

# Transport for the North Board

**Subject:** Appendix 5.2: Forecast Financial Position at 2020/21  
Outturn

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**Meeting Date:** Wednesday 24 March 2021

## **1. Purpose of the Report:**

1.1 This appendix provides a brief summary of the forecast financial position of TfN as at the outturn of financial year 2020/21.

## **2. Executive Summary:**

2.1 TfN forecasts that over the course of financial year 2020/21 it will have incurred expenditure of £58.77m set against an opening committed budget (i.e. excl. contingency) of £65.78m, generating a £7.01m underspend.

2.2 TfN's performance against budget has been affected by four major factors in the year:

- i. the Covid-19 pandemic;
- ii. the funding uncertainty caused by the postponement of the original spending review and the subsequent late notification of its funding allocation for 2021/22;
- iii. delays to IST business case approvals and the subsequent decision to cease funding and therefore close down the IST programme; and
- iv. the need to focus TfN modelling resources on the NPR programme.

## **3. Budget Summary:**

3.1 TfN's gross budget for financial year 2020/21 was £88.05m, of which £22.27m was contingency. TfN monitors financial performance against the net budget – that is, the budget excluding contingency envelopes. The net budget for 2020/21 was £65.78m.

3.2 Over the course of the year TfN has formally revised its budget twice: after quarter 1, and again after quarter 2. A reforecast was also completed at the end of quarter 3, although that was not submitted for approval due to the timing and substance of the of the funding letter

received from DfT in January. A further reforecasting exercise was conducted in parallel to the 2021/22 budgeting exercise.

- 3.3 TfN's performance against budget has been affected by four major factors in the year:
- i. the Covid-19 pandemic;
  - ii. the funding uncertainty caused by the postponement of the original spending review and the subsequent late notification of its funding allocation for 2021/22;
  - iii. delays to IST business case approvals and the subsequent the decision to cease funding and therefore close down the IST programme; and
  - iv. the need to focus TfN modelling resources on the NPR programme
- 3.4 The move to full remote working shortly before the beginning of the financial year has directly driven cost reductions in several areas, including travel and stakeholder engagement. The pandemic has had a further impact on expenditure in a number of other areas, notably policy development and modelling and analysis where it has impacted on our ability to usefully undertake activity (for example work surveying travel patterns and customer experience has been deferred). Budget Revision 1 assumed a return to the office in the second half of the year. However, by Revision 2 it was accepted that this was unlikely until the new financial year.
- 3.5 TfN is constituted, and is required to function, as a standalone statutory entity. As members will be aware, TfN has no revenue raising powers, and is almost entirely funded by grants from DfT. Prior to the funding letter that was received at the beginning of January, TfN had very limited certainty with regard to its funding for the 2021/22 budget year. This impacted particularly on core funded activity, where TfN instituted a regime of cost control which reined back on commitments that ran into next year. In addition, a vacancy management process was put in place which resulted in c.15% of TfN posts being vacant by the end of the year.
- 3.6 The original budget included £1.15m for the completion in year of what is now the IPBA. This work was removed from Revision 1 as the decision was made that the TAME resources needed to deliver the assignment should focus on the modelling required to support the NPR programme.

3.7 The following table highlights these movements:

	Base £m	Forecast 1 £m	Forecast 2 £m	Outturn £m
Core Operations	8.19	8.51	7.21	5.68
Rail Operations	2.98	2.82	2.46	2.30
Strategic Development Corridors	1.15	0.07	0.06	0.06
NPR	43.78	47.31	47.62	42.02
IST	9.69	9.73	9.77	8.71
<b>Net total (excl contingency)</b>	<b>65.78</b>	<b>68.44</b>	<b>67.12</b>	<b>58.77</b>
Contingency	22.27	18.06	9.05	0.00
<b>Total</b>	<b>88.05</b>	<b>86.50</b>	<b>76.17</b>	<b>58.77</b>

