

# Transport for the North Board

**Subject:** TfN Budget and Reserve Strategy 2021/22

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**Sponsor:** Iain Craven, Finance Director

**Meeting Date:** Wednesday 24 March 2021

## 1. Executive Summary:

- 1.1 Financial year 2021/22 represents the fourth budgetary period over which Transport for the North (TfN) has existed as a statutory sub-national transport body (STB), and this paper sets out that:
  - The proposed gross budget (i.e. including contingencies) for 2021/22 is £78.70m, £9.35m (11%) lower than the £88.05m set for 2020/21.
  - The proposed committed net budget (i.e. excluding contingencies) of £60.18m is £5.60m (9%) lower than the £65.78m 2020/21 net budget. This is 2% higher than the forecast outturn for 2020/21 of £58.77m.
- 1.2 As previously reported to the Transport for the North Board, TfN received a letter from the Department for Transport ("DfT") on 4 January that set out a reduced funding envelope for 2021/22 compared to TfN's CSR submission, including a 40% cut to its Core funding allocation from £10m to £6m, and the cessation of funding for the IST programme. At the same time the funding allocation for the Northern Powerhouse Rail programme was increased from £59m to £67m, although the conditionality attached to this funding (arising both from the current uncertainties regarding the IRP and the normal departmental approvals required for any commitment) means that it is not at this stage possible to be certain as to the full extent of the draw down.
- 1.3 Following the funding announcement, Transport for the North officers engaged with departmental officials to identify means of mitigating the cut to Core funding. This resulted in DfT agreeing to allow TfN the flexibility to charge £2.5m of direct and allocated costs that had previously been resourced from the Core allocation into the NPR programme. In addition, the 18 February 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 following table compares the core expenditure and its associated funding on a like-for-like basis (both net and gross of programme

allocations and recharges) across the proposed 2020/21 and 2021/22 budgets.

Comparison of Core expenditure		2021/22	2020/21	Var
		£m	£m	£m
<b>Expenditure:</b>				
Core Budget (Gross)		11.03	12.32	(1.29)
Less: Charges and Recharges		(2.49)	(1.00)	(1.49)
<b>Core Budget (Net)</b>		<b>8.54</b>	<b>11.32</b>	<b>(2.78)</b>
<b>Funded by:</b>				
Core Funding		6.00	10.00	(4.00)
Reserves		2.54	1.32	1.22
<b>Core Funding (Net)</b>		<b>8.54</b>	<b>11.32</b>	<b>(2.78)</b>
Direct Charge to NPR		0.95	0.00	0.95
Recharges		1.54	1.00	0.54
<b>Core Funding (Gross)</b>		<b>11.03</b>	<b>12.32</b>	<b>(1.29)</b>

- 1.4 This report notes a balanced gross budget proposal for the year of up to £78.70m consisting of:

TfN Expenditure	£m	%
<b>Programmes:</b>		
Revenue Programmes	50.60	64%
Capital Programmes	0.30	0%
Programme Contingency	18.52	24%
	<b>69.42</b>	<b>88%</b>
<b>Rail Operations</b>		
	<b>3.16</b>	<b>4%</b>
<b>Operational Areas (net)</b>		
	<b>6.13</b>	<b>8%</b>
<b>Total</b>	<b>78.70</b>	

- 1.5 This expenditure will be fully funded from grants, contributions, contracted income, and brought forward reserves as follows:

TfN Funding	2021/22	%
	£m	
Core Grant	6.00	8%
Integrated & Smart Ticketing Grant	1.52	2%
Transport Development Fund - NPR	67.00	85%
Rail Operations Grants & Contributions	1.65	2%
Use of Reserves	2.54	3%
<b>Total Resource</b>	<b>78.70</b>	

