TRU) Stakeholder Forum that TfN will chair have now been issued to DfT for approval. Wider governance issues relating to TRU form part of the ongoing discussions with DfT regarding co-sponsorship for Northern Powerhouse Rail (NPR). The outputs of the analysis of the performance benefits of providing platforms 15/16 at Manchester Piccadilly station, alongside a remodelled Oxford Road, are being considered by the Manchester Recovery Task Force (MRTF). Following the reference in the IRP to a study on the optimal solution for Leeds station capacity and the need to look at opportunities to improve connectivity between Sheffield and Leeds, TfN will now work with Network Rail, West Yorkshire Combined Authority and South Yorkshire Mayoral Combined Authority, drawing on our evidence base.

Digital Strategy

A report on the scope of the Northern Digital Mobility Strategy will be presented to the Executive Board on 10 February.

## Risks

| Risk/Issue Summary | Summary of Mitigating Measures | KPI |
|---|---|---|
| **Proposed timetable changes on the East Coast Main Line (ECML) in May 2023 and Manchester in December 2022 will have** | 1. TfN has appointed a consultant to explore how regional services that would be lost can be restored on ECML. | 1 |

| | | |
|---|---|---|
| **an impact on local connectivity.** On the ECML, there is a risk of reduction in East-West connectivity to facilitate an additional North-South service from Newcastle to London. In relation to Manchester, a new timetable structure has been agreed from December 2022 to improve performance, but at the expense of some connectivity in the short-term pending infrastructure improvements. | 2. TAME has undertaken work on the economic impacts of the timetable change on the ECML.<br>3. Blueprint linking future service changes to infrastructure is being developed.<br>4. Collaborative work continues with DfT and partners to identify and mitigate any severe impacts in Manchester. | |
| **The Rail Reform White Paper has insufficient detail about the role of TfN and other devolved bodies to allow a clear appreciation of their future role.** TfN could have a different role in service delivery following the publication of the Williams-Shapps review. The role of devolved bodies or RNP is not outlined in the White Paper with current proposals showing rail contracts aligning under GBR. | 1. TfN, through its role on the RNP, continues to engage with the DfT at the highest level.<br>2. TfN is now working collaboratively with Network Rail and the GBR Transition Team on a proposition for rail in the North under the White Paper proposals. | 3 |
| **The long-term effect of Covid-19 on the viability of train services and future investment decisions.** There is a risk that the current services could be cut due to the increased cost of the subsidy and that the passenger enhancements (e.g. the completion of new infrastructure) will continue to be delayed with lower service offerings on routes which in turn will lead to weaker business cases. | 1. Work with the industry to develop new ways to reduce the level of subsidy.<br>2. Use the Return to Rail campaign to increase revenues and use RNP as an avenue to influence change.<br>3. Provide value for money options that align with decarbonisation aims, future growth, and opportunities to improve connectivity.<br>4. Work with the industry on initiatives and fares options to increase demand. | 1 |
| **TRU fit with the wider investment strategy in the North.** Following publication of the IRP, lack of Government commitment to a full eastern leg of HS2 and full delivery of the TfN Board approved NPR network risk the integration with TRU and fit with Strategic Transport Plan and Long-Term Rail Strategy objectives. This presents a reputational impact for TfN. | 1. Strategic Rail, Strategy & Programmes, and NPR continue to work with the DfT to review IRP outputs and consult with Members to identify the way forward for programmes across the North.<br>2. Continue to challenge the cost of major schemes and support the identification and development of complementary and independent interventions on the classic network that could be delivered early.<br>3. Ensure representation is maintained on the TRU Programme Board and to support development of a Stakeholder Forum. | 6 |

## Programme and Look Ahead

- Working through the Rail North Committee on the Manchester Blueprint linking service changes to infrastructure.
- Continue to engage with Network Rail on developing the sequence and programme of interventions in Manchester.
- Working through the Rail North Committee to shape the development of future timetables for ECML and develop a 'blueprint' that aligns service improvements with infrastructure investment.
- Work in collaboration with RNP on influencing the train operator Business Plans for 2022/23 and the following two years to get the best outcomes for the North.
- Working with the GBR Transition Team and city region authorities on a proposition for rail under the Williams-Shapps White Paper.
- Complete and publish the response to the GBR WISP call for evidence.
- Commence work on refreshing the Long-Term Rail Strategy.

# Strategic Transport Plan (STP)

## Monthly Summary

In September 2021, TfN Board agreed that TfN should commence work on a new programme of work to revise and update the Strategic Transport Plan (STP) and seek adoption of the new plan no later than Spring 2024. In January, a supplier was appointed to support the final phase of the planning and preparation for the STP programme, as well as taking the first set of policy position statements through TfN governance for feedback and sign off in early 2022.

The STP programme will help guide and prioritise policy development, research and analysis within TfN as work on the STP progresses. The technical detail and scope of the activity will need to be scaled to TfN's overall funding level and agreed with the Board through the Business Plan for 2022/23. TfN will carefully manage uncertainties and external dependencies by creating a flexible plan that can respond to events. We also need to align to Government and partner activities as well as industry processes, particularly the creation of Great British Railways (GBR).

## Activity Update

- The overall programme and approach to developing the STP was agreed in principle with the TfN Board at the end of September 2021. In agreeing the programme, the Board has asked officers to consider how the timetable for adopting the STP could be brought forward from Spring 2024.
- A more detailed programme including options for accelerating elements of the process has been developed by officers and would see the adoption of the revised STP being brought forward to December 2023, subject to governance dates and funding.
- To support the final phase of the planning in December we went out to market to commission some external support to help complete the STP planning activities by year-end. In January this process was completed, and a chosen supplier appointed: work has begun. These additional activities will build from the agreed programme and start to consider the structure of the document as well as a suitable stakeholder engagement plan to support the development and adoption next financial year.
- TfN is continuing its programme of work to update the policy positions originally set out in the 2019 STP. Activity in January has focused on taking the revised draft policy positions on active travel and multimodal hubs through TfN's Scrutiny Committee, Executive Board and TfN Board, albeit due to time constraints these items were deferred from January Board to the February consultation call.
- Policy development activity is now focused on international connectivity and rural mobility and will be taken through our Strategic Oversight Group and Executive Board in February for feedback before we finalise the position and take through full governance for sign off. In addition to these areas further policy development work is also required early in the 2022/23 financial year to explore local connectivity, social inclusion and buses.

- Colleagues in Strategy and Strategic Rail have been working closely together throughout January to further scope what is required to update the Long-Term Rail Strategy (LTRS) in advance of the revised STP. It is expected that an agreed scope and timeline will be in place by the end of the current financial year.
- An early step in updating TfN's strategic objectives is to refresh the Northern Powerhouse Independent Economic Review (NPIER), first published in 2016.
- In support of the STP programme and in preparation for the full NPIER programme expected to commence in 2022, TfN has recently commenced work on research revisiting the central themes of the NPIER and review progress in growing the prime and enabling capabilities since 2016.
- A longer-term programme of work to refresh the NPIER is being developed with Northern Local Enterprise Partnerships (LEPs).

Risks that may impact the STP are currently represented within the Strategy, Policy, Research & Economics section.

## Programme and Look Ahead

Through the programme there will be a number of significant staging points and decisions, including:

- **February 2022**: adoption of the first series of TfN policy positions that will feed into the revised STP, expected publication of the Levelling Up White Paper.
- **March 2022**: adoption of the second series of TfN policy positions that will feed into the revised STP.
- Mid/late 2022: agreeing a new NPIER and agreeing the objectives and outline scope of the next STP.
- Early 2023: agreeing the key road and rail investment priorities for the North, updating the Northern Infrastructure Pipeline, and the final evidence base for the STP.
- Spring 2023: Board approval of the draft STP ready for consultation.
- Summer 2023: statutory public consultation on the draft STP.
- Early Autumn 2023: response to the consultation.
- End 2023 or early 2024: new STP adopted by Board.

# Strategy, Policy, Research & Economics

## Monthly Summary

Key policy and strategy development activities included the launch of the TfN Freight & Logistics Strategy consultation, continuing to assess the implications of the Integrated Rail Plan, taking the draft spatial planning, multimodal hubs and active travel policy positions through TfN governance. A member working group for our Northern Transport Charter provided updates on citizen engagement, piloting the Independent Advisory Group and prioritisation. Work continues on the research team's projects including transport, health and wellbeing research, Monitoring and Evaluation Programme Benefits Mapping, Transport-Related Social Exclusion and the Northern Powerhouse Independent Economic Review.

## Activity Update

- TfN continued to implement the activities set out in the Transport Decarbonisation Strategy, including work on an Electric Vehicle Charging Framework (led by the Major Roads team), hydrogen refuelling for HGVs, and Clean Mobility Vision workstream. A new workstream on aviation decarbonisation has been launched, linked to our policy position work on international connectivity. We have continued to work alongside DecarboN8 to develop methodologies for appraising strategic embodied carbon.
- The TfN Freight & Logistics Strategy was launched in early January using TfN's first virtual consultation room. The consultation period ran until the 31 January, and was supported by a TfN Talks session, podcast, and the Transport Across the North All Party Parliamentary Group. The final version of the strategy will be submitted to TfN Board for approval in March.
- TfN continued to develop a number of policy position statements to feed into the revised STP. In January, position statements on active travel and multimodal hubs went through Scrutiny Committee and Executive Board for feedback before being tabled for the Board meeting on the 25 January but deferred to a future meeting.
- Work to embed the principles of the Northern Transport Charter (NTC) into TfN's wider workstreams continues. In January an NTC Member Working Group updated members and sought steers on emerging plans for engaging with academic experts to pilot the NTC Independent Advisory Group function, identified a preferred approach for the NTC Citizen's Engagement pilot and held a high-level discussion around the need for TfN to undertake further prioritisation of our Investment Programme.
- Further work has been undertaken to respond to the Government's Integrated Rail Plan published in November, including reviewing the technical annex and Strategic Alternatives Report published on 24 January. TfN has submitted evidence to the Transport Select Committee Inquiry into the IRP and appeared before the Committee on 2 February. TfN is continuing to consider the role of funding contributions to rail schemes. Discussions with DfT on the proposed sponsorship role on NPR are ongoing. TfN has commenced work on a 2050 end-state Combined Train Service Specification to set out the vision as in the Long-Term Rail Strategy. This work is being done with TfN partners and aligned with Network Rail work to consider 2032 timetable requirements and will be complete at the end of March 2022. It will be used to inform the refresh of the Long-Term Rail Strategy.

- The final report of the Union Connectivity Review (UCR), led by Sir Peter Hendy, was published on 26 November. TfN met with the DfT's Union Delivery Team in January and has shared work on Strategic Development Corridors with them. The UCR was discussed by the TfN Board on 25 January which agreed to strengthen links with devolved administrations in Scotland and Wales.
- A number of internal benefits mapping workshops have been completed across TfN workstreams as part of the monitoring and evaluation research.
- Work is underway on the Northern Powerhouse Independent Economic Review (NPIER) project to assess the prime and enabling capabilities, collate local evidence and arrange workshops with key Northern stakeholders to support development of the NPIER Refresh.

## Risk

| Risk/Issue Summary | Summary of Mitigating Measures | KPI |
|---|---|---|
| **STP buy-in from Government.** Risk central Government (DfT) may not consider and/or listen to or accept TfN's advice on proposed transport interventions for the North. | 1. Regular engagement sessions with the appropriate leads within DfT to ensure a joined-up approach and regularly discuss the plans to revise the STP, the TfN Transport Decarbonisation and draft Freight & Logistics Strategies with them for comment and feedback. | 19 & 22 |
| **TfN embedding the STP across programmes.** Risk regarding how the STP and policy positions are embedded across the organisation and how they are joined up across the programmes. If not managed well, a working siloed culture may be prevalent, causing a multitude of business issues to TfN. | 1. TfN has recently completed work on the TfN Policy Development Framework which will ensure consistency across TfN workstreams.<br>2. 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.<br>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. | 20 |
| **TfN Transport Decarbonisation Strategy.** TfN is unable to develop appropriate and timely policy positions and undertake activities specific in the decarbonisation strategy, meaning the North fails to achieve close to zero carbon emission for surface transport by 2045. | 1. Careful planning of TfN decarbonisation activities to ensure priority actions are given appropriate focus and resources.<br>2. Dedicated officer in post responsible for ensuring TfN adopts appropriate and timely policies across TfN workstreams.<br>3. Develop mechanisms to ensure decarbonisation and sustainability are reflected in project and strategy decision-making. | 19 |
| **Economics and research programme.** Timescale delay and poor-quality outputs from commissioned projects cause delay to inter-dependent projects and/or reputational damage. | 1. High quality suppliers selected through rigorous procurement process.<br>2. Weekly catch-ups with suppliers to flag any potential timescale delays.<br>3. Thorough discussion of methodology and approach and early sight of outputs to prevent poor quality outputs. | 19, 20 |

## Programme and Look Ahead

- Seeking sign off from TfN Board to the first round of TfN policy positions which will feed into the revised STP – Q4 2021/22.
- Initial piloting of citizen's engagement approaches – Q4 2021/22.

# Investment Programme

## Monthly Summary

The modelling work for the Investment Programme Benefits Analysis (IPBA) project is underway and the project team is preparing the interim Strategic Programme and Outline Case (SPOC). This will help us to understand the economic, social and environmental benefits of the TfN Investment Programme. The analysis will use DfT's conventional growth scenario, and TfN's four Future Travel Scenarios, to assess the Investment Programme against three different funding strategies. This work will enable TfN to make a strong evidence-based case for transport investment and provide a clear picture of the potential impact of the Investment Programme on carbon emissions.

## Activity Update

- The team continues to draft the interim SPOC, with support from colleagues from TfN.
- To de-risk the programme, the Northern Economic Land Use Model (NELUM) will no longer be used for IPBA.
- The modelling work is ongoing and due to finish in February.
- The team provided a progress update with technical colleagues at the DfT on 27 January.

## Risks

| Risk/Issue Summary | Summary of Mitigating Measures | KPI |
|---|---|---|
| **Managing expectations**. If changes to the scope and progress of the project are not sufficiently communicated, there is a risk that the project outputs do not meet partner expectations. This could impact TfN's credibility and relationship with DfT and local partners, which in turn could affect future funding requests for TfN. | 1. Top risks to be presented at the monthly Strategic Oversight Group (SOG) meetings.<br>2. One-to-one briefings to be scheduled with DfT to discuss project assurance, when required.<br>3. Briefings to be presented in plain English so there are no misunderstandings of outputs expected.<br>4. Partners to receive regular communication statements with updates in non-technical terms. | 13 |
| **Partner feedback**. If partners do not respond to requests for feedback during the drafting of the SPOC, there is a risk that the SPOC delivery programme is delayed. This could result in the team not meeting governance dates and the product quality could be compromised. | 1. Offer one-to-one discussions with partners if they have particular feedback that requires further consideration.<br>2. Ensure Technical Assurance Group (TAG) meetings are scheduled a minimum of two days prior to SOG to allow time for TAG members to brief SOG members.<br>3. Make it clear to partners that any delays to the programme will have an impact on SOG and TAG members. | 13 |

## Programme and Look Ahead

- Continue modelling and appraisal work in accordance with the Appraisal Specification Report.
- Continue to develop the interim SPOC for completion in April 2022.

# Major Road Network (MRN)

## Monthly Summary

TfN has submitted a response to the Office for Rail and Road (ORR) consultation on its approach to the development of the third Road Investment Strategy (RIS3) on 28 January 2022.

## Activity Update

- Work is underway to prepare for the delivery of Phase 3 of the Electric Vehicle Charging Infrastructure (EVCI) project. Funding is available from DfT subject to agreeing a delivery plan.
- Delivery of the 2021 mobile dataset, demonstrating the performance of the Major Road Network, is ongoing.
- TfN submitted a response to the Office for Rail and Road (ORR) consultation on its approach to the development of the third Road Investment Strategy (RIS3) on 28 January 2022.
- DfT has requested TfN to lead a review of MRN and Large Local Major (LLM) interventions and report back by 1 March. TfN is in the progress of holding one-to-one discussions with the scheme promoters to review all the projects and prepare a draft report for comment by 18 February.

## Risks

| Risk/Issue Summary | Summary of Mitigating Measures | KPI |
|---|---|---|
| **Alignment with delivery partners.** The Investment Programme will be directly affected by other delivery partners (e.g. Local Transport Authorities, National Highways, etc) and unplanned announcements could impact TfN work. There is a risk that the recommendations of the Investment Programme do not complement the strategies of other organisations. This could result in a reputational impact, as well as the financial and programme implications of any additional work that is required in response to this risk occurring. | **1.** TfN to provide RIS3 recommendations to National Highways.<br>**2.** Manage expectations with partners via IPBA partner briefings by providing work updates and top risks at meetings such as the Strategic Oversight Group. | 16 |
| **EVCI stakeholder expectations and interaction.** If there is any misalignment of objectives or miscommunication with key stakeholders, there is a risk that stakeholders might not be clear on the outputs to be delivered, it's uses, and their inputs required. This could lead to reputational risk, poor partner relations, and project outputs that are not applied effectively. | 1. Host ongoing EVCI Steering Group to test and feedback on outputs.<br>2. Engagement with the DfT and the Office for Zero Electric Vehicles to ensure clear understanding of how this work can support the national agenda and actions.<br>3. The suppliers are to support the partner agreement of inputs to the modelling tool.<br>4. The team is seeking new avenues to promote the work, including Ofgem, National Grid and the Energy Saving Trust (a delivery body for Government regarding electric vehicles).<br>5. Demonstrate the outputs in a visually accessible way. | 17 |

| | | |
|---|---|---|
| | 6. Agree outputs and data sharing approaches with TfN legal team.<br>7. Engage with partners to encourage and suggest uses of project outputs. | |
| **Mobile data outputs under-utilised.** If partners do not have sufficient resources to utilise the MRN mobile datasets, or they do not find use in the outputs, there is a risk that the project outputs may be under-utilised. The value of the work may not be understood and likely to make further bids for future dataset projects more challenging. | 1. Develop a dashboard that will demonstrate the project outputs and examples of use for the data.<br>2. Provide support and training to partners including recorded webinars and step-by-step guidance.<br>3. Use the mobile dataset to strengthen the TfN evidence base for future Major Road Network intervention bids.<br>4. Atkins to present the outputs and outcomes of the project to the Major Roads Group, and produce an executive summary set of slides for sharing. | 14 |
| **MRN1 programme.** If there are delays to the progress of schemes and business case development, there is a risk that schemes do not secure the funding and there is a lack of clear decision-making processes to understand and learn from. This could result in reputational impacts and Partners having less confidence in TfN. | 1. Complete a review of the MRN and LLM schemes with partners in terms of meeting objectives and deliverability<br>2. Regular updates from DfT on the MRN1 programme to be provided via the Major Roads Group.<br>3. Local capabilities funding could allow TfN to provide resource support on MRN schemes<br>4. Maintain regular communication with DfT's Acceleration Unit team. | 18 |

## Programme and Look Ahead

- TfN to complete review of MRN/LLM programme schemes and submit a report to DfT by 1 March.
- National Highways is planning to share draft Route Strategy reports with TfN on 7 February, for feedback by 17 February. These represent an initial draft, with a second round of consultation planned prior to publication of the final reports.
- The Major Roads team will be working with TAME to develop a programme for supporting TfN partners with development of their Bus Service Improvement Plans.
- The team is drafting the scope and programme of EVCI Phase 3 with the support of partners, in response to a DfT offer of funding. The team is also preparing a publication package for the evidence developed to date, including a position paper to highlight key messages.
- Subject to receipt of a 2022-23 funding allocation the team will compete work on finalising the Major Roads plans within TfN's Business Plan.

# Operations Summary

## Monthly Introduction

TfN operational teams include teams and departments that are key to our success as a Sub-national Transport Body and the completion of our authority-wide KPIs, but who are not responsible for the completion of individual projects or programmes. These teams provide support for programmes through specialist skills and knowledge in their relevant areas. Teams included under the operations section include the Stakeholder Engagement & Communications Team (SECT), Finance, Procurement & Risk, and Technical Assurance, Modelling & Economics (TAME). Other teams within TfN may also be referenced under this section when they undertake important activities relevant to the pursuit of TfN's success and wider goals.

## Activity Update

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

Stakeholder Engagement & Communications Team (SECT)

- TfN Board was held in Manchester on 25 January. This was promoted in advance via internal and external channels and to media. We tested Director-led introductions to the Board papers, which were posted on our social media channels. There was considerable media coverage, particularly on the new Chair, TfN funding, IRP, and rail planning. Press releases were issued on the new Chair and the funding letter to the Secretary of State.
- Our new Business Matters podcasts were recorded with Peter Kennan (SYMCA), Cllr Charlie Edwards (Lancaster CC), Cllr Craig Browne (Cheshire East Council) and Cllr Don Mackenzie (North Yorkshire County Council). The Peter Kennan and Cllr Edwards episodes were published and promoted across our external platforms, with positive engagement from the guests on their own channels.
- We have also arranged for upcoming podcast episodes with Mayor Tracy Brabin (WYCA), Mayor Andy Burnham (GMCA) and Arianna Giovannini (Director, IPPR North) and Councillor Keith Little (Cumbria County Council).
- The Freight & Logistics Strategy consultation launched on 4 January. It was promoted across all channels and gained media interest, with Martin Tugwell and Lucy Hudson doing interviews. A #TfNTalks webinar was hosted with Sir Peter Hendy and published as a podcast. The TfN website was updated to incorporate links to the consultation and a host of multimedia assets were produced to drive traffic and engagement.
- We hosted the Community Rail Event, which highlighted the 'new era' for the industry that lies ahead. We produced an industry overview video alongside our agencies for the introduction and external assets to support the promotion of the event. A press release was issued afterwards.

- Supported the work of the Transport Across the North APPG by helping the hosting of a session on Freight and Logistics in the North, with ABP and RDG as guest speakers, promoting further the Freight & Logistics Strategy.

Finance, Procurement & Risk

- NPR funding letter 23 (for Q4 2021/22) being prepared for submission. Closure costs to be considered separately.
- The operational implications of the Integrated Rail Plan continue to be progressed.
- Budget Revision 3 was approved by the Board on the 25 January. The Board also confirmed the appointment of Mr Paul Kelly as interim Finance Director and Section 151 Officer.
- Business planning activities on hold pending receipt of until funding allocation.
- New Risk Manager commenced their role on 6 January 2022.
- New Interim Procurement Manager started on 7 February 2022.
- New Interim Financial Controller scheduled to start on 21 February 2022.

Legal & Democratic

- The 29 September, 24 November TfN Board and Partnership Board and 25 January Board were held as face-to-face meetings in Manchester or Leeds. The meeting of Board on 23 February is due to be held as a Consultation Call with the 30 March meeting to be held in person, in Leeds.
- The first meeting of the General Purposes Committee is arranged as a virtual consultation call on 23 February and will enable it to consider its future role and present recommendations to Board.
- The team continues to support procurement and governance, including impacts from recent announcements and the funding settlement when known, and provide general legal advice across a wide range of areas within TfN, including the Strategic Transport Plan as work on it is developed.

TAME (Technical Assurance, Modelling & Economics)

- Good progress has been made on development of the Northern Economy and Land Use Model 3 (NELUM 3) and results have been reviewed by the TAME team. The next phase is further testing of the model.
- The Northern Rail Modelling System (NorMS) Iteration 2f updates have been completed by the Northern Transport Modelling System (NorTMS)

Development Partner. The 2f model has been shared with the RMAP team for acceptance testing ahead of further NPR Business Case work.

- Comments received from the DfT on the NoRMS Iteration 2e Model Development Report (V1.0) have been fed back to the development partner for a review and to provide an estimate of time and effort required to address these comments.
- Work to code new highway schemes into Northern Highway Assignment Model (NoHAM) to reflect an updated Reference Case network has been completed. The networks are being tested in a number of model runs as part of model assurance.
- The Rail Modelling and Appraisal Partner (RMAP) contract team is progressing with IRP agnostic tasks including the creation of a database to store corridor specific tests and modelling results for easy retrieval and reference in future.
- TAME continues to support the development of an Electric Vehicle Charging Infrastructure modelling tool.
- The NPR Freight Partner contract is now underway and an inception meeting has taken place.
- Two new consultants have joined TAME through the Analyst Support Partner Contract to work on application and technical assurance processes for NoRMS. This will ensure continuity of TAME activities following recent resignations. Two more consultants are expected to join in the next few weeks and will provide additional freight support.

# Financial Performance

## Financial Update

**Summary**
Expenditure incurred in January: £3.04m
Variance to monthly budget: Underspend of £0.15m (5%)
Year-to-date (YTD) expenditure incurred: £42.31m
Underspend to date: £0.15m (0%)

Headlines

- January actuals have been monitored against the Revision 3 budget, adopted by TfN board on 25 January.
- As at the end of January, TfN's funding allocations, for its various work streams from 1 April, has still not been received. The context of uncertainty in which TfN is operating continues to impact activity and staff retention.
- The year-to-date underspends is driven by the Strategy & Policy operational area.

Programmes

- Expenditure of £3.43m represents an underspend of £0.21m (6%) in the month.
- Year-to-date expenditure of £32.75m is £0.71m behind budget (2%) and is driven by underspend on the NPR programme.

Northern Powerhouse Rail

- Expenditure of £0.74m in the month and £33.22m YTD is to budget.
    - The revision 3 budget has been revised to reflect agreed scope to the end of the financial year, with a reduction in expenditure, however this will be partially offset by programme closure costs.

Integrated & Smart Travel

- Expenditure of £0.02m was incurred in the month. Year-to-date expenditure of £1.09m is £0.02m under budget (2%).

IPBA (Investment Programme Benefits Analysis)

- Expenditure of £0.05m in the month was £0.03m under budget, with year-to-date expenditure of £0.74m 4% behind budget. Additional scope items have commenced. Modelling work continues to impact expenditure against forecast.

<u>Operations:</u>

Rail Operations

- Expenditure in the month of £0.31m and of £2.37m year-to-date is on budget. Year to date expenditure of £2.06m is £0.19m under budget (8%). Month on month expenditure has continued to accelerate as activity on delayed or paused contracts has commenced.

Operational Areas

- Expenditure of £0.43m in the month represents an underspend of 18%. YTD expenditure of £4.89m is £0.09m (2%) behind budget.
    - Underspend to date is concentrated in the Strategy & Policy directorate. Continued contracting and procurement delays are driving underspend, with some expenditure now likely to slip into the next financial year.

Expenditure Control

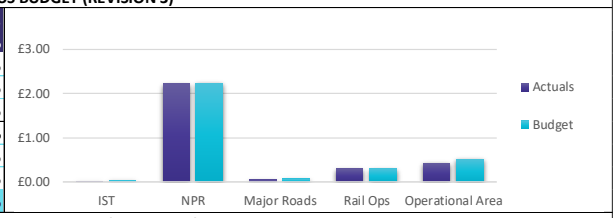
- Through the monthly budget virement process, new opportunities identified as supportive of the delivery of the 2021/22 Business Plan are reviewed by OBT. No new activities were approved in January as there is limited time to scope, procure and deliver any new incremental activity in year and there is a degree of uncertainty around future funding and subsequent business planning.

## Activity Dashboard

| TRANSPORT FOR THE NORTH | PERIOD | 10 | JANUARY |
|---|---|---|---|
| FINANCE DASHBOARD | BUDGET CYCLE | REVISION 3 | 2021/22 |

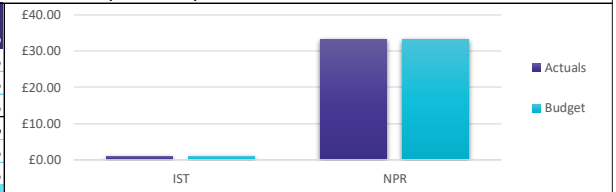
**PERIOD ACTUALS VERSUS BUDGET (REVISION 3)**

| | Actuals £m | Budget £m | Var. £m | Var. % |
|---|---|---|---|---|
| Integrated and Smart Ticketing | £0.02 | £0.04 | £0.02 | 46% |
| Northern Powerhouse Rail | £2.23 | £2.23 | £0.01 | 0% |
| IPBA | £0.05 | £0.08 | £0.03 | 38% |
| **Programmes** | **£2.30** | **£2.36** | **£0.06** | **2%** |
| Rail Operations | £0.31 | £0.31 | £0.00 | 0% |
| Operational Areas | £0.43 | £0.53 | £0.09 | 18% |
| | £3.04 | £3.19 | £0.15 | 5% |



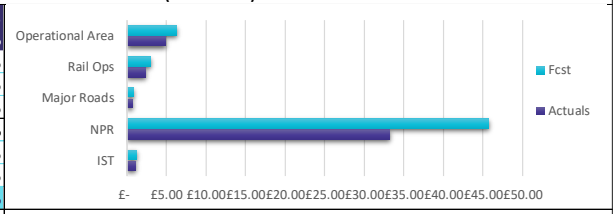

**YEAR TO-DATE ACTUALS VERSUS BUDGET (REVISION 3)**

| | Actuals £m | Budget £m | Var. £m | Var. % |
|---|---|---|---|---|
| Integrated and Smart Ticketing | £1.09 | £1.11 | £0.02 | 2% |
| Northern Powerhouse Rail | £33.22 | £33.22 | £0.01 | 0% |
| IPBA | £0.74 | £0.77 | £0.03 | 4% |
| **Programmes** | **£35.05** | **£35.11** | **£0.06** | **0%** |
| Rail Operations | £2.37 | £2.37 | £0.00 | 0% |
| Operational Areas | £4.89 | £4.98 | £0.09 | 2% |
| | £42.31 | £42.46 | £0.15 | 0% |




**YEAR TO-DATE ACTUALS VERSUS FORECAST TO OUTTURN (REVISION 3)**

| | Actuals £m | F/cast £m | Var. £m | Var. % |
|---|---|---|---|---|
| Integrated and Smart Ticketing | £1.09 | £1.23 | £0.14 | 11% |
| Northern Powerhouse Rail | £33.22 | £45.62 | £12.40 | 27% |
| IPBA | £0.74 | £0.86 | £0.12 | 14% |
| **Programmes** | **£35.05** | **£47.71** | **£12.66** | **27%** |
| Rail Operations | £2.37 | £3.04 | £0.67 | 22% |
| Operational Areas | £4.89 | £6.27 | £1.38 | 22% |
| | £42.31 | £57.02 | £14.71 | 26% |




**FUNDING YEAR TO DATE**

| Funding Stream | Actuals £m | Budget £m | Var. £m | Var. % |
|---|---|---|---|---|
| TDF - Rail | £33.22 | £33.22 | £0.01 | 0% |
| IST - Capital and Revenue | £1.09 | £1.11 | £0.02 | 2% |
| Core Grant | £6.67 | £6.78 | £0.11 | 2% |
| Rail North Grant & Contributions | £1.12 | £1.13 | £0.02 | 1% |
| Trading Income | £0.21 | £0.21 | £0.00 | -1% |
| | £42.31 | £42.46 | £0.15 | 0% |

**FUNDING FORECASTS TO OUTTURN (REVISION 3)**

| | Actuals £m | Budget £m | Var. £m | Var. % |
|---|---|---|---|---|
| TDF - Rail | £33.22 | £45.62 | £12.40 | 27% |
| IST - Capital and Revenue | £1.09 | £1.23 | £0.14 | 11% |
| Core Grant | £6.67 | £8.48 | £1.81 | 21% |
| Rail North Grant & Contributions | £1.12 | £1.44 | £0.32 | 22% |
| Trading Income | £0.21 | £0.25 | £0.04 | 16% |
| | £42.31 | £57.02 | £14.71 | 26% |

# Human Resources Update

Salaried Establishment as at **7 February 2022**

## Established Permanent/Fixed-term Posts

| Area | Permanent Posts (Over 2 years) | Fixed-term Posts (Up to 2 Years) | Total Establishment |
|---|---|---|---|
| **CEO Office** | 2 (2.00 FTE) | - | 2 (2.00 FTE) |
| **Support Services** | 25 (25.00 FTE) | 2 (2.00 FTE) | 27 (27.00 FTE) |
| **Operational & Delivery** | 73 (72.24 FTE) | 18 (18.00 FTE) | 91 (90.24 FTE) |
| **Rail North Partnership (Hosted)** | 13 (13.00 FTE) | 3 (3.00 FTE) | 16 (16.00 FTE) |
| **Total Establishment** | **113 (112.24 FTE)** | **23 (23.00 FTE)** | **136 (135.24 FTE)** |
| | | | |
| **Strength (in post)** | 101 (100.24 FTE) | 15 (15.00 FTE) | 116 (115.24 FTE) |
| **Appointed (start date pending)** | - | - | - |
| **Active/Pending Recruitment** | - | - | - |
| **Vacant – On-hold** | 12 (12.00 FTE) | (8.00 FTE) | 20 (20.00 FTE) |

## Agency/Consultancy Resource – Covering Vacant Established Posts

| Area | Posts (FTE's) |
|---|---|
| Support Services | 2 Posts (2.00 FTE) |
| Operational & Delivery | 7 Posts (7.00 FTE) |
| **Total** | **9 Posts (9.00 FTE)** |

## Consultancy Resource – Contracts for Service (TDF Funded)

| Area | Current Strength Posts (FTE's) |
|---|---|
| Support Services | 0 Post (0.00 FTE) |
| Operational & Delivery – NPR | 46 Posts (46.00 FTE) |
| **Total** | **46 Posts (46.00 FTE)** |

## Resourcing Update – For Information

**Permanent recruitment pause -** given the current uncertainties facing TfN, we have temporarily paused permanent contract recruitment. Any vacancies that arise will be resourced using fixed-term contracts, acting-up arrangements or contractor resources. Additionally, there is a by exception process where a risk to business plan delivery is identified, permanent recruitment will be permitted.

Aligned to the Integrated Rail Plan, and as agreed at the January TfN Board meeting, we have entered into a TUPE process. UNISON, group and individual consultation is ongoing with a target transfer date of 31/03/2022.

