TRANSPORT FOR THE NORTH

Audit and Governance Committee – Item 5

Subject: Financial Outturn 2020/21

Author: Paul Kelly, Financial Controller

Sponsor: Iain Craven, Finance Director

Meeting Date: Thursday 10 June 2021

1. Purpose of the Report:

1.1 This report details the financial outturn of TfN for the financial year 2020/21 and provides a summary of the draft balance sheet as at 31 March 2021.

2. Executive Summary:

2.1 Over the course of the financial year 2020/21 TfN incurred expenditure of £57.83m set against an opening committed budget (i.e. excluding contingency) of £65.78m, generating a £7.95m underspend.

2.2 TfN's performance against budget was 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.

2.3 In its correspondence of 4 January 2021, the Department of Transport set out TfN's funding envelope for 2021/22 and also reduced the in-year core grant allocation from £10m to £7m.

2.4 The core funded expenditure for the year reported in the March 2021 Monthly Operating Report was £7.26m. Subsequent analysis post year-end led to a reallocation between Core and Rail North Partnership funding which resulted in an increase of £0.03m to £7.29m.

3. Outturn and comparison to budget:

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 programme contingency envelopes. The net budget for 2020/21 was £65.78m.

3.2 Over the course of the year TfN 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 funding letter received from DfT in January 2021. A further reforecasting exercise was conducted in parallel with the 2021/22 budget process.

3.3 TfN's performance against budget was 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 directly drove cost reductions in several areas, including travel and stakeholder engagement. The pandemic had a further impact on expenditure during the year in a number of other areas, notably policy development and modelling and analysis where it impacted on our ability to usefully undertake activity (for example work surveying travel patterns and customer experience was 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 commitments that ran into 2021/22. 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 quantitative assessment work on the Strategic Development Corridors (what is now known as the Investment Programme Benefits Analysis or

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	Rev 1 £m	Rev 2 £m	Outturn £m
Programmes:				
Northern Powerhouse Rail	43.78	47.31	47.62	41.59
Strategic Development Corridors	1.15	0.07	0.06	0.06
Integrated & Smart Ticketing	9.69	9.73	9.77	8.39
	54.62	**57.11**	**57.46**	**50.04**
Rail Operations	2.98	2.82	2.46	2.22
Operational Areas	8.19	8.51	7.20	5.57
Total Net expenditure	**65.79**	**68.44**	**67.12**	**57.83**
Contingency	22.27	18.06	9.05	0.00
Total	**88.06**	**86.50**	**76.17**	**57.83**

3.8 The net outturn of £57.83m is a shortfall of £7.95m compared to the original budget. This was caused by a number of underspends across operational areas (£2.62m), NPR (£2.19m), SDCs (£1.09m), IST (£1.3m) and Rail Operations (£0.76m). 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), Network Rail (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 and the subsequent withdrawal of programme funding.

3.10 The further gross reduction of £18.34m between the Revision 2 total and the outturn position of £57.83m was also largely driven by NPR where, in addition to the removal of £3.83m of unrequired contingency, there was also a £6.03m reduction in the committed budget for the work required (principally by NR) to deliver the SOC. This effect was exacerbated by further shortfalls of £1.63m in operational areas and £6.6m 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 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.

3.12

Comparison to Net Budget	Outturn £m	Budget £m	Variance £m	Variance %
Programmes:				
Northern Powerhouse Rail	41.59	43.78	(2.19)	(5%)
Major Roads	0.06	1.15	(1.09)	(95%)
Integrated & Smart Ticketing	8.39	9.69	(1.30)	(13%)
	50.04	**54.62**	**(4.58)**	**(8%)**
Rail Operations	2.22	2.98	(0.75)	(25%)
Operational Areas	5.57	8.19	(2.62)	(32%)
	57.83	**65.78**	**(7.95)**	**(12%)**

Integrated and Smart Programme

3.13

IST	Outturn £m	Base £m	Variance £m	Variance %
Phase 1	4.55	3.49	1.06	30%
Phase 2	1.93	2.66	(0.73)	(27%)
Phase 3	0.12	0.94	(0.82)	(87%)
Phase 4	0.22	0.93	(0.71)	(76%)
Programme	1.57	1.66	(0.09)	(6%)
	8.39	**9.69**	**(1.29)**	**(13%)**

3.14 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. Outturn expenditure of £8.39m generated an underspend of £1.29m.