- 1.6 As in previous years, some elements of TfN funding, principally Transport Development Funding for NPR, are dependent on Departmental approvals to release funds. Where such processes are delayed, the expenditure profiles will be managed accordingly.
  - 1.7 This report sets out TfN's financial operating environment, and the budgets that will support delivery of the TfN business plan for 2021/22 and beyond. These budgets are underpinned by a reserve strategy, which serves as TfN's back-stop mitigation against financial risk.
  - 1.8 As in the prior years, the budgets set out in this report have been informed by a business planning process. That process identified TfN's key strategic priorities and identified a common 'golden thread' from strategy to delivery that was maintained throughout the process. The 'golden thread' ensured that when detailed individual departmental plans were being designed and objectives set, there was a common and coordinated approach to delivery across the organisation. These common goals are what underpin the expenditure profile and budget for 2021/22.
  - 1.9 The delayed funding announcement in January 2021 compressed the normal business planning and budget cycle. Based on the reduced timeline, the board established a Members Working Group ("MWG") which allowed officers to consult with Transport for the North Members regarding the development of the business plan and budget prior to reports being brought to the Board for consideration and approval. Input received from the MWG and comments from those meetings have been reflected in this report.
  - 1.10 TfN will put in place specific monitoring arrangements that allow potential underspends to be identified and resources transferred between priorities (subject to grant conditions) more quickly to ensure that momentum in delivering the objectives set out in the business plan is maintained.
- 2. Recommendations:**  
It is recommended that:
- 2.1 TfN Board approves the revenue budget and capital programme as presented in this paper and Appendix 5.1.
  - 2.2 TfN Board approves the reserve strategy as presented in this report.
  - 2.3 TfN Board notes the Outturn Report included at Appendix 5.2.
  - 2.4 TfN Board approves the Annual Treasury Management Strategy as presented in Appendix 5.3 & 5.4.

### 3. Budget 2021/22 Background and Summary

- 3.1 TfN has conducted a business planning process designed to deliver upon the objectives and key priorities that have previously been agreed with Board. These were reconfirmed and refined at the Board meetings on 14 January and 18 February 2021. Whilst the business planning process commenced in October 2020, it was significantly revised following the receipt of the funding allocation letter in January.
- 3.2 The business plan includes the programmes of activity that will deliver the key priorities, but also the role of the organisation: what it will do, and how it will do it. That business plan in turn drives the resourcing and financial plans for the organisation, resulting in the annual budget.
- 3.3 Following an iterative process, a draft budget is proposed that aligns resource to key priorities. The budget itself is differentiated between costs incurred in the delivery of programmes of activity, and the costs incurred in running the operations of TfN and meeting broader aspirations. The expenditure incurred in delivering Rail Operations functions is also presented separately, reflecting the different governance arrangements around that activity and its high profile.
- 3.4 TfN proposes a gross budget for the year of £78.70m, inclusive of expenditure slipped from 2020/21 of c.£0.6m. This represents a reduction of c.£9.35m (11%) on the gross budget adopted for financial year 2020/21. Once the budget comparators are adjusted for contingency envelopes (net budgets), TfN is proposing a decrease of £5.60m (9%) on the prior year budget excluding contingency:

Year-on-Year Comparison	2021/22 £m	2020/21 £m	Var £m	Var %
<b>Programmes:</b>				
IST	1.52	15.78	(14.26)	(90%)
NPR	67.00	59.95	7.05	12%
Strategic Development Corridors	0.89	1.15	(0.26)	(22%)
	69.42	76.89	(7.47)	(10%)
<b>Rail Operations</b>	3.16	2.98	0.18	6%
<b>Operational Areas</b>	6.13	8.19	(2.06)	(25%)
<b>Gross Budget</b>	<b>78.70</b>	<b>88.05</b>	<b>(9.35)</b>	<b>(11%)</b>
Contingency Envelopes	18.52	22.27	(3.75)	(17%)
<b>Net Budget</b>	<b>60.18</b>	<b>65.78</b>	<b>(5.60)</b>	<b>(9%)</b>

- 3.5 The following table compares the proposed 2021/22 net budget to the forecasted outturn for 2020/21. This shows that excluding any expenditure from contingency, plans for 2021/22 show a 2% increase over this year's forecast outturn spend. Expenditure levels for 2020/21

were negatively impacted by a number of key factors, as set out in Appendix 5.2.