## HR Metrics – 2021/22 Year-To-Date:

| | |
|---|---|
| Corporate Sickness Level: | **2.0%** |
| Employment Policy Application: | **1.5%** |
| Rolling 12 Month - Employee Turnover (Voluntary Leavers): | **16.6%** |
| % of Employees from an Ethnic Minority Background: | **12%** |
| % of Employees declaring a Disability: | **22%** |
| Gender Mix - % of Female Employees:<br>% of Male Employees: | **38%**<br>**62%** |

# KPIs

## Key Performance Indicators

Transport for the North's Key Performance Indicators (KPIs) are outlined in the published Business Plan for 2021-22. The below table outlines the programme and organisational KPIs and provides a summary of progress. TfN continues to assess the implications of the Integrated Rail Plan for the delivery of KPIs in relation to the Northern Powerhouse Rail programme.

| **Key** | | Number of KPIs with this status |
|---|---|---|
| Achieved (complete) | | **8** |
| On Track (in progress, no delays) | | **4** |
| In Progress (in progress, may become delayed) | | **6** |
| Delay (has missed a key deadline) | | **5** |
| Delay BTYE (delayed beyond this year end) | | **0** |
| Not Started | | **3** |

| Area | KPI | Detail | Progress | Status |
|---|---|---|---|---|
| Strategic Rail | 1 | Demonstrate clear Northern input in supporting and developing return to rail initiatives across the North to rebuild passenger numbers and aid economic recovery. March 2022 | On Track<br>Messaging and communications will continue to promote safe use of public transport.<br>The team is working with Train Operating Companies identifying ticketing/marketing/offers to rebuild confidence, attract passengers back, and entice new passengers when appropriate. | |
| Strategic Rail | 2 | Deliver plans for rail hub enhancements around two major stations to maximise the potential of the network. October 2021/February 2022 | In Progress<br>Work was undertaken on developing a Strategic Outline Business Case for a radical plan for Leeds station, with the delivery of an economic case by Atkins. However, following publication of the IRP, this workstream will now be incorporated into a larger study of Leeds led by Network Rail. A second Hub Delivery Plan (for Carlisle) began in December 2021. | |
| Strategic Rail | 3 | Demonstrate meaningful and beneficial engagement for the North on rail reform within three months of publication of the Williams White Paper. September 2021 | Achieved<br>A draft formal response was agreed with by TfN Board in September. The TfN Board agreed that TfN's future role in the railway should be centred on four pillars where TfN adds the most value to the industry structure. This has already formed the basis of discussion between TfN officers and the industry to shape the next phase of work with the GBR transition team. | |

| | | | | |
|---|---|---|---|---|
| Strategic Rail | 4 | Further embed the TfN rail journey time improvement initiative with Network Rail to deliver better reliability on at least two rail routes during 2021/22. March 2022 | Delay | |
| | | | Network Rail is now fully engaged with the Theoretical Line Speed process and is progressing the delivery of the Darlington – Bishop Auckland findings. The development of the York – Scarborough route is progressing but will not be fully delivered by March 2022. | |
| Strategic Rail | 5 | Pursue the digital transformation of fares, ticketing and information through collaboration and the development of business cases across the North and/or through national rail reform. March 2022 | In Progress | |
| | | | Policy statement on contactless capping endorsed by OBT in November and endorsement is sought from Exec Board on 9 December. Bus Improvement Plans collated, and areas of digital collaboration identified. Plans for Northern Digital Mobility Strategy is targeted for TfN Board in early 2022. | |
| Strategic Rail | 6 | Continue to use TfN's existing powers and role in the Rail North Partnership to deliver the best outcomes for passengers, within the financial and legacy infrastructure constraints, by influencing train operators and major programmes including TRU and central Manchester. March 2022 | On Track | |
| | | | TfN is actively using its powers and voice to get a better outcome for passengers in central Manchester, for example by working collaboratively with DfT to secure the right infrastructure and services for Manchester. | |
| Northern Powerhouse Rail | 7 | Completion and submission of the Strategic Outline Case, timescale to be agreed following publication of the Government's Integrated Rail Plan. TBC post-IRP | In Progress | |
| | | | The DfT has now said it intends to complete the SOC in 2022. Further discussions are required to determine what support is required from TfN. | |
| Northern Powerhouse Rail | 8 | Reconfirm NPR phasing plan in response to Government's Integrated Rail Plan. TBC post-IRP | Not Started | |
| | | | Final phasing position in the SOC is awaiting clarification of the IRP conclusions and subsequent agreements between TfN and DfT. | |
| Northern Powerhouse Rail | 9 | Complete initial survey work and commence OBC on early accelerated projects to start construction in FY 2024/25. September 2021 | Delayed | |
| | | | Current survey works were due to conclude in Q2 21/22, however issues with possessions/site access has resulted in required surveys now scheduled to conclude in February 2022. The programme of activity post-surveys is dependent on IRP conclusions and subsequent agreements between TfN and DfT. | |
| Northern Powerhouse Rail | 10 | Initiate additional survey work and commence Outline Business Case on early accelerated projects to enable delivery partners to start construction in 2024/25. January 2022 | Not Started | |
| | | | Further surveys and pace of commencing OBCs are dependent on IRP conclusions and subsequent agreements between TfN and DfT. | |
| | 11 | | In progress | |

| | | | |
|---|---|---|---|
| Northern Powerhouse Rail | | Agree NPR governance arrangements with DfT as programme transitions to the next stage. TBC post-IRP | The IRP sets out the government's intention to replace co-clienting with a co-sponsorship governance arrangement. Further detail is awaited and the executive sought early steers from the TfN Board in January. |
| Investment Programme Benefits Analysis | 12 | Commission the Investment Programme Benefit Analysis work and deliver the programme up to the Gateway Review. September 2021. | Achieved<br>The GPR is now complete. The GPR has identified minor changes to be introduced to the project scope and re-baselining of the project programme. |
| Investment Programme Benefits Analysis | 13 | Subject to Gateway Review, complete work on the Investment Programme Benefit Analysis which will be used as the evidence base for the next STP. March 2022 | Delay<br>Due to the significant changes in the rail network published in the Integrated Rail Plan (IRP), further work to assess the impacts of this on the TfN Investment Programme will be required next financial year, subject to business planning. The current IPBA project will deliver an interim SPOC setting out the benefits analysis of the current Investment Programme in Spring 2022. |
| Major Roads | 14 | Produce a robust evidence base monitoring performance and types of journey on the MRN. This will support analysis of the impacts of Covid-19 to monitor and evaluate outcomes including changes in travel pgatterns and behaviours. October 2021 | Achieved<br>The mobile data project for the 2020 dataset is complete. |
| Major Roads | 15 | Publish the updated Major Roads Report, following DfT publication of the national Transport Decarbonisation Plan and TfN's Decarbonisation Strategy. October 2021 | Achieved<br>The MRR was approved at TfN Board on 24 November. |
| Major Roads | 16 | Use our evidence base to work with National Highways and DfT to identify TfN's priorities to be considered as part of DfT's Road Investment Strategy 3. March 2022 | In Progress<br>Work with National Highways to develop the Route Strategies, which will feed into RIS3, is ongoing. National Highways commenced engagement with stakeholders on Route Strategies in October 2021. |
| Major Roads | 17 | Work with our partners and DfT to scope out how TfN can best support plans for an integrated electric vehicle and/or hydrogen charging infrastructure network, supporting all communities in the adoption of low and zero emission vehicles. March 2022 | On Track<br>Phases 1 and 2 of Electric Vehicle Charging Infrastructure (EVCI) project coming to a close, with EVCI model outputs being shared with partners. Phase 3 scoping underway to use additional DfT funding. |
| Major Roads | 18 | Continue to work with DfT's Acceleration Unit to ensure their awareness of the schemes identified in TfN's Economic Recovery Plan for their | In Progress<br>Engagement with DfT and the Acceleration Unit is ongoing. |

| | | | |
|---|---|---|---|
| | | consideration of accelerating delivery. March 2022 | |
| Strategy, Policy and Research | 19 | Consult on the draft Decarbonisation Strategy and seek adoption by the TfN Board in Autumn 2021. November 2021 | Achieved<br>The final Strategy was adopted by TfN Board on 24 November and published on Wednesday 8 December 2021. |
| Strategy, Policy and Research | 20 | Agree a plan to adopt a new Strategic Transport Plan by 2024, and commence a new Northern Powerhouse Independent Ecomonic Review (NPIER) programme as a first step. October 2021 | Achieved<br>Principals of the proposed programme were taken through TfN governance in September 2021 and agreed by the TfN Board on 29 September 2021. The first steps in the new NPIER programme have now commenced. |
| Strategy, Policy and Research | 21 | Progress the advanced prioritisation mechanisms set out in the Northern Transport Charter, including analytical tools to allow prioritisation on a wider basis (economic, social, and decarbonisation) and independent assurance arrangements. March 2022 | On Track<br>An initial overview of the overall prioritisation approach was discussed with the NTC member working group on the 19 January. A position paper is being prepared during February ready for agreeing through governance. |
| Strategy, Policy and Research | 22 | Consult on and adopt the TfN Freight & Logistics Strategy and work with the industry to agree implementation arrangements. December 2021 | Delayed<br>The consultation on the strategy took place in January. An updated strategy will be considered for adoption at the March Board meeting. |
| Strategy, Policy and Research | 23 | Provide input into the final stages of the Union Connectivity Review and respond on its publication. September 2021 | Delayed<br>TfN submitted a formal response into the Call for Evidence in December 2020. The final report was delayed and published in late November 2021. The Board have responded positively to the publication. |
| Corporate | 24 | Develop and provide a Comprehensive Spending Review submission to Government. In line with timetable set by Government | Achieved<br>TfN's Spending Review submission was made to DfT on 9 September 2021. |
| Corporate | 25 | Feed into emerging procurement practice as the UK's current 'EU style' regime is updated and look at opportunities to further increase social value. March 2022 | Not Started<br>Not started. Will begin once revised procurement guidance emerges. |
| Corporate | 26 | Implement and further develop the agreed new Ways of Working, to include physical office design, office and remote working, corporate and constitutional meetings and IT strategy. Within three months of return to office | Achieved<br>TfN fully implemented its agreed hybrid ways of working to time and budget. Our new ways of working have been underpinned by the physical re-design to our Manchester and Leeds offices which was fully completed September 21. TfN constitutional meetings in the main moved to "in-person" meetings from September 21. |

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TRANSPORT FOR THE NORTH

**Meeting:** Transport for the North Audit and Governance Committee

**Subject:** Internal Audit Update
**Author:** James Lyon, Legal Assistant
**Sponsor:** Iain Craven, Finance Director
**Meeting Date:** Friday 25 February 2022

**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. Recommendations:**

2.1 That the Committee notes the Internal Audit reports.

**3. Audit Key Points:**

3.1 The Cyber Audit is a follow-up to the previous Cyber Security Review conducted in September 2020. It highlights one High, two Medium, and three Low priority actions agreed and concludes a Partial Assurance.

3.2 RSM have also supplied:

- Internal Audit Progress Report
- Internal Audit Strategy 22/23 – 24/25 and Audit Plan for 2022/23
- Conformance with IIA Standards & Codes of Practice

3.3 RSM will provide a further verbal update of the details within these reports during the Audit & Governance Committee.

**4. Corporate Considerations**

***Financial Implications***

4.1 The financial implications are detailed in the report

***Resource Implications***

4.2 There are no resource implications as a result of the report.

***Legal Implications***

4.3 There are no legal implications as a result of the report.

***Risk Management and Key Issues***

4.4 The risks associated with the Cyber environment are detailed in the report.

***Environmental Implications***

4.5 A full impact assessment has not been carried out because it is not required for this report.

***Equality and Diversity***

4.6 A full impact assessment has not been carried out because it is not required for this report.

***Consultations***

4.7 A consultation has not been carried out because it is not necessary for this report.

## 5. Background Papers

5.1 There are no background papers to this report.

## 6. Appendices

6.1 Item 5.1 – Cyber Audit
Item 5.2 – Internal Audit Progress report, February 2022
Item 5.3 – Internal Audit Strategy & Plan
Item 5.4 - Conformance with IIA Standards & Codes of Practice

# TRANSPORT FOR THE NORTH

## Cyber Security Assessment

Internal audit report 6.21/22

Final

16 February 2022

# 1. EXECUTIVE SUMMARY

With the use of secure portals for the transfer of information, and through electronic communication means, 100 per cent of our audit has been conducted remotely. Remote working has meant that we have been able to complete our audit and provide you with the assurances you require. Based on the information provided by you, we have been able to sample test, or undertake full population testing using data analytics tools, to complete the work in line with the agreed scope.

## Why we completed this audit

A cyber security review of Transport for the North (TfN) was undertaken as part of the approved 2021/22 internal audit plan. The objective of the review was to ensure that selected controls are in place to help reduce the risk of cyber related incidents.

This review includes five of the National Cyber Security Council's (NCSC) ten steps. The five steps that we have covered in line with management concerns are:

- Asset Management;
- Data Security;
- Architecture and Configuration;
- Identity and Access Management; and
- Vulnerability Management.

We have not covered the following NCSC steps as part of our review:

- Engagement and Training;
- Risk Management;
- Logging and Monitoring;
- Incident Management; and
- Supply Chain Security.

In the past 18 months, we have seen the cyber-crime threat landscape amplified by the impact of the COVID-19 pandemic as cyber criminals seek to capitalise on the disorder. Our recent 2021 survey highlighted that 20 per cent of organisations had experienced a cyber-attack over a 12 month period, with 71 per cent stating the attack was a direct result of the coronavirus pandemic (https://www.rsmuk.com/real-economy/cybersecurity).

## Conclusion

Overall, we identified several missing controls which, when implemented correctly, are designed to protect the information systems network operated by TfN.

This review identified one ‘high’ priority finding which we consider requires immediate management attention. A further two ‘medium’ priority findings and three ‘low’ priority findings have been highlighted.

The high priority finding relates to penetration testing which was previously identified in RSM cyber security review 2019/20, which is yet to be scheduled and performed. Without testing being performed, the full extent of vulnerabilities are not known and a risk-based remediation plan cannot be produced. Given the current cyber control environment, the risk of a successful cyber-attack is significantly increased.

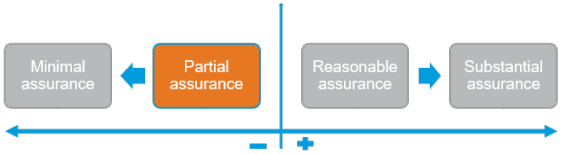
The medium priority findings relate to controls for cyber-incident prevention and include:

- The implementation of Intrusion Detection and Prevention tools in the Manchester office;
- The formalisation of policies and procedures to ensure that controls operate consistently (e.g. a formalised staff onboarding and offboarding procedure); and
- The risk acceptance and mitigation is not reviewed on a periodic basis to ensure this remains within risk appetite.

**Internal audit opinion:**

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

However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified areas.




## Key findings

**We identified the following findings:**

Formal penetration testing has never been conducted due to logistical obstacles raised by Covid-19. Without having undertaken penetration tests, the risk of exposure to possible attack is unknown which could lead to data leakage, operational and financial loss and/or reputational harm. As such, a 'high' priority action has been raised (1).

There is no Intrusion Detection and Prevention Service provided by Transport for Greater Manchester (TfGM) on the firewall in the Manchester Office. There is a risk that without a monitoring service enabled, the possibility of a successful cyber-attack is increased. This could cause a loss in productivity and/or reputational harm to TfN. We have raised a 'medium' priority action in light of this finding (2).

Risks are recorded in a risk register however they have not been periodically reviewed. There is a risk that without periodic review of risk acceptance and mitigation, the details of the accepted risks may be outdated, and existing mitigating controls may no longer be applicable or effective. We have raised a 'medium' priority action in light of this finding (3).

## Examples of good practice identified during the audit

Autopilot has allowed TfN to improve their hardened configuration and this can be used to build new laptops quickly and consistently. Through review of the standard build specifications, we noted this includes a number of security practices expected such as encryption.

Due to TfN primarily using Infrastructure as a Service (IaaS) and Software as a Service (SaaS) models, and providing their own in-house support, they only need to grant third-parties access to TfN's network infrequently. When access to the TfN network is required, the third-party must submit a request including who will use the user account and before approval is granted by TfN's IT management. The account will be set up with a short expiry date that will depend on what work is to be completed, normally ranging from 24 to 48 hours.

TfN use Microsoft Azure Backup Centre which is a centralised backup solution to help protect against ransomware. Backups are successfully completed daily, with weekly and monthly retention points stored. TfN have the ability to restore backups from a paired region at any time.

TfN has developed a Patching Policy that is up to date, regularly reviewed and our sample based testing showed this was implemented. The policy makes the distinction between security and functional patches, helping to ensure security patches are tested and rolled out more efficiently than would otherwise be possible. We verified that security and functional patches are installed for a selected sample based upon release and were tested on a small number of laptops. Then after 14 days security patches are installed automatically on the IT estate with functionality patches installed after 90 days, unless required sooner.

TfN use Microsoft Azure Information Protection (AIP) which enables them to classify all data stored and processed on SharePoint and to set levels of confidentiality against data. This also allows IT management to track who uses and alters certain data.

# 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: Network Security** | | | | |
|---|---|---|---|---|
| **Missing Control** | Penetration testing has been conducted, including a remediation plan and vulnerabilities addressed within timeframes stated in the policy. | | **Assessment:**<br>**Design** ×<br>**Compliance** N/A | |
| **Findings / Implications** | We have noted that in the previous cyber security review, issued in September 2020, penetration testing was recommended to be conducted as a medium priority finding. Management agreed, however these had not been conducted due to other priorities during Covid-19.<br>Formal penetration testing was scheduled for December 2021, but this was postponed by management. All Servers are hosted within the Azure cloud environment are provided by Microsoft. However, without having run penetration tests on the Azure applications as well as the local network firewalls, the risk of exposure to possible attack is unknown to TfN. A cyber-attack could lead to data leakage, operational and financial loss or reputational harm. | | | |
| **Management Action 1** | Management will ensure that penetration testing is conducted as scheduled from week commencing 28 February 2022, the test results are to be reviewed and vulnerabilities addressed and remedied in a timeous manner.<br>Where penetration testing does not go ahead, this will be reported to the relevant TfN governance and oversight groups. | **Responsible Owner:**<br>Head of IT and Information | **Date:**<br>Penetration testing is scheduled to be performed the week commencing 28 February 2022 when staff return to work from the office. | **Priority:**<br>High |

| Area: Network Security | | | | |
|---|---|---|---|---|
| **Missing Control** | Intrusion Detection and Prevention activity is monitored on the network firewalls alerting IT to any possible threats. | | **Assessment:**<br>**Design** ×<br>**Compliance** N/A | |
| **Findings / Implications** | There is no Intrusion Detection and Prevention Service provided by Transport for Greater Manchester (TfGM) on the firewall in the Manchester Office. Combined with the delay in penetration testing being conducted, there is a risk that without monitoring enabled, the risk of a successful attack is increased. This could cause a loss in productivity and/or reputational harm to the organisation. | | | |
| **Management Action 2** | Management will consider implementing Intrusion Detection and Prevention tools to help protect the Manchester office, in line with controls implemented in the Leeds office. | **Responsible Owner:**<br>Head of IT and Information | **Date:** 31 March 2022 – Increase in support service provision to be performed in line with the highlighted management action | **Priority:**<br>Medium |

| Area: Secure Configuration | | | |
|---|---|---|---|
| **Missing Control** | Risks are recorded in a risk register and periodically reviewed. | **Assessment:**<br>**Design** ×<br>**Compliance** N/A | |
| **Findings / Implications** | We have noted the accepted risks which are captured in the Risk Register and there is an informal requirement that these should be reviewed at least annually. However, the Risk Identification Acceptance Forms provided (Home Agile Working, SharePoint Online Backups, USB Access and User Device Administration) were submitted and approved in November 2019, showing no scheduled review dates. | | |

| | | | | |
|---|---|---|---|---|
| | There is a risk that without periodic review of risk acceptance and mitigation, the details of the accepted risks may be outdated, and existing mitigating controls may no longer be applicable or effective. This could result in greater exposure to the risk of a cyber-attack than is within TfN's risk appetite. | | | |
| **Management Action 3** | Management will ensure that the risk register is formally reviewed on a periodic basis, and that version control is applied. Details of the approver as well as the next review date should be included. Reviews should be conducted at least annually to ensure the risk treatment is appropriate given the threats and risks faced. | **Responsible Owner:**<br>Head of IT and Information | **Date:**<br>These risks will be captured immediately in the risk register system called Predict! where alerts for periodic review will be automatically enabled. | **Priority:**<br>Medium |

| **Area: Managing User Privileges** | | | |
|---|---|---|---|
| **Missing Control** | A formal process has been established for creating and removing access rights for staff members. | **Assessment:**<br>**Design**<br>**Compliance** | <br>×<br>N/A |
| **Findings / Implications** | Although processes exist, no formal staff and contractor onboarding or offboarding process has been formally documented and agreed. Where starters, movers and leavers processes are not formal and documented, there is an increased risk that user access rights do not reflect their business role and/or are not removed in a timely manner. Through additional conversation with the Head of IT, it was determined that the case in question was an outlier. Requirements for granting of access to information linked to that account, after termination of employment, are not included in the existing process. Stricter controls will be enforced going forwards and this will be communicated to all staff. Further, there is a risk that IT equipment is not appropriately assigned and returned in a timely manner. This could lead to unauthorised access to TfN IT systems and data, as well as unnecessary costs being incurred. | | |
| **Management Action 4** | Management should define and document a standardised onboarding and offboarding procedure document.<br>This should include, but not be limited to: | **Responsible Owner:**<br>Head of IT and Information | **Date:**<br>31 March 2022 | **Priority:**<br>Low |

| | | | | |
|---|---|---|---|---|
| | • Responsibility for requesting and actioning starter, mover and leaver requests;<br>• Appropriate authorisation of access requests;<br>• Appropriate access to Email and OneDrive data which was linked to the account is granted to an approved manager;<br>• Provision for the immediate removal of access for staff due to disciplinary matters in line with a Service Level Agreement, determining acceptable timelines for various types of leavers; and<br>• An assessment recording the condition of equipment (issued and returned) with an acceptable use policy stating that the responsibility lies with the staff member should items be damaged beyond acceptable standards. | | | |

| **Area: Network Security** | | | | |
|---|---|---|---|---|
| **Missing Control** | The firewall forms part of a High Availability pair in order to provide uninterrupted internet connectivity and network redundancy. | | **Assessment:**<br>**Design** ×<br>**Compliance** N/A | |
| **Findings / Implications** | We have noted that there is no backup connectivity in place in the Leeds office. Should the device fail, or suffer an outage from the service provider, this single point of failure increases the risk of downtime and loss in productivity should the connection not be functional. Further, no formal and documented risk acceptance is in place.<br>An additional line is in place in the Manchester office. This primarily allows TfGM to make changes to the Firewall however, we were informed by the Head of IT that they can re-route traffic over this line to provide some redundancy, should the main connection be down.<br>While TfN do have a limited number of 4G backup dongles available in each office, it has been noted that no incoming connectivity to the sites is required as the infrastructure is predominantly cloud based. This allows users to connect from home should the connectivity at the office fail. | | | |
| **Management Action 5** | Management will consider comparing the business case of providing network redundancy against the cost of possible business downtime which may be incurred during a network outage. | **Responsible Owner:**<br>Head of IT and Information | **Date:**<br>31 March 2022 | **Priority:**<br>Low |

| Area: Managing User Privileges | | | | |
|---|---|---|---|---|
| **Missing Control** | Policies are approved by the Board and reviewed annually. Documents are updated with any changes that may be required. | | **Assessment:**<br>**Design** ×<br>**Compliance** N/A | |
| **Findings / Implications** | We noted that not all policies are up to date. For example, in the 'ITP04 Security Policy v2.2', the password requirements differ from the actual password policy settings in place (6 characters versus 8 for example).<br>An annual policy review is evidenced, however the policy does not necessarily reflect this. There is a risk that outdated policies may not be in line with good practice. Regular reviews also ensure that policies are up to date with industry standards and technologies. | | | |
| **Management Action 6** | Management should ensure that policies are reviewed on a periodic basis in line with practices across the business. Where a change is required, this should be made on a timely basis and changes communicated to relevant stakeholders. | **Responsible Owner:**<br>Head of IT and Information | **Date:**<br>31 March 2022 | **Priority:**<br>Low |

| Area: Secure Configuration | | | | |
|---|---|---|---|---|
| **Missing Control** | The AutoPlay facility on removable media is disabled by default. | | **Assessment:**<br>**Design** ×<br>**Compliance** N/A | |
| **Findings / Implications** | We have noted that the use of removable media is an accepted risk and is documented in the risk register. However, the removable media AutoPlay function is not disabled by default. When enabled, connecting removable media, Windows will detect it, and AutoPlay will launch the media using a default action, which can include the running of potentially malicious executable files.<br>Where USB functionality is allowed and the AutoPlay setting is not disabled, this increases the risk that the network could be breached via means of an intentional placement of a malicious USB device by a staff member.<br>The Head of IT and Information had advised us, after the debrief, that the AutoPlay function is now disabled for all media devices. | | | |
| **Management Action 7** | Management will ensure that the AutoPlay function for removable media is disabled by default on all devices. | **Responsible Owner:**<br>Head of IT and Information | **Date:**<br>Completed 31 January 2022 | **Priority:**<br>Observation |

| | |
|---|---|
| | *Evidence received from the Head of IT and Information on 31 January 2022 showing that the AutoPlay function has now been disabled by default for all devices.* |

# 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.

| Risk | Control design not effective* | | Non Compliance with controls* | | Agreed actions | | |
|---|---|---|---|---|---|---|---|
| | | | | | Low | Medium | High |
| Failure to manage cyber risks effectively could lead to the loss of systems confidentiality and availability, together with a potential financial impact including fines or other penalties for breach of statutory obligations such as data protection. | 6 | (18) | 0 | (18) | 3 | 2 | 1 |
| **Total** | | | | | **3** | **2** | **1** |

* 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: 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 (TfN) manages the following risks.

| Objective of the risk under review | Risks relevant to the scope of the review | Risk source |
|---|---|---|
| To review select cyber security controls to ensure computer systems and data are resilient to threats resulting from connection to the internet. | Failure to manage cyber risks effectively could lead to the loss of systems confidentiality and availability, together with a potential financial impact including fines or other penalties for breach of statutory obligations such as data protection. | Internal Audit |

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

The Audit Committee and management have requested this audit to examine how TfN manages cyber risk. The areas set out in this audit

**The following areas will be considered as part of the review:**

**Secure Configuration**

An assessment of the high-level controls focussing on:

- Patching of user endpoints and third-party software.
- Standard build of user devices.

**Malware Protection**

An assessment of the high-level controls focussing on:

- Use and upkeep of anti-virus software.

**Network Security**

An assessment of the high-level controls focussing on:

- Firewall rules and settings (including Intrusion Detection and Prevention System(s)).
- Penetration testing and vulnerability management.

**Managing User Privileges**

An assessment of the high-level controls focussing on:

- Process for user account creation, deletion and amendment.
- Password rules for end user and administrative accounts.
- Rules around remote and third-party access to network.

**IT Resilience and Disaster Recovery**

An assessment of the high-level controls focussing on:

- Backup schedules and testing.
- IT Disaster Recovery Plan and restore procedures.

**Limitations to the scope of the audit assignment:**

- The scope of our work will be limited only to those areas that have been examined and reported and is not to be considered as a comprehensive review of all aspects of Cyber Security Risk.
- This audit will not review areas related to cyber security such as risk management, mobile working, user education, incident management or monitoring.
- The approach taken for this review will be to validate the design and testing of key controls.
- We will be testing key controls on a sample basis and for the financial year only.
- We will not perform penetration tests and vulnerability assessments however we will review the results of tests undertaken by independent service providers.
- The information provided in the final report should not be considered to detail all errors or risks that may currently or in the future exist within the cyber security environment, and it will be necessary for management to consider the results and make their own judgement on the risks affecting TfN and the level of specialist computer audit coverage they require in order to provide assurance that these risks are minimised.
- In addition, our work does not provide an absolute assurance that material error; loss or fraud does not exist.

| | | | |
|---|---|---|---|
| **Debrief held** | 24 January 2022 and 8 February 2022 | **Internal audit Contacts** | Lisa Randall, Head of Internal Audit (IA)<br>Alex Hire, IA Senior Manager<br>Andrew Mawdsley, IA Assistant Manager<br>Paul O'Leary, Technology Risk Assurance (TRA) Lead<br>Wil Milligan, TRA Senior Consultant<br>Martin Kagho, TRA Consultant<br>Graeme Clarke, TRA Consultant |
| **Draft report issued** | 7 February 2022 | | |
| **Responses received** | 7 and 15 February 2022 | | |
| **Revised Draft report issued** | 15 February 2022 | | |
| **Final report issued** | 16 February 2022 | **Client sponsor** | Iain Craven, Finance Director |
| | | **Distribution** | Kevin Willans, Head of IT and Information<br>Iain Craven, Finance Director |



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# TRANSPORT FOR THE NORTH

## Internal Audit Progress Report

### 25 February 2022



RSM

# Contents

# 1 Key messages

The internal audit plan for 2021/22 was approved at the February 2021 Audit and Governance Committee 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 that plan and summarises the results of our work to date.

- We have issued one audit assignment report since the last Audit and Governance Committee meeting held in November 2021. This relates to the Cyber Security (6.21/22) review which concluded that the Board could take 'partial' assurance (one 'high', two 'medium' and three 'low' priority actions agreed). This report is referred to at Appendix A. We have now concluded the internal audit plan 2021/22. **[To discuss and note]**
- The internal audit plan 2022/23 and three year strategy 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 and feedback from the TfN Executive Management Team. **[To note]**
- We have shared with management a number of briefings and invites. These are outlined in Appendix B below. **[To note]**

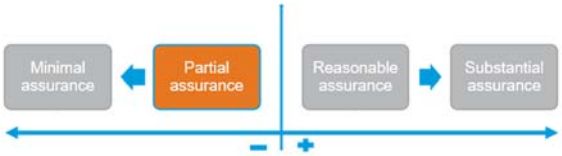
# 2 Reports

## 2.1 Summary of final report being presented to this committee meeting

This section summarises the report that has been finalised since the last meeting.

| Assignment | Opinion issued | Actions agreed | | |
|---|---|---|---|---|
| | | L | M | H |
| **Cyber Security (6.21/22)** | Partial Assurance | 3 | 2 | 1 |

Overall, we identified several missing controls which, when implemented correctly, are designed to protect the information systems network operated by TfN.




This review identified one 'high' priority finding which we consider requires immediate management attention. A further two 'medium' priority findings and three 'low' priority findings have been highlighted.

The high priority finding relates to penetration testing which was previously identified in RSM cyber security review 2019/20, which is yet to be scheduled and performed. Without testing being performed, the full extent of vulnerabilities are not known and a risk-based remediation plan cannot be produced. Given the current cyber control environment, the risk of a successful cyber-attack is significantly increased.

The medium priority findings relate to controls for cyber-incident prevention and include:

- The implementation of Intrusion Detection and Prevention tools in the Manchester office;
- The formalisation of policies and procedures to ensure that controls operate consistently (e.g. a formalised staff onboarding and offboarding procedure); and
- The risk acceptance and mitigation is not reviewed on a periodic basis to ensure this remains within risk appetite.

## 2.2 Themes arising from control observations in 2021/22 reports

| | Low | Medium | High |
|---|---|---|---|
| Planning | 0 | 0 | 0 |
| Policies and / or procedures | 2 | 0 | 0 |
| Non-compliance with policies / procedures | 0 | 2 | 0 |
| Design of the control framework | 0 | 0 | 0 |
| Training / awareness for staff | 0 | 1 | 0 |
| Management or performance information | 1 | 0 | 0 |
| Lack of segregation of duties | 0 | 0 | 0 |
| Poor record keeping | 0 | 0 | 0 |
| Risk Management | 0 | 0 | 0 |
| Governance weaknesses | 5 | 0 | 0 |
| Information technology | 3 | 2 | 1 |
| **Total** | **11** | **5** | **1** |

The themes with the highest number of aligned management actions to date are ‘Governance weaknesses’ and ‘Information technology’. It is noted that all five governance related actions related to the Governance Effectiveness Arrangements (2.21/22) review and all IT actions related to the Cyber Security (6.21/22) review.

# Appendix A – Progress against the internal audit plan 2021/22

| Assignment and Executive Lead | Status / Opinion issued | Actions agreed | | | Target Audit and Governance Committee (as per IA plan 2021/22 / *change control*) | Actual Audit and Governance Committee |
|---|---|---|---|---|---|---|
| | | L | M | H | | |
| **Follow Up (1.20/21)**<br>(Finance Director) | Good Progress | 13 of 16 actions completed | | | July 2021 | June 2021 |
| **Governance Effectiveness Arrangements (2.21/22)**<br>(Director of Business Capabilities) | Reasonable Assurance | 5 | 2 | 0 | July 2021 / *September 2021*[1] | September 2021 |
| **Risk Management Strategy (3.21/22)**<br>(Finance Director) | Substantial Assurance | 2 | 0 | 0 | September 2021 | September 2021 |
| **Purchase to Pay Framework (4.21/22)**<br>(Finance Director) | Substantial Assurance | 1 | 1 | 0 | December 2021 | November 2021 |
| **Flexible Working Hours Scheme (5.21/22)**<br>(Director of Business Capabilities) | Substantial Assurance | 0 | 0 | 0 | December 2021 | November 2021 |
| **Cyber Security (6.21/22)**<br>(Director of Business Capabilities) | Partial Assurance | 3 | 2 | 1 | March 2022 | February 2022 |

1 This review incorporated the use of a questionnaire issued to TfN Members and Senior Officers to gain insight into TfN's governance arrangements. The questionnaire closing date was extended until mid-June 2021 in agreement with management to provide the opportunity to obtain as many responses as possible.

# Appendix B – Other matters

## On-going liaison and internal audit plan 2022/23

Ongoing liaison has taken place between RSM and the Finance Director throughout the year to discuss progress against the internal audit plan 2021/22; including and not limited to Lisa Randall's one to one meetings with Iain Craven to discuss any TfN updates.

Further to this, RSM's Andrew Mawdsley met with the Finance Director in December 2021 to discuss coverage of the internal audit plan 2022/23. The internal audit plan 2022/23 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 2021) – (the topics are summarised below and we have included a link to the full newsletters for further reading);
- Risk Management Deep Dive Guidance (December 2021 – appended below);
- The Modern Workforce report (January 2022 – issued separately);
- RSM's Conformance with the IIA Standards and Codes of Practice (January 2022 – issued separately); and
- We have shared with TfN management details regarding:
  - RSM's NED network event that took place 9 December 2021; and
  - RSM's NED event 'Boredom in the boardroom - how strategic risk management can be a game changer' taking place 10 February 2022.



**Employment Matters – November 2021 - https://www.rsmuk.com/ideas-and-insights/employment-matters**

**Office banter: protecting your workforce and avoiding discrimination claims -** Several recent bullying and harassment cases have led to intense scrutiny of senior members of organisations for comments and behaviours initially described as 'banter.' 'Innocent' workplace banter has a tendency to stray into uncomfortable areas, and organisations that fail to address this early could face workforce disengagement, costly discrimination claims and, in some cases, irreparable reputational damage. Implement effective policies and procedures.

**What can employers do to protect their people and themselves from tribunal claims?**

Employers should make sure they have in place appropriate policies that make staff aware of:

- the culture of the organisation, including the attitudes and behaviours expected at work; and
- the risk of discrimination claims, which can also be brought against individual employees.

We would recommend an equal opportunities or equality policy that both promotes diversity and inclusion in the workplace and discourages discriminatory attitudes and behaviours. An effective anti-harassment policy should also be implemented so that staff are aware of acts the organisation considers to be harassment. It is crucial to ensure these attitudes and behaviours are embedded across the organisation.

Employers may also soon have a legal obligation to demonstrate what active steps they are taking to prevent sexual harassment in the workplace. A policy and regular training will be critical in meeting this obligation. Staff who feel they have experienced harassment should be encouraged to raise this with their line manager and their concerns should be dealt with via the company's disciplinary and grievance procedures.

Regular training on equality and anti-harassment policies will ensure that employees understand both their own and their employer's rights, duties and obligations. Employees in management positions should be given specific training so that they fully understand how to deal with any issues early, before they escalate into harassment or discrimination claims. It is good practice for equality and anti-harassment training to form part of all workers' induction procedures. This will give staff clear expectations at the outset of the workplace behaviours expected.

Employers can appoint workplace equality champions who can also offer support to employees who have suffered discrimination or harassment. In some cases, victims of bullying, harassment or discrimination may fear speaking up against the perpetrators. As independent and impartial sources of advice, guardians can give employees in those situations the confidence and support to speak up.

**Have you taken advantage of payrolling your benefits?** - Payrolling of benefits in kind was first launched in April 2016. Since then, it has successfully simplified the reporting and payment of taxes for employers and employees alike. From a payroll perspective, it is straightforward to incorporate into payrolls – the key is ensuring that the preparation work has been done first. As the end of the year approaches, now is a good time for employers to consider taking advantage of payrolling benefits. The essential first step is to review the benefits to check they are suitable for payrolling. Advice may be needed to ensure the treatment of each benefit is correct and that payrolling is suitable. Once aligned, registration must be done with HMRC before the new tax year. The benefits can then be set up in the payroll, similarly to other payments and deductions, ready for use from April. While there are benefits, such as reduction in admin with P11Ds, there are some other considerations. We discussed these in our article 'Payrolling of benefits – avoid the pitfalls'.



**Coronavirus: Compulsory vaccination – the employment legal issues** - With businesses seeing more staff returning to the office, many employers will be considering their policies on vaccination and whether they can require their staff to be vaccinated against coronavirus.

**Mandatory coronavirus vaccination in the care home sector in England**

All adult care home staff and volunteers must now be fully vaccinated against coronavirus, excluding those who are medically exempt. This will include front line care staff and also tradespeople, hairdressers, beauticians and CQC inspectors visiting the care home. However, this requirement will not extend to friends and relatives visiting a resident or to those entering to assist with an emergency or carrying out urgent maintenance work. It is unlawful for CQC regulated care homes to employ staff who are not vaccinated against coronavirus unless they are medically exempt. Care homes will need to include the vaccination requirement in their recruitment policies and job adverts and properly understand any medical exemptions during the recruitment process.

