

Transport for the North Board

Subject: YTD / Budget Revision 2 and Mid-Year Treasury Management Update

Author: Paul Kelly, Financial Controller

Sponsor: Iain Craven, Finance Director

Meeting Date: Wednesday 18 November 2020

1. Purpose of the Report:

- 1.1 This report, including the graphs and charts in Appendix 5.1, set out the financial performance of Transport for the North (TfN) over the first six months of the financial year 2020/21 and provides the Budget Revision 2 reforecast through to the end of the year. It is proposed that this budget Revision be adopted by the TfN Board at its meeting on 19 November.
- 1.2 Detail is also provided with regard to TfN's performance against its Treasury Management Strategy as required by the TfN Constitution.
- 1.3 This report has been considered in Scrutiny Committee and Executive Board and any matters raised have been reflected in this document.

2. Executive Summary:

Year to-date Monitoring

- 2.1 Year to-date expenditure at the half-year was £26.27m, £3.16m below the forecast set out in Budget Revision 1. The majority of this variance relates to programme activity, with underspends of £1.12m in NPR and £1.16m in IST. In addition, there was an underspend of £0.65m in operational areas. In addition to a number of specific drivers for these variances, it can be seen with hindsight that TfN underestimated the impact of Covid-19 when preparing Budget Revision 1.

Budget Revision 2

- 2.2 The total expenditure (excluding contingency) included in Budget Revision 2 is £67.12m. This is a reduction of £1.32m from Revision 1. This reflects a net impact, where reductions in forecast activity in the IST programme and operational areas are offset by increases in the NPR programme, and in particular the transfer of items from contingency into specific expenditure lines.

- 2.3 The total forecast including contingencies has decreased by £10.34m to £76.16m compared to Revision 1. This reflects the deferral of £8.50m of NPR expenditure into 2021/22 that was previously identified as specific contingency for activity that was intended to be carried out in 2020/21. This includes amounts for ground investigation works (£3.6m), NR Gap Analysis / Sequencing activity (£4.25m) and modelling (£0.65m).
- 2.4 The outturn for the first 6 months and Budget Revision 2 are both showing expenditure profiles that are lower than originally expected. This is part due to the extended effects of COVID 19 and the previous underestimation of the impact on TfN's ongoing expenditure. However, TfN is also being impacted by the uncertainty in relation to its funding for 2021/22 and beyond.
- 2.5 The impact of COVID 19 was considered in Budget Revision 1 but the longer-term impact has only become apparent over time. This has meant a number of activities have slipped into future periods and, in some cases, potentially into the next budget year.
- 2.6 TfN currently lacks any funding certainty with regard to either its Core operations or its programmes. Whilst the recent announcement that the proposed CSR will be replaced with a "rollover" is potentially helpful, at the time of writing no confirmation had been received regarding the levels of Core funding for 2021/22. In addition, the delay to the CSR potentially inhibits a long-term commitment to the revised IST programme by government, whilst the future structure of the NPR programme is still likely to hinge on the recommendations in the Integrated Rail Plan.
- 2.7 This uncertainty regarding funding beyond the end of 2020/21 has required action to be taken within TfN to limit the organisations exposure to new commitments into 2021/22. This has included holding vacant posts open until such time as the new funding arrangements are confirmed, and the deferral of consultancy expenditure where this can be delayed without any impact on TfN's in-year objectives.

Mid-Year Treasury Management Update

- 2.8 TfN has operated within the parameters set out in its Treasury Management Strategy.

3. Summary Position

- 3.1 Over the first six months of the financial year TfN has incurred expenditure of £26.27m. This level of expenditure is £3.16m behind the Budget Revision 1.