- 3.8 The estimated net outturn of £58.77m is a shortfall of £7.01m compared to the original budget. This was caused by a number of underspends across Core activity (£2.43m), NPR (£1.76m), SDCs (£1.09m), IST (£0.97m) and Rail Operations (£0.67m). It is notable (as set out above) that the impact of Covid 19, funding uncertainty, and the need to focus on NPR fell most heavily on Core funded activity (including the SDC work).
- 3.9 At a gross level (i.e. including contingency), the reduction of £10.33m between Revision 1 and Revision 2 was principally due to 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 (£3.60m), NR Gap Analysis / Sequencing activity (£4.25m) and modelling (£0.65m). Whilst there was a marginal increase in committed NPR work, this was offset by reductions in the IST forecast as a result of delays to business case approvals.
- 3.10 The further gross reduction of £17.40m between the Revision 2 total and the estimated outturn position of £58.77m was also largely driven by NPR where, in addition to the removal of £3.83m of unrequired contingency there was also a £5.60m reduction in the committed budget for the work required (principally by NR) to deliver the SOC. This effect was exacerbated by further shortfalls of £1.45m in Core expenditure and £6.28m in IST, including £5.22m of contingency.
- 3.11 Changes to expenditure forecasts affect TfN's funding position. In the majority of cases, where TfN underspends against its budget its funding position is simply corrected by drawing down on less government grant. However, when underspend was due to be funded from TfN's Core Grant underspend will flow through to reserves. These reserves are then available for future deployment, being matched against slipped activity or deployed to meet anticipated shortfalls

between core expenditure (net of recharge to programmes) and funding allocations.

#### 4.0 Periods 1-10 Financial Performance

4.1 TfN's financial performance up to the end of January, measured against the original budget, is detailed below:

	Actuals	Budget	Variance	Variance
	£m	£m	£m	%
Integrated and Smart Ticketing	£8.20	£8.76	£0.55	6%
Northern Powerhouse Rail	£34.00	£35.60	£1.61	5%
Strategic Development Corridors	£0.04	£0.70	£0.66	94%
<b>Programmes</b>	<b>£42.24</b>	<b>£45.05</b>	<b>£2.81</b>	<b>6%</b>
Rail Operations	£1.99	£2.51	£0.52	21%
Operational Areas	£4.37	£6.44	£2.07	32%
	<b>£48.60</b>	<b>£54.01</b>	<b>£5.41</b>	<b>10%</b>

4.2 Over the year to-date a number of issues have been prevalent. These include:

- Underspend on the IST programme due to delays to business case approvals and the subsequent decision to wind down the programme.
- Underspend on the NPR programme with revised forecasts from Network Rail received and a level of uncertainty pending the publication of the Integrated Rail Plan.
- The deferral of the IPBA work.
- A number of areas of savings and slippage in operational areas both as a result of the on-going pandemic and funding uncertainty following the postponement of the comprehensive spending review.

#### 5.0 Forecast Financial Position to Outturn

5.1 TfN forecasts that it will incur expenditure totalling £58.77m to the end of financial year 2021/22.

5.2 Set against the opening base net budget, exclusive of contingency, this represents an underspend of £7.01m:

5.3

	Outturn £m	Base £m	Variance £m	Variance %
<b>Programmes:</b>				
IST	8.71	9.69	(0.97)	(10%)
NPR	42.02	43.78	(1.76)	(4%)
Strategic Development Corridors	0.06	1.15	(1.09)	(95%)
	50.79	54.62	(3.82)	(7%)
Rail Operations	2.30	2.98	(0.68)	(23%)
Operational Areas	5.68	8.19	(2.51)	(31%)
<b>Total</b>	<b>58.77</b>	<b>65.78</b>	<b>(7.01)</b>	<b>(11%)</b>

#### **Integrated and Smart Programme**

5.4

	Outturn £m	Base £m	Variance £m	Variance %
<b>Integrated &amp; Smart Ticketing</b>				
Phase 1	4.76	3.49	1.27	36%
Phase 2	1.94	2.66	(0.72)	(27%)
Phase 3	0.12	0.94	(0.82)	(87%)
Phase 4	0.22	0.93	(0.71)	(76%)
IST Programme Support	1.67	1.66	0.01	1%
	<b>8.71</b>	<b>9.69</b>	<b>(0.97)</b>	<b>(10%)</b>

5.5 The IST programme's base budget, excluding contingency, was set at £9.69m. This comprised £4.04m of capital activity - for the completion of Phases 1 and 2 - and £5.64m of revenue activity. Revenue activity included operational costs in relation to Phases 1 and 2, IST programme support and the development of Phases 3 and 4 to progress to Department for Transport business case gateway approval. Forecasts to outturn indicate expenditure of £8.71m on the programme, generating an underspend of £0.97m.