**Government to introduce mandatory coronavirus vaccination for frontline health and social care workers in England**

The Government has now announced that vaccination against coronavirus will also become mandatory for health and social care workers in England who have face-to-face contact with patients unless they are medically exempt. This requirement will apply to doctors, nurses and dentists who are directly involved in patient care, and to ancillary staff such as porters, receptionists and cleaners who may have contact with patients in the course of their work. From 1 April 2022, it will be unlawful for CQC regulated providers in health and social care in England to employ unvaccinated staff, except for those individuals who are medically exempt.

To comply with the new regulations (on current time frames) unvaccinated staff will need to have their first dose of the COVID-19 vaccine by 21 January 2022 - since individuals are not considered fully vaccinated until 2 weeks after their second vaccine and the current advice is that vaccines should be given 8 weeks apart. To meet the deadline, all CQC regulated providers in health and social care in England, including the NHS, will need to begin a communication process with their staff now to ascertain their vaccination status and encourage those that have not been vaccinated to do so if they are not medically exempt.

If staff refuse to be vaccinated, and they are not medically exempt, CQC regulated provider will also need to consider redeployment and/or explore if there is a way the worker's' role can be redesigned to remove patient contact or as a last resort termination of employment for those workers who refuse to be vaccinated and for whom redeployment/role redesign is not an option. This could involve a risk assessment of which parts of the organisation could be most affected, how they might then redeploy and any other terms' impact such as on hours or remuneration. Remote working without access to frontline patient care or to patients might also be a consideration for some workers. The Government's decision to extend the coronavirus vaccination requirement to health and social care could enable employers in other high-risk coronavirus work environments to justify requiring their staff to be vaccinated.

**Medical exemptions**

Care home staff in England who are medically exempt from the coronavirus vaccine, can self-certify this until 24 December 2021. However, from Christmas day, a medical exemption will need to be certified by the individual's GP.

Whilst this may stop unfounded medical exemption claims from individuals who would prefer not to be vaccinated, it also adds to the work burden on GPs and is likely to be a lengthy process. Therefore, care homes and other employers that require vaccination, should now be consulting with their staff who have been self-certifying their medical exemptions, to inform them of the new process effective from 25 December 2021.The Government has also announced that a MATB1 stands as a medical exemption, for pregnant workers who prefer not to be vaccinated, until 16 weeks following the birth of their child. Whilst the coronavirus vaccine has been declared safe for pregnant women, and they have been encouraged to take up the vaccine, the Government is allowing pregnant women to choose to delay their vaccination until after birth. As pregnant women do not obtain a MATB1 until later in their pregnancy, presumably those unvaccinated who prefer not to take the vaccine during their pregnancy may also apply to their GP if they so wish for a medical exemption on pregnancy grounds to cover their position until the MATB1 is available. This is an interesting development. Care homes and other high-risk sectors choosing to impose compulsory vaccination, which might impact on a care worker retaining their job, should consider informing any pregnant staff of the MATB1 position. Were any medical exemption to be granted to a pregnant worker (pre receipt of their MATB1), any action by an employer to treat an employee with a pregnancy-related medical exemption less favourably than a worker with a non-pregnancy-related medical exemption will be unlawful and could amount to discrimination.



**Can you require your workforce to be vaccinated?**

Apart from the care sector in England, and the changes due to come into force in health and social care in England, there is no legal requirement to be vaccinated against coronavirus. Therefore, any blanket policy by an employer requiring all staff to be vaccinated, before they can access their employer's workplace or client premises for work, will be considered unlawful and will carry discrimination and health and safety risks. Imposing mandatory vaccinations as a condition of continuing in employment could also result in negative publicity and cause issues with staff recruitment and retention. ACAS advises employers to encourage and support their staff to be vaccinated without making it a requirement. Examples include offering staff paid time off to attend vaccination appointments and paying the usual rate of pay where staff are off sick with vaccine-related side effects. However, even outside the health and care sector, there may be circumstances where vaccination will be a requirement. For example, an employee may need to be vaccinated to meet entry requirements of another country if travel is integral to their role. Employers will need to assess employees' rights in these circumstances to avoid a discrimination claim.

**What are the employment legal risks of imposing compulsory vaccination?**

Breach of contract - Requiring your employees to be vaccinated without their express agreement could amount to a repudiatory breach of contract, entitling them to claim constructive dismissal.

Discrimination - Compulsory vaccination could directly discriminate against employees with a protected characteristic as described below. It also amounts to a provision, criterion or practice that could put those employees at a particular disadvantage, and so amount to indirect discrimination. While in some cases employers will be able to justify a requirement for mandatory vaccination, this could prove challenging where there are effective and less discriminatory methods such as regular testing, home working, social distancing and providing PPE, to achieve the required business outcome.

Data protection - There will be data protection implications where employers require staff to confirm their vaccination status. This will amount to special category personal data and is subject to stricter regulations. Employers should exercise greater caution when processing this data in accordance with the specific exceptions laid out in data protection legislation.

**Can we lawfully dismiss an employee that refuses to be vaccinated?**

Employers will be legally permitted to dismiss care home staff who refuse to be vaccinated and cannot be redeployed, and the same may follow in health and social care. However, this will not apply to other sectors and employers must exercise caution when considering dismissal for this reason. Employees with at least two years' continuous service have unfair dismissal rights. Employers are therefore exposed to unfair dismissal claims if they have not followed a fair process or do not have a very good reason for dismissing because the employee has refused the vaccination. Refusal to comply with a management instruction to be vaccinated could amount to misconduct justifying dismissal. However, a tribunal is unlikely to consider a vaccination requirement reasonable unless it is legally required or essential to the employee's role. Where there is a client need for the employee to be vaccinated this could amount to 'some other substantial reason' justifying dismissal - provided the employer has acted reasonably. Even if employees have less than two years' service, they may still be able to pursue legal action against their employer if they are dismissed. For example, employees can claim automatic unfair dismissal on the grounds they were dismissed after expressing health and safety concerns about mandatory vaccinations. Such a claim requires no minimum length of service.



**What should you be doing now?**

It is important for employers to consult with their staff and/or any recognised staff associations or trade unions now before introducing a company vaccination policy. Policies should encourage and provide paid time off where applicable for staff to have the vaccine and should also acknowledge that it is not appropriate for all staff. Where vaccination is a requirement of a job, any consequences of refusal should be explained. Employers in CQC regulated health and social care sectors in England should be communicating with their staff now to understand their vaccination status and to encourage those who have not been vaccinated to do so if they are not medically exempt, ahead of the new requirement to be vaccinated next spring. Employers in the health and care sectors in England should implement robust policies which clearly outline the vaccination requirement for staff and, in relation to care homes, also for any professionals visiting the care home and that entry will not be permitted without evidence of vaccination or a medical exemption. Unlike other sectors, where there is no legal requirement to be vaccinated, if a worker in the care sector (and soon to follow in health and social care sectors) in England is dismissed because they refuse to be vaccinated, this is unlikely to be considered discriminatory - provided it is done in a fair and non-discriminatory way. Finally, the policy should set out the employer's data protection obligations in relation to processing special category personal data about vaccination status. It is important to seek legal advice before introducing a company vaccination policy to mitigate the risks summarised above.

**Staff Christmas parties – a reminder for employers** - 2020 was a tumultuous year, and as the festive season approached many employers were left uncertain as to how to boost staff morale. A year on, employers may still be grappling with whether or not to hold a Christmas event. For those that are, or for those that are holding virtual parties or instead giving gifts, the key employment tax considerations should not be overlooked.

**Can a staff Christmas party be provided as a tax-free benefit?**

A staff Christmas party qualifies as a tax-free benefit if it meets the 'annual events' exemption. In summary, for the event to qualify for this exemption, it must:

- Be open to all employees. A Christmas party for directors only, which other employees are not invited to, will not qualify for the exemption as it is not open to all employees. An annual party open to all employees at one location should still meet this part of the exemption even if an employer has multiple sites. Employers who hold separate events for different departments can still satisfy this part of the exemption, provided that all employees have the option of attending at least one of them.
- Be an annual event. Broadly, this means that the party must take place once a year on an ongoing basis.
- Cost £150 or less per attendee. The £150 limit includes VAT plus any additional costs met by the employer (such as travel and overnight accommodation). The exemption can be used to cover more than one event, provided that the £150 limit is not exceeded in a tax year.
- For example, if an employer holds an annual summer party at a cost of £45 per attendee, and a Christmas party costing £100 per attendee, the exemption might be used to cover both parties. In this example, the threshold would be exceeded if the Christmas party cost £120 per attendee and the summer party £45 per attendee. So it would be sensible, if all the conditions were satisfied, to use the exemption against the Christmas party (which has the greater cost) and treat the summer party as a taxable benefit (this would typically be dealt with via a PAYE Settlement Agreement – see below).
- Not be provided under a salary sacrifice arrangement.



## 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.

# For more information contact

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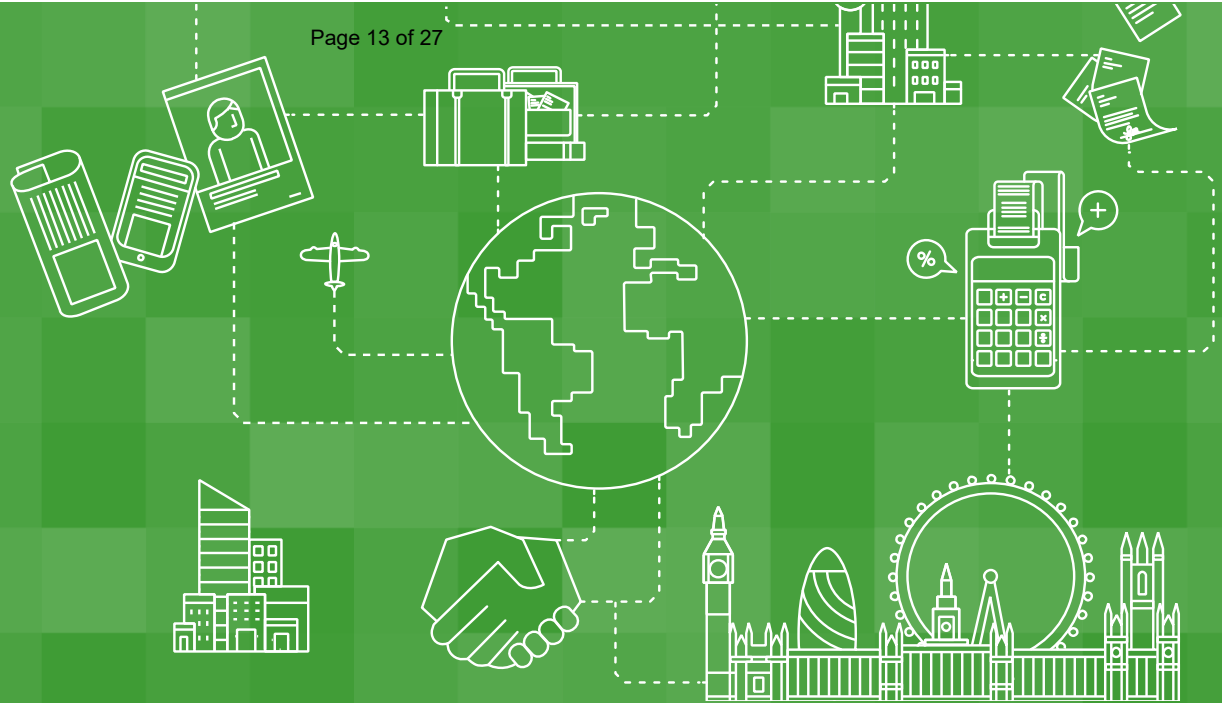

# RISK MANAGEMENT DEEP DIVE

## Your key considerations

THE POWER OF BEING UNDERSTOOD
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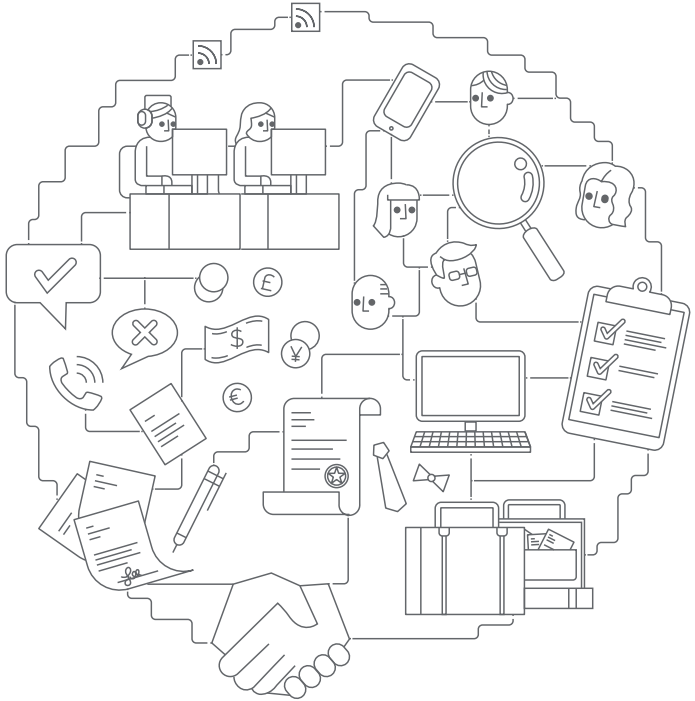
# Risk management deep dive – your key considerations









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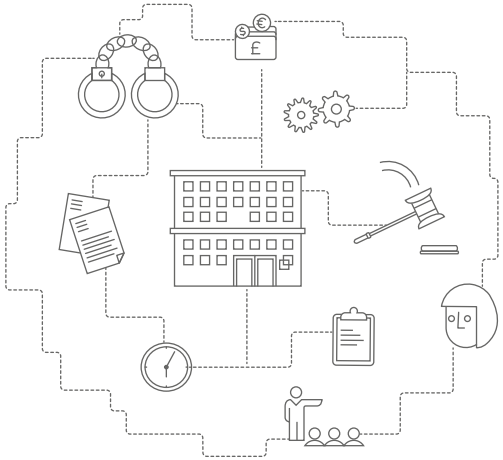
# Why perform risk management deep dives?

## Purpose of risk deep dives



- Allow Audit Committees (or equivalent) to undertake a comprehensive review of a strategic risk.
- Allows for information in the strategic risk register to be elaborated upon, such as details on assurances around controls, as well as implications on the objectives, strategies and plans that are being pursued.
- Provide the opportunity to challenge the contents on the strategic risk register to ensure it is appropriate, in particular the effectiveness of the controls in place and the progress of actions to better improve the management of risk.
- Helps to determine if the current risk appetite remains appropriate.
- Assists in identifying further steps that may be required.
- Demonstrates that the Audit Committee take the management of risk seriously.





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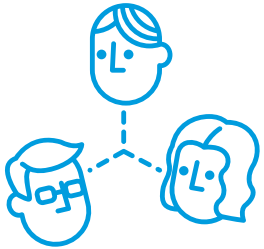
# Undertaking risk management deep dives

## Preparation for risk management deep dives



- Confirm deep dive language and communications – what does the Audit Committee mean by a deep dive? What is the objective? What outcomes are required?
- Create a deep dive scope - communicate this to those that will participate in the deep dive.
- Where does the deep dive take place? – as part of the Audit Committee meeting or outside?
- Agree strategic risks or topics to be discussed at Audit Committee (this can be undertaken in conjunction with the Board). Usually one per committee meeting and scheduled in advance.
- Audit Committee members to refresh themselves on the organisations current risk appetite prior to each risk deep dive. This will ensure that discussions and questions remain relevant and to the point.
- Agree who should attend the Audit committee and participate in the deep dive and why.
- Ensure the strategic risk information is up to-date.
- Audit Committee members to review the latest risk register in advance of the committee meeting to familiarise themselves with the particular risk subject to facilitate the deep dive.





RSM

# Risk management deep dive - coverage

## What you need to be able to explain

### Understand the strategic risk

- The strategic risk description, the current circumstances, drivers (or causes).
- The implications or effects of the strategic risk on the objectives of the business.
- Why the risk is scored as it is.

### Understand the effectiveness of the current controls and planned actions

- What current controls exist, how they are used to manage the risk and their effectiveness.
- What actions or planned activities are to be undertaken to help better manage the risk, progress made and outcomes.

### Understand the basis of assurance

- What assurances and evidence is available to support conclusions reached around controls effectiveness and progress / outcomes of actions.
- The cycle of management monitoring and review arrangements that are applied to the risk as part of reporting and oversight.
- Provide a forwards look, to the best of knowledge, as to how the risk and the controls etc might be affected by events on the horizon.





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# Risk management deep dive – the area of risk

## Understand the strategic risk

- Why was this strategic risk chosen for a deep dive?
- Why is the risk on the strategic risk register?
- **Context of the risk:**
  - alignment with corporate plan, projects, audit findings
  - recent problems/incidents
  - other underlying issues
  - consider the risk in context of sub risks, i.e. causes and consequences
  - emerging events or matters elsewhere (within / outside of the sector) that are a cause for concern.
- Have there been any changes to the above that have impacted the risk positively / negatively recently?
- Consider are assumptions realistic and can they be substantiated?
- How did the elements above influence the scoring of the risk? And does the risk score remain reasonable – inherently? residually and target?





RSM

# Risk management deep dive – current controls

## Understand the effectiveness of current controls

- What existing mitigating activities and / or controls are already in place? – if there are many focus on those that are key.
- Be clear about whether the mitigating activities/controls affect the likelihood of the risk occurring or if they help address the impact.
- Explain how you are assured that the mitigating activities take place and controls are in operation.
- Further explain how effective the mitigating activities and controls are by referencing to the risk assessment scores.
- Reference how the current risk assessment scores fit in with current risk appetite,
- Provide examples of realised benefits to demonstrate the effectiveness of the mitigating activities/controls.
- Be mindful if scores have changed since the last time Audit Committee reviewed the register, explain why.





RSM

# Risk management deep dive – planned actions

## Understand the effectiveness of planned actions

- How will these actions help improve the management of the risk?
- Reference how the current risk assessment scores fit in with current risk appetite and explain whether there is need for further activities or controls?
- And if not, why not?
  - Reference to realised benefits
  - Does effort/resources not outweigh further benefits, i.e. the risk assessment doesn't reduce significantly
  - Are there any limitations or constraints?
- If the risk assessment score needs to be reduced further, explain:
  - What you are going to do, and by when?
  - How will this affect the risk assessment scores both in terms of likelihood and impact?
  - What assurances will be available to confirm that the new mitigating activities / controls are effectively managing / minimising the occurrence of the risk?





RSM

# Risk management deep dive - assurances

## Understand the basis of assurance (existing controls / planned actions)

### What assurances exist?

- Who provides the assurance? What is the evidence base? How reliable is this?
- What is the frequency of this assurance?
- What are the outcomes of assurances provided? What does this tell us about the effectiveness of controls?
- What action is being taken to address weak levels of assurance? Or no where there are assurance gaps?

### What is the cycle of management monitoring and review of the risk, controls and actions?

- When does this occur?
- Who is involved? Is this management? Sub-committee?
- How does this take place? And what enquiries are made?
- What have been the outcomes to-date?

### How could this assurance provision change in the future?

- What future events within the business might impact on the risk, controls and actions? And what will be the impact? when?
- What changes will be required to ensure the on-going management of the risk or assurance provision?
- How will this affect the risk assessment scores both in terms of likelihood and impact
- What will this mean to the business risk appetite? And decision making in the future?





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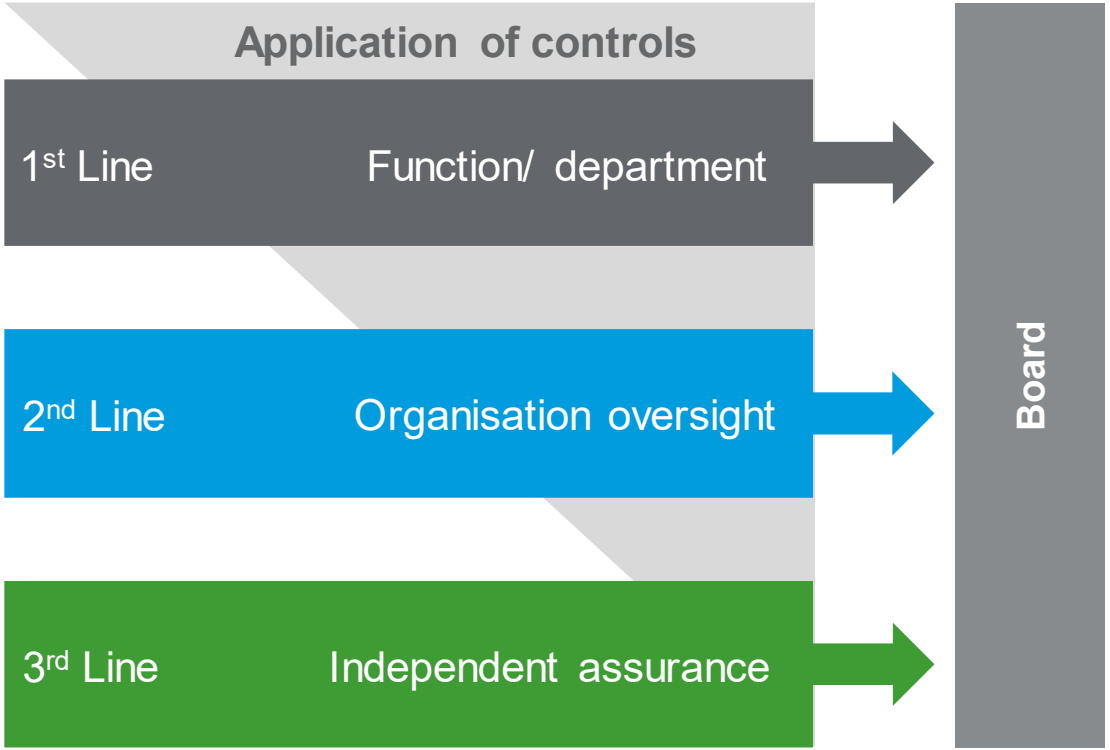
# Who can give you assurance?




The first level of assurance comes from the department that performs the day to day activity.

Other functions in the organisation such as Quality, Finance and HR provide assurance.

Assurance provided from outside the organisation.





RSM

# Example board assurance template – three lines of assurance

**9b. Board Assurance Framework Acad / Staff**

| Risk Ref | Risk Title | Cause & Effect | Inherent Risk Score | Risk Control | Control Assurance (Department) | Control Assurance (Management) | Control Assurance (Independent) | Overall Assurance Strength of Control | Residual Risk Score | Action Required | Progress Notes |
|---|---|---|---|---|---|---|---|---|---|---|---|
| STAFF 1 | Insufficient staff development and retention<br>**Risk Owner:** Mrs H Jones<br>**Risk Lead:** Mr C Smith<br>**Last Updated:** 04 Nov 2021<br>**Latest Review Date:** 02 Mar 2021<br>**Latest Review By:** Mr C Smith<br>**Last Review Comments:** Risk reviewed at Team Meeting and no updates made | **Cause**<br>- Appraisal and performance management arrangements are not consistent<br>- Unable to provide appropriate training and development opportunities<br>- Insufficient resources to deliver training<br>- Can't get staff out of day job to deliver training<br>**Effect**<br>- Low standards of teaching and education.<br>- High staff turnover / Shortage of staff.<br>- Reputational damage<br>- Difficulties in recruiting | I = 5 L = 5<br>25 | Action Plans in place for all staff to further develop career<br>**Control Owner:** Ms T Carter | All staff 1-1's carried out and reported into HR | HR report into Committee each meeting on progress | External Consultant used to support and review process | Adequate<br>Assurance Date: 12 Jan 2021<br>Assurance By: Mr N Brown | I = 5 L = 2<br>10 | Bring in an external HR specialist to undertake an independent survey across all staff on their views around the support and training.<br>**Person Responsible:** Mr C Smith<br>**To be implemented by:** 31 Jul 2021 | **25 May 2021**<br>**Ms T Carter**<br>Shortlist down to 3 - decision to be made end June 21<br>**02 Mar 2021**<br>**Mr C Smith**<br>Contact has been made with a number of organisations and will discuss at next working group meeting March 2021 |
| | | | | All staff provided with personal training and development plan<br>**Control Owner:** Mrs H Jones | Training and development plans reviewed termly with management and HR | Update report taken to Management Team termly | External staff survey results provided by ABC Ltd | Adequate<br>Assurance Date: 12 Jan 2021<br>Assurance By: Mr N Brown | | Ensure all staff appraisals are carried out annually in line with policy<br>**Person Responsible:** Mr N Brown<br>**To be implemented by:** 02 Aug 2021 | **25 May 2021**<br>**Ms T Carter**<br>Action on target and will be completed on time<br>**12 Jan 2021**<br>**Mr N Brown**<br>1st review carried out to determine who has not had an appraisal – action on track |
| | | | | Annual Appraisal Processes in place for each member of staff that will include staff development plan that will be monitored throughout each year<br>**Control Owner:** Mrs H Jones | All appraisals held centrally in HR and reviewed annually | Update report taken to Management Team termly | Internal Audit review of appraisals annually | Limited<br>Assurance Date: 12 Jan 2021<br>Assurance By: Mr N Brown | | | |
| | | | | Experienced in-house training and development team in place to support all staff on their specific needs.<br>**Control Owner:** Mr C Smith | HR team includes mix of experienced and specialist staff to deliver the programme | Management team review the process ensuring we have the right skills mix in place | Internal Audit review carried out across the HR team including the effectiveness of the HR team to deliver the training | Substantial<br>Assurance Date: 12 Jan 2021<br>Assurance By: Mr N Brown | | | |





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# Risk management deep dive – challenge

## Provide appropriate challenge (examples)

- How satisfied are you that the strategic risk is accurately described?
- What is the risk appetite for this risk? And why?
- How well is this risk understood within the wider business? How can this be evidenced?
- How content are you that the controls identified manage the risk? And what is this based on? How can this be evidenced?
- How satisfied are you that the planned actions will improve the management of the risk? And how content are you with the progress of actions? How can this be evidenced?
- What changes do you foresee that could impact on this risk and how?
- What further assurances could be obtained / would you like to obtain?
- Beyond what is already identified what further could be done to better manage or control the risk?

**Document outcomes, assign actions, follow up.**





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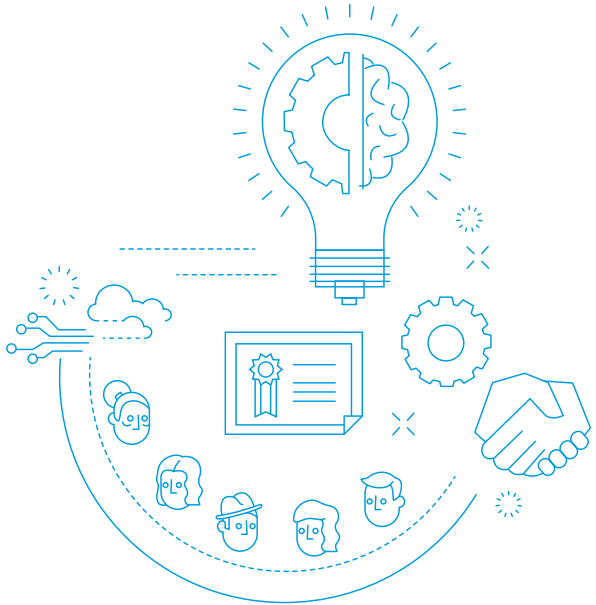
# Risk management deep dive - summing up

## Key steps

1) Be clear on the purpose and approach of the deep dive.
2) Make suitable preparations for a deep dive.
3) Focus the deep dive on a strategic risk or matter.
4) Understand (explore) the effectiveness of current controls that manage the risk.
5) Understand (explore) the effectiveness of planned actions.
6) Understand (explore) the basis of assurance
7) Provide appropriate challenge.
8) Document outcomes – actions to be taken, communicate and follow up.





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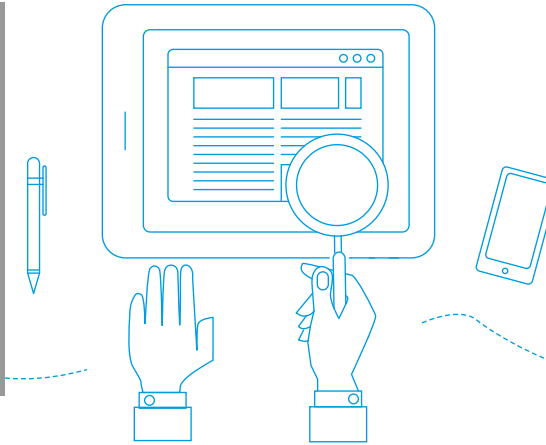
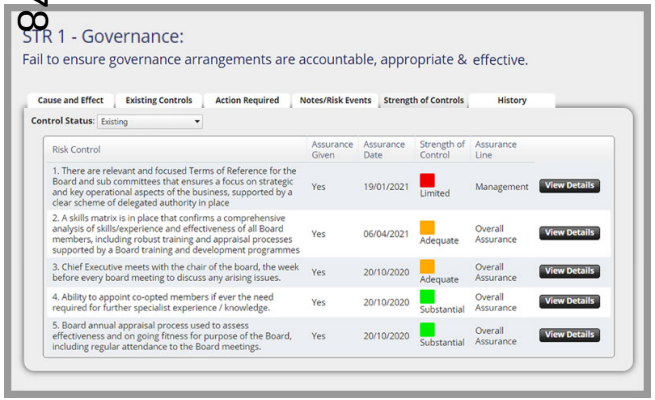
# Visibility and oversight

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# TRANSPORT FOR THE NORTH

Internal Audit Strategy 2022/23 - 2024/25 (including the Internal Audit Plan for 2022/23)

Presented at the Audit and Governance Committee meeting of: 25 February 2022



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# EXECUTIVE SUMMARY

In preparing our Internal Audit Plan for 2022/23 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:

**2022/23 Internal Audit priorities**: Internal audit activity for 2022/23 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 2022/23 is included at Section 1.

**Level of Resource:** The level of resource required to deliver the plan is in line with 2021/22, with the daily rate increased in line Retail Price Index (RPI). We will continue with our approach of introducing the use of technology when undertaking our operational audits. During 2021/22 we embraced more ways of using technology to undertake our audit work including; the use of 4questionnaire, MS Teams meetings 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

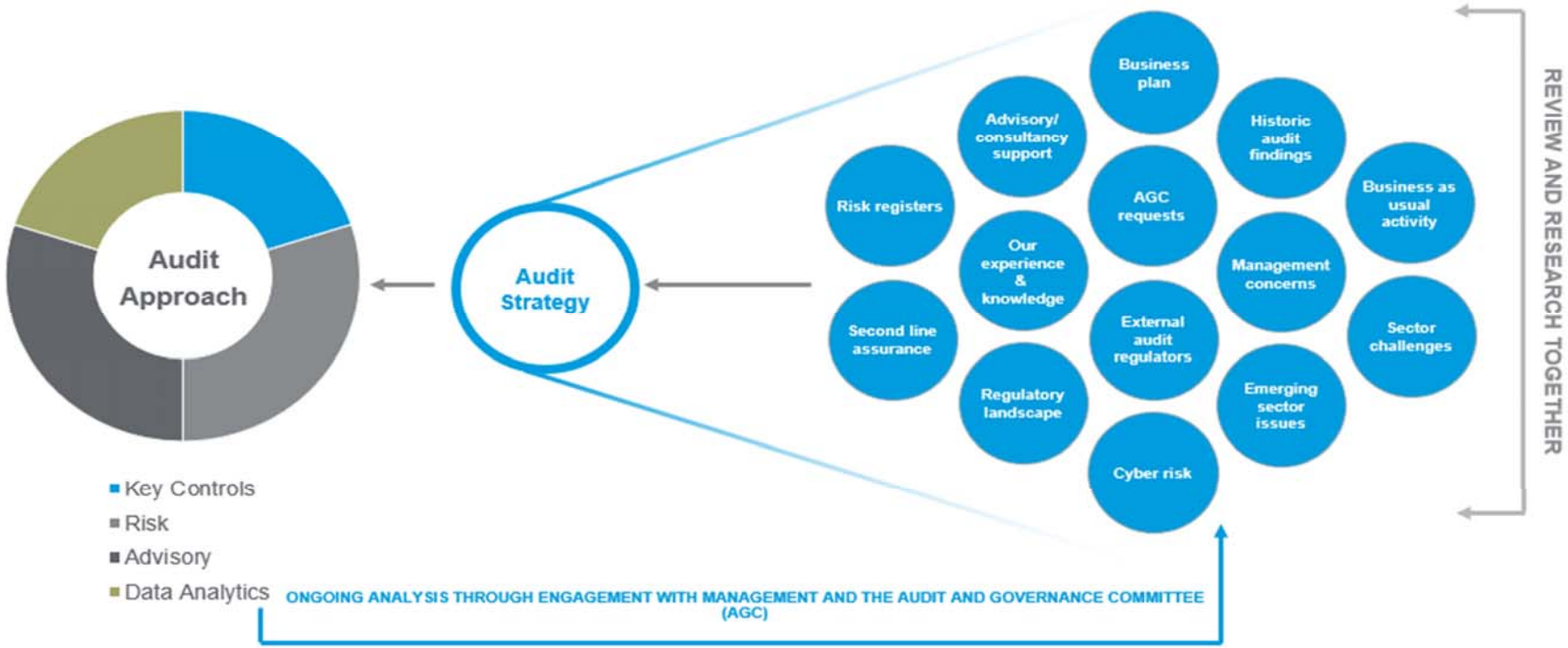
# 1. YOUR INTERNAL AUDIT PLAN 2022/23

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 2022/23

The table below shows each of the reviews that we propose to undertake as part of the internal audit plan for 2022/23. 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 the 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** | | | |
| **Risk Maturity Review**<br>Our advisory review will consider TfN's risk management maturity and identify further actions that could be taken to develop the existing risk management arrangements to a level that will be appropriate and proportionate for TfN in the future. This assignment is advisory and no opinion will be provided. | Advisory | Quarter 1 | July 2022 |
| **General Data Protection Regulation (GDPR) Arrangements**<br>The audit will review the extent to which the requirements of GDPR have been embedded across TfN. This will include the awareness of and compliance with key policies, training provision to staff and assurance reporting to management and the Board. This will be an advisory review and therefore no formal assurance opinion will be provided. | Advisory | Quarter 2 | September 2022 |
| **Payroll Controls**<br>This review is designed to provide assurance regarding TfN's controls for ensuring payroll is processed in an accurate and timely manner. The following areas will be specifically considered during the review:<br>• Policies and procedures;<br>• Starters, leavers and amendments to payroll;<br>• Monthly payroll review and authorisation procedures;<br>• Segregation of duties; and<br>• Establishment checks.<br>Our review will include the use of IDEA, our data analytics software, to identify the following:<br>• Any duplicate monthly payments made to employees;<br>• Multiple employees with the same bank details; and<br>• Leavers that continue to be paid once they have left TfN. | Assurance and Data Analytics | Quarter 2 | November 2022 |

| Audit area and high-level scope | Audit approach | Proposed timing | Proposed Audit and Governance Committee meeting |
|---|---|---|---|
| **Health and Safety Framework**<br>This audit will review compliance with policies and procedures in relation to employee health and safety and will confirm whether these processes are being consistently applied.<br>As part of our review we will use our 4questionnaires system to understand how the health and safety framework has been embedded across TfN. | Assurance | Quarter 3 | November 2022 |
| **Equality, Diversity and Inclusion Framework**<br>This review will assess the processes TfN has in place to ensure it has a well presented workforce which is diverse and inclusive. This will include reviewing the arrangements for meeting the requirement of the Public Sector Equality Duty (PSED). As part of our audit we will review the following:<br>• Related policies and procedures and consider how these are implemented in practice;<br>• Staff training and awareness raising;<br>• How equality impact assessments/ analysis is used;<br>• How any actions identified in respect of the PSED are progressed;<br>• How TfN monitors the diversity of it staff throughout the respective lifecycle; and<br>• Reporting of equality, diversity and inclusion metrics. | Assurance | Quarter 4 | February 2023 |
| **Advice and Support** | | | |
| Areas for which advice and support are to be provided will be discussed with management throughout the year. This could be in the form of meeting attendance, advice and assistance, and / or documentation review. | Advisory | Ongoing throughout the year | N/A |
| **Other Internal Audit Activity** | | | |
| **Contingency Audits**<br>In the event that TfN management decide not to proceed with one of the above audit assignments, management may wish to consider replacing any deferred or cancelled audit with one of the following:<br>• TfN Policy Development Framework; and<br>• Staff Mental Health and Wellbeing. | TBC | TBC | TBC |

| Audit area and high-level scope | Audit approach | Proposed timing | Proposed Audit and Governance Committee meeting |
|---|---|---|---|
| Any changes to the Internal Audit Plan will require approval from the Audit and Governance Committee and the scope of the audit assignment will be discussed and agreed with TfN management. | | | |
| **Follow Up**<br>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 2022 |
| **Management**<br>This will include:<br>• Annual planning;<br>• Preparation for, and attendance at, Audit and Governance Committee meetings;<br>• Regular liaison and progress updates;<br>• Liaison with external audit and other assurance providers; and<br>• 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 UK 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.