	21/22 £m	20/21 Outturn £m	Var £m	Var %
<b>Programmes:</b>				
IST	1.52	8.71	(7.19)	(83%)
NPR	48.48	42.02	6.46	15%
IPBA	0.89	0.06	0.83	1327%
	50.90	50.79	0.10	0%
Rail Operations	3.16	2.30	0.86	37%
Operational Areas	6.13	5.68	0.45	8%
<b>Total</b>	<b>60.18</b>	<b>58.77</b>	<b>1.41</b>	<b>2%</b>

- 3.6 It should be noted that that the total budget envelope is elevated by both contingency values held to manage programme risk and meet emerging priorities, and by VAT costs that cannot be recovered (as is the case in TfN partner bodies). Irrecoverable VAT accounts for £8.30m of the net budget of £60.18m.
- 3.7 Contingency will only be drawn on if required, and currently stands at £18.52m, solely within the NPR programme. This is a flexible in-budget reserve which will be fed into the budget as certainty on requirements and costs emerge.
- 3.8 The main increase on the prior year budget principally relates to growth in the NPR programme, with a small increase in activity in the Rail Operations area.
- 3.9 In the funding letter of 4 January 2021, DfT provided an NPR allocation of £75m, of which £67m was subsequently agreed for NPR activities that would be managed by TfN (the balance of £8m will be allocated to HS2).
- 3.10 Work is ongoing between TfN, its key delivery partners (principally Network Rail) and the DfT (as co-client) to determine the NPR scope of work for 2021/22 and the associated cost. At the time of writing, budget plans had been formulated (and agreed with DfT) to a value of c.£48.48m. These plans represent work in train and new work that will require Departmental approval before it progresses. The balance of the TDF allocation of £18.52m is, for now, held in reserve reflecting that some contingency is required to manage inherent risk in the contracting, whilst a material amount of resource is required to manage likely emerging priorities that are either contingent on future events or require further development before being committed to the budget.

- 3.11 As previously noted, significant uncertainty exists in relation to the NPR programme as a result of the delayed Integrated Rail Plan announcement that is expected within the next three months. This may have a significant impact on the work that needs to be undertaken. Whilst the co-clients have adopted an approach to planning that has tried to identify work that will be consistently required across a range of IRP outcomes, there may be a requirement for a rework of both the programme business plan and budget once the IRP has been released and its implications understood. Given the scale of the programme this may have consequential impacts upon the wider organisation. More detail on the NPR budget is set out in Section 6 of Appendix 5.1.
- 3.12 The net Rail operations budget is broadly similar to the 2020/21 budget, although movements within that total are set out in Section 8 of Appendix 5.1. Discussions are ongoing with DfT to materially increase the RNP team which, if agreed, would be funded from incremental grant. As this had not been formally agreed at the time of writing, the budget has been prepared on the basis of the funded position. Any required changes will be addressed as budget revisions during the year.
- 3.13 Significant reductions on the 2020/21 budget can be seen within the IST programme and operational areas.
- 3.14 In the January funding allocation, the DfT did not award any allocation for the IST programme for 2021/22 and future years. It acknowledged that current projects would need to be completed and closed in a structured and controlled manner and agreed to fund these costs. The budget of £1.52m represents the estimated costs to conclude the individual phases of the IST programme and then close the programme down. Funding will only be requested for actual costs incurred.
- 3.15 Overall operational area expenditure is proposed at £6.13m, 25% less than last year's budget, but also 8% higher than the forecast outturn for this year. Operational area expenditure is impacted by two movements. Gross expenditure has fallen by £1.52m despite the absorption of pay inflation pressures, largely due to Covid, delayed national initiatives, the prioritisation of NPR activity and funding uncertainty leading to rescheduled work and not filling established posts. The overall saving is further increased by assigning attributable costs to the NPR programme of £1.54m (there was of £1m to the IST programme in 2020/21). This overall net decrease of £2.06m allows TfN to operate within its funding envelope. Further detail on operational expenditure is set out in Section 9 of Appendix 5.1.