5.6 Phase 1 overspend reflects slippage of costs from the previous financial year, notably as a result of delays to the installation of platform validators in support of the ITSO on Rail scheme. This was reflected by an increase in the Phase 1 budget at Revision 1. Although delivery is substantially complete, some residual activity will complete in the first quarter of financial year 2021/22.

5.7 Phase 2 underspend has been driven by savings in the development of the Fares and Disruption Messaging tools and the Open Data Hub. Further enhancements to these tools were proposed as part of TfN's

spending review submission. However, these will not be taken forward as a result of the withdrawal of funding for the programme.

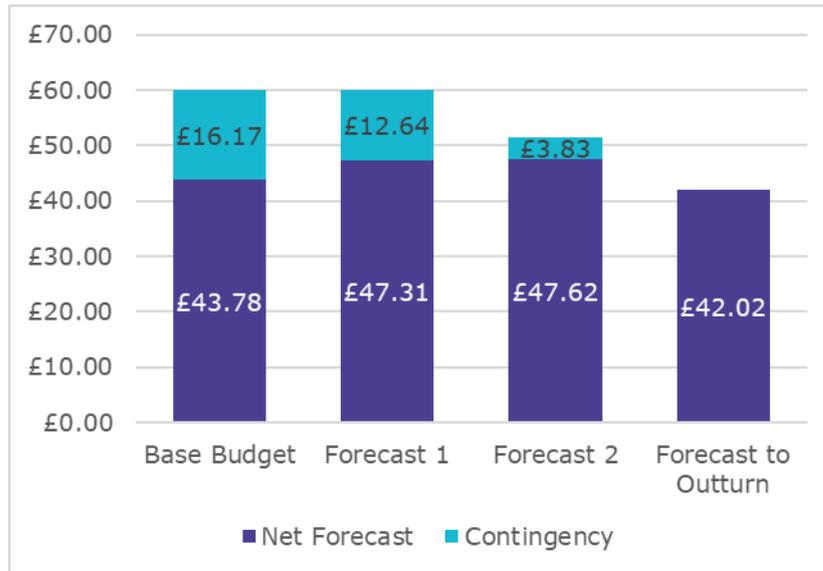
- 5.8 Phase 3 and 4 underspends reflect delays and uncertainty in the progress of these projects. Although business cases were prepared in quarter 1, their review at IPDC was initially postponed until after the planned spending review. Ultimately the absence of any future funding led to the wind down of this activity.
- 5.9 Expenditure on IST programme support is marginally over budget as the pause and subsequent wind down of Phases 3 and 4 has meant a reduced allocation of programme resources to these phases.

### **NPR Programme**

5.10

<b>Northern Powerhouse Rail</b>	<b>Outturn</b>	<b>Budget</b>	<b>Variance</b>	<b>Variance</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>
NPR Team	3.41	3.59	(0.18)	(5%)
NPR Stakeholder Engagement	0.03	0.34	(0.30)	(90%)
Modelling & Economic Appraisal	4.02	5.68	(1.66)	(29%)
Rail Studies	34.56	34.17	0.38	1%
	<b>42.02</b>	<b>43.78</b>	<b>(1.76)</b>	<b>(4%)</b>

- 5.11 The NPR Programme started the year with a total allocation of £59.95m, which included a base budget of £43.78m, supplemented with additional uncommitted contingency of £16.17m, both to manage inherent contracting risk and to respond to emerging priorities. The outturn forecast indicates that the programme will incur total expenditure of £42.02m, generating an underspend of £1.76m.
- 5.12 Funding made available for the NPR Programme consisted of £0.95m of TfN Core grant and a £59m allocation from the Transport Development Fund (TDF). TDF funding is subject to prior departmental budget holder approval of all expenditure requests by TfN.