## Fees

Our fee to deliver the plan is £28,200 (excluding VAT) for a total of 50 days.

## Core team

The delivery of the 2022/23 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 International Standards for the Professional Practice of Internal Auditing, the wider International Professional Practices Framework (IPPF), and the Internal Audit Code of Practice as published by the Global Institute of Internal Auditors (IIA) and the Chartered IIA.

Under the Standards, internal audit services are required to have an external quality assessment (EQA) every five years. The RSM UK Risk Assurance service line commissioned an external independent review of our internal audit services in 2021, to provide assurance as to whether our approach continues to meet the requirements.

The external review concluded that RSM 'generally conforms* to the requirements of the IIA Standards' and that 'RSM IA also generally conforms with the other Professional Standards and the IIA Code of Ethics. There were no instances of non-conformance with any of the Professional Standards'.

* The rating of 'generally conforms' is the highest rating that can be achieved, in line with the IIA's EQA assessment model.

## 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 2022/23 – 2024/25

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 | 2024/25 |
| Risk Management | | | | ✓ | ✓ | | ✓ |
| Corporate Governance (2018/19 and 2020/21 opinion informed by Committee attendance and governance elements of individual audits. 2019/20 and 2021/22 opinion informed through specific governance related audits, as well as governance elements of individual audits.) | ✓ | Strategic Development Corridors Programme<br>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 | General Ledger |

| 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 | 2024/25 |
|---|---|---|---|---|---|---|---|
| | Payroll | | Income Management | | | | |
| IT Audit | Cyber Security | SharePoint | Cyber Security | Cyber Security (in progress) | GDPR Governance | ✓ | |
| Procurement Framework / Contract Management | Procurement Framework | | Contract Management | | | | |
| Mental Health and Wellbeing | | | | | | ✓ | |
| Human Resources | | | Recruitment and Selection | | | Succession Planning | PDR Compliance |
| Assurance Framework | | | Investment Programme Assurance | | | | |
| Policy Development Framework | | | | | | | ✓ |
| Stakeholder Engagement/Communications and Social media | | | | | | | ✓ |

| 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 | 2024/25 |
|---|---|---|---|---|---|---|---|
| Performance Management and Appraisals | | | | | | ✓ | |
| Health and Safety | | | | | Employee Health and Safety | Building maintenance | |
| Equality, Diversity and Inclusion Framework | | | | | ✓ | | |
| Emergency Planning / Business Continuity | | | | | | | ✓ |
| 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 UK 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.
- 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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# EXTERNAL QUALITY ASSESSMENT OUTCOMES

## RSM'S CONFORMANCE WITH THE IIA STANDARDS AND CODES OF PRACTICE

RSM UK Risk Assurance Services LLP

January 2022

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# RSM'S CONFORMANCE WITH THE IIA STANDARDS AND CODES OF PRACTICE

**RSM UK Risk Assurance Services LLP commissioned an external quality assessment (EQA) of its internal audit services in 2021. An EQA is required every five years, in line with the requirements of the International Professional Practices Framework (IPPF) and the Standards set by the Global Institute of Internal Auditors (IIA). Our independent EQA reviewed our conformance with the IPPF Standards, the Public Sector Internal Audit Standards (PSIAS), Internal Audit Code of Practice on effective internal audit in the Private and Third sectors, and the Internal Audit Financial Services Code of Practice. We provide below our summary of the results for your information.**

## Review approach

Our independent EQA assessor, Grant Thornton has utilised its established assessment framework to review RSM's internal audit services in relation to vision and strategy, planning and prioritisation, people and culture, working practices, tools, quality and deliverables, and role and mandate.

Our EQA involved a review of a sample of 10 audit files and audit reports shared with audit committees as well as a review of our working papers. Our own internal audit methodology has been reviewed against both the Standards and Codes of Practice.

The review process also involved interviewing RSM partners, directors and managers, and to gather client views, our independent assessor set up and ran a client survey, enabling broader reach and to obtain input from a larger pool of organisations we work with. Thank you to everyone that took the time to share their thoughts and insights.

## Key strengths observed in our EQA

From the assessment, the following key strengths were noted.

- A well developed methodology with good conformance with standards, supported by manuals and policies, which is 'well understood and applied consistently' across clients and regions. 'Audit engagements follow a clear structure, are well executed with adequate supervision.'
- 'Audit strategy, charter and plans are well developed for each client.'
- 'The audit reports reviewed were clear, concise and well written for the needs of RSM IA's clients.'
- 'RSM IA provides useful, value add thought leadership and benchmarking for its clients.'
- 'There is a strong focus in RSM IA on training and capability, resulting in good levels of competence and technical knowledge, supported by Subject Matter Experts and the Technical Team.'

## EQA outcomes

We are pleased to confirm that based on the work undertaken and the sample of files reviewed by our independent EQA assessor, RSM UK Risk Assurance Services LLP 'generally conforms to the requirements of the IIA Standards' and that 'RSM IA also generally conforms with the other Professional Standards set out above and the IIA Code of Ethics. There were no instances of non-conformance with any of the Professional Standards.'

The rating of 'generally conforms' is the highest rating that can be achieved, in line with the IIA's EQA assessment model.

# RSM'S CONFORMANCE WITH THE IIA STANDARDS AND CODES OF PRACTICE

### Survey outcomes

In total 160 surveys were shared with a representative cross section of our clients, in terms of sector and region. 67 responses to the survey were received from public and third sector organisations, corporate businesses and financial services clients.

We very much value the feedback received from our survey participants. We are committed to providing an excellent client service and from both the survey feedback and overall EQA outcomes, the 'areas identified for improvement from the EQA will be taken forward as part of a continuous improvement plan.'

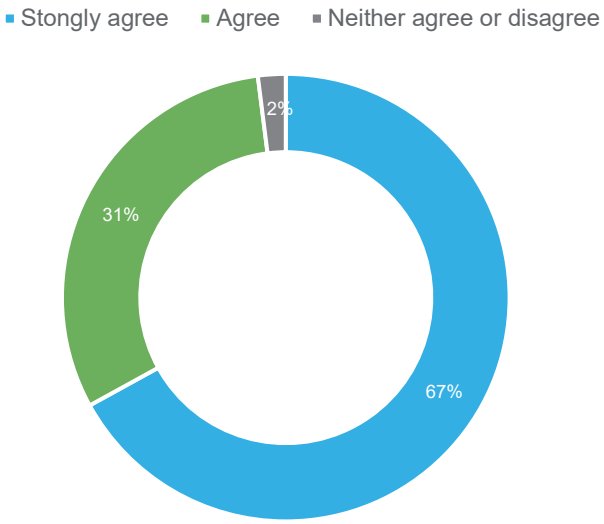
Overall, the responses to the survey were very positive, with 91 per cent either agreeing or agreeing strongly with the survey questions.

### High level survey findings

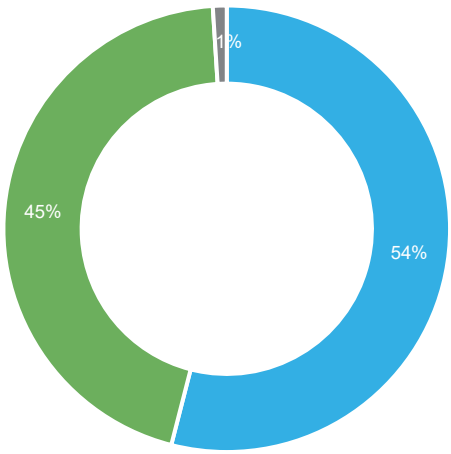
- Internal audit's role is well-understood, with 'teams well respected for their audit expertise, collaborative approach and sector guidance provided.'
- 'IA teams show a good understanding of client needs and sector requirements', with audits focussed on the right areas.
- 'Audit planning and prioritisation is seen as collaborative', with audit work carried out efficiently and to a good standard.
- The internal audit team has been 'very proactive and flexible' in how it has responded to the challenges of auditing during the pandemic.
- Audit reports reviewed were well written and the style and format clear and concise.

### EQA survey results

**RSM builds strong relationships with our organisation so that audit work is aligned to our key risks, strategy and priorities.**



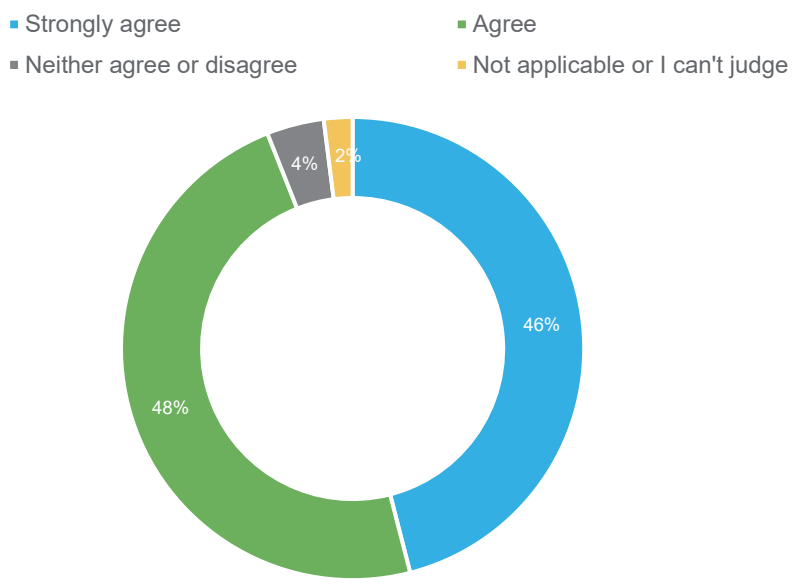

**RSM audit work helps improve our control environment to support organisation objectives, governance or regulatory compliance and external requirements.**



# RSM'S CONFORMANCE WITH THE IIA STANDARDS AND CODES OF PRACTICE

**EQA survey results continued**

**The risk assessment activity helps to focus the audit plan on the key risks and priorities for our organisation and takes account of our risk appetite.**




Client survey quotes:

'RSM provide an efficient and effective internal audit service, and make a contribution which is highly valued.'

'RSM staff have a real breadth of experience which they can tap into to provide advice, guidance and best practice.'

'RSM meets all requirements of a professionally run internal audit team.'

**What does this mean for our clients?**

You can be assured that your internal audit services continue to conform with internationally recognised Standards and the Codes of Practices. The internal audit services you receive follow an established and embedded methodology, that facilitates audit work that is both effective and responsive to you, as our clients', assurance needs.

RSM UK Risk Assurance Services LLP is pleased to confirm the outcomes of our EQA. If you require any further information, please contact your RSM client manager or engagement partner.

# FOR FURTHER INFORMATION CONTACT

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# Audit Progress Report

## Transport for the North

February 2022



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 with an update on progress in delivering our responsibilities as your external auditors and also includes, at Section 2, for your information, a summary of recent national reports and publications.

**2020/21 audit**

As members of the Audit and Governance Committee will recall, we presented our Audit Completion Report for 2020/21, dated 8 September 2021, to the meeting on 16 September 2021 and we signed our audit opinion on 30 September 2021.

Our report explained that our value for money work was not complete at that time and the latest guidance from National Audit Office (NAO) allowed auditors to report the results of their value for money work in a new Auditor's Annual Report, within three months of giving the opinion on the financial statements. We completed this work in December 2021 and our Auditor's Annual Report is a separate item on this agenda. No significant weaknesses in arrangements were identified and there are no recommendations arising from our work.

As explained in our Auditor's Annual Report we have not yet issued the Audit Certificate for 2020/21, which formally closes the audit. This is due to the delay in the guidance from the National Audit Office in relation to TfN's Whole Government Accounts. We expect this guidance to be released shortly and we will close the audit once we have received their instructions and completed the required procedures.

**2021/22 audit**

We have not yet commenced our planning work for the 2021/22 audit. We have no issues to bring your attention at this early stage of the audit process.

We intend to share our formal 2021/22 Audit Strategy Memorandum at a future meeting of the Audit and Governance Committee.

02

Section 02:

# National publications

# National Publications

| | Publication/update | Key points |
|---|---|---|
| **Chartered Institute of Public Finance and Accountability (CIPFA)** | | |
| 1. | **CIPFA launches value for money toolkit with the University of Oxford's GO Lab** | Based on the UK National Audit Office's standard definition of value for money, the toolkit offers a consistent approach to programme evaluation. |
| 2. | **New Prudential and Treasury Management Codes** | These two statutory and professional codes are important regulatory elements of the capital finance framework within which local authorities and TfN operate. |
| **Department for Levelling Up, Housing and Communities** | | |
| 3. | **Measures to improve local audit delays and accounts and audit timetable confirmed** | DLUHC have announced a new package of measures to support the improved timeliness of local audit. These include additional funds and an extension of the deadline for publishing accounts. |
| **National Audit Office (NAO)** | | |
| 4. | **Climate change risk: A good practice guide for Audit and Assurance Committees** | This guide helps Committees recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks. |
| 5. | **Cyber and Information Security: Good practice guide** | Audit committees should be scrutinising cyber security arrangements. This guidance complements government advice by setting out high-level questions and issues for audit committees to consider. |
| 6. | **The Government's preparedness for the COVID-19 pandemic: lessons learned for government on risk management** | The report sets out central government's risk analysis, planning, and mitigation strategies prior to the arrival of the COVID-19 pandemic, with the aim of drawing out wider learning for the government's overall approach. |
| 7. | **The Local Government finance system in England: Overview and Challenges** | This overview looks at what local government in England spends, how this spending is funded and the effect of changes in recent years. It draws on relevant findings from past NAO work. |
| 8. | **Financial Sustainability of Schools in England** | This report assesses the financial health of schools, updating a previous NAO report from 2016. |

# National Publications

| | Publication/update | Key points |
|---|---|---|
| **National Audit Office (NAO) - continued** | | |
| 9. | **Departmental Overview 2020-21: Department for Levelling Up, Housing and Communities** | This provides a summary of the Department's spending in 2020-21, its major areas of activity and performance, and the challenges it is likely to face in the coming year. |
| **Department of Health and Social Care (DHSC)** | | |
| 10. | **DHSC Integrated Care Partnership (ICP) Engagement Document** | This aims to support Local Authorities, Integrated Care Boards, and other key stakeholders in considering what arrangements might work best in their area when laying the foundations for establishing ICPs. |
| **Financial Reporting Council (FRC)** | | |
| 11. | **Inspection findings into the quality of major local body audits** | This report sets out the findings of FRC's most recent quality inspection of major local audits, which indicate a significant improvement by Mazars LLP. |

# NATIONAL PUBLICATIONS
# CIPFA

**1. CIPFA launches value for money toolkit with the University of Oxford's GO Lab, August 2021**

CIPFA has partnered with the Government Outcomes Lab (GO Lab) from the University of Oxford's Blavatnik School of Government to develop the innovative GO Lab-CIPFA Value for Money (VfM) Toolkit.

Based on the UK National Audit Office's standard definition of value for money, the toolkit offers a consistent approach to programme evaluation and has been developed in response to recent trends towards the use of outcomes-based contracts (OBCs) and impact bonds.

The toolkit provides public managers with a framework to help assess the economic validity of public programmes, while also serving as a self-assessment instrument. The toolkit promotes thinking about the longer-term effects of interventions, such as outcomes and impacts, during the design and planning stage of public sector programmes.

The GO Lab-CIPFA VfM toolkit is available for free download on the CIPFA website.

https://www.cipfa.org/services/go-lab-cipfa-value-for-money-toolkit



**2. CIPFA publishes new Prudential and Treasury Management Codes, December 2021**

CIPFA has published the new Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code) following a consultation period. These two statutory and professional codes are important regulatory elements of the capital finance framework within which local authorities operate. Local authorities are required by regulation to 'have regard to' their provisions. Guidance notes will follow shortly.

The revised Prudential Code emphasises that any borrowing made solely for the purpose of financial return constitutes imprudent activity, while also taking into account the realities that accompany regeneration activities. Proportionality has been included as an objective in the Prudential Code. New provisions have been added so that an authority incorporates an assessment of risk to levels of resources used for capital purposes.

The new Treasury Management Code states that the purpose and objective of each category of investments should be described within the Treasury Management Strategy.

https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-issues-new-prudential-and-treasury-management-codes

# NATIONAL PUBLICATIONS
# DLUHC

**3. Measures to improve local audit delays**

This publication sets out a range of measures agreed with key partners to support the timely completion of local government audits and the ongoing stability of the local audit market.

Challenges remain around the timeliness of local audit, one of the key issues highlighted by Sir Tony Redmond in his review. In 2017/18 the deadline for issuing audit opinions was brought forward from 30 September to 31 July. Since this point there has been a reduction in the number of local government audit opinions delivered on time, with significant reductions from 2018/19 onwards. This downward trend accelerated during the COVID-19 pandemic, with only 45% of 2019/20 audits completed by the extended deadline of 30 November 2020 and, most recently, only 9% of 2020/21 audits completed by the extended deadline of 30 September 2021. In addition, increasing workload and regulatory pressure on auditors have contributed to further delays.

The Government is continuing to prioritise measures to improve timeliness and support capacity as part of our response to the Redmond Review. An additional £15 million in funding has been made available to local bodies for 2021/22 to support with the implementation of recommendations following the Redmond Review and additional costs resulting from new audit requirements, including the new value for money reporting arrangements.

The report concludes that in the light of the extent of ongoing delays and capacity issues, a decision to revert to the previous deadline of 31 July would be both unrealistic and counterproductive, especially as the backlog of delayed 2020/21 audits will likely have knock-on effects for future years. Therefore, subject to consultation, secondary legislation will be introduced to set the following deadlines:

- The 2021/22 accounts to be audited and published by 30 November 2022;
- The 2022/23 accounts to be audited and published by 30 November 2023;
- The 2023/24 to 2027/28 accounts to be published by 30 September each year; and
- Draft accounts to be published by 31 May each year.

The full publication can be seen at this link: Measures to improve local audit delays - GOV.UK (www.gov.uk)

# NATIONAL PUBLICATIONS
# National Audit Office

**4. Climate change risk: A good practice guide for Audit and Assurance Committees, August 2021**

This guide is designed to help audit committees recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing these risks, the financial health of the sector before the pandemic and the financial impact of the pandemic in 2020/21;

The full report can be seen at this link: https://www.nao.org.uk/report/climate-change-risk-a-good-practice-guide-for-audit-and-risk-assurance-committees/

**5. Cyber and Information Security: Good practice guide, October 2021**

The guidance is based on NAO previous work and detailed systems audits, which have identified a high incidence of access-control weaknesses . NAO recommend that audit committees scrutinise cyber security arrangements in response to this increasing threat. To aid them, this guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

The guide provides a checklist of questions and issues covering:

- The overall approach to cyber security and risk management;
- Capability needed to manage cyber security; and
- Specific aspects, such as information risk management, engagement and training, asset management, architecture and configuration, vulnerability management, identity and access management, data security, logging and monitoring and incident management.

The full report can be seen at this link: https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/

**6. The Government's preparedness for the COVID-19 pandemic: lessons learned for government on risk management, November 2021**

The report concludes that this pandemic has exposed a vulnerability to whole-system emergencies – that is, emergencies that are so broad that they engage the entire system. Although the government had plans for an influenza pandemic, it did not have detailed plans for many non-health consequences and some health consequences of a pandemic like COVID-19. There were lessons from previous simulation exercises that were not fully implemented and would have helped prepare for a pandemic like COVID-19. There was limited oversight and assurance of plans in place, and many pre-pandemic plans were not adequate. In addition, there is variation in capacity, capability and maturity of risk management across government departments.

# NATIONAL PUBLICATIONS
## National Audit Office

The pandemic also highlighted the need to strengthen the Government's end-to-end risk management process to ensure that it addresses all significant risks, including interdependent and systemic risks. This will require collaboration on risk identification and management not only across government departments and local authorities, but also with the private sector and internationally. For whole-system risks NAO states that the Government needs to define its risk appetite to make informed decisions and prepare appropriately so that value for money can be protected. NAO state that the pandemic has also highlighted the need to strengthen national resilience to prepare for any future events of this scale, and the challenges the government faces in balancing the need to prepare for future events while dealing with day-to-day issues and current events.

The full report can be seen at this link: https://www.nao.org.uk/report/the-governments-preparedness-for-the-covid-19-pandemic

**7. The Local Government finance system in England: Overview and Challenges, November 2021**

This overview looks at what local government in England spends, how this spending is funded and the effect of changes in recent years. It draws on relevant findings from past NAO work.

The overview aims to enhance financial transparency about local government in England. It covers:

- An introduction to local government funding;
- Government policy and actions since 2010; and
- Some results or consequences of these changes.

The report headlines include the following in respect of the impact of the changes implemented by government on councils:

- Rising social care spending has squeezed funds available for non-social care services, yet rising spend has not prevented concerns about social care, and projections suggest continued cost and demand pressures;
- Local authorities have made substantial spending reductions in some services and sought to maximise revenue funding from other sources. Some local authorities have sought to maximise revenue available for services in ways that may reduce financial resilience. Commercial property investment strategies have increased some local authorities' exposure to risk. Local authorities now rely more on sources of income that are dependent on local economic conditions;

# NATIONAL PUBLICATIONS
## National Audit Office

- A lack of short-term funding certainty hampers local authorities' ability to plan. Local authorities are also planning and delivering services amid medium-term financial uncertainty. Financial uncertainty does not support value-for-money decision-making; and
- The governance mechanisms that support decision-making about financial sustainability are under strain. The financial resilience of the local government sector was being tested, even before the COVID-19 pandemic.

The full report can be seen at this link: https://www.nao.org.uk/report/the-local-government-finance-system-in-england-overview-and-challenges/

**8. Financial Sustainability of Schools in England**

The report concludes that the financial health of the mainstream school system has held up well despite the funding and cost pressures that schools have faced in recent years, although the data does not yet fully reflect the significant impact that the COVID-19 pandemic has had. Most maintained schools and academy trusts are in surplus, but there are significant pressures on some maintained secondary schools.

The concern in relation to the academy sector is that a sizeable minority of academy trusts are building up substantial reserves, meaning they are spending less than their annual income on their pupils.

Ofsted inspection ratings suggest that mainstream schools have generally maintained educational quality, although there are indications that the steps schools are taking in response to financial pressures may adversely affect aspects of their provision.

Since the last report in 2016, the Department for Education has implemented a range of programmes to support schools to improve their resource management and achieve savings, which have generally been well received by the sector and helped schools to achieve savings. However, the Department's data have not been sufficiently complete or reliable to assess whether the programmes are having the impact it intended or achieving value for money.

**https://www.nao.org.uk/report/financial-sustainability-of-schools-in-england/?slide=1**

# NATIONAL PUBLICATIONS
# National Audit Office

**9. Departmental Overview 2020-21: Department for Levelling Up, Housing and Communities, November 2021**

The Ministry of Housing, Communities and Local Government (MHCLG) was renamed the Department of Levelling Up, Housing and Communities in September 2021 in to reflect a new ministerial appointment in the cabinet reshuffle and raise the profile of the Government's '*levelling-up*' agenda. This NAO report provides a summary of the new department's major areas of activity and performance, and the challenges it is likely to face in the coming year, based on the insights from NAO's financial audit and value for money work.

The full report an be seen at this link: https://www.nao.org.uk/report/departmental-overview-2020-21-department-for-levelling-up-housing-and-communities :

# NATIONAL PUBLICATIONS
# DHSC

**10. Integrated Care Partnerships (ICPs) Engagement Document, September 2021**

The Health and Social Care Bill introduces statutory arrangements for integrated care systems with two components:

- Establishes the Integrated Care Partnership (ICP): a broad alliance of organisations and representatives concerned with improving the care, health and wellbeing of the population, jointly convened by local authorities and the NHS; and
- Creates a statutory body, the Integrated Care Board (ICB), responsible for the commissioning of healthcare services in that ICS area, bringing the NHS together locally to improve population health and care.

This document aims to:

- offer further detail on what DHSC see as the role of, and opportunities for ICPs as one of two core elements of ICSs;
- provide further explanation around the statutory framework for ICPs, as legislated for by the Health and Care Bill;
- set out the guiding expectations DHSC has for ICPs in their operation and delivery; and
- give stakeholders more clarity on timings for establishment of ICPs and how this fits with the establishment of other elements of the system.

The ICP is a core element of the statutory arrangements for ICSs which will not be fully functional without an ICP. DHSC therefore expect that all systems will have at least an interim ICP up and running when statutory ICBs commence as planned in April 2022, subject to the passage of the Health and Care Bill through Parliament.

https://www.gov.uk/government/publications/integrated-care-partnership-icp-engagement-document

# NATIONAL PUBLICATIONS

## FRC

**11. Inspection findings into the quality of major local body audits, October 2021**

The Financial Reporting Council (FRC) published in October 2021 its **inspection findings into the quality of major local body audits** in England (which includes large health and local government bodies) for the financial year ended 31 March 2020.

The FRC reviewed 20 major local audits performed by six of the largest audit firms and found 6 (30%) required improvements. This is an improvement on the prior year inspection results where 60% of audits inspected required either improvements or significant improvements. FRC found that all Value for Money arrangement conclusions inspected by the FRC required no more than limited improvements.

The FRC found that the firms have taken action in response to previous findings, however, the timeliness of auditor reporting was disappointing.

The key areas requiring action by some of the audit firms included:

- strengthening the audit testing of expenditure;
- improving the evaluation and challenge of assumptions used in concluding over investment property valuations;
- improving the evaluation of assumptions used in property, plant and equipment valuations; and
- providing improved rationale supporting a modified audit opinion.

In respect of Mazars, the FRC concluded that "*the audit quality results for our inspection of the four audits showed significant improvement compared to the prior years, with all audits assessed as requiring no more than limited improvements".* The table below shows how Mazars compared to the other firms reviewed:

| **Proportion of files reviewed graded '*good*' or '*limited improvements required*'** | | | | | | |
|---|---|---|---|---|---|---|
| Mazars | EY | GT | KPMG | Deloitte | BDO | PWC |
| 100% | 75% | 67% | 33% average over the 3 other suppliers | | | Not assessed |

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

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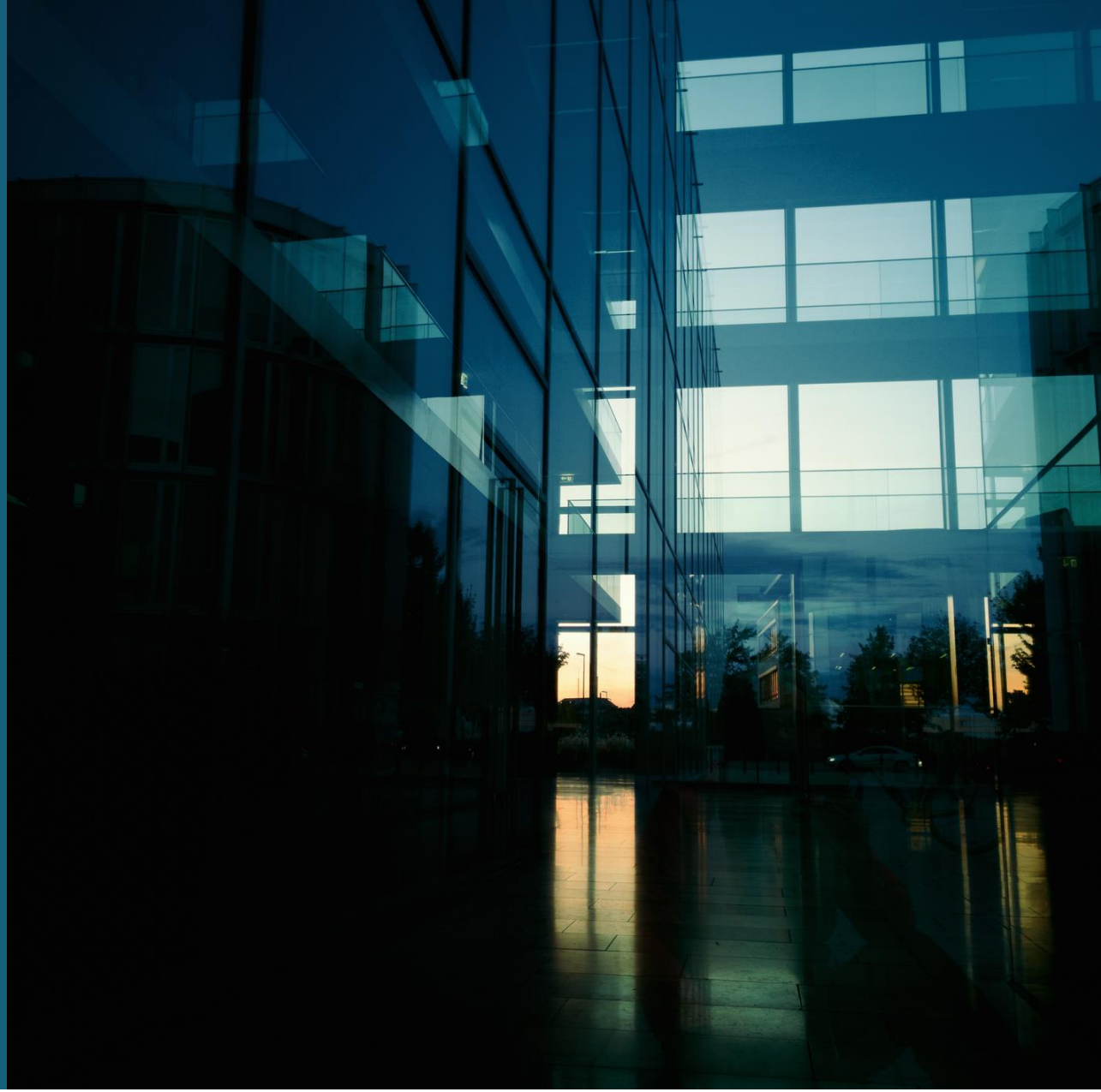
# Auditor’s Annual Report

## Transport for the North– year ended 31 March 2021

January 2021





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# Contents

01

Section 01:

# Introduction

# 1. Introduction

## Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Transport for the North ('TfN') for the year ended 31 March 2021. Although this report 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 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.

### Opinion on the financial statements

We issued our audit report on 30 September 2021. Our opinion on the financial statements was unqualified.

### Value for Money arrangements

In our audit report, issued on the 30 September 2021, we reported that we had not completed our work on TfN's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not identified significant weaknesses in those arrangements at the time of reporting. Section 3 confirms that we have now completed this work and provides our commentary on TfN's arrangements. No significant weaknesses in arrangements were identified and there are no recommendations arising from our work.

### Wider reporting responsibilities

We have not yet received group instructions from the National Audit Office and we are unable to issue our audit certificate until this is formally confirmed.

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 to consider any objection made to the accounts. We did not receive any questions or objections in respect of TfN's financial statements.

02

Section 02:

# Audit of the financial statements

# 2. Audit of the financial statements

## The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

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 2021 and of its financial performance for the year then ended. Our audit report, issued on 30 September 2021 gave an unqualified opinion on the financial statements for the year ended 31 March 2021.

Our Audit Completion Report, presented to TfN's Audit and Governance Committee on the 16 September provides further details of the findings of our audit of the TfN's financial statements. This includes our conclusions on the identified audit risks and areas of management judgement, internal control recommendations and audit misstatements identified during the course of the audit.



## Qualitative aspects of TfN's accounting practices

We reviewed TfN's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to TfN's circumstances.

Draft accounts were received from TfN on 7 June 2021, well in advance of the revised statutory deadlines and were of a good quality. The accounts were supported by good quality working papers and we received full co-operation from the Finance team in responding to our queries on a prompt basis.

## Significant difficulties during the audit

We did not encounter any significant difficulties during the course of the audit and we have had the full co-operation of management.

03

Section 03:

# Commentary on VFM arrangements

# 3. VFM arrangements – Overall summary

## Approach to Value for Money arrangements work

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 and sets out the reporting criteria that we are required to consider. The reporting criteria are:

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

At the planning stage of the audit, we undertake work so we can understand the arrangements that TfN has in place under each of the reporting criteria. As part of this work we may identify risks of significant weaknesses in those arrangements. Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses. We identified one significant risk and this is outlined on the next page.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement. There are no significant weaknesses to report.

The table below summarises the outcomes of our work against each reporting criteria. On the following pages we outline further detail of the work we have undertaken against each reporting criteria, including the judgements we have applied.



| Reporting criteria | Commentary page reference | Risks of significant weaknesses in arrangements identified? | Actual significant weaknesses in arrangements identified? |
|---|---|---|---|
| **Financial sustainability** | 9/10 | Yes | No |
| **Governance** | 12 | No | No |
| **Improving economy, efficiency and effectiveness** | 15 | No | No |

# 3. VFM arrangements – Financial Sustainability

## Risks of significant weaknesses in arrangements

We outline below the risks of significant weaknesses in arrangements that we identified as part of our continuous planning procedures and the work undertaken to respond to each of those risks.

| | Risk of significant weakness in arrangements | Work undertaken and the results of our work |
|---|---|---|
| 1 | **Reductions in core funding**<br>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).<br><br>The gap in funding for 2021/22 will largely be met by charging core costs to NPR programmes and drawing on general fund balances.<br><br>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 can be set. | **Work undertaken**<br>The majority of expenditure for TfN is dependent upon the receipt of funding from the Department for Transport (DfT) and TfN commits to expenditure only where appropriate funding commitments have been confirmed. Therefore the main financial risk to TfN is with the core operational budget which is relatively small at £8.6m.<br><br>Following the announcement of the funding reduction, DfT agreed to allow TfN the flexibility to charge £1.54m of central core costs into the NPR programme as well as appropriate direct costs (£0.95m).<br><br>We reviewed the 2021/22 financial plan including consideration of any proposed charging of 'core' costs to the Northern Powerhouse Rail programme (NPR). We have obtained evidence to support the direct costs and reviewed the basis of the apportionment of the recharges. These are not unreasonable and were broadly in line with similar recharges on the IST programme in 2019/20 which were £1m.<br><br>The current level of retained reserves of £6.67m is above the agreed minimum level of £2m. This provides TfN with the ability to sustain an expenditure run rate at a level which is above its core funding allocation in the short to medium-term so that TfN can to continue to support key developments. It also provides a level of risk mitigation against future financial uncertainty in the short term. The Board agreed to a release of general fund reserves of £2.60m (subsequently refined to £2.54m) for 2021/22, allowing TfN to set a Core budget envelope of £8.6m. This approach will result in general reserves of reducing to approximately £3.6m (excluding earmarked reserves) at the end of the 2021/22 financial year. This is still a relatively healthy position for TfN. Total reserves will fall again to £3.0m in 2022/23 and to £2m by the end of 2023/24. On this current trajectory, TfN has acknowledged that it will face sustainability challenges in the medium-term as the reserves are utilised. To address this, TfN intends to perform a full review of its expenditure and its reserves strategy once it has clarity with regard to its long term funding settlement through the Comprehensive Spending Review (CSR) expected later in 2021.<br><br>However, this position needs to be carefully managed to ensure that TfN maintains sufficient cash and the resources to meet liabilities. TfN will need to consider how it will address it's medium term position once the CSR is concluded, or should it be delayed.<br><br>**Conclusions**<br>We have not identified any significant weaknesses in arrangements at this time. However, we recognise that TfN cannot continue to draw on reserves without addressing the underlying financial position over the medium term. |

# 3. VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria

### TfN's financial planning and monitoring arrangements

As a sub-national Transport Body, TfN is largely subject to the same statutory frameworks as partner local transport and combined authorities. These frameworks include requirements to set a balanced budget on an annual basis and to agree a reserves strategy to manage longer-term risk.