3.15 The overspend on Phase 1 reflects the slippage of costs from the final months of 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.

3.16 Phase 2 underspend was 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.

3.17 Phase 3 and 4 underspends resulted from 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.

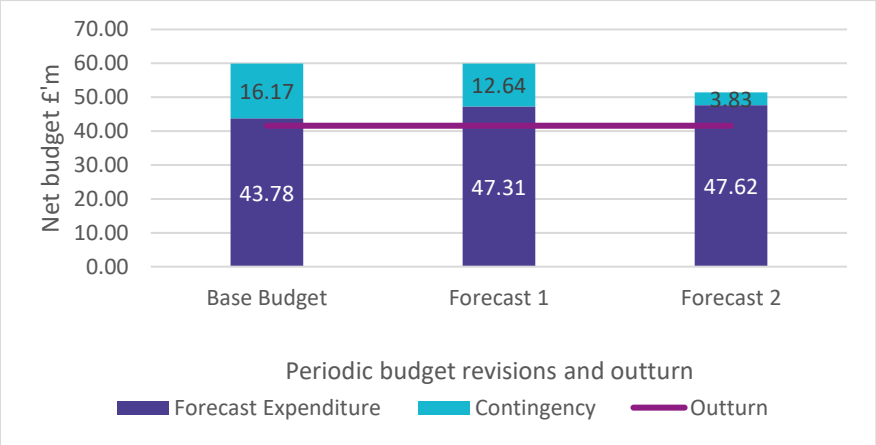
NPR Programme

3.18

NPR	Outturn £m	Base £m	Variance £m	Variance %
Network Rail (DSA)	26.69	26.40	0.29	1%
Programme Development	7.74	7.77	(0.03)	(0%)
TAME	3.82	5.68	(1.86)	(33%)
Programme Support	3.34	3.59	(0.25)	(7%)
NPR Stakeholder Engagement	0.00	0.34	(0.34)	(100%)
	41.59	**43.78**	**(2.19)**	**(5%)**

3.19 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 position of £41.59m generated an underspend of £2.19m.

3.20 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.



3.21 At Revision 1 the budget was flexed to reflect the latest NR forecast, using capacity from the uncommitted contingency.

3.22 The £8.50m reduction in the gross total between Revision 1 and Revision 2 was principally due to the deferral of 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.

3.23 The further reduction of £9.86m between the Revision 2 total and the final outturn position of £41.59m 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.

3.24 Revised forecasts received from Network Rail after the submission of Revision 2 reflected a reduced level of expenditure. Modelling expenditure was also impacted by the on-going pandemic, with the Northern Rail Travel Survey and Customer Experience commissions being deferred. Limited commitment was received from the department to support the delivery of communication activity.

3.25 TfN communicated revised NPR forecasts to DfT at mid-year and 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

3.26 The reduced outturn position reflects the delay of Strategic Development Corridor (now called 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

3.27

	Outturn £m	Base £m	Variance £m	Variance %
Strategic Rail	1.07	1.39	(0.32)	(23%)
Rail North Partnership	1.15	1.59	(0.44)	(28%)
	2.22	**2.98**	**(0.76)**	**(25%)**

3.28 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 being received from DfT that was not forthcoming in 2020/21. This resulted in underspends of £0.2m in Rail North Partnership and £0.07m in Strategic Rail as the incremental resource was not funded and therefore not recruited. The remaining variances reflect vacant roles in the current team structure.

Core Operations

3.29 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 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.

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

3.31 Savings were made over the course of the year as a result of Covid-19 and the uncertainty around funding. Staff and staff related costs were £1.0m lower than the base budget (predominantly due to unfilled vacancies) and savings were 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 (£0.32m) plus expenditure on system development has not been incurred (£0.3m).

3.32 In total, therefore, the operational areas incurred net expenditure of £5.57m, generating an underspend of £2.63m against base budget:

	Outturn £m	Base £m	Variance £m	Variance %
Leadership	0.30	0.32	(0.02)	(6%)
Finance	0.87	1.35	(0.48)	(36%)
Business Capabilities	2.62	3.78	(1.16)	(31%)
Programme Management Office	0.16	0.32	(0.16)	(51%)
Strategy & Policy	2.14	2.70	(0.56)	(21%)
Major Roads	0.48	0.73	(0.25)	(34%)
Total Expenditure	**6.57**	**9.20**	**(2.63)**	**(29%)**
Recharges to Programmes	(1.00)	(1.00)	-	0%
Net Expenditure	**5.57**	**8.20**	**(2.63)**	**(32%)**

3.33 Underspends were apparent across all of TfN's operational areas driven by the factors set out below.

3.34 The underspend within Finance (£0.48m) predominantly related 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 of savings were made in relation to the flexitime module.