- 5.13 At Revision 1 the budget was flexed to reflect the latest Network Rail forecast, using capacity from the uncommitted contingency.
- 5.14 The £8.50m reduction in the gross total between Revision 1 and Revision 2 was principally due to the deferral expenditure into 2021/22 that was previously identified as specific contingency for activity that was intended to be carried out in 2020/21. This included amounts for ground investigation works (£3.60m), NR Gap Analysis / Sequencing activity (£4.25m) and modelling (£0.65m). At the same time, the committed budget was increased in line with estimates for the work required for the completion of the SOC.
- 5.15 The further reduction of £9.43m between the Revision 2 total and the estimated outturn position of £42.02m was due to the removal of unrequired contingency as well as significant reduction in the work required by NR in order to deliver the SOC.
- 5.16 Revised forecasts received from Network Rail after the submission of Revision 2 reflected a reduced level of expenditure. Modelling expenditure has also been impacted by the on-going pandemic, with the Northern Rail Travel Survey and Customer Experience work being deferred. Limited commitment was received from the department to support the delivery of communication activity.
- 5.17 TfN communicated revised NPR forecasts to DfT at mid-year and has provided revised outturn forecasts through NPR Programme board reporting and quarterly funding letters, allowing surplus funding to be redeployed at the Department's discretion in-year.

### **Strategic Development Corridor Programme**

- 5.18 The reduced outturn position reflects the delay of IPBA activity into 2021/2022. This was the result of a prioritisation decision taken to allow the TAME team to focus on providing support to the NPR programme.

### **Rail Operations**

5.19	<b>Rail Operations</b>	<b>Outturn</b>	<b>Base</b>	<b>Variance</b>	<b>Variance</b>
		<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>
	Strategic Rail Team	1.02	1.39	(0.36)	(26%)
	Rail North Partnership Team	1.27	1.59	(0.31)	(20%)
		<b>2.30</b>	<b>2.98</b>	<b>(0.68)</b>	<b>(23%)</b>

5.20 The base budget for Rail Operations included additional resources to deliver the Blake Jones recommendations across both teams. These roles were subject to additional funding that was not forthcoming in 2020/21. This resulted in underspends of £0.2m in Rail North Partnership and £0.07m Strategic Rail as incremental resource was not funded and therefore not recruited. The remaining variances reflect vacant roles in the current team structure.

### **Core Operations**

5.21 TfN's core operations areas cover the back, front, and middle office teams familiar to any public body. They include the teams that allow TfN to discharge on its statutory obligations in relation to good governance and the sound-stewardship of public funds, along with the policy and strategy teams that help shape TfN's activity and its commitment to evidence-based decision making, and the communications and engagement teams that allow TfN to speak with one voice on behalf of the North.

5.22 The opening base budget for these teams stood at £8.19m (net) for the year after forecast recharges into programmes of £1.00m.

5.23 Savings have been made over the course of the year because of Covid-19 and the uncertainty around funding. Staff and staff related costs are down £1.0m against base budget (predominantly due to unfilled vacancies) and savings have been made on travel (£0.14m), stakeholder engagement activities (£0.22m) and building maintenance/ICT upgrades (£0.1m) as a consequence of remote working. A number of research projects were delayed and reduced in scope (£0.2m budget reduction) plus expenditure on system development has not been incurred (£0.3m).

- 5.24 It is now forecast that the Operations areas will incur net expenditure of £5.70m, generating an underspend of £2.49m against base budget:

<b>Operational Areas</b>	<b>Outturn £m</b>	<b>Base £m</b>	<b>Variance £m</b>	<b>Variance %</b>
Leadership	0.30	0.32	(0.02)	(5%)
Finance	0.87	1.35	(0.47)	(35%)
Business Capabilities	2.62	3.78	(1.16)	(31%)
Programme Management Office	0.16	0.32	(0.17)	(51%)
Strategy & Policy	2.26	2.70	(0.44)	(16%)
Major Roads	0.49	0.73	(0.24)	(33%)
<b>Total Expenditure</b>	<b>6.70</b>	<b>9.19</b>	<b>(2.49)</b>	<b>(27%)</b>
Recharges to Programmes	(1.00)	(1.00)	0.00	(0%)
<b>Net Expenditure</b>	<b>5.70</b>	<b>8.19</b>	<b>(2.49)</b>	<b>(30%)</b>

Underspends are apparent across all of TfN's operational areas driven by the factors set out above.