The Annual Business Planning process ensures all significant financial pressures are identified including non-recurring 'one-off' costs. The plan, and associated 2020/21 budget, were approved by the TfN Board prior to the UK entering lockdown in March 2020. The budget is monitored throughout the year and reported to the Audit and Governance Committee (A&GC) and Board as evidenced through our review of Board minutes and attendance at A&GC meetings.

TfN's budget consists of capital and revenue programmes and its core operations. TfN is almost entirely funded by grants from the Department for Transport (DfT) and will commit itself to expenditure only where appropriate commitments have been received from the Department. Therefore the main financial risk is it's core operations, covering its main support and back-office functions. In 2020/21, mainly as a result of Covid, there was an underspend of £2.63m against the core budget of £8.2m which increased reserves. Reserves are then available for future deployment, being matched against slipped activity or to meet anticipated shortfalls between future expenditure and funding allocations.

General fund reserves were originally forecast to reduce by £1.4m to £5.1m in 2020/21 but the impact of Covid-19 along with reduced activity and additional cost savings meant that general fund reserves were actually forecast to increase to £9.5m. However, the in-year reduction in grant from DfT of £3m meant the total reserves were £6.5m as at 31 March 2021.

We reviewed a sample of the Monthly Operating Reports presented to TfN's Board during the 2020/21 which reported the monthly and yearly forecast outturn position. These reports contain evidence of a clear summary of TfN's performance, detailing significant variances and providing adequate explanation of the causes.

### TfN's arrangements and approach to 2021/22 financial planning

The 2021/22 budget was reported to the March 2021 Board meeting. The report notes a balanced gross budget proposal for the year of up to £78.70m which is fully funded from grants, contributions, contracted income and a drawdown of reserves of £2.54m in line with TfN's reserves strategy.

In respect of the medium term strategy, TfN works in collaboration with DfT and partners when entering into multi-year and high-risk projects to ensure that the right balance of risk share is achieved. As noted previously, TfN will commit itself to expenditure only where appropriate commitments have been received from the DfT. This means the financial risk to TfN is largely mitigated, other than in its core operations.

The core funding allocation for 2020/21 was reduced in January from £10m to £7m and the 2021/22 allocation reduced to £6m. This 40% reduction in TfN's Core funding from 2021/22 has created a significant challenge in relation to the delivery of ongoing activity. In response, all budget holders were asked to critically review their business plans and associated cost base. The outcome of this process resulted in gross expenditure proposed for the operational areas of £7.67m representing a reduction in gross expenditure of £1.52m (16%) and a reduction in net expenditure, after programme recharges, of £2.06m.

Following the funding announcement, TfN's officers engaged with Departmental officials to identify means of mitigating the impact of the reduction to core funding. This resulted in DfT agreeing to allow TfN the flexibility to charge £2.5m of direct and allocated costs previously resourced from the Core allocation into the NPR programme. We have considered this arrangement as part of our response on the significant risk on the previous page and have no matters to report.

The Board agreed to a release of general fund reserves of £2.60m (subsequently refined to £2.54m) for 2021/22, allowing TfN to set a Core budget envelope of £8.6m. The current level of reserves of £6.67m is above the agreed minimum level of £2m. This provides TfN with the ability to sustain an expenditure run rate at a level above its core funding allocation in the short to medium-term to continue to support key developments. It also provides a level of risk mitigation against future financial uncertainty in the short term.

# 3. VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria

This approach will result in general reserves of approximately £3.6m (excluding earmarked reserves) at the end of the 2021/22 financial year. This is still a relatively healthy position for TfN given the risks set out previously. Total reserves will reduce to £3.0m in 2022/23 and to £2m by the end of 2023/24. On this current trajectory, TfN has acknowledged that it will encounter sustainability issues in the medium-term as the ability of reserves to accommodate ongoing activity is placed under pressure. However, TfN will perform a review of its expenditure and its reserves strategy once it has clarity with regard to its long term funding settlement through the Comprehensive Spending Review (CSR).

However, as noted in our response to the significant risk, this position needs to be carefully managed to ensure that TfN maintains sufficient cash and the resources to meet liabilities. TfN will need to consider how it will address it's medium term position once the CSR is concluded, or should it be delayed.

The Government has recently made important announcements concerning both the management of the operational railway (the William-Schapps Review) and rail infrastructure (The Integrated Rail Plan of the North and Midlands).

The Williams-Shapps review sets out a future vision for the operation of the railways, including the creation of a new body, Great British Railways (GBR). It is not clear how this will impact on TfN's role or its resourcing and it is unlikely this uncertainty will be resolved quickly. On 9 December the GBR transition team launched a call for evidence in support of the Whole Industry Strategic Plan, a 30-year strategy for the UK's rail system that will inform the transition to GBR. This will not close until February and it is doubtful that any clarity as to TfN's role will be achieved until well into the next financial year at the earliest. However, TfN has engaged positively with Network Rail (feeding into the GBR transition team) and the DfT to discuss its role in the new arrangements and will continue to manage its operations on the basis of the current operation of the system.

The Integrated Rail Plan of the North and Midlands did not deliver the preferred network that the TfN Board had provided as statutory advice to the Secretary of State for Transport. TfN is proposing to contact the Secretary of State for Transport to consider funding options for the delivery of the preferred Northern Powerhouse Rail (NPR). It is also considering the impact the plan will have on the North's economic and decarbonisation ambitions. The Government has indicated that it wishes to change TfN's role from co-client to co-sponsorship and intends to transfer delivery into the DfT. However, there is not sufficient detail at this time to assess the full impact on TfN.

TfN is currently in the process of agreeing the programme of NPR activities that will be delivered through to the end of the financial year and is seeking greater detail from the DfT as to the plans for 2022/23 and beyond. DfT's position indicates a change to the delivery model and governance for NPR in the new financial year, which may bring about TUPE implications for those working on the programme. Given the importance of the NPR programme to TfN's overall operations, this may in turn also have implications for TfN's core budget and wider organisational delivery model and budget. TfN will continue to operate on the basis that it will only commit to activity that it knows to be funded both in the current and future periods.

These uncertainties, combined with ongoing uncertainty regarding the level of the Core settlement for 2022/23 (expected to be announced in January 2022) mean that TfN cannot currently plan for the new financial year with any confidence. However, TfN are seeking a resolution of these issues with the DfT and for a reasonable approach to any programme related costs – including any NPR transition/wind down costs.

Whilst this is challenging, it is not considered to be a significant Going Concern risk for TfN. TfN does not deliver services to the public in the same way that other local authorities do and most activity is discretionary when considered in the medium term. TfN is therefore confident it can manage the programme of activities in line with its financial position. Finally, as noted previously, TfN has a significant level of reserves that it could use to manage any financial impact and also has the additional comfort of the DfT commitment set out in the Memorandum of Understanding. TfN will therefore continue to operate on the basis that funding will be provided to enable it to meet its statutory duties. However, it is expected that TfN will seek to minimise any liabilities, subject to meeting its core objectives.

# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria

### Governance structure

TfN operates under a Memorandum of Understanding with the Secretary of State for Transport and Officers meet with representatives of DfT at regular Sponsorship Meetings. The TfN 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 Chairman of the Partnership Board who are all co-opted Members on the Board. It also includes representatives of the eleven Local Enterprise Partnerships in the TfN Area and representatives of Highways England, Network Rail and HS2 as co-opted members.

The Northern Powerhouse Rail project is co-cliented with the DfT. A Memorandum of Understanding with the DfT was approved by the TfN Board on the 12th March 2020 setting out governance arrangements including regular reporting of finances, performance, and risk to a Programme Board. All major work programmes also have Programme Boards, attended by representatives of the DfT, where the progress is regularly reviewed against agreed milestones and major decisions are discussed.

The Rail North Partnership Team reports regularly to the Rail North Committee, and is accountable 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.

TfN'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 TfN Board and also considered by the Partnership Board. Other decisions may be delegated to Committees, the Chief Executive, and other senior officers under the arrangements set out in the Constitution including:

- Scrutiny Committee comprising elected Members appointed by the 20 Constituent Authorities; and
- Audit and Governance Committee consisting of five Board Members and three Independent Members.

Our review of Board and Committee papers confirms the arrangements in place and also that a standard template covering report is used for all reports. This is designed to ensure the purpose, strategic context and governance issues are considered including legal, finance and risk implications. Minutes are published and reviewed by the Board to evidence the matters discussed and any challenges and decisions made.

We have not identified any matters from our review to suggest a weakness in the committee structure of TfN. It is designed to provide assurance that decision making, risk and performance management is subject to appropriate levels of oversight and challenge.

Since March 2020 TfN, in common with the whole of the UK, has been affected by the Covid 19 pandemic. In response to the emergency, TfN 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 TfN's governance arrangements and enabled its internal system of controls to continue to function. Since March 2020 all TfN's Boards and Committees have continued to meet through virtual meetings which have continued to be streamed live to the public. There is now a mix of virtual and in-person meetings.

TfN 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 as evidenced through our review of the Annual Governance Statement

# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria

### TfN's risk management and monitoring arrangements

TfN has adopted a Corporate Risk Management Strategy that is periodically reviewed, amended and approved by the Audit & Governance Committee (A&GC) as confirmed from our attendance at meetings and review of agendas and papers.

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 A&GC. 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 TfN Board. We are satisfied these arrangements are in place from our attendance at the A&GC meetings and review of Board minutes.

The Risk Management Strategy (RMS) sets out guidance for how risks are identified, assessed, managed and reported. The RMS has been applied in updating the Corporate Risk Register. To ensure effective management of risks, the report provides information regarding the potential consequences for TfN's objectives and priorities, and the mitigation measures in place.

The A&GC is responsible for independently monitoring and assessing the adequacy and effectiveness of the risk management framework with particular focus on

- the risk management strategy for managing key risks;
- risk ownership, accountability and the development of mitigating actions;
- the alignment of internal audit and other assurance planning through a risk-based approach to auditing; and
- receiving reports from management on the adequacy and effectiveness of the internal control and risk management framework.

We are satisfied these arrangements are in place from our attendance at the A&GC meetings and review of Board minutes.

TfN is also implementing risk management software to further strengthen the arrangements in place and to facilitate the timely capture, escalation and reporting of risks.

Our review has established that risk management arrangements detailed in the 2019-20 Annual Governance Statement remain broadly the same as those detailed in the 2020-21 Annual Governance Statement. TfN has a set of policies and procedures available on the website at that support the governance arrangements. These are detailed in the Annual Report and Annual Governance Statement.

TfN has an in-house legal team. The legal implications of all reports are considered and, where appropriate, legal advice is provided within reports that inform decisions to be taken by Members.

TfN has a 'zero-tolerance' approach to fraud and corruption. It has adopted Anti-Fraud & Corruption and Whistleblowing Policies. During 2020/21 the A&GC reviewed the systems and controls in place to prevent fraud and corruption as evidenced through our review of minutes and attendance at meetings.

Members are required to make a declaration of their disclosable pecuniary interests. They are also required to declare any disclosable pecuniary interests in the business of the meeting at the start of all meetings of the TfN Board or its Committees.

TfN has adopted a Code of Practice in relation to Gifts and Hospitality. A register of Gifts and Hospitality is maintained by the Monitoring Officer.

# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria

### Internal audit

TfN employs an Internal Audit provider, RSM Risk Assurance Services LLP (RSM). The Internal Audit Plan is based on TfN's corporate objectives, risk profile and assurance framework as well as other factors including changes within the sector. The audit plan is agreed by the A&GC and is monitored throughout the year including monitoring management responses against target completion dates. Where dates are missed explanations are provided and considered by the A&GC. RSM attend each committee meeting and report on progress against the Plan. Our review of minutes and attendance at A&GC confirmed the arrangements in place.

We consider all reports as part of our attendance at A&GC. Whilst there is no formal Head of Internal Audit Opinion, all reports issued during the year have been either substantial or reasonable assurance and there is no indication from our review of significant weaknesses in arrangements.

### Performance management

During 2020/21 TfN has produced monthly monitoring reports that bring together performance and financial information. This report is provided to all members of the TfN Board, the Scrutiny Committee and the A&GC so that all members have the information they need to challenge TfN's performance. We have not identified any significant weaknesses in arrangements from our review of Board minutes and attendance at the A&GC meetings.

### Audit and Governance Committee

The committee structure includes an A&GC. This Committee comprises five Board Members and three Independent Members. The are terms of reference in place for the A&GC and these are in line with expectations. The Committee's purpose is to *"provide independent review and assurance to members on the risk management and control framework".*

The A&GC Chair reports into TfN Board after each meeting and an Annual Report is produced. We have attended meetings held during the year. Whilst all meetings were held remotely, we identified no evidence that this affected the performance of the Committee.

The A&GC considers the risk management arrangements, the Annual Accounts, Annual Governance Statement and progress with the delivery of both internal and external audit plans.

### Budget setting TfN

Through the annual Business Planning process, involving all programme teams and support teams to produce a comprehensive Corporate Business Plan and Annual Budget. Reports are provided to the TfN Partnership Board, Board and Scrutiny Committee between the commencement of business planning in the Autumn and the approval of the budget in March which provide updates on progress and seeks approval for the workplans being developed.

In 2020/21 a Member Working Group was established to improve the planning and budgeting process and TfN also established a Steering Group, led by the CEO, to manage the process and take key decisions.

Monthly review meetings are held between finance officers and each budget holder. These are used to monitor activity, provide information to the MOR and produce periodic budget revisions.

# 3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

### Performance management

There has been regular reporting on TfN's financial and operational performance throughout the year providing an opportunity for TfN to identify and investigate any areas of under delivery. Reports are presented to the Board where performance is scrutinised and challenged. The Monthly Operating Report is published on the TfN website and is available to all TfN Board Members and TfN's partners, as well as the general public.

There are 16 KPIs which are routinely monitored as part of the monthly reports and the outturn position is reflected in the financial statements. These are organisational KPIs rather than operational KPIs and set out targets for TfN for delivery. We are satisfied that these are monitored and reported and action taken where necessary to ensure that they remain on track.

Out of the 16 KPIs, 10 have been achieved. There are a further 5 that are not delivered by the year end and in each case, reasonable explanations have been provided for the delay. One of the KPIs, relating to Integrated and Smart Travel has been cancelled. This is because the programme is no longer funded by the DfT.

There are other metrics reported in the Monthly Operating Reports such as HR metrics for sickness, employee turnover and diversity for example.

TfN undertakes periodic budget revisions that are presented as reports to the TfN Board for approval. These identify where there are under / overspends and highlight mitigating activity where appropriate. Our review found that these contained variance analysis with explanations to identify the cause of the variances and action taken where required.

Based on our review of a sample of reports and our understanding of the reporting framework,, there is sufficient monitoring, reporting and overall scrutiny of both the performance and the financial position of TfN.

Based on our review, we are satisfied the monthly operating reports cover Northern Powerhouse Rail, Investment Programmes, Major Road Network and Strategic Rail. They include appropriate details in respect of the risk analysis for each programme along with mitigating measures.

### TfN's arrangements for commissioning services

TfN receives grant funding from DfT which is subject to grant conditions. TfN demonstrates performance against agreed targets and milestones in order to draw down funding. Where slippage against milestones is identified, remedial measures are taken. Programmes are monitored, and performance is reported regularly to Programme and Partnership Boards that are established for that purpose.

In addition, TfN has a specific committee (the Rail North Committee) to oversee its role in the co-management with DfT of the northern rail franchises via the Rail North Partnership.

Under its Regulations, TfN 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 TfN 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.

TfN has adopted procurement approval procedures which ensure all procurements comply with its contract procurement rules. All contracts are subject to legal review and the purchasing system ensures procurement is carried out in a way which complies with all relevant legislative requirements.

# 3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

There was one high risk and one very high risk (after mitigations) reported in the Corporate Risk Register in July. The high risk relates to a delay in the release of the Integrated Rail Plan will delay the submission of the Northern Powerhouse Rail Strategic Outline Case (SOC). There is a risk that the recommendations within the IRP when it is published may not be aligned with the route / phasing advice that TfN has previously provided to the Secretary of State for Transport. This would severely impact on the ability of the NPR programme to deliver TfN's preferred network. Although TfN has some mitigations in place, TfN ultimately has no direct involvement in the IRP and is unable to influence its conclusions. TfN may be unable to agree (as co-clients) the full suite of activity for 2021/22 and therefore this may cause delays to the proposed programme activity in 2021/22 including commissioning and mobilising programme teams.

The very high risk relates to the replacement of the franchise system by service contracts directly funded by the Treasury through Great British Rail which potentially diminishes influence over operations. In particular, the publication of the Rail Reform White Paper has insufficient detail about the role of TfN and other devolved bodies to allow a clear appreciation of their future role. These challenges have created the following risks:

- passenger enhancements (such as the completion of new train programmes and additional services) will continue to be delayed with lower service offerings on routes.

- current services could be cut due to the increased cost of the subsidy required from 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.

- TfN could have a different role in service delivery following the publication of the Williams-Shapps review. The role of devolved bodies and the Rail North Partnership are not outlined in the White Paper which currently proposes rail contracts aligning under a new organisation (Great British Rail).

This could result in less investment in services and infrastructure as a result of weaker business cases. It could see the franchise system being replaced by service contracts directly funded by the Treasury through Great British Rail over operations.

Again, although TfN has a number of mitigations in place, it acknowledges that it does not have the full range of levers within its current powers and responsibilities to implement these mitigations effectively. Instead, the avoidance or reduction of the assessed impacts will be contingent on partners and members taking further actions.

Whilst these are significant risks for TfN, there is sufficient evidence the issues have been subject to close scrutiny, monitoring and reporting as part of the risk management arrangements in place. These do not represent a significant weaknesses in TfN's arrangements.

04

Section 04:

# Other reporting responsibilities and our fees

# 4. Other reporting responsibilities and our fees

## Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors 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 the law; and
- issue an advisory notice.

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 have not yet received group instructions from the National Audit Office therefore we are unable to issue our audit certificate until this work is completed.

# 4. Other reporting responsibilities and our fees

## Fees for work as TfN's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit and Governance Committee in February 2021. Having completed our work for the 2020/21 financial year, we can confirm that our fees are as follows:

| Area of work | 2019/20 fees | 2020/21 fees |
|---|---|---|
| Planned fee in respect of our work under the Code of Audit Practice | £33,000 | £33,000 |
| Additional testing on Defined Benefit Pensions Schemes as a result of changes in regulatory expectations | - | £2,950* |
| Additional fees in respect of accounting for the impairment of the Phase 3 – Integrated and Smart Ticketing Project | £4,200 | - |
| Additional fees in respect of the transfer and disposal of intangible assets | - | £2,550* |
| Additional work arising from the change in the Code of Audit Practice in respect of Value for Money arrangements | - | £5,000* |
| **Total fees** | **£37,200** | **£43,500** |

* Fee variations subject to confirmation from PSAA.

## Fees for other work

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

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TRANSPORT FOR THE NORTH

**Meeting:** Audit & Governance Committee

**Subject:** Treasury Management Strategy 2022/23

**Author:** Paul Kelly, Financial Controller

**Sponsor:** Iain Craven, Finance Director

**Meeting Date:** Friday 25 February 2022

**1. Purpose of the Report:**

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. The changes to the document relate to updating information to make it relevant for future years, such as economic outlook and interest rate forecasts. Other than these updates, no substantive changes have been made to the strategy.

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. A consultation exercise with stakeholders including local authorities and suppliers was conducted in 2021 and recommendations are expected to be captured in the updated TMP schedule for 2023/24 reporting. No substantive changes have been made to the TMP policy and procedures.

**2. Recommendations:**

2.1 To note and comment upon the proposed Treasury Management Strategy for 2022/23.

**3. Main Issues:**

3.1 Whilst the concept of a TMS that governs approaches to investments and debt management will be familiar to northern partners, the circumstances of TfN's operating environment may not be.

3.2 TfN cannot access external credit, whether this be in the form of bank overdrafts to manage short-term cash-flow fluctuations or capital loans to support long-term investment aspirations.

3.3 This removes TfN's need for a policy towards debt management but does shape the requirements of a cash-management (investment) strategy. Such a strategy is further informed by the way in which TfN is funded.

3.4 Without access to revenue raising powers, TfN is reliant upon grant received from the DfT to resource its activity. This grant comes in the form of an annual 'core'

grant over which TfN has discretion, and discrete grants for programme and development activity. The latter grants require pre-approval from the Department and are paid to TfN as required.

3.5 Accordingly, TfN's operating environment exposes it to insolvency risk which cannot be mitigated through the normal options open to a local or combined authority: cash-flow loans, and the effective underwrite which access to a local tax-base provides.

3.6 Instead, TfN must mitigate its risk by managing its cash-flows in a particularly prudent manner. This factor promotes the dovetailing of a managed risk-culture within TfN, with a prudent reserve strategy, and an effective approach to cash-management. These strategies would be underpinned by the basic operating assertion that TfN must always have access to an appropriate balance of accessible cash on any given day to guard against financial shock.

3.7 A managed risk culture involves TfN working collaboratively with other organisations (including DfT, northern partners, national agencies and suppliers) to structure contracts and financial relationships to ensure that its exposure to financial risk is proportionate to its ability to manage that risk.

3.8 A reserve strategy was proposed as part of TfN's 2021/22 budget that supported risk mitigation by, at any point in time, holding *no less than* £2m of cash in reserve. Such cash would be held on deposit in an appropriate bank or other financial institution, serving as a cash-buffer against financial shock. This reserve strategy will be reviewed as part of the 2022/23 budget and business planning cycle.

3.9 Finally, a cash management strategy must deliver upon the most basic requirement: that TfN will always have comfort that cash held on deposit is invested with only the most secure of counterparties and is accessible in a timely manner.

3.10 This approach aligns with the priorities common to public-sector bodies that cash investment decisions must be made with due regard to the following hierarchy of considerations:

a) Security of the investment partner (creditworthiness);
b) Liquidity of the investment (accessibility);
c) Yield of the investment (financial return)

**Annual Investment Strategy**

3.11 CIPFA defines treasury management as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

3.12 The extent of TfN's treasury management activity will be limited to its cash management. This covers its banking arrangements, and its policies towards the safeguarding of its cash balances.

3.13 TfN will report on its cash management strategy throughout the year. This will come in the form of a Treasury Management Strategy document which is proposed for adoption on an annual basis; a mid-year review of performance against this strategy; and an annual Treasury Management Report at the end of the year which highlights overall performance and offers lessons learnt.

3.14 Noting the serious risks around cash-management, TfN is required to adequately resource this activity through the provision of internal capacity supplemented by expert and independent third-party support.

3.15 Consistent with the approach adopted by northern partners, TfN has procured a Treasury Advisor – Link Treasury Services. The Treasury Advisor assists TfN in maintaining market intelligence and ensuring that the cash-management strategy remains appropriate throughout the year.

3.16 TfN recognises, however, that it cannot place undue reliance on external support, and must maintain internal skills and capacity.

3.17 Treasury Management activity will fall under the operating purview of the Finance Director and the Financial Controller.

3.18 Finance officers and those members charged with oversight of TfN's affairs will also be offered both internal and external training where appropriate.

**Core Funds and Expected Investment Balances**

3.19 TfN receives its funding from the Department for Transport (DfT) in the form of grant allocations. This grant can be differentiated between discrete funding for pre-approved programme activity, and general 'core' grant over which TfN has discretion – subject to the parameters set by TfN's objectives and TfN-DfT funding agreements.

3.20 How TfN is funded shapes the level of cash balances to be held. There are two principal factors:

a) Discrete funding is awarded on a 'need' basis, generally meaning that DfT will release cash to TfN in advance of need; and TfN requires cash in hand at sufficient levels to guard against financial shock, noting its inability to access overdrafts, or raise revenues from a local tax base.
b) Being funded on a 'need' basis means that generally the programmes operate on a cash-neutral basis. That is, the cash outflows associated with payments will always be met by the cash inflows associated with the grant received.

3.21 To that end (and subject to TfN receiving appropriate assurances from DfT prior to entering into long term financial commitments), the cash flow implication of receiving grant in this manner is simply associated with the timing differences between receiving grant and spending it. As programme grant is generally awarded monthly or quarterly, this will generally mean that those variances will be corrected at worst within three months.

3.22 Similarly, being funded on a need basis means that TfN should not build up cash balances when its activity associated with core grant falls below forecast generating underspend. When such underspends do occur, they will be treated in the context of the proposed reserve strategy.

3.23 TfN's current reserve strategy ensures that over a rolling three-year period cash balances held in reserve will not fall below £2m. However, cash balances may be higher than this in any given year if there is an agreed plan to draw down upon that cash to support the business plan. This position will be reviewed as part of the 2022/23 budget and business planning cycle, as the transition of responsibility for delivery of the NPR programme into DfT will result in a c80% reduction in TfN's expenditure and a consequential reduction in the extent of the cash flow risk to which it is exposed.

3.24 The current reserve strategy affords TfN a degree of flexibility in that it can use cash balances over its minimum threshold to support expenditure plans that are

higher than the in-year available resource. That is, TfN can supplement its annual grant from draws on available reserves where it is prudent to do so.

3.25 The reserve strategy also allows the DfT to fund TfN in an efficient manner. Working to a target reserve cash balance means that DfT does not unnecessarily draw down on funds from HM Treasury before they are required by TfN.

3.26 Although cash balances will likely fluctuate in-year as timing differences arise between cash being received and payments being made, it is expected that TfN's underlying cash position will reduce in the coming year, reflecting the removal of NPR Programme working capital from TfN's considerations. This will further reduce the opportunity for meaningful investment income to be generated from TfN's cash reserves.

3.27 TfN's funding allocation, received on 14 February 2022, implies a significant reduction in expenditure across the organisation. The Treasury Management Practices set out in Appendix 2 will be revisited once clarity has been achieved regarding TfN's future operating model.

**Investment Policy**

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

3.29 TfN's investment policy has regard to the government's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

3.30 In accordance with the above guidance from MHCLG and CIPFA, and in order to minimise the risk to investments, TfN will only invest with the most creditworthy of counterparties, and for durations that reflect TfN's need for timely access to its cash. TfN will also limit its overall exposure to individual institutions by adopting limits to the amount of cash it will place with any one bank or fund.

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

3.32 The Link Asset Services system ensures that TfN does not place too much reliance on aged information provided by credit rating agencies. Instead, whilst using the credit ratings from the three main agencies the system also uses credit watches and credit outlooks to ensure it is informed of future forecasts, whilst also using real-time market opinion in the form of credit-default swaps (the cost 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**

3.33 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**

3.34 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**

3.35 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**

3.36 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**

3.37 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**

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

## 4. Corporate Considerations

This report is formed from considerations around cash management risk and proposes a Treasury Management Strategy for adoption.

4.1 ***Financial Implications***

The financial implications have been considered and are included in the report.

4.2 ***Resource Implications***

There are no resource implications within this report.

4.3 ***Legal Implications***

Legal implications are addressed within the report.

4.4 ***Risk Management and Key Issues***

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

4.5 ***Environmental Implications***

A full impact assessment has not been carried out because it is not considered necessary for this report.

4.6 ***Equality and Diversity***

A full impact assessment has not been carried out because it is not considered necessary for this report.

4.7 ***Consultations***

A consultation has not been carried out because it is not considered necessary for this report.

## 5. Background Papers

5.1 None

## 6. Appendices

6.1 Item 7.1 - Treasury Management Strategy Template and Appendices
Item 7.2 - Treasury Management Practice

# Treasury Management Strategy Statement

Annual Investment Strategy

2022/23

# 1.INTRODUCTION

## 1.1Background

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.

### 1.1 Treasury Management Strategy for 2022/23

The strategy for 2022/23 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.

### 1.2 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.

### 1.3 Treasury management consultants

Transport for the North uses Link Treasury 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 2021/22 – 2023/24

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 approve 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** | £6.95m | £4.45m | £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 | £6.95m | £4.45m | £0.00m | £0.00m | £0.00m |
| **Net financing need for the year** | £0m | £0m | £0m | £0m | £0m |

The reduction in capital expenditure reflects movements in TfN's Integrated and Smart Ticketing programme.

## 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 is assumed at £0m on a prudent basis, though it is likely that cash owed to creditors will be held from one accounting period to the next. The estimated reserve balances are indicative as budget and business planning for 2022/23 has yet to be finalised:

| Year End Resources £m | 2019/20 Actual | 2020/21 Estimate | 2021/22 Estimate | 2022/23 Estimate | 2023/24 Estimate |
|---|---|---|---|---|---|
| Fund balances / reserves | £5.89m | £4.59m | £4.00m | £3.50 | £3.00m |
| **Total core funds** | £5.89m | £4.59m | £4.00m | £3.50 | £3.00m |
| Working capital* | £4.11m | £0m | £0 | £0m | £0m |

| | | | | | |
|---|---|---|---|---|---|
| **Expected investments** | £10.00m | £4.59m | £4.00m | £3.50 | £3.00m |

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

### 2.3 Prospects for interest rates

TfN has appointed Link Treasury 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 20.12.21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| BANK RATE | 0.25 | 0.25 | 0.50 | 0.50 | 0.50 | 0.75 | 0.75 | 0.75 | 0.75 | 1.00 | 1.00 | 1.00 | 1.00 | 1.25 |
| 3 month ave earnings | 0.20 | 0.30 | 0.50 | 0.50 | 0.60 | 0.70 | 0.80 | 0.90 | 0.90 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| 6 month ave earnings | 0.40 | 0.50 | 0.60 | 0.60 | 0.70 | 0.80 | 0.90 | 1.00 | 1.00 | 1.10 | 1.10 | 1.10 | 1.10 | 1.10 |
| 12 month ave earnings | 0.70 | 0.70 | 0.70 | 0.70 | 0.80 | 0.90 | 1.00 | 1.10 | 1.10 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 |
| 5 yr PWLB | 1.40 | 1.50 | 1.50 | 1.60 | 1.60 | 1.70 | 1.80 | 1.80 | 1.80 | 1.90 | 1.90 | 1.90 | 2.00 | 2.00 |
| 10 yr PWLB | 1.60 | 1.70 | 1.80 | 1.80 | 1.90 | 1.90 | 2.00 | 2.00 | 2.00 | 2.10 | 2.10 | 2.10 | 2.20 | 2.30 |
| 25 yr PWLB | 1.80 | 1.90 | 2.00 | 2.10 | 2.10 | 2.20 | 2.20 | 2.20 | 2.30 | 2.30 | 2.40 | 2.40 | 2.50 | 2.50 |
| 50 yr PWLB | 1.50 | 1.70 | 1.80 | 1.90 | 1.90 | 2.00 | 2.00 | 2.00 | 2.10 | 2.10 | 2.20 | 2.20 | 2.30 | 2.30 |

Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021.

As shown in the forecast table above, the forecast for Bank Rate now includes four increases, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

### Investment and borrowing rates

- **Investment returns** are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations.

# 3 ANNUAL INVESTMENT STRATEGY

### 3.1 Investment policy – management of risk

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

- DLUHC'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 4.3 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 3.5).

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 3.4).

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 2022/23 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 3.5). Regular monitoring of investment performance will be carried out during the year.

**3.2 Changes in risk management policy from last year.**

The above criteria are unchanged from last year

Transport for the North continues to engage treasury management advisors to shape its investment strategy. It currently uses Link Treasury Services creditworthiness service to choose investment counterparties.

**3.3 Creditworthiness policy**

Transport for the North applies the creditworthiness service provided by Link Treasury 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 Treasury 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 Treasury 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 Treasury 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*

*^ 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 to.*

**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.**

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:

| | |
|---|---|
| 2022/23 | 0.50% |
| 2023/24 | 0.75% |
| 2024/25 | 1.00% |
| 2025/26 | 1.25% |
| Later years | 2.00% |

**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** | **2022/23** | **2023/24** | **2024/25** |
| Principal sums invested for longer than 365 days | £0m | £0m | £0m |
| Current investments as at 15.01.22 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 2022/23 – 2024/25

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 | £6.95m | £4.45m | £0.00m | £0.00m | £0.00m |
| **Total** | **£6.95m** | **£4.45m** | **£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.

| % | 2018/19 Actual | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate | 2022/23 Estimate |
|---|---|---|---|---|---|
| **Total** | 0% | 0% | 0% | 0% | 0% |

## 4.2 ECONOMIC BACKGROUND

**COVID-19 vaccines.**

These were the game changer during 2021 which raised high hopes that life in the UK would be able to largely return to normal in the second half of the year. However, the bursting onto the scene of the Omicron mutation at the end of November, rendered the initial two doses of all vaccines largely ineffective in preventing infection. This has dashed such hopes and raises the spectre again that a fourth wave of the virus could overwhelm hospitals in early 2022. What we now know is that this mutation is very fast spreading with the potential for total case numbers to double every two to three days, although it possibly may not cause so much severe illness as previous mutations. Rather than go for full lockdowns which heavily damage the economy, the government strategy this time is focusing on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection, as a booster has been shown to restore a high percentage of immunity to Omicron to those who have had two vaccinations. There is now a race on between how quickly boosters can be given to limit the spread of Omicron, and how quickly will hospitals fill up and potentially be unable to cope. In the meantime, workers have been requested to work from home and restrictions have been placed on large indoor gatherings and hospitality venues. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in sectors like restaurants, travel, tourism and hotels which had been hit hard during 2021, but could now be hit hard again by either, or both, of government restrictions and/or consumer reluctance to leave home. Growth will also be lower due to people being ill and not working, similar to the pingdemic in July. The economy, therefore, faces significant headwinds although some sectors have learned how to cope well with Covid. However, the biggest impact on growth would come from another lockdown if that happened. The big question still remains as to whether any further mutations of this virus could develop which render all current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread until tweaked vaccines become widely available.

**A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE**

- In December, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.
- The next increase in Bank Rate could be in February or May, dependent on how severe an impact there is from Omicron.
- If there are lockdowns in January, this could pose a barrier for the MPC to putting Bank Rate up again as early as 3rd February.
- With inflation expected to peak at around 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.
- The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.
- Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.
- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next down-turn; all rates under 2% are providing stimulus to economic growth.

- We have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict.
- Covid remains a major potential downside threat in all three years as we ARE likely to get further mutations.
- How quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?
- Purchases of gilts under QE ended in December. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

**MPC MEETING 16H DECEMBER 2021**

- The Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.

- The MPC disappointed financial markets by not raising Bank Rate at its November meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.

- **On 10th December we learnt of the disappointing 0.1% m/m rise in GDP** in October which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November. Early evidence suggests growth in November might have been marginally better. Nonetheless, at such low rates of growth, the government's "Plan B" COVID-19 restrictions could cause the economy to contract in December.

- **On 14th December, the labour market statistics** for the three months to October and the single month of October were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data were more informative and showed that LFS employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September to 4.2%. However, the weekly data suggested this didn't last long as unemployment was falling again by the end of October. What's more, the 49,700 fall in the claimant count and the 257,000 rise in the PAYE measure of company payrolls suggests that the labour market strengthened again in November. The other side of the coin was a further rise in the number of vacancies from 1.182m to a record 1.219m in the three months to November which suggests that the supply of labour is struggling to keep up with demand, although the single-month figure for November fell for the first time since February, from 1.307m to 1.227m.

- These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December meeting. However, the advent of Omicron potentially threw a spanner into the works as it poses a major headwind to the economy which, of

itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.

- **On 15th December we had the CPI inflation** figure for November which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).

- **Other elements of inflation are also transitory** e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues are likely to clear during 2022, and then prices will subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.

- Although it is possible that the Government could step in with some **fiscal support for the economy**, the huge cost of such support to date is likely to pose a barrier to incurring further major economy wide expenditure unless it is very limited and targeted on narrow sectors like hospitality, (as announced just before Christmas). The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth – but at a time when the threat posed by rising inflation is near to peaking!

- This is the adverse set of factors against which the MPC had to decide on Bank Rate. For the second month in a row, the MPC blind-sided financial markets, this time with a **surprise increase in Bank Rate from 0.10% to 0.25%.** What's more, the hawkish tone of comments indicated that the MPC is now concerned that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high this week. The MPC commented that "there has been significant upside news" and that "there were some signs of greater persistence in domestic costs and price pressures".