3.35 Much of the underspend in Business Capabilities reflected savings made 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.

3.36 The underspend in the Programme Management Office represents unfilled posts, principally the Head of the function.

3.37 There was less activity within Strategy & Policy, with projects delayed or reduced in scope due to Covid restrictions (external consultancy expenditure was £0.32m lower than base budget). In addition, the prioritisation of the NPR SOC work 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.

3.38 The Major Roads underspend primarily relates to procurement delays of Mobile Device Data, which resulted in slippage of £0.14m into 2021/22, and a provision of £0.06m for 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).

4.0 Funding

4.1 TfN resourced its forecast expenditure of £57.83m from a mixture of grant, contributions, and contracted income.

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

4.3

Funding	Outturn £m	Base £m	Variance £m	Variance %
Core Grant	7.00	10.00	(3.00)	(30%)
IST Grant (Capital & Revenue)	8.39	9.69	(1.30)	(13%)
Transport Development Fund - Rail (NPR)	40.64	42.83	(2.19)	(5%)
Rail North Grants & Contributions	1.27	1.62	(0.35)	(22%)
Contracted Income	0.24	0.36	(0.12)	(33%)
Core Reserves	0.29	1.29	(1.00)	(77%)
	57.83	**65.79**	**(7.96)**	**(12%)**

4.4 The implications of underspend against grant envelopes varies by funding stream 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 returned or redeployed at the Department's direction.
- Rail North grant is received in full by TfN each year, with unused amounts 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.

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

Core Grant Reserves	Outturn £m	Base £m	Variance £m
Reserve b/f	6.96	6.47	0.49
Draw	(0.29)	(1.29)	1.00
Reserve c/d	**6.67**	**5.18**	**1.49**

4.6 The final draw on reserves was £0.13m lower than the forecast outturn reported when the 2021/22 budget was submitted for approval. The majority of this movement (£0.09m) is a result of savings and overlap with activity budgeted for 2021/22. A smaller element (£0.04m) relates to slippage that will be built into Budget Revision 1 and submitted to the Board in July.

5.0 Balance Sheet and Reserves

Reserves and Grants Unapplied

5.1 At the year-end TfN had not applied all the grants that had been received over the course of the year. Dependent on the conditions placed on those grants, TfN holds unused allocations as either:

- Grants received in advance - noting that there are restrictions on these grants that mean they may have to be returned to the Department for Transport if not used.
- Grants Unapplied - this is a reserve for capital grants where conditions of use have been met but the resource has not yet been applied to meet expenditure.
- Earmarked Revenue Reserves - this is a reserve for revenue grants that may only be applied to specific expenditure where conditions of use have been met but the resource has not yet been applied to meet expenditure.
- General Fund Reserves - this our general reserve where revenue grant without restrictions on usage is held - in practice, this is where we hold unused allocations of our Core Grant.

5.2 As at the year-end, unapplied grants held in this manner are as follows:

	2020/21 £m
Revenue Grants Received in Advance	
- Transport Development Fund - Road	0.01
	0.01
Usable Reserves	
Capital Grants Unapplied	**0.28**
- General Fund Reserves	6.17
- Earmarked: Devolved Powers	0.50
- Earmarked: IST Grant	1.25
- Earmarked: RNP Grant	0.03
Total Usable Reserves	**8.23**
Total Resource	**8.52**

5.3 These grants will be applied to expenditure in 2021/22 and future accounting periods where possible or be returned to the DfT if the grant conditions require us to do so.

5.4 The Core Grant allocations held in our General Fund Reserve provide the basis for our medium-term financial plan, enabling both an ongoing draw on that resource, as per the 2021/22 Budget Report, to support key development aspirations and underpinning our risk mitigation around our sensitivity to financial shock.

5.5 The 2021/22 budget included a draw on reserves of £2.54m during the year, resulting in forecast closing reserves at 31 March 2022 of £4m. Since that budget was set, closing reserves at 31 March 2021 were £0.13m higher due to slippage, savings and the RNP / core grant reallocation referred to earlier. Slippage of £0.04m is expected to be built into the budget at Budget Revision 1 with the net savings £0.09m flowing to Core Grant reserves.