- 3.16 TfN's activity will be funded from a mixture of grant, local contributions, contracted income, and brought forward reserves:

Funding	2021/22	
	£m	%
Core Grant	6.00	8%
IST Grant	1.52	2%
NPR - TDF Grant	67.00	85%
Rail Operations Grants:	1.65	2%
<b>Total In-Year Grant</b>	<b>76.17</b>	<b>97%</b>
Use of Reserves	2.54	3%
<b>Total Resource</b>	<b>78.70</b>	

- 3.17 In common with previous years, the majority of TfN expenditure is dependent on the receipt of funding from the DfT, either through the formal sign-off of business cases, or the release of development or other general resource funding. TfN will only commit itself to expenditure where appropriate commitments have in turn been received from the Department.
- 3.18 The proposed draw from reserves for the year ahead is £2.54m. The drawdowns initially budgeted for 2020/21 were not thought to be required, given the impact on operational expenditure due to the Covid-19 pandemic, cost control measures adopted in response to funding uncertainty, and the prioritisation of NPR over certain Core funded TAME activity. However, the £3m in-year cut to TfN's Core funding in January resulted in a draw on the general reserve in 2020/21 that is likely to be £0.4m.
- 3.19 TfN's reserves were created from Core grant underspends in prior years when TfN was building its capacity and capability and are drawn upon in line with the reserve strategy adopted by TfN each year. The Core funding reduction announcement in January 2021 has led to an amendment of TfN's reserves policy (Section 4), but reaffirmed the need to utilise reserves to deliver a balanced budget.
- 3.20 That strategy will see a planned draw on reserves to deliver a funded budget which includes material one-off costs, including the Investment Programme Benefits Analysis, but also supports ongoing activity levels. This approach will result in general reserves of approximately £3.5m, excluding earmarked reserves, at the end of the 2021/22 financial year and is set out in more detail in Section 4.
- 3.21 As in previous years, underspends that accrue during the year may mitigate the need to draw on reserves to the extent currently forecast. In addition, in the longer term the reserves strategy, and in particular the minimum reserve level, will need to be considered against the outcome of the next CSR process, expected in the second half of 2021.

- 3.22 In preparing this budget, officers are mindful that many of the operational challenges that led to reduced Core expenditure levels in 2020/21 still remain. These include the continuing effects of Covid-19 pandemic, the lack of funding certainty beyond the year end, and the risk that key resources within TfN may be required to support emerging issues in the NPR programme. TfN will therefore put in place specific monitoring arrangements that will allow potential underspends to be identified and resources transferred between priorities to ensure that momentum in delivering the objectives set out in the business plan is maintained.

#### **4. Medium-Term Financial Strategy & Reserve Strategy**

- 4.1 Under statute, all local government bodies – including TfN – are required to operate to a locally defined reserves strategy that ensures that the organisation always holds a prudent level of reserves.
- 4.2 Such reserves enable the organisation to operate with a degree of flexibility and guard against financial shock.
- 4.3 A prudent reserve strategy is particularly important to TfN as it has few other levers to mitigate financial risk. As previously noted, unlike other northern partners TfN cannot access credit for short-term cash flow management and long-term investment, nor can it levy or precept upon a local tax-base to underwrite its operations.
- 4.4 TfN’s approach to managing financial risk therefore has to rest on two pillars:
- a) A prudent risk culture that ensures TfN limits its exposure to financial risk arising from contracting and business operations; and
  - b) A prudent reserve strategy that ensures TfN always holds a level of cash at bank to guard against residual financial shock.

Practically, this means that TfN must work in collaboration with DfT and partners when entering into multi-year and high-risk transactions to ensure that the right balance of risk share is achieved.