- On the other hand, it did also comment that **"the Omicron variant is likely to weigh on near-term activity".** But it stressed that at the November meeting it had said it <u>would</u> raise rates if the economy evolved as it expected and that now "these conditions had been met". It also appeared more worried about the possible boost to inflation form Omicron itself. It said that "the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation". It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning "global price pressures might persist for longer". (Recent news is that the largest port in the world in China has come down with an Omicron outbreak which is not only affecting the port but also factories in the region.)

- On top of that, there were no references this month to inflation being expected to be below the **2% target in two years' time,** which at November's meeting the MPC referenced to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.

- These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% next April, rather than at 5% as of a month ago. However, as the Bank retained its guidance that only **a "modest tightening"** in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. "Modest" seems slower than that. As such, the Bank could be thinking about raising interest rates two or three times next year to 0.75% or 1.00%.

- In as much as a considerable part of the inflationary pressures at the current time are indeed **transitory,** and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate that this tightening cycle is likely to be comparatively short.

- As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November's statement that Bank Rate would be raised "in the coming months". That may imply another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3rd February. Once 0.50% is reached, the Bank would act to start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).

- **The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
    - Raising Bank Rate as "the active instrument in most circumstances".
    - Raising Bank Rate to 0.50% before starting on reducing its holdings.
    - Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
    - Once Bank Rate had risen to at least 1%, it would start selling its holdings.

- **US.** Shortages of goods and intermediate goods like semi-conductors, have been fuelling increases in prices and reducing economic growth potential. In November, **CPI inflation hit a near 40-year record level of 6.8%** but with energy prices then falling sharply, this is probably the peak. The biggest problem for the Fed is the mounting evidence of a strong pick-up in cyclical price pressures e.g., in rent which has hit a decades high.
- **Shortages of labour** have also been driving up wage rates sharply; this also poses a considerable threat to feeding back into producer prices and then into consumer prices inflation. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed's 2% central target.
- Inflation hitting 6.8% and the feed through into second round effects, meant that it was near certain that the **Fed's meeting of 15th December** would take aggressive action against inflation. Accordingly, the rate of tapering of monthly $120bn QE purchases announced at its November 3rd meeting. was doubled so that all purchases would now finish in February 2022. In addition, Fed officials had started discussions on running down the stock of QE held by the Fed. Fed officials also expected three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy. The first increase could come as soon as March 2022 as the

chairman of the Fed stated his view that the economy had made rapid progress to achieving the other goal of the Fed – “maximum employment”. The Fed forecast that inflation would fall from an average of 5.3% in 2021 to 2.6% in 2023, still above its target of 2% and both figures significantly up from previous forecasts. What was also significant was that this month the Fed dropped its description of the current level of inflation as being “transitory” and instead referred to “elevated levels” of inflation: the statement also dropped most of the language around the flexible average inflation target, with inflation now described as having exceeded 2 percent “for some time”. It did not see Omicron as being a major impediment to the need to take action now to curtail the level of inflationary pressures that have built up, although Fed officials did note that it has the potential to exacerbate supply chain problems and add to price pressures.

- **EU.** The slow role out of vaccines initially delayed **economic recovery** in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery was then within 0.5% of its pre Covid size. However, the arrival of Omicron is now a major headwind to growth in quarter 4 and the expected downturn into weak growth could well turn negative, with the outlook for the first two months of 2022 expected to continue to be very weak.
- **November’s inflation figures** breakdown shows that the increase in price pressures is not just due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022. Core goods inflation rose to 2.4% in November, its second highest ever level, and is likely to remain high for some time as it will take a long time for the inflationary impact of global imbalances in the demand and supply of durable goods to disappear. Price pressures also increased in the services sector, but wage growth remains subdued and there are no signs of a trend of faster wage growth which might lead to *persistently* higher services inflation - which would get the ECB concerned. The upshot is that the euro-zone is set for a prolonged period of inflation being above the ECB’s target of 2% and it is likely to average 3% in 2022, in line with the ECB’s latest projection.
- **ECB tapering.** The ECB has joined with the Fed by also announcing at its meeting on 16th December that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases for over half of next year. However, as inflation will fall back sharply during 2022, it is likely that it will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly anaemic in sticking below the ECB’s target rate despite all its major programmes of monetary easing by cutting rates into negative territory and providing QE support.
- The ECB will now also need to consider the impact of **Omicron** on the economy, and it stated at its December meeting that it is prepared to provide further QE support if the pandemic causes bond yield spreads of peripheral countries, (compared to the yields of northern EU countries), to rise. However, that is the only reason it will support peripheral yields, so this support is limited in its scope.
- The EU has entered into a **period of political uncertainty** where a new German government formed of a coalition of three parties with Olaf Scholz replacing Angela Merkel as Chancellor in December 2021, will need to find its feet both within the EU and in the three parties successfully working together. In France there is a presidential election coming up in April 2022 followed by the legislative election in June. In addition, Italy needs to elect a new president in January with Prime Minister Draghi being a favourite due to having suitable gravitas for this post.

However, if he switched office, there is a significant risk that the current government coalition could collapse. That could then cause differentials between Italian and German bonds to widen when 2022 will also see a gradual running down of ECB support for the bonds of weaker countries within the EU. These political uncertainties could have repercussions on economies and on Brexit issues.

- **CHINA.** After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of **2020**; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021.
- However, the pace of economic growth has now fallen back in **2021** after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. Chinese consumers are also being very wary about leaving home and so spending money on services. However, with Omicron having now spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future. In addition, the current pace of providing boosters at 100 billion per month will leave much of the 1.4 billion population exposed to Omicron, and any further mutations, for a considerable time. The **People's Bank of China** made a start in December 2021 on cutting its key interest rate marginally so as to stimulate economic growth. However, after credit has already expanded by around 25% in just the last two years, it will probably leave the heavy lifting in supporting growth to fiscal stimulus by central and local government.
- Supply shortages, especially of coal for power generation, were causing widespread power cuts to industry during the second half of 2021 and so a sharp disruptive impact on some sectors of the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

- **JAPAN.** 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy has been rebounding rapidly in 2021 once the bulk of the population had been double vaccinated and new virus cases had plunged. However, Omicron could reverse this initial success in combating Covid.
- The Bank of Japan is continuing its **very loose monetary policy** but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was actually negative in July. New Prime Minister Kishida, having won the November general election, brought in a supplementary budget to boost growth, but it is unlikely to have a major effect.

- **WORLD GROWTH.** World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum in the second half of the year, though overall growth for the year is expected to be about 6% and to be around 4-5% in 2022. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. While headline inflation will fall sharply, core inflation will probably not fall as quickly as central bankers would hope. It is likely that we are heading into a period where

there will be a **reversal of world globalisation** and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

- **SUPPLY SHORTAGES**. The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods available to purchase.

## 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<br>Orange<br>Red<br>Green<br>No Colour | | 3 months<br>3 months<br>3 months<br>1 month<br>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**

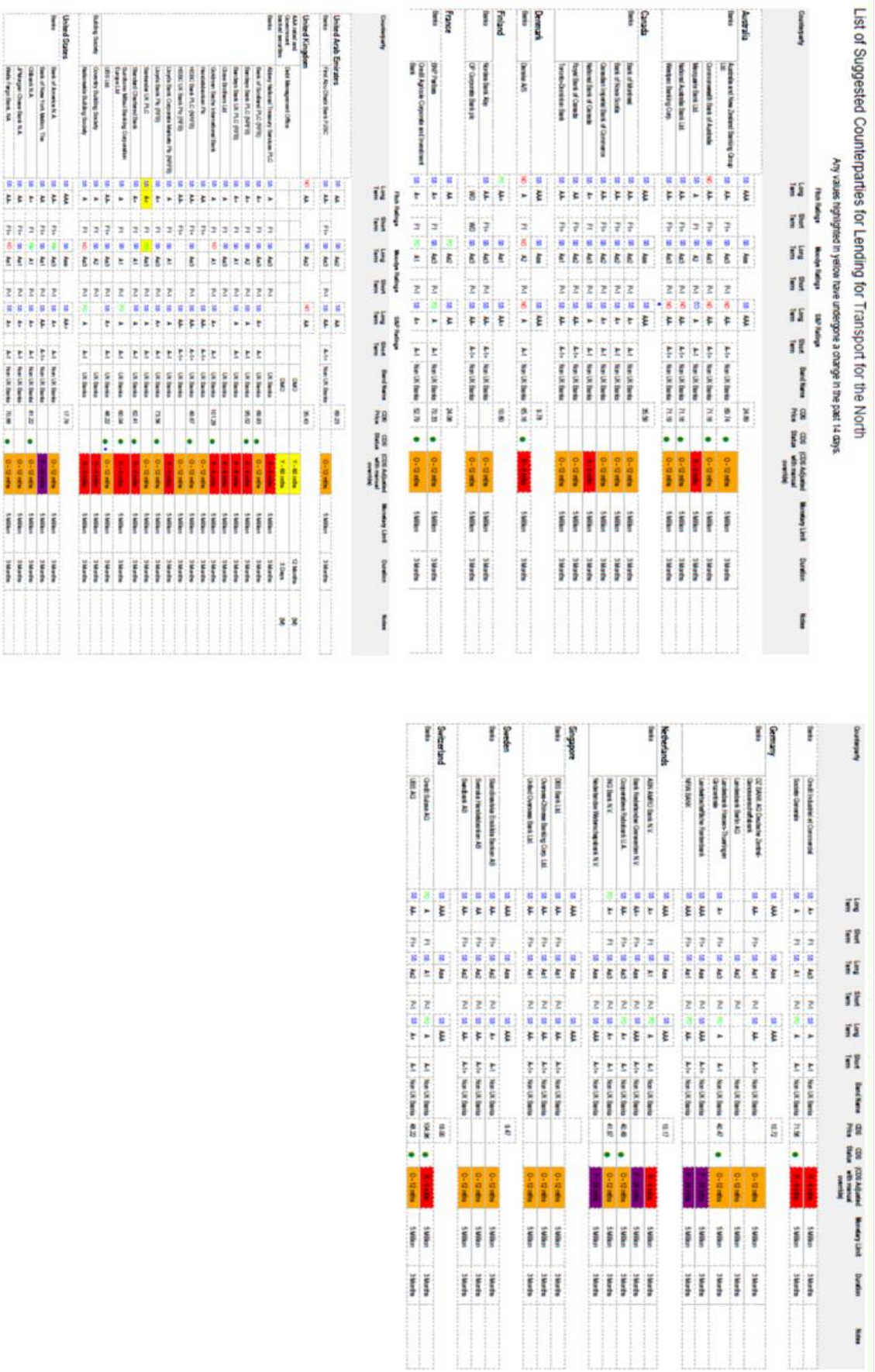
- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

## 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 | AA- | F1+ | Aa3 | P-1 | AA- | A-1+ | Non UK Banks | 65.74 | | 0-25 mths | 5 Million | 3 Months | |
| Commonwealth Bank of Australia | AA- | F1+ | Aa3 | P-1 | AA- | A-1+ | Non UK Banks | 71.16 | | 0-25 mths | 5 Million | 3 Months | |
| Westpac Banking Corp | AA- | F1+ | Aa3 | P-1 | AA- | A-1+ | Non UK Banks | 71.16 | | 0-25 mths | 5 Million | 3 Months | |
| National Australia Bank Ltd | AA- | F1+ | Aa3 | P-1 | AA- | A-1+ | Non UK Banks | 71.16 | | 0-25 mths | 5 Million | 3 Months | |
| **Canada** | | | | | | | | | | | | | |
| Bank of Montreal | AAA | | Aaa | | AAA | | | 35.59 | | 0-25 mths | 5 Million | 3 Months | |
| Bank of Nova Scotia | AA- | F1+ | Aa2 | P-1 | A+ | A-1 | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| Canadian Imperial Bank of Commerce | AA- | F1+ | Aa2 | P-1 | A+ | A-1 | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| National Bank of Canada | AA- | F1+ | Aa3 | P-1 | A | A-1 | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| Royal Bank of Canada | AA- | F1+ | Aa2 | P-1 | AA- | A-1+ | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| Toronto-Dominion Bank | AA- | F1+ | Aa1 | P-1 | AA- | A-1+ | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| **Denmark** | | | | | | | | | | | | | |
| Danske A/S | AA | F1 | Aa3 | P-1 | A | A-1 | Non UK Banks | 65.18 | | 0-25 mths | 5 Million | 3 Months | |
| **Finland** | | | | | | | | | | | | | |
| Nordea Bank Abp | AA- | F1+ | Aa3 | P-1 | AA- | A-1+ | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| OP Corporate Bank plc | AA | F1+ | Aa3 | P-1 | AA- | A-1+ | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| **France** | | | | | | | | | | | | | |
| BNP Paribas | AA | F1 | Aa3 | P-1 | A | A-1 | Non UK Banks | 72.33 | | 0-25 mths | 5 Million | 3 Months | |
| Credit Agricole Corporate and Investment Bank | A+ | F1 | A1 | P-1 | A+ | A-1 | Non UK Banks | 52.39 | | 0-25 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 | | 0-25 mths | 5 Million | 3 Months | |
| **United Kingdom** | | | | | | | | | | | | | |
| Debt Management Office | AA | | Aa2 | | AA | | DMO | 36.43 | | 1 - 60 mths | | 12 Months | |
| Lloyds Bank Corporate Markets Plc (NRFB) | A | F1 | A1 | P-1 | A+ | A-1 | UK Banks | | | 1 - 60 mths | | 3 Days | 36 |
| Lloyds Bank Plc (NRFB) | A | F1 | A1 | P-1 | A+ | A-1 | UK Banks | 101.38 | | 0-25 mths | 5 Million | 3 Months | 36 |
| HSBC Bank Plc (NRFB) | AA- | F1+ | Aa3 | P-1 | AA- | A-1+ | UK Banks | 40.87 | | 0-25 mths | 5 Million | 3 Months | |
| HSBC UK Bank Plc (NRFB) | AA- | F1+ | Aa3 | P-1 | AA- | A-1+ | UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| Nationwide Plc | AA- | F1+ | Aa3 | P-1 | AA- | A-1+ | UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| Goldman Sachs International Bank | A | F1 | A1 | P-1 | A+ | A-1 | UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| Barclays Bank Plc (NRFB) | A | F1 | A1 | P-1 | A+ | A-1 | UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| Barclays Bank UK PLC (NRFB) | A | F1 | A1 | P-1 | A+ | A-1 | UK Banks | 96.03 | | 0-25 mths | 5 Million | 3 Months | |
| Barclays Bank PLC (NRFB) | A | F1 | A1 | P-1 | A+ | A-1 | UK Banks | 96.03 | | 0-25 mths | 5 Million | 3 Months | |
| Santander UK PLC | A+ | F1 | A1 | P-1 | A+ | A-1 | UK Banks | 72.98 | | 0-25 mths | 5 Million | 3 Months | |
| Standard Chartered Bank | A+ | F1 | A1 | P-1 | A+ | A-1 | UK Banks | 65.41 | | 0-25 mths | 5 Million | 3 Months | |
| Royal Bank of Scotland plc (NRFB) | A | F1 | A1 | P-1 | A | A-1 | UK Banks | 60.04 | | 0-25 mths | 5 Million | 3 Months | |
| Nationwide Building Society | A | F1 | A1 | P-1 | A | A-1 | UK Banks | 48.22 | | 0-25 mths | 5 Million | 3 Months | |
| Coventry Building Society | A | F1 | A2 | P-2 | A | A-1 | UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| Leeds Building Society | A | F1 | A2 | P-2 | A | A-1 | UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| **United States** | | | | | | | | | | | | | |
| Bank of America N.A. | AA | | Aa2 | | AA- | A-1+ | Non UK Banks | 17.78 | | 0-25 mths | 5 Million | 3 Months | |
| Bank of New York Mellon, The | AA- | F1+ | Aa3 | P-1 | AA- | A-1+ | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| Citibank N.A. | AA- | F1+ | Aa3 | P-1 | AA- | A-1+ | Non UK Banks | 41.22 | | 0-25 mths | 5 Million | 3 Months | |
| JPMorgan Chase Bank N.A. | AA- | F1+ | Aa3 | P-1 | AA- | A-1+ | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| Wells Fargo Bank, N.A. | AA- | F1+ | Aa1 | P-1 | AA- | A-1+ | Non UK Banks | 70.98 | | 0-25 mths | 5 Million | 3 Months | |
| **Australia** | | | | | | | | | | | | | |
| Australia and New Zealand Banking Group Ltd | AA- | F1+ | Aa3 | P-1 | AA- | A-1+ | Non UK Banks | 65.74 | | 0-25 mths | 5 Million | 3 Months | |
| Commonwealth Bank of Australia | AA- | F1+ | Aa3 | P-1 | AA- | A-1+ | Non UK Banks | 71.16 | | 0-25 mths | 5 Million | 3 Months | |
| Westpac Banking Corp | AA- | F1+ | Aa3 | P-1 | AA- | A-1+ | Non UK Banks | 71.16 | | 0-25 mths | 5 Million | 3 Months | |
| National Australia Bank Ltd | AA- | F1+ | Aa3 | P-1 | AA- | A-1+ | Non UK Banks | 71.16 | | 0-25 mths | 5 Million | 3 Months | |
| **Canada** | | | | | | | | | | | | | |
| Bank of Montreal | AAA | | Aaa | | AAA | | | 35.59 | | 0-25 mths | 5 Million | 3 Months | |
| Bank of Nova Scotia | AA- | F1+ | Aa2 | P-1 | A+ | A-1 | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| Canadian Imperial Bank of Commerce | AA- | F1+ | Aa2 | P-1 | A+ | A-1 | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| National Bank of Canada | AA- | F1+ | Aa3 | P-1 | A | A-1 | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| Royal Bank of Canada | AA- | F1+ | Aa2 | P-1 | AA- | A-1+ | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| Toronto-Dominion Bank | AA- | F1+ | Aa1 | P-1 | AA- | A-1+ | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| **Denmark** | | | | | | | | | | | | | |
| Danske A/S | AA | F1 | Aa3 | P-1 | A | A-1 | Non UK Banks | 65.18 | | 0-25 mths | 5 Million | 3 Months | |
| **Finland** | | | | | | | | | | | | | |
| Nordea Bank Abp | AA- | F1+ | Aa3 | P-1 | AA- | A-1+ | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| OP Corporate Bank plc | AA | F1+ | Aa3 | P-1 | AA- | A-1+ | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| **France** | | | | | | | | | | | | | |
| BNP Paribas | AA | F1 | Aa3 | P-1 | A | A-1 | Non UK Banks | 72.33 | | 0-25 mths | 5 Million | 3 Months | |
| Credit Agricole Corporate and Investment Bank | A+ | F1 | A1 | P-1 | A+ | A-1 | Non UK Banks | 52.39 | | 0-25 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 | | 0-25 mths | 5 Million | 3 Months | |
| **United Kingdom** | | | | | | | | | | | | | |
| Debt Management Office | AA | | Aa2 | | AA | | DMO | 36.43 | | 1 - 60 mths | | 12 Months | |
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| HSBC UK Bank Plc (NRFB) | AA- | F1+ | Aa3 | P-1 | AA- | A-1+ | UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| Nationwide Plc | AA- | F1+ | Aa3 | P-1 | AA- | A-1+ | UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| Goldman Sachs International Bank | A | F1 | A1 | P-1 | A+ | A-1 | UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| Barclays Bank Plc (NRFB) | A | F1 | A1 | P-1 | A+ | A-1 | UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| Barclays Bank UK PLC (NRFB) | A | F1 | A1 | P-1 | A+ | A-1 | UK Banks | 96.03 | | 0-25 mths | 5 Million | 3 Months | |
| Barclays Bank PLC (NRFB) | A | F1 | A1 | P-1 | A+ | A-1 | UK Banks | 96.03 | | 0-25 mths | 5 Million | 3 Months | |
| Santander UK PLC | A+ | F1 | A1 | P-1 | A+ | A-1 | UK Banks | 72.98 | | 0-25 mths | 5 Million | 3 Months | |
| Standard Chartered Bank | A+ | F1 | A1 | P-1 | A+ | A-1 | UK Banks | 65.41 | | 0-25 mths | 5 Million | 3 Months | |
| Royal Bank of Scotland plc (NRFB) | A | F1 | A1 | P-1 | A | A-1 | UK Banks | 60.04 | | 0-25 mths | 5 Million | 3 Months | |
| Nationwide Building Society | A | F1 | A1 | P-1 | A | A-1 | UK Banks | 48.22 | | 0-25 mths | 5 Million | 3 Months | |
| Coventry Building Society | A | F1 | A2 | P-2 | A | A-1 | UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| Leeds Building Society | A | F1 | A2 | P-2 | A | A-1 | UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| **United States** | | | | | | | | | | | | | |
| Bank of America N.A. | AA | | Aa2 | | AA- | A-1+ | Non UK Banks | 17.78 | | 0-25 mths | 5 Million | 3 Months | |
| Bank of New York Mellon, The | AA- | F1+ | Aa3 | P-1 | AA- | A-1+ | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| Citibank N.A. | AA- | F1+ | Aa3 | P-1 | AA- | A-1+ | Non UK Banks | 41.22 | | 0-25 mths | 5 Million | 3 Months | |
| JPMorgan Chase Bank N.A. | AA- | F1+ | Aa3 | P-1 | AA- | A-1+ | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| Wells Fargo Bank, N.A. | AA- | F1+ | Aa1 | P-1 | AA- | A-1+ | Non UK Banks | 70.98 | | 0-25 mths | 5 Million | 3 Months | |
| **Germany** | | | | | | | | | | | | | |
| Deutsche Genossenschaftsbank | AA | F1+ | Aa2 | P-1 | A+ | A-1 | Non UK Banks | 71.98 | | 0-25 mths | 5 Million | 3 Months | |
| DZ BANK AG Deutsche Zentral-Genossenschaftsbank | AA- | F1+ | Aa1 | P-1 | AA- | A-1+ | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| Landesbank Baden-Württemberg | A | F1 | A1 | P-1 | A+ | A-1 | Non UK Banks | 40.87 | | 0-25 mths | 5 Million | 3 Months | |
| Landesbank Hessen-Thüringen Girozentrale | A | F1 | A2 | P-2 | A | A-1 | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| Landwirtschaftliche Rentenbank | AAA | F1+ | Aa1 | P-1 | AAA | A-1+ | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| NRW.BANK | AAA | F1+ | Aa1 | P-1 | AAA | A-1+ | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| **Netherlands** | | | | | | | | | | | | | |
| ABN AMRO Bank N.V. | AA | F1 | A1 | P-1 | A | A-1 | Non UK Banks | 13.17 | | 0-25 mths | 5 Million | 3 Months | |
| Bank Nederlandse Gemeenten N.V. | AAA | F1+ | Aaa | P-1 | AAA | A-1+ | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| Coöperatieve Rabobank U.A. | AA- | F1+ | Aa3 | P-1 | A+ | A-1 | Non UK Banks | 40.48 | | 0-25 mths | 5 Million | 3 Months | |
| ING Bank N.V. | A+ | F1 | A2 | P-2 | A | A-1 | Non UK Banks | 41.87 | | 0-25 mths | 5 Million | 3 Months | |
| Nederlandse Waterschapsbank N.V. | AAA | | Aaa | | AAA | | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| **Singapore** | | | | | | | | | | | | | |
| DBS Bank Ltd | AAA | | Aaa | | AAA | | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| Oversea-Chinese Banking Corp. Ltd. | AA- | F1+ | Aa1 | P-1 | AA- | A-1+ | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| United Overseas Bank Ltd. | AA- | F1+ | Aa1 | P-1 | AA- | A-1+ | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| **Sweden** | | | | | | | | | | | | | |
| Skandinaviska Enskilda Banken AB | AAA | | Aaa | | AAA | | | 5.47 | | 0-25 mths | 5 Million | 3 Months | |
| Svenska Handelsbanken AB | AA- | F1+ | Aa2 | P-1 | A+ | A-1 | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| Swedbank AB | AA- | F1+ | Aa2 | P-1 | A+ | A-1 | Non UK Banks | | | 0-25 mths | 5 Million | 3 Months | |
| **Switzerland** | | | | | | | | | | | | | |
| Credit Suisse AG | A | F1 | A1 | P-1 | A | A-1 | Non UK Banks | 124.38 | | 0-25 mths | 5 Million | 3 Months | |
| UBS AG | AA- | F1+ | Aa3 | P-1 | AA- | A-1+ | Non UK Banks | 48.22 | | 0-25 mths | 5 Million | 3 Months | |

# Treasury Management Policy and Practices 2021/22



This document is Not for Publication - DRAFT - Report Intended for future publication

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 able 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 weekly
- An investment income listing is produced every month 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**

**Fidelity Insurance**

**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 4 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 bank was appointed in March 2018 for a three-year period. Due to the limited scope for efficiencies on this service, the arrangement has been extended to encompass the year ending March 2022 and will be extended to encompass the year ending March 2023. Consideration will be given to re-procurement during in the year ending March 2023.

### 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.

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# 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.


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# 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
- budget consideration and recommendations
- 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:

Investment placement – internal parameters
Deals must be pre-approved by two authorised approvers, with documentation reviewed in advance by a third officer.

Investment placement – money market funds
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.

Accounts Payable – payment proposals
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.

Bank transactions
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.

Investment redemption
All redemptions must be pre-approved by one authorised approver, with documentation reviewed in advance by a second officer.

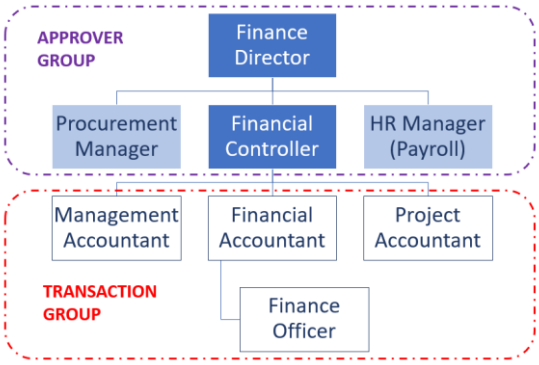
Ledger input
All banking journals require approval from an officer different to he/she who entered the journal.

Bank reconciliations
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

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### 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.


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# 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 with quarterly reports to TfN.

# TMP 8 Cash and Cash Flow Management

### 8.1 Arrangements for Preparing/Submitting Cash Flow Statements

Cash flow projections are prepared annually and updated monthly and daily. The annual and monthly 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 but has been extended annually.

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 £13,000.

### 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.


This document is Not for Publication - DRAFT - Report Intended for future publication

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TRANSPORT FOR THE NORTH

**Meeting:** Audit & Governance Committee

**Subject:** Preparation of the Annual Governance Statement

**Author:** Manjit Dhillon, Senior Solicitor

**Sponsor:** Paul Kelly, Finance Controller

**Meeting Date:** Friday 25 February 2022

**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.

1.2 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.

1.3 This report sets out the progress the review team has made in preparing the Annual Governance Statement and a first draft is attached with main changes shown highlighted at Appendix 1.

**2. Recommendations:**

2.1 That the Audit and Governance Committee receive the report and provide feedback on the draft Annual Governance Statement prior to full publication in May 2022. The final report will be circulated to the Committee before publication.

**3. Main Issues:**

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 seven principles of good governance and the Annual Governance Statement is split into sections covering each principle.

3.4 We have assessed our activities against the seven 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 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.

3.6 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. Key Changes:**

4.1 A greater emphasis on the Diversity & Inclusion Policy is made under Principle A to highlight the establishment of the Diversity Working Group and the Diversity & Equalities Action Plan which seeks to embed equality and diversity considerations across TfN's Business Plan and the organisation as a whole.

4.2 Under Principle B, a note has been made to recognise the work being done to bring hybrid meeting technology to the organisation as well as updates to cover the 2021 TfN Conference, Member Working Group engagements, public consultations and podcast and social media reach.

4.3 Principle C references the ongoing work to revise the Strategic Transport Plan with decarbonisation at its heart. The proposed revision is currently being taken through the governance processes both internally and externally with a view to publication of the draft document in March 2023.

4.4 The NPR work referenced under Principle D is paused while significant changes are made to the programme following the publication of the Integrated Rail Plan. The Statement will be updated as necessary to reflect this process. Further reference to this is made under Principle G.

**5. Corporate Considerations**

5.1 ***Financial Implications***

TfN Finance Team has confirmed there are no new financial implications.

5.2 ***Resource Implications***

TfN HR Team has confirmed there are no new resource implications.

5.3 ***Legal Implications***

The legal implications have been considered and are included in the report.

5.4 ***Risk Management and Key Issues***

There are no new risks identified as a result of this report.

5.5 ***Environmental Implications***

A full impact assessment has not been carried out because the report does not propose any new strategy or service provision

5.6 ***Equality and Diversity***

A full impact assessment has not been carried out because the report does not propose any new strategy or service provision

5.7 ***Consultations***

No consultation has been carried since no new policies are being proposed.

## 6. Background Papers

6.1 The Annual Governance Statements from the previous years for the background to this work.

## 7. Appendices

7.1 Draft Annual Governance Statement 2021/22

| **Glossary of terms, abbreviations and acronyms used *(if applicable)*** |
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| *Please include any technical abbreviations and acronyms used in the report in this section. (Please see examples below.) This will provide an easy reference point for the reader for any abbreviations and acronyms that are used in the report.*<br><br>a) CIPFA Chartered Institute of Public Finance and Accountancy |
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## Annual Governance Statement 2021/22

### 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 Body (Transport for the North) Regulations 2018 ("the 2018 Regulations") and came into being on the 1 April 2018, holding its inaugural meeting on 5th April 2018. This is therefore its fourth Annual Governance Statement and the organisation's Constitution, policies, procedures, and systems continued to be developed during 2021/22. 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 for Transport.

The Transport for the North Board is made up of the representatives of the 20 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 11 Local Enterprise Partnerships in the Transport for the North Area and representatives of National Highways (formerly 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 first moved onto an Emergency Measures Agreement during the Covid 19 pandemic and then on to a National Rail Contract.

The 2018 Regulations established Transport for the North and provided for the appointment of a Partnership Board to advise on matters relating to transport in the area. The membership of the Partnership Board includes 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 representatives 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 scrutinise the decisions recommended for approval by 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 four Independent Members, who have been publicly recruited on the basis of relevant skills, and whose role is to provide assurance to the Board on governance, risk management and the internal control framework. This year the General Purposes Committee has been set up and will begin to meet from February 2022. The committee will consider establishing its role and its relationship with Transport for the North Board and other Committees.

As reported in the 2020/21 Annual Governance Statement, 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 its internal system of controls.

Since easing of the restrictions in June 2021, some of Transport for the North's Boards and Committees were able to be held in person with others continuing to be held as Consultation Calls to inform the exercise of officer delegated powers where necessary. All in-person meetings and consultation calls 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 to:
Head of Legal, tfnlegalteam@transportforthenorth.com.