Balance Sheet

5.6 As at the financial year-end, TfN's un-audited balance sheet recognised these grants and reserves along with working capital.

5.7 The balance sheet also includes several items required to be shown under international accounting standards, including a provision for untaken leave and specific accounting around pensions liabilities.

5.8 The balance sheet can be summarised as follows:

Balance Sheet 2020/21	**£m**		**£m**
Assets		**Reserves**	
Cash & Equivalents	18.02	Unusable Reserves	
Intangible Asset	0.00	Absence Reserve	0.24
Debtors	0.50	Capital Adjustment Account	-
	18.53	Pension Reserve	11.89
Liabilities			**12.13**
Provisions	(0.07)	Usable Reserves	
Grants Received in Advance	(0.01)	Capital Grants Unapplied	(0.28)
Pension Liability	(11.89)	Earmarked IST Grant	(1.25)
Creditors	(10.47)	Earmarked RNP Grant	(0.03)
		Devolved Powers Reserve	(0.50)
		General Fund Reserve	(6.17)
	(22.43)		**(8.23)**
Net Liabilities	**(3.91)**	**Reserves**	**3.91**

5.9 The main movements between the balance sheet at March 2020 and March 2021 relate to the treatment of IST Phase 2 intangible assets and the increased pension liability. These two movements taken together,

and in particular the magnitude of the pension liability, result in a net liability overall.

5.10 In its correspondence of 4 January 2021, the Department of Transport advised the cessation of funding for the IST programme. As a consequence of this decision, TfN was unable to carry these assets for future use and they were impaired in the year. This, coupled with the third and final year of amortization of the ERP system, results in there being no intangible assets at 31 March 2021. The proposed treatment is subject to the external audit that is due to commence on 7 June 2021.

5.11 TfN's creditor balance of £10.46m was elevated at year end by the reclassification of £3.48m of grants relating to the IST programme that were previously held as "received in advance" and will now need to be repaid. A further £0.52m of NPR related TDF that was unused in 2020/21 is also included.

5.12 The pension liability has increased as a result of applying the International Accounting Standard (IAS 19) for pension valuation. IAS19 requires that the scheme assets and liabilities are valued at the balance sheet date with reference to specific inflation and discount factors (the latter linked to corporate bond yields) as detailed below. These drivers, when applied to the profile of TfN's pension commitments, have resulted in a £5.81m increase in the pension liability recognised at 31 March 2021. These are accounting adjustments and reflective of being compliant with the standard and should be considered alongside the triannual actuarial valuation around contribution rates referenced above.

5.13 Inflation and discount factors

	31 March 2021	31 March 2020
	% per annum	% per annum
Pension Increase Rate (CPI)	2.80	1.80
Salary Increase Rate	3.55	2.60
Discount Rate	2.05	2.30

5.14 The triannual actuarial valuation undertaken in 2019 indicated that TfN was making appropriate contributions to the pension fund to meet its future liabilities. Discussions with GMPF have indicated that this is likely still to be the case. A slide pack that will be discussed at the meeting has been included at Appendix 5.1.

6.0 Recommendation:

6.1 That the committee notes:

- the outturn position for 2020/21 and the potential for accommodating slippage from 2020/21 into the revised forecast for 2021/22; and
- the draft balance sheet and reserves at 31 March 2021 and the material movements in the year.

TRANSPORT FOR THE NORTH

List of Background Documents:

Appendix 5.1 – Pension Update.

Required Considerations

Equalities:

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

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

Environment and Sustainability

~~Yes~~	No

Consideration	Comment	Responsible Officer	Director
Sustainability / Environment – including considerations regarding Active Travel and Wellbeing	A full impact assessment has not been carried out because it is not required for this paper.	Paul Kelly	Iain Craven

Legal

Yes	No

Consideration	Comment	Responsible Officer	Director
Legal	The legal implications have been considered		Julie Openshaw

	and are included in the report.		

Finance

Yes	~~No~~

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

Resource

~~Yes~~	No

Consideration	Comment	Responsible Officer	Director
Resource	There are no direct resource implications because of this report.	Stephen Hipwell	Dawn Madin

Risk

~~Yes~~	No

Consideration	Comment	Responsible Officer	Director
Risk	There are no material risks associated with this 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 for this report.	Paul Kelly	Iain Craven