- 4.5 It also means that TfN’s reserve strategy must be managed in conjunction with the use of the annual Core grant allocations. As Core grant is the only discretionary resource TfN holds that can fund expenditure, it follows that financial risk must primarily be managed through this resource.
- 4.6 Following discussions with the DfT when TfN was established as a statutory body, it was been agreed that TfN would target a core cash balance of *no less than* £2m to be held as a cash reserve in any given year.

- 4.7 The minimum of £2m was considered sufficient to allow for modest draws to be made in-year to meet un-budgeted opportunities that may arise, whilst also ensuring cash remained at bank to meet both unexpected costs and cash flow fluctuations.
- 4.8 From year to year, this reserve may be drawn upon in-year, or contributions made from surpluses, with adjustments being made in following years to replenish it. TfN accumulated General Reserves significantly in excess of this value during the period when it was being set up and mobilised as a statutory body.
- 4.9 During 2020/21 the Covid-19 pandemic, displacement of activity as a result of prioritising support for NPR and cost control measures put in place to address funding uncertainty meant that instead of declining by £1.4m to £5.1m as originally budgeted, TfN's forecast year-end General Reserves would have increased by the year-end to £9.5m. However, the in-year reduction in grant of £3m means that the total reserves (including the ear marked devolution reserve) will be £6.5m.
- 4.10 As a result of the pressures set out in 4.9, TfN is therefore faced with a significant quantum of activity that has had to be reprogrammed from 2020/21 into future years, principally in relation to the IPBA work that was delayed in Q1 of 2020/21 to allow the TAME team to focus on the NPR programme, but also in relation to work that has slipped from the final quarter of 2020/21 into 2021/22. This equates to £1.5m in total that will be funded from retained reserves.
- 4.11 In addition, the 40% cut to TfN's Core funding has created a significant challenge in relation to the delivery of ongoing activity, even when the mitigations set out above have been taken into account. The current high level of retained reserves in relation to the agreed minimum level provides TfN with the ability to sustain a run rate at levels above its Core funding allocation in the short- to medium-term. It was therefore agreed by the Board on 18 February that it would release £1.0m of reserves to support the delivery of TfN's ongoing activity in 2021/22.
- 4.12 These two reserve releases are still forecast to leave TfN with total Core Grant Reserves of £3.50m by the end of 2021/22, of which £3.50m will be General Reserve. At this level the Core Grant Reserves and the General Reserve equate to 66% and 58% of current annual Core funding respectively.
- 4.13 By the end of 2021/22, TfN should be able to assess its reserves strategy, including the required minimum, in the light of longer-term certainty as to its funding (through the expected 2021 CSR) and role.
- 4.14 This approach to TfN's medium-term financial strategy is predicated on the following approach to programme expenditure:

- a. Material programme activity will be resourced from specific grants
- b. Activity levels will be tailored to the funding available and any grant restrictions thereon
- c. Within each major grant allocation, an element will be held as 'contingency' to mitigate inherent risk

- 4.15 The principal variables to manage through the medium-term financial strategy are therefore around the Core grant activity, and in particular how to align the reserve strategy with business plans to allow key priorities to be resourced whilst managing inflationary pressures.
- 4.16 Transport for the North has previously created a Devolved Powers Reserve, an additional £0.5m of earmarked reserves, to support the development of future devolution proposals. This is likely to be a significant piece of work but is not sufficiently developed at this stage to be included in the budget proposals.
- 4.17 TfN proposes to draw £2.54m from the General Reserve in financial year 2021/22, based on a brought forward Core Grant Reserve balance of £6.54m. The following table highlights forecast core grant requirements, resource, and the associated requirements for reserve support:

Reserves	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
<b>General Reserve</b>				
Balance b/f	6.46	6.04	3.50	2.50
Draw	(0.42)	(2.54)	(1.00)	(1.00)
Contribution	0.00	0.00	0.00	0.00
<b>Balance c/d</b>	<b>6.04</b>	<b>3.50</b>	<b>2.50</b>	<b>1.50</b>
<b>Earmarked Devolved Powers</b>				
Balance b/f	0.50	0.50	0.50	0.50
Draw	0.00	0.00	0.00	0.00
Contribution	0.00	0.00	0.00	0.00
<b>Balance c/d</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>
<b>Total Core Grant Reserves</b>				
<b>Balance b/f</b>	<b>6.96</b>	<b>6.54</b>	<b>4.00</b>	<b>3.00</b>
Draw	(0.42)	(2.54)	(1.00)	(1.00)
Contribution	0.00	0.00	0.00	0.00
<b>Balance c/d</b>	<b>6.54</b>	<b>4.00</b>	<b>3.00</b>	<b>2.00</b>

- 4.18 Future year draws on the reserve may be affected by assumed pay and price inflation and also by one-off or cyclical development activity may be required.

- 4.19 On this current trajectory, TfN will encounter sustainability issues in the medium-term as the ability of the brought forward reserve to accommodate ongoing activity is placed under pressure. However, as noted in paragraph 3.20, 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 CSR.

## **5. Options Considered:**

- 5.1 This budget is informed by the TfN 2021/22 Business Plan. Amendments to the budget would require adjustments to the Business Plan.

## **6. Considerations:**

- 6.1 This draft budget report contains proposals on how to fund the 2021/22 Business Plan whilst maintaining financial stability.
- 6.2 The draft proposals include draws upon TfN's reserves.
- 6.3 This report asserts that the draft budget proposals are a prudent means of resourcing Business Plan priorities.

## **7. Appendices:**

- 7.1 5.1 – 2021-22 Budget Supporting Paper  
5.2 - Forecast Financial Position at 2020/21 Outturn  
5.3 – Annual Treasury Management Strategy Report  
5.4 – Annual Treasury Management Strategy

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**List of Background Documents**
**Required Considerations**

Please confirm using the yes/no options whether or not the following considerations are of relevance to this report.

**Equalities:**

Age	Yes	<b>No</b>
Disability	Yes	<b>No</b>
o/=Gender Reassignment	Yes	<b>No</b>
Pregnancy and Maternity	Yes	<b>No</b>
Race	Yes	<b>No</b>
Religion or Belief	Yes	<b>No</b>
Sex	Yes	<b>No</b>
Sexual Orientation	Yes	<b>No</b>

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

**Environment and Sustainability**

Yes	No
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<b>Consideration</b>	<b>Comment</b>	<b>Responsible Officer</b>	<b>Director</b>
Sustainability / Environment	A full impact assessment has not been carried out because it is not considered necessary for this report. Financial sustainability considerations are highlighted throughout the report.	Paul Kelly	Iain Craven

**Legal**

Yes	No
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<b>Consideration</b>	<b>Comment</b>	<b>Responsible Officer</b>	<b>Director</b>
Legal	Legal implications are covered within the report.		Julie Openshaw

### **Finance**

Yes	No
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<b>Consideration</b>	<b>Comment</b>	<b>Responsible Officer</b>	<b>Director</b>
Finance	The financial implications have been considered and are included in the report.	Paul Kelly	Iain Craven

### **Resource**

Yes	No
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<b>Consideration</b>	<b>Comment</b>	<b>Responsible Officer</b>	<b>Director</b>
Resource	Resource Planning is an integral element of the annual business planning process and resource plans for all business areas have been identified and agreed as part of this process. The net impact of the TfN's allocated budget for FY2021/22 and outcome of the business planning process is a reduction of 24 established posts (circa 15% reduction).	Stephen Hipwell	Dawn Madin

### **Risk**

Yes	No
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<b>Consideration</b>	<b>Comment</b>	<b>Responsible Officer</b>	<b>Director</b>
Risk	A risk assessment has been carried out and the key risks are included in the report.	Haddy Njie	Iain Craven

**Consultation**

Yes	No
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<b>Consideration</b>	<b>Comment</b>	<b>Responsible Officer</b>	<b>Director</b>
Consultation	A consultation has not been carried out because it is not considered necessary for this report.	Paul Kelly	Iain Craven