1.4 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 2021/22 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. Compliance with Section 102I of the Local Transport Act 2008 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; the final document will include hyperlinks within the Evidence column to sources of further information.

| **A Behaving with integrity, demonstrating strong commitment to ethical values and respect for the rule of law** | |
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| **Core Principle**<br><br>**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 (Constitution) |
| Transport for the North's induction process for new recruits outlines the behaviours and values that are expected from officers. | Member/Officer Relations Protocol (Constitution) |
| Transport for the North has a zero-tolerance approach to fraud and corruption and has adopted strong Anti-Fraud & Corruption and Whistleblowing Policies which | Human Resources On-boarding Policies |

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| were reviewed in the previous Annual Governance Statement | Anti-Fraud and Corruption Policy (Constitution) |
| 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<br><br>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<br><br>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. This role is supported by a Deputy Monitoring Officer. 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<br><br>Board and Committee Reports |
| The Monitoring Officer has statutory reporting responsibilities in relation to any unlawful decisions or maladministration. | |
| 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. | Constitution |
| 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 2019 Transport for the North established a cross organisational Diversity in | Diversity Policy |

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| Action Group to develop a Diversity and Inclusion Action Plan to ensure that inclusion and diversity are embedded across the organisation both in employment practices and in the delivery of services and programmes. The key themes during 2021/22 focus around three main categories:<br>• Priority 1 - Establishing a framework of equality impact assessments across TfN and building associated employee/supplier awareness of diversity and inclusion.<br>• Priority 2 - Career progression, including the continuation to support and develop our people<br>• Priority 3 - Health and wellbeing with resilience<br><br>Each of the priorities, are underpinned by several activities, and using the Local Government Equality Framework, we ensure these are aligned to promote inclusion and diversity. Each of the activities will be assessed using an Equality Impact Assessment, which is also linked to our procurement activities, as well as our ways of working. This ensures that inclusion and diversity cut through all areas of TfN activity. | Diversity & Inclusion Group Terms of Reference |
| **B Ensuring openness and comprehensive stakeholder engagement** | |
| **Core Principle**<br><br>**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 Committee and 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.<br><br>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 and other key implications. The minutes include the reasons | Transport for the North website<br><br>Board and Committee Agenda and Minutes |

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| supporting 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. | |
| During 2021/22, with Covid restrictions having been lifted, Transport for the North has held some of its decision-making meetings in-person with remaining meetings being held virtually, as consultation calls, in order to balance public safety concerns. It has continued to livestream meetings and proactively promoted this on online channels, as well as directly to interested parties. All agendas and minutes continue to be available on the website. | Transport for the North website |
| TfN is developing hybrid meeting capabilities to allow attendees to participate remotely and interact effectively with the governance session. This is to be trialled in the 2nd quarter of 2022. | Transport for the North website |
| Live streams are publicised via Transport for the North's social media platforms, and public attendance at meetings through watching the live stream has significantly increased from 2020/21 to the present. | Transport for the North 2018 Regulations<br><br>Constitution |
| Under its 2018 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. | Memorandum of Understanding signed with the Welsh Government and Midlands Connect<br><br>Memorandum of Understanding and Joint Engagement Action Plan agreed with National Highways |
| 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 | |

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| community groups. The types of events vary from attending All Party Parliamentary Groups (APPG) 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.<br><br>TfN's Annual Conference 2021 took place at the Queens Hotel in Leeds. Speakers included TfN representatives, Board Members, Government Ministers, and other relevant stakeholders.<br><br>241 delegates registered for the Conference; TfN had to limit registrations in line with the 200-maximum capacity as this was one of the first large public sector events held following the pandemic.<br><br>The Conference was held as a hybrid event, the first for the region and sector on its scale, and the online viewing figures were particularly impressive when compared to other large events, such as the Convention of the North. The Main Hall and two breakout room viewing figures were 1,068 views, 464 views and 363 views respectively.<br><br>Over the past 12 months, Transport for the North has facilitated TfNTalks webinars, covering Freight and Logistics, as well as on the Decarbonisation Strategy and accessibility of the transport networks. TfN are in the process of planning webinars on decarbonisation and transport related social exclusion.<br><br>TfN has also facilitated the Decarbonisation Strategy Consultation, organised regional business briefings ahead of the Integrated Rail Plan publication and promoted the Freight and Logistics Strategy Consultation to hundreds of stakeholders, generating over 250 responses.<br><br>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.<br><br>TfN's podcast has grown over the past year; we have had 4,344 total plays over this period, which is represented by a +252% growth rate according to the statistics tracker on Soundcloud. | Strategic Transport Plan<br><br>Decarbonisation Strategy Consultation |

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| TfN has recently launched a new Business Matters podcast series and hosted a popular series on '5 Ways to Level up the North' series with TfN Board Members.<br><br>Also facilitated and advised on five Northern Evidence Academic Forum meetings on a variety of topics with a variety of influential academics; there has been an average of around 60 attendees for each meeting and it has had positive feedback.<br><br>Transport for the North is committed to full public engagement. Extensive public consultation was carried out in 2018 prior to the adoption of the Strategic Transport Plan. In 2021 a full statutory consultation was held in relation to the Decarbonisation Strategy before the Board adopted the Strategy in November 2021. A consultation on the TfN Freight and Logistics Strategy commenced in January 2022. Transport for the North will continue with its broader engagement to raise its public profile and awareness of Transport for the North programmes.<br><br>TfN 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.<br><br>TfN is in the process of developing new approaches to citizens' engagement including the piloting of a citizens' panel.<br><br>Transport for the North 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 contributed to the development of Transport for the North's different programmes and initiatives, including the Northern Transport Charter and in support of business planning for 2021/22.<br><br>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 be delivered during 2021/22 providing Members and the public with detailed information about the | Monthly Operating Report |

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| performance of Transport for the North's major programmes and operational activities. | |
| **C Defining outcomes in terms of sustainable economic, social, and environmental benefits** | |
| **Core Principle**<br><br>**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 (STP). The initial Northern Powerhouse Independent Economic Review (NPIER) 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. Work is currently underway to begin the process of updating the NPIER with an intention to refresh the work in 2022/23. | Northern Powerhouse Independent Economic Review |
| In developing the STP TfN 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. TfN's Decarbonisation Strategy demonstrates a trajectory or "pathway" to 2045, which was developed in collaboration with partners and demonstrates what is required to deliver the ambitions of the STP and local transport plans in tackling carbon impacts and reductions from transport. | Integrated Sustainability Appraisal |
| During 2021/22 Transport for the North consulted on and adopted the first Decarbonisation Strategy for the North of England which sets ambitious targets for decarbonisation across the North by 2045. | 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; reduces transport related social exclusion; and, wherever possible, seek to deliver environmental enhancements. As such work in 2021/22 has focused on exploring with | The Northern Transport Charter |

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| members principles for prioritisation and trade-offs between these outcomes and will be further developed in financial year 2022/23.<br><br>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.<br><br>Transport for the North's Technical Assurance, modelling and Economics (TAME) function has developed an Analytical Framework which consists of a series of analytical and modelling tools including NELUM (Northern Economy and Land Use Model), NoHAM (Northern Highway 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.<br><br>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.<br><br>The Research and Economics team within Transport for the North also regularly commission external research and undertake internal analysis to support evidence-based policy making across TfN. Over the past 12 months TfN has completed research into Transport Related Social Exclusion, the Visitor Economy, Transport User Insights and Monitoring and Evaluation.<br><br>All reports presented to the Transport for the North Board and its formal Committees contain an assessment of the implications of the report in terms of sustainability, environmental impact, and equality impacts.<br><br>The Strategic Plan and Investment Programme set out transport interventions which will benefit future generations beyond 2050. | Transport for the North's Analytical Framework<br><br>Board Reports<br><br>Strategic Transport Plan and Investment Programme |
| **D Determining the interventions necessary to optimise the achievement of the intended outcomes** | |
| **Core Principle**<br><br>**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* |
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| The Strategic Transport Plan is a pan regional strategy that is based on a robust evidence base and sets out our vision for transformational change in relation to transport infrastructure in the North. | Strategic Transport Plan<br><br>Evidence Base |
| The Investment Programme (published February 2019) set out TfN's recommendations for the appropriate pipeline of strategic transport schemes over the period up to 2050. In 2020/21 TfN qualitatively appraised and sequenced the programme to develop a recommended investment pipeline over three broad delivery time frames. (pre-2027, 2027-2033 and post 2033). In Spring 2022 TfN will report on further work, utilising TfN's analytical framework to quantitatively appraise the economic, social, and environmental outcomes from the programme. This will support TfN in making recommendations to Government on strategic transport investment priorities. 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.<br><br>During the pandemic, Transport for the North was instrumental in developing the North of England Contingency Group which brought together all the Local Authority lead rail officers, Train Operators and Network Rail 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.<br><br>During 2020/21, the Northern Powerhouse Rail (NPR) programme continued to develop the strategic case for the NPR rail network to link all the major urban centres of the North by a fast and reliable rail link. The NPR team 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.<br><br>Building upon the qualitative sequencing of the Investment Programme, TfN has taken forward a quantitative benefits analysis of the programme, with | Investment Programme |

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| the aim of supporting TfN in making recommendations on Transport Investment priorities by December 2023.<br><br>In support of a key action in TfN's Decarbonisation Strategy TFN has led on development of an Electric Vehicle Charging Infrastructure (EVCI) evidence base for the North. This identifies future requirements for EVCI across all areas of the North and provides a valuable basis on to plan EVC investment. Outputs of the work have been shared with TfN Partners, OZEV and the North's Electricity Distribution Network Operators (DNO's).<br><br>In December 2021 TfN published the updated Major Roads Report, setting out a balanced view of how we should manage, operate, and invest in our Major Roads to reflect the needs and priorities of communities in the 21st century.<br><br>TfN has led a review of Major Roads Network (MRN) and Large Local Major (LLM) interventions and submitted a report to DfT, with recommendations for the MRN/LLM Programme in the North.<br><br>The Major Roads and Strategy teams have engaged with National Highways on the initial development of the evidence base for the Route Strategies, which will underpin the evidence base for the Government's future Road Investment Strategies.<br><br>Throughout the year TfN has continued to monitor the impact of the pandemic on travel patterns and behaviours. And have completed data collection on journey time reliability and geographical distribution of traffic using the MRN in 2020 and 2021.<br><br>TfN has worked collaboratively with the other Sub-National Transport Bodies and inputted into co-ordinated engagement with key national bodies such as the DfT, National Highways, Network Rail and the Office for Road and Rail.<br><br>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. Whilst Government funding cuts have meant that the current programmes have had to be curtailed, in its place Transport for the North is now working to develop a Northern Digital Mobility Strategy. This will be shaped by members to facilitate and empower the efficient local delivery of digital and | |

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| ticketing interventions. The strategy will add value by sharing existing best practice, scaling the evidence base derived from local pilots and identifying any areas for collaboration. This is alongside planning for cross regional and cross modal integration of ticketing systems. | |
| **E Developing the organisation's capacity, including the capacity of its leaders and the individuals within it** | |
| **Core Principle**<br><br>**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. | Corporate Induction Guidance |
| All new employees to Transport for the North are subject to a formal six-month probationary process 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. | Learning and Development Policy |
| 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, with this programme also being rolled out to junior and aspiring leaders during 2021/22. | |
| 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. | |

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| 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.<br><br>Transport for the North has invested in an e-learning and development tool "Learn" and all officers are encouraged to take advantage of this.<br><br>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.<br><br>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. To date, a total of 51 wellbeing sessions have been completed with attendance by 865 delegates. Employees are also encouraged to support each other through daily interactions on Yammer and through virtual social events. | Mental-Health First Aiders Protocol |
| **F Managing risks and performance through robust internal control and strong public financial management** | |
| **Core Principle**<br><br>**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.<br><br>During 2021/22, to strengthen the robustness of the RMS, Transport for the North adopted a risk management software package ("Predict!") which will assist directorate and programme teams in the timely capture, escalation and reporting of risks, as set out in the RMS.<br><br>The Audit and Governance Committee is responsible for independently monitoring and assessing the | Risk Management Strategy (RMS)<br><br>Risk Management System (Part of Transport for the North's Risk Management Strategy)<br><br>Constitution |

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| adequacy and effectiveness of the risk management framework with particular focus on:<br>(i) the risk management strategy for managing key risks;<br>(ii) risk ownership, accountability, and the development of mitigating actions;<br>(iii) the alignment of internal audit and other assurance planning through a risk-based approach to auditing; and<br>(iv) receiving reports from management on the adequacy and effectiveness of the internal control and risk management framework. | Governance Framework |
| Transport for the North has a Risk Manager who is responsible for reporting on risk to the Finance Director. The Corporate Risk Register Report is a standing item on the agenda of 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 through the Monthly Operating Report, the Audit & Governance Committee and, twice a year to the Board. 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 Financial 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 | Recruitment & Selection, Probationary, Absence & Welfare, Performance Improvement, Disciplinary, Code of Conduct Policies |

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| procedures for managing individual performance, conduct, capability, and attendance at work. | |
| **G Implementing good practices in transparency, reporting and audit to deliver effective accountability** | |
| **Core Principle**<br><br>**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. | Officer reference groups and ways of working. |
| 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. In addition to this in FY 21/22 our Decarbonisation Strategy also underwent a full 12-week public consultation and our Freight & Logistics Strategy has undertaken a public consultation utilising a virtual room, to garner views and help strengthen the strategies. | STP and Evidence base |
| 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. | Constitution |
| 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 | Reports to Operations Board, Executive Board, Scrutiny Committee, and the TfN Partnership Board / TfN Board. |

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| 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 the DfT, where the progress of these programmes is regularly reviewed against agreed milestones and where major decisions are discussed. | |
| During 2021/22 the Northern Powerhouse Rail project was co-cliented with the DfT (as it had been in previous years) under a Memorandum of Understanding with the DfT that was approved by the Transport for the North Board on 12th March 2020 setting out governance arrangements including regular reporting of finances, performance, and risk to a Programme Board. Following the publication of the Integrated Rail Plan for the North and Midlands by Government in November 2021 this role will change to that of co-sponsor in 2022/23. | 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 a Monthly Operating Report 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 Northern and TransPennine Express rail contracts. | 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<br><br>Constitution |

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| Transport for the North has an Audit and Governance Committee which is responsible for independently monitoring and assessing the adequacy and effectiveness of the risk management framework.<br><br>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.<br><br>The Audit and Governance Committee includes four Independent Members appointed after a public recruitment exercise to provide an independent focus and additional expertise to support the Committee in its role.<br><br>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.<br><br>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 and can gain in-depth insights into the workings of Transport for the North. During 2021/22 the TfN Board approved the renewal of the PSAA arrangement for the next three years.<br><br>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.<br><br>Organisational organograms and salary information is also made available for public consumption on the external website. | Corporate Governance Framework<br><br>Reports to Audit and Governance Committee and Transport for the North Board<br><br>Annual Audit Plan<br><br>Transparency Reports<br><br>Transport for the North 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. Significant risks are included in the Monthly Operating Report. Performance in relation to corporate risks is a standing item on the agenda of the Audit and Governance Committee and is reported twice a year to the Transport for the North Board. Significant risks to performance in relation to key programmes is also reported as required to the Executive Board of Senior Officers of the Constituent Authorities at a monthly meeting.

**Governance Challenges (ongoing and completed)**

| 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.<br><br>Ad hoc review has been carried out, although more detailed ongoing review will be required. | Ongoing. |
| Review of TfN Boards and Committees with particular reference to the General Purposes Committee | To review the function of all Boards and Committees and to develop the General Purposes Committee for matters that do not require full Board sign off but sit above the delegated powers of the Chief Executive. | The first meeting of the General Purposes Committee is Wednesday 23rd February 2022. | Ongoing. |
| Adoption of the Policy Development Framework | Implement and embed the Policy Development Framework in Transport for the North decision-making processes. | TfN is implementing a Policy Development Framework to support internal decision-making processes and ensure consistent development of TfN policies and advice to the TfN Board. | 31/03/22 |
| Provision of hybrid meetings for all governance sessions. | New hybrid meeting hardware has been purchased and is undergoing final testing. | Test meeting will be arranged before final roll-out to Committees and Boards. Further work needs to be undertaken to address quoracy matters. | 31/05/22 |

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| 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 |
| Review of Scrutiny function and in particular the policy of "Scrutiny First" | The review of the Scrutiny Committee took place over the previous 12 months; the Committee agreed to continue with the function and Scrutiny First policy. | Reports to TfN Board go through Scrutiny Committee first and now include comments from the Committee within them. | Completed |
| Appointment of new Chief Executive & Chair | To appoint a new Chief Executive and a new independent Chair of TfN Board and Partnership Boards. | Martin Tugwell appointed as Chief Executive in August 2021.<br>Lord Patrick McLoughlin appointed as Chair in January 2022. | Completed |

**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

TRANSPORT FOR THE NORTH

**Meeting:** Transport for the North Audit & Governance Committee

**Subject:** Corporate Risk Register Report

**Author:** Daniella Della-Cerra-Smith, Risk Manager

**Sponsor:** Iain Craven, Finance Director

**Meeting Date:** Friday 25 February 2022

## 1. Background:

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 2021/22.

1.2 The CRR was presented at the Audit and Governance Committee on 19 November 2021 for feedback and was last presented to TfN Board on 29 September 2021. The Corporate Risk Register has subsequently been updated to reflect changes that have occurred since the report was last published.

1.3 On 25 January the board approved the deferral of the next Corporate Risk Register report which it should have received at the March 2022 meeting, until the next planned board meeting in July 2022.

1.4 This recognised that the publication of the IRP had crystallised some risks in relation to TfN's current objectives, had introduced considerable fresh uncertainty to the organisation with regard to future co-sponsorship and delivery arrangements and that combined with uncertainties with regard to Core funding this meant that TfN's objectives (and therefore the associated risks) were likely to be reset in a way that would require a comprehensive review of the Corporate Risk Register in the context of TfN's revised circumstances.

1.5 However, the need for all TfN business areas to continue to assess and manage risk and also include it as a key element of the Business Planning process for 2022/23 is noted.

1.6 The next scheduled Board meeting at which the risk register is due to be presented is June 2022, meaning that it will need to be reviewed by Audit & Governance Committee prior to that. The planning assumption is that by that point TfN will have greater certainty regarding its circumstances and that therefore the Corporate Risk Register will be capable of being updated to reflect TfN's future objectives, 2022/23 business planning, post-IRP position and core budget funding allocation.

1.7 The terms of reference for the Audit and Governance Committee includes the requirement for the committee to "monitor Transport for the North's risk and performance management arrangements including review of the risk register, and progress with mitigating action".

1.8 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 9.1.

**2. Recommendation:**

2.1 That the Committee **note** the approval of the TfN Board to defer the presentation of the Corporate Risk Register to the July meeting, in order to allow for it to be comprehensively reviewed in light of TfN's business plan.

2.2 That the Committee **consider** the report and provide comments regarding the risk information provided.

2.3 That the Committee **consider** the proposal to transition to a 5x5 Risk Matrix.

**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 its ability to achieve its objectives and priorities.

3.3 This report provides the Committee with an update on the organisational risks and issues relating to the business KPIs/objectives which can be found in the Corporate Risk Register.

3.4 Once TfN's business plan, including its objectives in relation to the IRP, have been agreed, the Risk Manager will lead and manage the process to consider TfN's risks in detail, with the objective of presenting a revised Corporate Risk Register to the TfN Board at its meeting in July. Changes to the risks below are expected:

1. **The Covid-19 Pandemic prevents or delays TfN from delivering its objectives (TCR01)** – Risk factors 1&2 to be reviewed and updated before the next publication to reflect the current Covid position.
2. **TfN Reputational and Political Engagement (TCR02) –** Risk factors 1-4 to be reviewed and updated before the next publication to reflect post IRP position and in-line with the Levelling Up White Paper.
3. **Embedding the Strategic Transport Plan (STP) Across Programmes (TCR03) -** Risk factor 1 to be reviewed and updated before the next publication to reflect 2022/23 business plan.
4. **Delivery of Robust and Compelling Evidence to Support Investment Programmes (TCR04) -** Risk factor 1 to be reviewed and updated before the next publication to reflect 2022/23 business plan.
5. **Transport Decarbonisation and Climate Change Emergencies (TCR05)** Risk factor 1 to be reviewed and updated once TfN have confirmation of funding allocation.
6. **TfN Reputational and Political Engagement TCR02 -** Risk factor 2 and **Transport for the North's Business Operations TCR06** - Risk factor 2 - the intention is to review and update prior to the next publication with a view to combining the two risks.
7. **Transport for the North's Business Operations TCR06 –** Risk factors 1 & 3 to be reviewed and updated prior to the next publication to reflect 2022/23 business plan and post IRP position.
8. **Northern Powerhouse Rail (NPR) Business Case Delivery and Programme Development TCR08 –** Risk theme to be reviewed in its entirety, once TfN have received core funding allocation and 22/23 business plans are in place. A reassessment of the corporate objectives is required in relation to post IRP position and NPR.

9. **Rail Operations – Franchise and Delivery TCR09** – Risk factor 4 to be reviewed and updated prior to next publication to reflect post IRP position.

### 3.5 Emerging Risks Themes for Consideration

The following risks have been identified through TfN's risk management processes. Whilst they cover a range of discrete business and organisational issues, they either arise from or are reinforced by the uncertainty that currently exists across TfN. In addition, they are consistent with concerns that have been raised by officers in other settings, including Employee Forum. Key risk themes for discussion and consideration in relation to the Corporate Risk Register are as follows:

a) TfN's future role, both in the context of STB's generally and specifically in relation to the intentions of, and relationships with, DfT and Members for example co-sponsorship)
b) TfN's role in the ongoing management of the operational railway.
c) TfN's policy, objectives, and role on NPR in the context of the IRP.
d) The breadth and depth of TfN's role in developing evidence and policy in the future.
e) Ongoing funding and resourcing, both in terms of transition and having the tools/capacity to deliver TfN's programme.
f) Staff retention and morale post-IRP and funding settlement, specifically staff on FTC, impacted by TUPE or at risk from redundancy.

### 3.6 The key changes from the previous version

The key changes in the current Corporate Risk Register (Appendix 1) as compared to the report that was presented to the Committee in November are as follows:

a) **TCR01: The Covid-19 Pandemic prevents or delays TfN from delivering its objectives:** risk factor 4 has been closed; the level of efficiency in corporate processes is equivalent to March 2020. A mitigation has been completed and retired and a new mitigation action has been identified in relation to TfN officers reviewing the IRP, Levelling Up White Paper and Transport Decarbonisation Plan.
b) **TCR01: The Covid-19 Pandemic prevents or delays TfN from delivering its objectives:** risk factor 3 had medium probability and high impact. This risk has now been raised as an issue due to the implications of the Core funding settlement.
c) **TCR05: Transport Decarbonisation and Climate Change Emergencies:** risk factor 2 has increased probability from low to medium due to increased understanding of embodied carbon impacts. New mitigation actions d & e identified for risk factors 1&2.
d) **TCR06: Transport for the North's Business Operations:** risk factor 2 has become an issue due to the substance of the Core funding settlement and consequential reductions to Core expenditure that will be required.
e) **TCR08: The Northern Powerhouse Rail (NPR) Strategic Outline Case (SOC):** risk factors removed based on the publication of the IRP.

## 4. Proposed 5x5 Risk Matrix and Impact Criteria Scoring System

4.1 TfN currently operates a 4x4 scoring matrix. The introduction of the 5x5 matrix and updated impact scoring criteria would be beneficial as it allows greater granularity of assessment in terms of both probability of occurrence and the consequential impacts of the risks. It will also enable the organisation to be consistent with industry best practice. Once implemented, a full review and update

of the Risk Management Strategy will be undertaken. The 5x5 risk matrix and scoring system will be presented at OBT on 22 February 2022.

4.2 The transition to a 5x5 matrix was previously considered and agreed, but was delayed through a combination of circumstances, including the need to limit the number of changes made to the CRR in a short timeframe and the appointment of a new Risk Manager.

4.3 In line with the comprehensive review of the CRR and business planning 22/23 it is now considered to be the right time for the introduction of the 5x5 matrix, as reassessment of all risks is required. The transition to 5x5 will be communicated to all staff and training will be provided.

4.4 The Probability & Impact scoring will be extended from its current Low – High to a wider range; Very Low – Very High. The programme will evaluate against cost, time, reputation, quality, and external relationships into our Risk Management Process. The matrix shows an extension of both the numerical scoring and colour bandings.

4.5 We have enhanced the probability scoring range Very Low – Very High range as follows:
Very Low: < = 5%, Low: 6- 25%, Medium: 26-50%, High: 51-74%, Very High: 75-100%.

4.6 Scoring systems have been updated and streamlined to reflect TfN's current requirements. In particular, the financial values required to trigger higher risk classifications have been reduced in line with TfN's overall funding envelope. More detail in relation to the proposed 5x5 matrix is set out in Appendix 9.2.

## 4. Corporate Considerations

***Financial Implications***

4.1 The financial implications are detailed within individual risks where applicable.

***Resource Implications***

4.2 The resource implications are detailed within individual risks where applicable.

***Legal Implications***

4.3 The legal implications are detailed within individual risks where applicable.

***Risk Management and Key Issues***

4.4 The Corporate Risk Register is part of this report.

***Environmental Implications***

4.5 A full impact assessment has not been carried out because it is not required for this report.

***Equality and Diversity***

4.6 A full impact assessment has not been carried out because it is not required for this report.

***Consultations***

4.7 A consultation has not been carried out because it is not necessary for this report.

## 5. Background Papers

5.1 The Corporate Risk Registers presented as a standing item at each Audit & Governance Committee provide the background papers and context for this report

**6. Appendices**

6.1 Item 9.1 – Corporate Risk Register February 2022

6.2 Item 9.2 – 5x5 Risk Matrix and Scoring System

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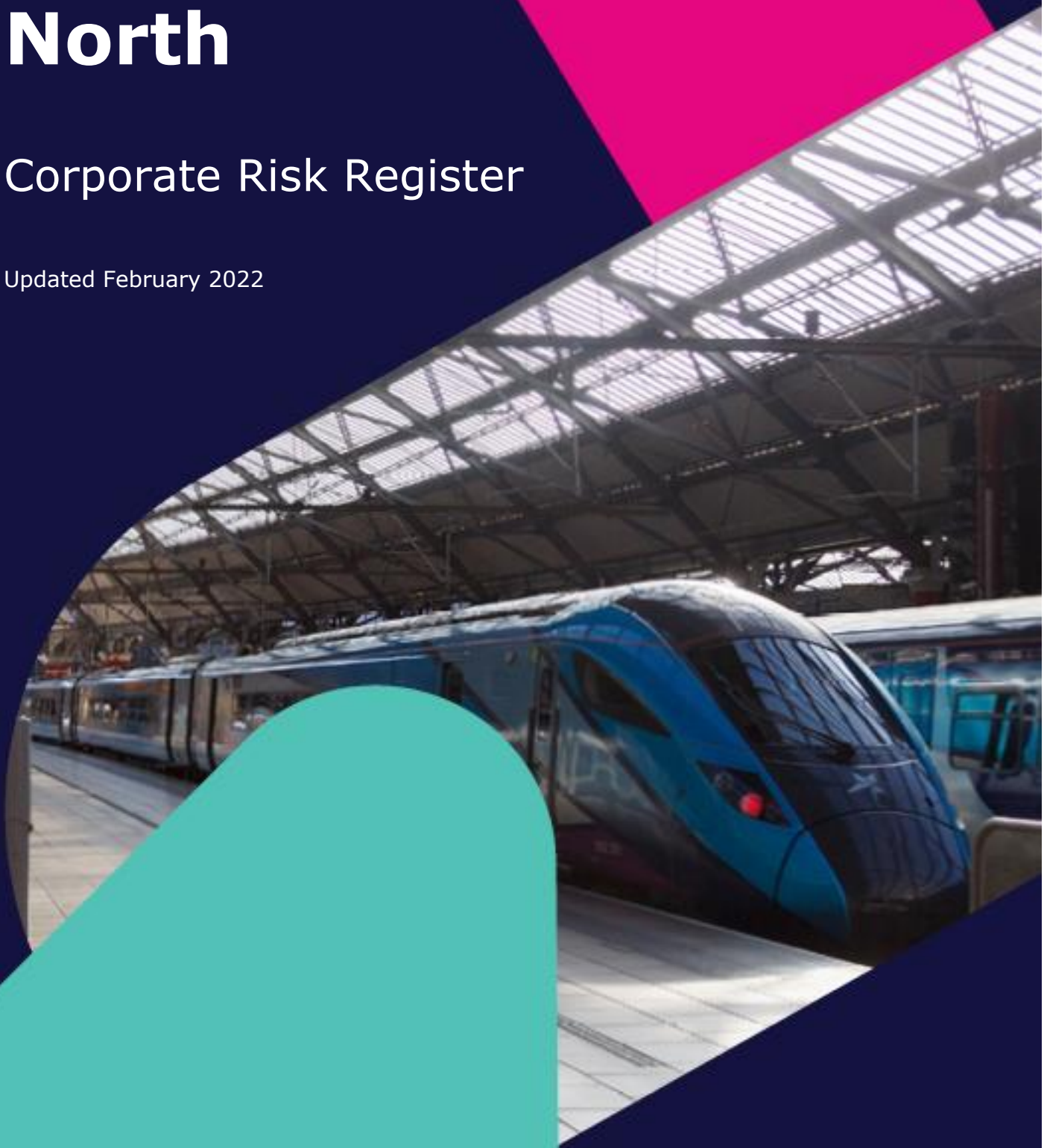
# Transport for the North

## Corporate Risk Register

Updated February 2022



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 2021/2022 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 2021/22 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.

**Section 1** summarises TfN's corporate level risks and the senior owner(s).

**Section 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.

**Section 3** provides a guideline in regard to the assessment of TfN's level of control on the proposed mitigation risk plans.

**Section 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 TfN's Corporate Risk Themes, Probability & Impact Assessments and Ownerships

| | | | | |
|---|---|---|---|---|
| **Corporate Risk Theme** | **The Covid-19 Pandemic prevents or delays TfN from delivering its objectives (TCR01)** | | | |
| **Risk Probability** | | | **High** | |
| **Nature of Risk Impact** | Business deliverables may not be completed on time if:<br>(i) A number of staff within TfN or its supply chain might be affected by Covid-19.<br>(ii) TfN decision making / governance processes might be impacted by the availability of Constituent Authority or departmental colleagues.<br>(iii) Covid-19 related uncertainty causes wider policy announcements to be delayed. | | | |
| **Inherent Risk Impact** | | | **High** | |
| **Post-Mitigation Impact** | | | **High** | |
| **Risk/Mitigation Owner(s)** | **Chief Executive**<br>(Martin Tugwell) | | | |
| | | | | |
| **Corporate Risk Theme** | **TfN Reputational and Political Engagement (TCR02)** | | | |
| **Risk Probability** | | | **High** | |
| **Nature of Risk Impact** | (i) TfN made the case for its funding during the Spending Review process. A funding letter was received from DfT on 14 February. The underlying Core funding has been increased marginally (1.6%) from 2021/22. However, TfN's inability to repeat the mitigations adopted for the current financial year means that a reduction in Core expenditure of c.37% will be required in 2022/23. Business planning has not yet been undertaken, but this is likely to result in a substantial reduction in the work that TfN is able to deliver.<br>(ii) The future role of Sub-national Transport Bodies (STBs) such as TfN needs greater clarity, otherwise TfN's ability to deliver the economic, social and sustainability benefits could be reduced.<br>(iii) The leaking of confidential information may create a legal liability, and/or erode trust between TfN and the Department of Transport and thereby could potentially harm TfN's reputation, weaken its relationship with DfT and other partners and ultimately impact upon its financial position. | | | |
| **Inherent Risk Impact** | | | | **Very High** |
| **Post-Mitigation Impact** | | | **High** | |
| **Risk/Mitigation Owner(s)** | **Chief Executive / Finance Director**<br>(Martin Tugwell / Iain Craven) | | | |
| | | | | |
| **Corporate Risk Theme** | **Embedding the Strategic Transport Plan (STP) Across Programmes (TCR03)** | | | |
| **Risk Probability** | **Medium** | | | |
| **Nature of Risk Impact** | (i) TfN Programmes of work may 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. | | | |

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| | (ii) Inconsistent messaging as a result of uncoordinated activity could also weaken TfN's reputation with government, constituent authorities and wider stakeholders. | | | |
| **Inherent Risk Impact** | | | **High** | |
| **Post-Mitigation Impact** | **Low** | | | |
| **Risk/Mitigation Owner(s)** | **Interim Strategy & Programme Director** (Tim Foster) | | | |
| | | | | |
| **Corporate Risk Theme** | **Delivery of Robust and Compelling Evidence to Support Investment Programmes (TCR04)** | | | |
| **Risk Probability** | | **Medium** | | |
| **Nature of Risk Impact** | (i) 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.<br>(ii) The inability to make a transformational case could damage TfN's reputation with partners as the organisation's key objective is to take a leadership role in delivering innovative business cases to secure investments. | | | |
| **Inherent Risk Impact** | | **High** | | |
| **Post-Mitigation Impact** | **Low** | | | |
| **Risk/Mitigation Owner(s)** | **Interim Strategy & Programme Director** (Tim Foster) | | | |
| | | | | |
| **Corporate Risk Theme** | **Transport Decarbonisation and Climate Change Emergencies (TCR05)** | | | |
| **Risk Probability** | | **Medium** | | |
| **Nature of Risk Impact** | (i) The failure to develop relevant policy positions, and undertake identified priority decarbonisation activities, would adversely impact on TfN's credibility and influence as a Sub-National Transport Body and reduce its ability to deliver on the commitments laid out within the TfN Decarbonisation Strategy.<br>(ii) TfN's Investment Programme may not be compliant with TfN's Decarbonisation Trajectory. | | | |
| **Inherent Risk Impact** | | | **High** | |
| **Post-Mitigation Impact** | **Low** | | | |
| **Risk/Mitigation Owner(s)** | **Interim Strategy & Programme Director** (Tim Foster) | | | |
| | | | | |
| **Corporate Risk Theme** | **TfN Operations (TCR06)** | | | |
| **Risk Probability** | | | **Very High** | |
| **Nature of Risk Impact** | (i) TfN made the case for its funding during the Spending Review process. A funding letter was received from DfT on 14 February. The underlying Core funding has been increased marginally (1.6%) from 2021/22. However, TfN's inability to repeat the mitigations adopted for the current financial year | | | |

| | | | | |
|---|---|---|---|---|
| | means that a reduction in Core expenditure of c.37% will be required in 2022/23. Business planning has not yet been undertaken, but this is likely to result in a substantial reduction in the work that TfN is able to deliver.<br>(ii) Funding reductions may mean that TfN is unable to deliver the full range of its members aspirations. | | | |
| **Inherent Risk Impact** | | | | **Very High** |
| **Post-Mitigation Impact** | | | **High** | |
| **Risk/Mitigation Owner(s)** | **Finance Director / Business Capabilities Director**<br>(Iain Craven / Dawn Madin) | | | |
| | | | | |
| **Corporate Risk Theme** | **TfN Compliance with Relevant Laws and Regulations (TCR07)** | | | |
| **Risk Probability** | **Low** | | | |
| **Nature of Risk Impact** | (i) Potential reputational impacts with both stakeholders and the public.<br>(ii) Financial impact, including fines or other penalties, for breach of statutory obligations such as Data Protection, Freedom of Information, Employment or Health and Safety legislation.<br>(iii) The ICO may issue a decision notice or the HSE may issue an enforcement notice if it found that TfN was in breach of the legislation. Employees/Ex-Employees may raise employment tribunal claims against TfN. | | | |
| **Inherent Risk Impact** | | | **Medium** | |
| **Post-Mitigation Impact** | **Low** | | | |
| **Risk/Mitigation Owner(s)** | **Business Capabilities Director / Head of Legal Services**<br>(Dawn Madin / Julie Openshaw) | | | |
| | | | | |
| **Corporate Risk Theme** | **The Northern Powerhouse Rail (NPR) Strategic Outline Case (SOC) (TCR08)** | | | |
| The Northern Powerhouse Rail (NPR) rail programme is a strategic rail programme that involves Northern partners, DfT, Network Rail and HS2 and, for the rest of financial year 2021/22, is co-cliented by TfN and DfT as set out in the NPR Memorandum of Understanding (MOU). As per the Integrated Rail Plan (IRP) published in November, NPR will transition to a single client arrangement, with the single client being DfT, and a co-sponsorship arrangement between DfT and TfN, from 1st April 2022. It is important to note that co-sponsorship continues to be discussed between DfT and TfN and the exact roles and responsibilities are to be agreed.<br>On 18th February 2021, TfN Board confirmed the preferred way forward for NPR and, following the meeting, a letter was sent to the Transport Secretary of State (SoS) providing statutory advice on the TfN's preferred way forward. However, the conclusions contained within the IRP do not align to TfN Board's agreed preferred way forward. Consequently, TfN is unable to meet its objectives set for NPR, and therefore its overarching objectives in relation to NPR and IRP will need to be reconsidered and agreed with the board. However operational risks and issues continue to be managed, and these are set out in programme summary section of the Monthly Operating Report. | | | | |
| **Risk/Mitigation Owner(s)** | **Chief Executive**<br>(Martin Tugwell) | | | |

| | | | | |
|---|---|---|---|---|
| **Corporate Risk Theme** | **Rail Operations (Franchise Management and Investment) (TCR09)** | | | |
| **Risk Probability** | | | | **Very High** |
| **Nature of Risk Impact** | (i) The long-term effect of Covid-19 on the viability of train services and future investment decisions.<br>(ii) The publication of the Rail Reform White Paper has insufficient detail about the role of TfN and other devolved bodies to allow a clear appreciation of their future role.<br>(iii) Proposed timetable changes on the East Coast Main Line (ECML) in May 2023 and Manchester in December 2022 will have an impact on local connectivity, thereby reducing choice for passengers.<br>(iv) TRU fit with the wider investment strategy in the North. | | | |
| **Inherent Risk Impact** | | | | **Very High** |
| **Post-Mitigation Impact** | | | | **Very High** |
| **Risk/Mitigation Owner(s)** | **Strategic Rail Director**<br>(David Hoggarth) | | | |

## Section 2: TfN's 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** | **An Issue** | 100% probability that the risk will materialise or the has materialised | • One or more of the implications will have an effect on Business Plan objectives and/or KPIs |
| **4** | **Very High** | 81-100 | • Financial Implication: **£>2m**<br>• Schedule Implication: **> 12 months**<br>• National long-term negative media coverage, significant loss of trust and credibility<br>• Severe relationship issues with partners and/or third parties (such as Local Authorities, public) |
| **3** | **High** | 51-80 | • Financial Implication: **£1m - £2m**<br>• Schedule Implication: **9 - 12 months**<br>• National short-term negative media coverage<br>• Evidence of relationship issues with partners/or and third parties (such as Local Authorities, public) |
| **2** | **Medium** | 21-50 | • Financial Implication: **£500K - £1m**<br>• Schedule Implication: **3 - 9 months**<br>• Local media damage<br>• Minimal strained relationship with partners and/or third parties (such as Local Authorities, public) |
| **1** | **Low** | ≤20 | • Financial Implication: **£0 - £500K**<br>• Schedule / Time delay Implication: **0 - 3 months**<br>• Local media attention quickly remedied<br>• 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 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 level of control:

- **High Control:** TfN has direct control over most of the available mitigation options - strategies that TfN has the power and/or ability to implement and as a result, contribute to the successful mitigation of the associated risk.
- **Medium Control:** TfN has some control over the available mitigation in conjunction with collaborative efforts 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 which must be a collaboration with the relevant internal and external parties. 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 or how these mitigations are implemented.

Each assigned control level will be accompanied by a progress summary and the most recent date that it was assessed and updated.

## Section 4: Qualititative Risk Analysis of TfN's Corporate Level Risks

**Risk ID: TCR01 - The Covid-19 pandemic prevents or delays TfN from delivering its objectives**

**Description of Identified Risks:**

(1) There is still a potential, albeit reduced, for a number of staff within TfN or its supply chain to be affected by coronavirus, or by steps taken by suppliers to respond to the pressures caused by the pandemic;
(2) TfN decision making / governance processes might be impacted by the availability of Constituent Authority or departmental colleagues;
(3) The Covid-19 related uncertainty continues to cause wider policy announcements to be delayed;
(4) *Risk Closed:* due to the efficiency of corporate processes being equivalent to March 2020; The pandemic reduces the efficiency with which certain activities can be delivered and therefore increases the costs associated with delivering them.