-
- 3.2 Underspend has principally accrued in TfN's programme areas (£2.30m), accounting for 73% of the overall underspend.
- 3.3 The £1.2m underspend within the IST programme mainly relates to savings on the TPE programme and timing differences on the Northern and Merseyrail Platform Validator installation. The programmes are reaching their conclusion and are expected to be substantially, if not fully complete, by the year end.
- 3.4 The £1.1m underspend within the NPR programme is mainly due to Network Rail expenditure falling behind the Revision 1 profile and delays to the contracting of modelling activity. It is expected that these activity shortfalls will be recovered during the remainder of the year.
- 3.5 The £0.65m underspend within operational areas is mainly due to reduced costs due to COVID 19 (including for example reductions in stakeholder engagement and communications activity due to remote working) and savings arising from the measures set out in 2.7 above.
- 3.6 Recognising the year-to-date position TfN has produced Budget Revision 2, the reforecast its expenditure to the end of the financial year.
- 3.7 This exercise has returned a full-year forecast expenditure position of £67.12m. This level of expenditure is £1.33m higher than the opening base budget and £1.32m lower than Budget Revision 1 that was adopted in July.
- 3.8 The Revision 2 forecast including contingency has reduced by £10.33m to £76.16m. This reflects the deferral of £8.50m of NPR expenditure into 2021/22 that was previously identified as specific contingency for activity that was intended to be carried out in 2020/21. This includes amounts for ground investigation works (£3.6m), NR Gap Analysis / Sequencing activity (£4.25m) and modelling (£0.65m). The ground investigation work was scheduled to accelerate the delivery of the OBC and the NR gap sequencing activity was contingent on having a single option to progress. These works are anticipated to be delivered in the next financial year.
- 3.9 There is currently a level of uncertainty with regard to the NPR outturn forecast, which is sensitive both to the periodic forecasts received from key contractors (specifically Network Rail) and the scope and extent of the work that is agreed between the co-clients. TfN is confident that it can deliver the intended activity within the revised budget envelop. In addition, TfN is currently discussing the utilisation of the remaining NPR contingency balances with Department for Transport. If any amendments to forecasts are made, they will be reported to the TfN Board.
- 3.10 Further detail on the year-to-date position and the Revision 2 forecast is given in Appendix A.

- 3.11 TfN's constitution obliges officers to report to Board at the mid-year mark on performance against the Treasury Management Strategy. This strategy prescribes how TfN will manage cash and investments. Unlike partner bodies, TfN is prohibited from accessing credit, so no rules are set around borrowing.
- 3.12 Appendix A highlights performance against key parameters. It shows that TfN has managed cash and investments within its counterparty criteria, placing cash deposits with secure bodies and institutions on liquid terms. Yield on investments has marginally exceeded target without compromising on security.
- 3.13 It is worth noting that the interest rate environment that currently persists is resulting in very low returns on cash invested. Whilst TfN will continue to keep the position under review there is no intention at present to change the focus of our Treasury Management Strategy and its prioritisation on security and liquidity over yield.

4. Conclusion:

- 4.1 This sets out the Budget Revision 2 for consideration for approval by TfN Board.
- 4.2 Adoption of Budget Revision 2 will align financial profiling to the latest delivery assumptions from the programmes and operational teams.
- 4.3 This report also notes that TfN has complied with its Treasury Management Strategy at the mid-year mark, with no exception issues to report.

5. Recommendation:

- 5.1 Consider and approve the proposed Revision 2 budget.
- 5.2 Note the compliance with the Treasury Management Strategy.

6. Appendices:

- 6.1 Appendix A – TfN Finance Mid-Year Update, Budget Revision 2 and Treasury Management Strategy.

Required Considerations
Equalities:

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

Consideration	Comment	Responsible Officer	Director
Equalities	A full Impact assessment has not been carried out because it is not required due to the nature of the report.	Paul Kelly	Iain Craven

Environment and Sustainability

Yes	No
-----	----

Consideration	Comment	Responsible Officer	Director
Sustainability / Environment – including considerations regarding Active Travel and Wellbeing	A full impact assessment has not been carried out because it is not required due to the nature of the report.	Paul Kelly	Iain Craven

Legal

Yes	No
-----	----

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

--	--	--	--

Finance

Yes	No
-----	----

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

Resource

Yes	No
-----	----

Consideration	Comment	Responsible Officer	Director
Resource	The HR Team have confirmed there are no direct resource implications as a result of this report.	Stephen Hipwell	Dawn Madin

Risk

Yes	No
-----	----

Consideration	Comment	Responsible Officer	Director
Risk	A risk assessment has been carried out and the key risks are included in the risk report.	Haddy Njie	Iain Craven

Consultation

Yes	No
-----	----

Consideration	Comment	Responsible Officer	Director
Consultation	A consultation has not been carried out because it is not required.	Paul Kelly	Iain Craven