- 5.25 The underspend within Finance (£0.47m) predominantly relates to proposed development of the Enterprise Resource Planning (ERP) system. This work was intended to enable both the provision of improved management information and enhanced functionality to support growing programmes. This work was put on hold in light of uncertainties around IST and TfN funding more widely during the year. A further £0.1m relates to savings made on the flexitime module.
- 5.26 Much of the underspend in Business Capabilities reflects savings made this year from the change in working practices (as a result of Covid restrictions) and reduced recruitment activity (due to vacancy management). This is mainly seen within HR (£0.3m – predominantly savings on recruitment fees and staff travel passes) and Stakeholder Engagement (£0.3m – representing reduced physical events and two unfilled posts). In addition, there were Accommodation cost savings of £0.2m from one unfilled post and reduced premises costs, and deferred costs of £0.1m for IT infrastructure upgrades and enhancements.
- 5.27 The underspend in Programme Management Office represents unfilled posts, principally the Head of the function.
- 5.28 There has been less activity within Strategy & Policy, with projects delayed or reduced in scope due to Covid restrictions (external consultancy expenditure was £0.2m lower than base budget). In addition, the prioritisation of the NPR SOC work has meant deferral of costs allocated to support Rail North activities (£0.2m) and led to the postponement of the IPBA. The Head of Modelling role has remained unfilled for part of the year, contributing £0.08m to the underspend.
- 5.29 The Major Roads underspend primarily relates to procurement delays of Mobile Device Data, resulting in slippage of £0.14m into 2021/22, and a

provision of £0.06m to work with Highways England that was not used. The remaining variance is due to a slippage of costs (£0.05m) associated with production of the updated Major Roads report (completion delayed awaiting sign off of TfN's Decarbonisation Strategy and the publication of the Government's Transport Decarbonisation strategy).

## 6.0 Funding

6.1 TfN will resource its forecast expenditure of £58.77m from a mixture of grant, contributions, and contracted income.

6.2 Variances between the planned use of resources compared to forecast outturn partly reflects the variances in expenditure. However, the reduction in Core funding and wind down of IST activities has also impacted on expenditure:

6.3

<b>Funding</b>	<b>Outturn £m</b>	<b>Base £m</b>	<b>Variance £m</b>	<b>Variance %</b>
IST Grant	8.71	9.69	(0.97)	(10%)
TDF Grant (NPR)	41.07	42.83	(1.76)	(4%)
Core Grant	7.00	10.00	(3.00)	(30%)
Rail North Grant & Contribution	1.30	1.62	(0.32)	(20%)
Contracted Income	0.26	0.36	(0.09)	(26%)
Reserves	0.42	1.29	(0.87)	(67%)
	<b>58.77</b>	<b>65.78</b>	<b>(7.02)</b>	<b>(11%)</b>

6.4 The implications of underspend against grant envelopes varies by funding stream are as follows:

- IST grant will be used to fund the wind down of the programme and the residue returned to the department.
- TDF grant is made available on an annual basis and awarded on a "need" basis with unused allocations being redeployed at the Department's discretion in-year.
- Rail North grant is received in full by TfN each year with unused amount held for future use as grant-unapplied.
- Core grant is received in full by TfN each year with unused resource flowing through to the Core Grant Reserve.

6.5 The budgeted and actual movements in TfN's Core reserves in year are as follows with underspends described above:

<b>Core Grant Reserves</b>	<b>Outturn £m</b>	<b>Base £m</b>	<b>Variance £m</b>
Reserve b/f	6.96	6.47	0.49
Draw	(0.42)	(1.29)	0.87
Contribution	0.00	0.00	0.00
<b>Reserve c/d</b>	<b>6.54</b>	<b>5.18</b>	<b>1.36</b>

**7.0 Recommendation:**

7.1 That the TfN Board notes the estimated outturn position for 2020/21.