**Impacts of Identified Risks:**

- TfN's key programme and business deliverables may not be completed on time if the number of staff affected by 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.
- Delays to central government decision-making (where Covid-19 is at least a contributory factor) in key areas. Although the Integrated Rail Plan (IRP) and Levelling Up White paper have been produced there have been significant delays and lack of clarity that are impacting upon TfN's ability to drive programmes. Uncertainty with regard to form that delivery will take is impacting both on TfN's ability to deliver activity in year, or to plan at either a programme or a corporate level for 2022/23 and beyond.

| | **Inherent Risk Impact** | | | | |
|---|---|---|---|---|---|
| | **Low** | **Medium** | **High** | **Very High** | **An Issue** |
| **Risk Probability** | | | | | |
| **Low** | | (risk 1; 4 Closed) | | | |
| **Medium** | | | (risk 2) | | |
| **High** | | | | | |
| **Very High** | | | | (risk 3) | |
| **An Issue** | | | | | |

| | |
|---|---|
| **Risk Trend since Previous Report** | Decreased |

**Mitigations of Identified Risks, Level of Control and Updates:**

| Mitigation # | Risk Factors | Control Level | Status of Mitigation | Updated |
|---|---|---|---|---|
| a | 1, 2, | High | On-going | 08/02/22 |
| Organisational and individual Directorate Contingency Plans have been developed and are in place. These are further underpinned by TfN Corporate Business Continuity Plan (BCP). This includes the 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. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| b | 1 & 2, | High | On-going | 08/02/22 |
| Programme and policy teams continue to identify and focus on the critical organisational outputs and deploy the available resources in the achievement of those priorities. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| c | 1 & 2 | High | On-going | 08/02/22 |
| Programme teams continue to re-align delivery plans and communicate changes to partners. The teams continue to work with consultants and partners to provide support where possible. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| d | 1 & 2 | High | On-going | 08/02/22 |
| TfN continues to deliver its 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. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| e | 3 | Low | Completed - Risk Mitigated | 08/02/22 |
| TfN has made representations to DfT regarding the challenges created by delays to policy announcements and in particular the IRP. | | | | |

| Mitigation # | Risk Factors | Control Level | Status of Mitigation | Updated |
|---|---|---|---|---|
| f | 3 | Medium | On-going | 08/02/22 |
| TfN officers are working with the Levelling Up White Paper and Transport Decarbonisation Plan and the IRP to understand the impacts on TfN policy development and implication for business planning 2022/23 | | | | |

## Risk ID: TCR02 - Transport for the North's Reputational and Political Engagement

## Description of Identified Risks:

(1) Central Government's intention with regard to the future role of Sub-national Transport Bodies (STBs) is unclear. This uncertainty 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. Clarity on this position is required and DfT has indicated that it is considering proposing changes to the Communications MoU and/or Partnership Agreement;

(2) There is ongoing uncertainty with regard to the impact of TfN's funding settlement, particularly in the longer term. TfN made the case for its funding during the Spending Review process. A funding letter was received from DfT on 14 February. The underlying Core funding has been increased marginally (1.6%) from 2021/22. However, TfN's inability to repeat the mitigations adopted for the current financial year means that a reduction in Core expenditure of c.37% will be required in 2022/23. Business planning has not yet been undertaken, but this is likely to result in a substantial reduction in the work that TfN is able to deliver. The timing and substance of the notification place significant pressure on TfN's ability to produce a robust budget prior to the start of the new financial year as it is required to do and are likely to result in an Interim budget being adopted.

(3) There is a risk of 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.

(4) The leaking of confidential information may create a legal liability, and/or erode trust between TfN and the Department of Transport and thereby could potentially harm TfN's reputation, weaken its relationship with DfT and other partners and ultimately impact upon its financial position.

## Impacts of Identified Risks:

- 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 challenges in relation to TfN's ongoing levels of Core funding makes it more difficult for TfN to deliver member aspirations to facilitate transformational economic growth in the North by means of transport interventions.
- 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 perceived role.

- TfN's reputation with DfT, partners and members could potentially be adversely affected.

| | Inherent Risk Impact | | | | |
|---|---|---|---|---|---|
| | **Low** | **Medium** | **High** | **Very High** | **An Issue** |
| **Risk Probability** | | | | | |
| **Low** | | | | | |
| **Medium** | | | (risk 3) | | |
| **High** | | | | (risk 4) | |
| **Very High** | | | | (risk 1 & 2) | |
| **An Issue** | | | | | |
| **Risk Trend since Previous Report** | | | No Change | | |

**Mitigations of Identified Risks, Level of Control and Updates:**

| Mitigation # | Risk Factors | Control Level | Status of Mitigation | Updated |
|---|---|---|---|---|
| a | 1 & 3 | Medium | On-going | 08/02/22 |
| 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 includes activity to develop capability and additional evidence on investment plans aligned with the Northern Transport Charter proposals. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| b | 1 & 3 | Medium | On-going | 08/02/22 |
| There is continuous engagement with Members and constituent authorities (at a political and officer level), stakeholders, and partners, to continue to represent 'One Voice' for the North. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| c | 1 & 3 | Medium | On-going | 08/02/22 |
| There is structured engagement with central government officials and decision-makers. TfN continues to respond to any DfT proposals to update the Communications MoU/Partnership Agreement once seen. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| d | 1 & 3 | Medium | On-going | 08/02/22 |
| TfN to focus on contributing to the recovery phase of the pandemic by ensuring we have ongoing dialogue with DfT, including the DfT Acceleration Unit, and with NTAC on the Economic Recovery Plan proposals. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| f | 2 | High | On-going | 08/02/22 |
| TfN has undertaken a business planning and budgeting process for FY21/22 that focuses its available resources on key Member priorities. It has also introduced a revised monthly activity review and virement process to help ensure it delivers its business plan. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| h | 4 | Medium | On-going | 08/02/22 |

| | | | | |
|---|---|---|---|---|
| TfN has in place Confidentiality Agreements with Constituent Authorities in relation to Northern Powerful Rail and the Rail North Partnership to regulate information disclosed. In addition, the Confidentiality Agreement demonstrates how information and data may and may not be used, ensures compliance with data protection legislation and impose responsibility for compliance. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| j | 4 | Medium | On-going | 08/02/22 |
| The Codes of Conduct relating to Members of Constituent Authorities make provision as to the circumstances in which information may be disclosed. Each Constituent Authority will have its own Officer Code of Conduct and/or Disciplinary Policy which are likely to have similar provisions to TfN's, dealing with the treatment of confidential information. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| k | 4 | Medium | On-going | 08/02/22 |
| TfN's processes seek to restrict where possible disclosure of data only to those within the organisation who need to possess such data in order to carry out TfN's business as a local authority. This will support the reduction of the risk of deliberate or accidental disclosure of information shared on a confidential basis. | | | | |

**Risk ID: TCR03 - Embedding the Strategic Transport Plan (STP) across programmes**

**Description of Identified Risk:**

(1) 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 embedding or aligning with the STP, it is likely to impact the delivery and cost of the STP programme. In addition, it creates reputational risk if TfN is inconsistent in its external messaging and statutory advice to government. Furthermore, 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.

**Impacts of Identified Risks:**

- Programmes of work developed in a way that does not contribute to, or runs counter to, the overall objectives and plans set out in the STP, resulting in the failure to achieve the aims of the STP and/or leads to sub-optimal impacts from transport investments.
- Inconsistent messaging as a result of uncoordinated activity weakens TfN's reputation with government, constituent authorities and wider stakeholders.

| | **Inherent Risk Impact** | | | | |
|---|---|---|---|---|---|
| | **Low** | **Medium** | **High** | **Very High** | **An Issue** |
| **Risk Probability** | | | | | |
| **Low** | | | | | |
| **Medium** | | | (risk 1) | | |
| **High** | | | | | |
| **Very High** | | | | | |
| **An Issue** | | | | | |

| | |
|---|---|
| **Risk Trend since Previous Report** | No Change |

**Mitigations of Identified Risks, Level of Control and Updates:**

| Mitigation # | Risk Factors | Control Level | Status of Mitigation | Updated |
|---|---|---|---|---|
| a | 1 | High | On-going | 08/02/22 |
| 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. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| b | 1 | High | On-going | 08/02/22 |
| A Policy Development Framework (previously known as the Internal Assurance Framework) is being developed. The work will identify clear and consistent approaches to policy development across the organisation, building on the coordination work already underway in Strategic Oversight Group (SOG). In addition, the Policy Development Framework will enable decision makers to decide TfN's priorities for future projects and programmes to ensure alignment within the TfN programme as well as with partner programmes. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| c | 1 | High | On-going | 08/02/22 |
| 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. | | | | |
| **Mitigations #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| d | 1 | Medium | On-going | 08/02/22 |
| A Strategic Transport Plan (STP) Programme was agreed with TfN Board in September 2021. The STP programme will define and sequence the required activities needed, with clear milestones in place for the development and production of a revised STP. Furthermore, there is a plan for consultation and formal adoption by the Board, which is expected no later than 2024. The TfN Board has agreed a programme for the update of the new STP and governance mechanisms are being established in preparation for work to start this financial year. | | | | |

**Risk ID: TCR04 - Delivery of Robust and Compelling Evidence to Support Investment**

**Description of Identified Risks:**

(1) One of the objectives of developing the Analytical Framework (AF) is to allow the capture of the economic, social, and environmental impacts of transformational transport schemes. Further developments are underway to ensure robust evidence around these impacts can be captured and quantified or qualified through the AF.

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, the analytical requirements for the NPR programme in 2022/23 are yet to be agreed following the publication of the Integrated Rail Plan (IRP). This uncertainty is likely to create a resourcing risk and required support to other TfN programmes.

**Impacts of Identified Risks:**

- 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 the organisation's key objective is to take a leadership role in delivering innovative business cases to secure investments.

| | **Inherent Risk Impact** | | | | |
|---|---|---|---|---|---|
| | **Low** | **Medium** | **High** | **Very High** | **An Issue** |
| **Risk Probability** | | | | | |
| **Low** | | | | | |
| **Medium** | | | (risk 1) | | |
| **High** | | | | | |
| **Very High** | | | | | |
| **An Issue** | | | | | |

| | |
|---|---|
| **Risk Trend since Previous Report** | No Change |

**Mitigations of Identified Risks, Level of Control and Updates:**

| Mitigation # | Risk Factors | Control Level | Status of Mitigation | Updated |
|---|---|---|---|---|
| a | 1 | Medium | On-going | 08/02/22 |
| 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. In addition, the NoRMS peer review, critical for NPR Strategic Outline Case has been completed which received a positive outcome. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| b | 1 | High | On-going | 08/02/22 |
| Programme timescales are being adjusted where it is sensible to make those adjustments without significantly impacting delivery against TfN's core objectives. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| c | 1 | Medium | On-going | 08/02/22 |
| 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. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| d | 1 | High | On-going | 08/02/22 |
| 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. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| e | 1 | High | On-going | 08/02/22 |
| 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. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| f | 1 | High | On-going | 08/02/22 |
| The team has undertaken scenario planning for different outcomes of the IRP and TfN is awaiting further instruction from DfT. Additionally, the team has developed flexible professional services contracts, which can be scaled up and down to meet different levels of NPR resource requirements, thereby, providing a control mechanism to protect TAME's resources that are committed to other programmes. | | | | |

**Risk ID: TCR05 - Transport Decarbonisation and Climate Change Emergencies**

**Description of Identified Risks:**

1) 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 has now been developed and is reported within the Decarbonisation Strategy. It outlines how net zero emissions can be delivered within the North and the trajectory for change, with the impact of the Covid-19 pandemic accounted for within our Future Travel Scenarios. The Decarbonisation Strategy was approved by TfN Board and published December 2021. The Strategy details a number of recommendations, commitments, and future activities for TfN. There is potential, due to funding and resource constraints, that TfN falls behind in developing appropriate and timely policy positions, as well as progressing the priority decarbonisation activities identified within the Strategy, leading to a risk that that the level of policy commitment at both a national and local level does not materialise and that the North fails to achieve close to zero carbon emission for surface transport by 2045 (the key objective within TfN's Decarbonisation Strategy).
2) There is also a related risk that TfN's Investment Programme is misaligned to the agreed Decarbonisation Trajectory and may require review in the light of this.

**Impacts of Identified Risks:**

- There is a risk that the required level of policy commitment at both a local and national level to achieve the agreed rate of decarbonisation is not achieved and therefore TfN fails to deliver on its commitments laid out within the TfN Decarbonisation Strategy.
- Failure to develop relevant policy positions and undertake identified priority decarbonisation activities, adversely impacts on TfN credibility and influence as a Sub-National Transport Body.
- TfN's Investment Programme may not be compliant with TfN's Decarbonisation Trajectory. Any review may result in an Investment Programme which is misaligned with partners priorities. If the required level of policy commitment to deliver close to zero by 2045 is not achieved 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.

| | **Inherent Risk Impact** | | | | |
|---|---|---|---|---|---|
| | **Low** | **Medium** | **High** | **Very High** | **An Issue** |
| **Risk Probability** | | | | | |
| **Low** | | | | ~~(risk 2)~~ | |
| **Medium** | | | (risk 1) | (risk 2) | |
| **High** | | | | | |
| **Very High** | | | | | |
| **An Issue** | | | | | |
| **Risk Trend since Previous Report** | | | Increased | | |

**Mitigations of Identified Risks, Level of Controls and Updates**

| Mitigation # | Risk Factors | Control Level | Status of Mitigation | Updated |
|---|---|---|---|---|
| a | 1 | High | On-going | 09/02/22 |
| Careful programme planning to ensure TfN activities proposed in the Strategy are accommodated in business planning up until 2025 to ensure priority activities are given appropriate focus, resourcing, and funding. By undertaking these research, evidence and data building, and facilitation activities, and providing the outputs to our Partners and national government, there is a higher likelihood of the required levels of policy commitment being achieved. | | | | |

| Mitigation # | Risk Factors | Control Level | Status of Mitigation | Updated |
|---|---|---|---|---|
| d | 1 | High | On-going | 09/02/22 |
| Undertake an appraisal of the relative carbon benefits associated with the remaining activities defined within the decarbonisation strategy. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| e | 2 | Medium | On-going | 09/02/22 |
| Ensure active and ongoing engagement with key stakeholders and partners as carbon appraisals of investment programme progress. | | | | |

**Risk ID: TCR06 - Transport for the North's Business Operations**

**Description of Identified Risks:**

(1) There is a general risk that TfN fails to deliver programmes' output in a way that achieves Value for Money in TfN expenditure.

(2) There is ongoing uncertainty with regard to the impact of TfN's funding settlement, particularly in the longer term. TfN made the case for its funding during the Spending Review process. A funding letter was received from DfT on 14 February. The underlying Core funding has been increased marginally (1.6%) from 2021/22. However, TfN's inability to repeat the mitigations adopted for the current financial year means that a reduction in Core expenditure of c.37% will be required in 2022/23. Business planning has not yet been undertaken, but this is likely to result in a substantial reduction in the work that TfN is able to deliver. The timing and substance of the notification place significant pressure on TfN's ability to produce a robust budget prior to the start of the new financial year as it is required to do and are likely to result in an Interim budget being adopted.

(3) The publication of the Integrated Rail Plan (IRP) and the Levelling Up White Paper continues to create significant uncertainties as have the delay to, and substance of, TfN's funding allocation. Consistent with last year, this ongoing uncertainty beyond March 2022 means that TfN has instituted a pause in its recruitment of permanent roles and it is likely that reductions in expenditure at the required levels will result in redundancies. These factors taken together are affecting and will continue to affect TfN's ability to recruit and retain and are having an impact on wider employee morale and confidence.

**Impacts of Identified Risks:**

- The timing and substance of the funding allocation creates significant risks in relation to TfN's ability to generate a robust business plan and funded budget as is required, prior to the start of the new financial year. In addition, the required cuts to expenditure, and the likely need for redundancies will impact on TfN's ability to both retain and recruit suitably qualified staff.
- Failure to achieve Value for Money could impact on TfN's ability to access funding in the future.
- 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.

| | **Inherent Risk Impact** | | | | |
|---|---|---|---|---|---|
| | **Low** | **Medium** | **High** | **Very High** | **An Issue** |
| **Risk Probability** | | | | | |
| **Low** | | | (risk 1) | | |
| **Medium** | | | | | |
| **High** | | | | | |
| **Very High** | | | | (~~risks 2~~, 3) | (risk 2) |
| **An Issue** | | | | | |

| | |
|---|---|
| **Risk Trend since Previous Report** | Increased |

## Mitigations of Identified Risks, Level of Control and Updates:

| Mitigation # | Risk Factors | Control Level | Status of Mitigation | Updated |
|---|---|---|---|---|
| a | 1 | High | On-going | 08/02/22 |
| Clear and well documented processes and procedures are in place. VfM and governance to be undertaken by both internal and external audits. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| b | 1 | High | On-going | 08/02/22 |
| Commissioning processes include OBT sign-off of expenditure, and explicit approval for expenditure against a schedule of delegations. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| c | 2 | High | On-going | 08/02/22 |
| Engagement with stakeholders to ensure the case for TfN's funding is supported by members, business and in Parliament. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| d | 3 | High | On-going | 08/02/22 |
| Due to funding uncertainties beyond 2021/22, TfN has constituted a temporary pause on recruitment on permanent posts, although flexibility is available to the CEO to mitigate the impact on the business. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| e | 2 & 3 | High | On-going | 08/02/22 |
| 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. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| g | 1, 2 & 3 | High | On-going | 08/02/22 |
| To continue to brief and update staff through the monthly updates, regular bulletins, employee forum and SMT meetings with regards to budget setting, IRP and other current uncertainties TfN is facing to keep them fully appraised and address any questions or concerns in a timely fashion. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| h | 2&3 | Low | On-going | 08/02/22 |
| TfN has made representations at a senior level in department of transport regarding the challenges created by delays to notification of funding arrangements and policy announcements (in particular the IRP). | | | | |

**Risk ID: TCR07 - Transport for the North's Compliance with Relevant Laws and Regulations**

**Description of Identified Risks:**

(1) 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.

**Impacts of Identified Risks:**

- 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 affect its ability to meet its objectives and/or result in 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 & 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.

| | **Inherent Risk Impact** | | | | |
|---|---|---|---|---|---|
| | **Low** | **Medium** | **High** | **Very High** | **An Issue** |
| **Risk Probability** | | | | | |
| **Low** | | (risk 1) | | | |
| **Medium** | | | | | |
| **High** | | | | | |
| **Very High** | | | | | |
| **An Issue** | | | | | |

| | |
|---|---|
| **Risk Trend since Previous Report** | No Change |

**Mitigations of Identified Risks, Level of Control and Updates:**

| Mitigation # | Risk Factors | Control Level | Status of Mitigation | Updated |
|---|---|---|---|---|
| a | 1 | High | On-going | 08/02/22 |
| 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. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| b | 1 | High | On-going | 08/02/22 |
| TfN ensures there are clear and well documented processes and procedures in place. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| c | 1 | High | On-going | 08/02/22 |
| Ongoing training on laws and legislations and communication across the organisation. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| d | 1 | High | On-going | 08/02/22 |
| Procedures are in place through modern.gov to ensure that there is continuous legal review to TfN's Boards and Committees. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| e | 1 | High | On-going | 08/02/22 |
| TfN employs in house legal and procurement specialists and where necessary seeks external legal advice on commissioning and procurement. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| f | 1 | High | On-going | 08/02/22 |
| A new process, modern.gov has been implemented to streamline report approvals and support efficient decision-making. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| g | 1 | High | On-going | 08/02/22 |
| TfN will seek external legal advice on legal issues as identified by the legal in-house team. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| h | 1 | High | On-going | 08/02/22 |
| TfN has employer's liability, public liability, and professional indemnity insurance in place to mitigate any financial liability. | | | | |

**Risk ID: TCR08 - Northern Powerhouse Rail (NPR) Business Case Delivery and Programme Development**

Risk deleted – see summary

## Risk ID: TCR09 - Rail Operations – Franchise and Delivery

## Description of Identified Risks:

There has been a significant drop in demand for rail services as a result of the Covid-19 pandemic and it may take several years before passenger numbers recover to previous levels. In addition, the publication of the Rail Reform White Paper has insufficient detail about the role of TfN and other devolved bodies to allow a clear appreciation of their future role. These challenges, combined with the capacity of the current infrastructure, have created, or exacerbated the following risks:

(1) **The long-term effect of Covid-19 on the viability of train services and future investment decisions**. The impact of the pandemic on travel is likely to continue to affect the time it will take for the industry to recover to pre-Covid-19 levels. There is a risk that the current services could be cut due to the increased cost of the subsidy that is required from 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.

(2) **The publication of the Rail Reform White Paper has insufficient detail about the role of TfN and other devolved bodies to allow a clear appreciation of their future role.** There is a risk that TfN could have a different role in service delivery following the publication of the Williams-Shapps review. The role of devolved bodies or Rail North Partnership is not outlined in the White Paper with current proposals showing rail contracts aligning under a new organisation (Great British Railway).

(3) **Proposed timetable changes on the East Coast Main Line (ECML) in May 2023 and Manchester in December 2022 will have an impact on local connectivity, thereby reducing choice for passengers.** On the ECML, there is a risk of reduction in East-West connectivity to facilitate an additional North-South service from Newcastle to London. The planned new timetable will reduce some services to improve performance on the routes through Manchester putting pressure on some services and stopping patterns as the plan for infrastructure works to restore services in the future is still under development. Initial ECML timetable delivery date has been postponed from May 2022 to at last May 2023.

(4) **TRU fit with the wider investment strategy in the North.** There is a risk that the IRP reopens discussion on existing government commitments to the main 'building blocks' including both legs of HS2 Phase 2b, NPR and TRU.

## Impacts of Identified Risks:

- Low passenger numbers post-Covid could reduce the viability of some existing services.
- Less investment in services and infrastructure as a result of weaker business cases.
- If there is a delay in investment and delayed rolling stock, passengers will continue to be frustrated and experience poor quality services. Severe adverse reputational impact and pressure from partners.
- The franchise system has been replaced by service contracts directly funded by the Treasury through Great British Railway, potentially diminishing TfN's role and influence over operations (although this also represents an opportunity for TfN to make a case for further involvement in the management of the rail network).
- Timetable amendments to address capacity issues could result in a decline in services to some areas.
- Failure to integrate investment programmes could affect TfN's reputation by impacting on a significant part of its rail transformational programmes and the delivery of the Strategic Transport Plan.

| | Inherent Risk Impact | | | | |
|---|---|---|---|---|---|
| | **Low** | **Medium** | **High** | **Very High** | **An Issue** |
| **Risk Probability** | | | | | |
| **Low** | | | | | |
| **Medium** | | | | | |
| **High** | | | (risk 3,4) | (risk 2) | |
| **Very High** | | | | (risk 1) | |
| **An Issue** | | | | | |

| | |
|---|---|
| **Risk Trend since Previous Report** | No Change |

**Mitigations of Identified Risks, Controls and Updates:**

| Mitigation # | Risk Factors | Control Level | Status of Mitigation | Updated |
|---|---|---|---|---|
| a | 1 | Medium | On-going | 09/02/22 |
| 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. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| b | 1 | Medium | On-going | 09/02/22 |
| To continue with the close working relationship and communication with TfN member authorities on deliverables and risks - feeding back information through TfN governance structures. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| c | 1 | Medium | On-going | 09/02/22 |
| To continue to track train service performance and delivery via regular reporting dashboards. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| d | 1 | Medium | On-going | 09/02/22 |
| 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. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| e | 1 | Medium | On-going | 09/02/22 |
| Following the implementation of the Blake Jones action plan, continue to provide greater focus on passengers and ensure transparency with members as the COVID19 restrictions ease. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| f | 2 | Medium | On-going | 09/02/22 |
| TfN, through its role on the RNP, continues to engage with the DfT at the highest level. TfN has worked with Network Rail and partners to develop a proposition for rail reform in the North, which was endorsed by TfN board on 24th November. TfN is working with the GBR transition team to work on a more detailed proposal as to how the white paper might be delivered in the North. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| g | 3 | Low | On-going | 09/02/22 |
| In their consultation response for the ECML, TfN working with Partners has outlined to Operators and the Department the key concerns of the regions. TfN has appointed a consultant to explore how regional services that would be lost can be restored on ECML. To support this TAME has produced economic impacts of the timetable change on the ECML. | | | | |

| Mitigation # | Risk Factors | Control Level | Status of Mitigation | Updated |
|---|---|---|---|---|
| h | 3 | High | On-going | 08/02/22 |
| A collaboration between DfT and TfN to develop a blueprint of infrastructure and services to support further capacity on the ECML will be established. Likewise, regarding Manchester, collaborative work continues with DfT to underpin a blueprint linking infrastructure to future service development. | | | | |
| **Mitigation #** | **Risk Factors** | **Control Level** | **Status of Mitigation** | **Updated** |
| i | 4 | Medium | On-going | 08/02/22 |
| Strategic Rail, Strategy & Programmes, and NPR to continue to work together to identify potential integration between TRU, NPR and HS2 and understand how they best interface with other's programmes across the North (Manchester, Leeds/Sheffield/York etc). A workshop took place with NPR in October 2021 and the main outcome was further joint working sessions to be held in the coming months. | | | | |

**Note:** The post-mitigation risk assessment in Table 1 is rated Very High (VH) following the adoption of some of the identified mitigations. This is the same rating as the Inherent risk assessment as TfN does not have the full range of levers within its current powers and responsibilities to implement the mitigations that is, 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.

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## Current 4x4 Matrix

**THREAT SCORING**

| PROBABILITY | | | | | |
|---|---|---|---|---|---|
| 81% - 100% | Very High 4 | 4 | 8 | 16 | 32 |
| 51 – 80% | High 3 | 3 | 6 | 12 | 24 |
| 21 - 50% | Medium 2 | 2 | 4 | 8 | 16 |
| < = 20% | Low 1 | 1 | 2 | 4 | 8 |
| | | Low 1 | Medium 2 | High 3 | Very High 4 |

**IMPACTS**

**OPPORTUNITY SCORING**

| PROBABILITY | | | | | |
|---|---|---|---|---|---|
| 81% - 100% | Very High 4 | -4 | -8 | -16 | -32 |
| 51 – 80% | High 3 | -3 | -6 | -12 | -24 |
| 21 - 50% | Medium 2 | -2 | -4 | -8 | -16 |
| < = 20% | Low 1 | -1 | -2 | -4 | -8 |
| | | Low 1 | Medium 2 | High 3 | Very High 4 |

**IMPACTS**

## 2022 Proposed 5x5 Matrix

### THREAT SCORING

| PROBABILITY | | | | | | |
|---|---|---|---|---|---|---|
| 75 – 100% | Very High 5 | **5** | **10** | **17** | **20** | **25** |
| 51 – 74% | High 4 | **4** | **8** | **14** | **18** | **20** |
| 26 – 50% | Medium 3 | **3** | **7** | **10** | **15** | **19** |
| 6 – 25% | Low 2 | **2** | **6** | **8** | **11** | **17** |
| < = 5% | Very Low 1 | **1** | **2** | **4** | **8** | **13** |
| | | Very Low 1 | Low 2 | Medium 3 | High 4 | Very High 5 |

**IMPACTS**

### OPPORTUNITY SCORING

| PROBABILITY | | | | | | |
|---|---|---|---|---|---|---|
| 75 – 100% | Very High 5 | **-5** | **-10** | **-17** | **-20** | **-25** |
| 51 – 74% | High 4 | **-4** | **-8** | **-14** | **-18** | **-20** |
| 26 – 50% | Medium 3 | **-3** | **-7** | **-10** | **-15** | **-19** |
| 6 – 25% | Low 2 | **-2** | **-6** | **-8** | **-11** | **-17** |
| < = 5% | Very Low 1 | **-1** | **-2** | **-4** | **-8** | **-13** |
| | | Very Low 1 | Low 2 | Medium 3 | High 4 | Very High 5 |

**IMPACTS**



This document is Not for Publication - DRAFT - Report Intended for future publication

# 4x4 Current Threat Impact Scoring Criteria

| TfN Corporate/ Strategic Rail* | Low | Medium | High | Very High |
|---|---|---|---|---|
| **Financial** | 0 - £500k | £500k - £1mil | £1mil - £2mil | £2mil - £5mil |
| **Reputation** | Local media coverage, quickly remedied | Local media coverage | National short-term negative media coverage | National long – term negative media coverage, significant loss of trust and credibility |
| **External Relationship** | No strain relationship with partners and/or third parties | No or minor strained relationship with partners and/or third parties | Evidence of relationship issues with partners and/or third parties | Severe relationship issues with partners and/or third parties |
| **Time** | 0– 3 months | 3 – 9 months | 9 – 12 months | 12 – 24 months |
| **Business Capabilities /Finance/ Pol, Strat, Re, & Eco** | **Low** | **Medium** | **High** | **Very High** |
| **Financial** | 0 - £10k | £10k - £100k | £100k-£500k | £500k - £1mil |
| **Reputation** | Local media coverage, quickly remedied | Local media coverage | National short-term negative media coverage | National long – term negative media coverage, significant loss of trust and credibility |
| **External Relationship** | No strain relationship with partners and/or third parties | No or minor strained relationship with partners and/or third parties | Evidence of relationship issues with partners and/or third parties | Severe relationship issues with partners and/or third parties |
| **Time** | 0 – 3 months | 3 – 9 months | 9 – 12 months | 12 - 18 months |
| **Major Roads** | **Low** | **Medium** | **High** | **Very High** |
| **Financial** | 0 - £25k | £25k - £100k | £100k - £150k | £150k - £300k |
| **Reputation** | Local media coverage, quickly remedied | Local media coverage | National short-term negative media coverage | National long – term negative media coverage, significant loss of trust and credibility |
| **External Relationship** | No strain relationship with partners and/or third parties | No or minor strained relationship with partners and/or third parties | Evidence of relationship issues with partners and/or third parties | Severe relationship issues with partners and/or third parties |
| **Quality*** | Work is fit for purpose but may require further iterations for minor changes e.g. formatting | Minor additional work or specialist resource required to provide high quality outputs | Scope changes required to provide high quality outputs | Project outputs are not credible/robust, with no assurance and partners do not endorse reports |
| **Time** | 0 – 4 days | 4 – 8 days | 8 – 15 days | 15 – 30 days |

# 5x5 Proposed Threat Impact Scoring Criteria

| TfN Corporate/ Business Capabilities/ Finance/ Pol, Strat. Re & Eco/ TAME /Strategic Rail* | Very Low | Low | Medium | High | Very High |
|---|---|---|---|---|---|
| **Financial** | £0 - £25k | £25k - £50k | £50k - £100k | £100k-£250k | £250k-£1m |
| **Reputation** | Potential for minimal negative local media coverage | Minor negative local media coverage | Moderate negative local media coverage | National short – term negative media coverage | National long – term negative media coverage, significant loss of trust and credibility |
| **External Relationship** | Potential for minimal strain with partners and/or third parties | Minor strain with partners and/or third parties | Moderate strain with partners and/or third parties | Major strain with partners and/or third parties | Severe relationship issues with partners and/or third parties |
| **Time** | 0 – 1 month | 1 – 3 months | 3 – 9 months | 9 – 12 months | 12 – 18 months |
| **Major Roads** | **Very Low** | **Low** | **Medium** | **High** | **Very High** |
| **Financial** | £0 - £10k | £10k – £25k | £25k – £100k | £100k - £150k | £150k - £300k |
| **Reputation** | Potential for minimal negative local media coverage | Minor negative local media coverage | Moderate negative local media coverage | National short – term negative media coverage | National long – term negative media coverage, significant loss of trust and credibility |
| **External Relationship** | Potential for minimal strain with partners and/or third parties | Minor strain with partners and/or third parties | Moderate strain with partners and/or third parties | Major strain with partners and/or third parties | Severe relationship issues with partners and/or third parties |
| **Quality*** | Potential for minimal scope changes required to provide high quality outputs | Minor scope changes required to provide high quality outputs | Moderate scope changes required to provide high quality outputs | Major scope changes required to provide high quality outputs | Project outputs are not credible/robust, with no assurance and partners do not endorse reports |
| **Time** | 0 – 2 days | 2 – 4 days | 4 – 8 days | 8 – 15 days | 15 – 30 days |

# 4x4 Current Opportunity Impact Scoring Criteria

| TfN Corporate/Strategic Rail* | Low | Medium | High | Very High |
|---|---|---|---|---|
| **Financial** | 0 - -£500k | -£500k - -£1mil | -£1mil - -£2mil | -£2mil - -£5mil |
| **Reputation** | Local media reputation maintained | Local media coverage can be increased and positively favours TfN | TfN can gain national short-term favourable media coverage | TfN can gain national long-term favourable media coverage, with significant trust and credibility |
| **External Relationship** | Relationships with partners and/or third parties maintained (such as local authorities) | TfN's relationships with partners and/or third parties can be increased (such as local authorities) | There is evidence that TfN's relationships with partners and/or third parties is increasing | Relationships with partners and/or third parties can be increased, benefitting TfN's credibility |
| **Time** | 0– -3 months | -3 – -9 months | -9 – -12 months | -12 – -24 months |
| **Business Capabilities /Finance/ Pol, Strat, Re, & Eco** | **Low** | **Medium** | **High** | **Very High** |
| **Financial** | 0 - -£10k | -£10k - -£100k | -£100k- -£500k | -£500k - -£1mil |
| **Reputation** | Local media reputation maintained | Local media coverage can be increased and positively favours TfN | TfN can gain national short-term favourable media coverage | TfN can gain national long-term favourable media coverage, with significant trust and credibility |
| **External Relationship** | Relationships with partners and/or third parties maintained (such as local authorities) | TfN's relationships with partners and/or third parties can be increased (such as local authorities) | There is evidence that TfN's relationships with partners and/or third parties is increasing | Relationships with partners and/or third parties can be increased, benefitting TfN's credibility |
| **Time** | 0 – -3 months | -3 – -9 months | -9 – -12 months | -12 - -18 months |
| **Major Roads** | **Low** | **Medium** | **High** | **Very High** |
| **Financial** | 0 - -£25k | -£25k - -£100k | -£100k - -£150k | -£150k - -£300k |
| **Reputation** | Local media reputation maintained | Local media coverage can be increased and positively favours TfN | TfN can gain national short-term favourable media coverage | TfN can gain national long-term favourable media coverage, with significant trust and credibility |
| **External Relationship** | Relationships with partners and/or third parties maintained (such as local authorities) | TfN's relationships with partners and/or third parties can be increased (such as local authorities) | There is evidence that TfN's relationships with partners and/or third parties is increasing | Relationships with partners and/or third parties can be increased, benefitting TfN's credibility |
| **Quality*** | Work is fit for purpose and does not require further iterations for minor changes | No additional work or specialist resource required to provide high quality outputs | No scope changes required to provide high quality outputs | Project outputs are credible/robust, with assurance and partners endorse reports |
| **Time** | 0 – -4 days | -4 – -8 days | -8 – -15 days | -15 – -30 days |

# 5x5 Proposed Opportunity Impact Scoring Criteria

| TfN Corporate/ Business Capabilities/ Finance/ Pol, Strat. Re & Eco/ TAME /Strategic Rail* | Very Low | Low | Medium | High | Very High |
|---|---|---|---|---|---|
| **Financial** | £0 - -£25k | -£25k - -£50k | -£50k - -£100k | -£100k- -£250k | -£250k- -£1m |
| **Reputation** | Potential for minimal positive local media coverage | Minor positive local media coverage | Moderate positive local media coverage | National short – term positive media coverage | National long – term positive media coverage, increase of trust and credibility |
| **External Relationship** | Potential for minimal improvement in relationships with partners and/or third parties | Minor improvement in relationships with partners and/or third parties | Moderate improvement in relationships with partners and/or third parties | Major improvement in relationships with partners and/or third parties | Significant improvement in relationships with partners and/or third parties |
| **Time** | 0 – -1 month | -1 – -3 months | -3 – -9 months | -9 – -12 months | -12 – -18 months |
| **Major Roads** | **Very Low** | **Low** | **Medium** | **High** | **Very High** |
| **Financial** | £0 - -£10k | -£10k – -£25k | -£25k – -£100k | -£100k - -£150k | -£150k - -£300k |
| **Reputation** | Potential for minimal positive local media coverage | Minor positive local media coverage | Moderate positive local media coverage | National short – term positive media coverage | National long – term positive media coverage, increase of trust and credibility |
| **External Relationship** | Potential for minimal improvement in relationships with partners and/or third parties | Minor improvement in relationships with partners and/or third parties | Moderate improvement in relationships with partners and/or third parties | Major improvement in relationships with partners and/or third parties | Significant improvement in relationships with partners and/or third parties |
| **Quality*** | Potential for minimal high-quality outputs | Minor high-quality outputs | Moderate high-quality outputs | Major high-quality outputs | Significant high-quality outputs with assurance and partners endorse reports |
| **Time** | 0 – -2 days | -2 – -4 days | -4 – -8 days | -8 – -15 days | -15 – -30 days |