

**Meeting:** Transport for the North Chief Executive Consultation Call (Board)

**Subject:** Budget Revision 1

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**Meeting Date:** Tuesday, 27 July 2021

**1. Purpose of the Report:**

1.1 This report:

- i) details the financial position of TfN for the quarter to 30 June 2021
- ii) provides a reforecast of the 2021/22 budget, taking into account the latest delivery and programme information
- iii) provides information regarding budget virements, as set out in the 2021/22 Budget report.

**2. Executive Summary:**

2.1 Over the three-month period to June 2021 (Q1), TfN incurred expenditure of £14.51m, which was £0.70m (5%) below budget. The key elements that make up this variance are set out in section 3.

2.2 The committed (net) Revision 1 Budget will remain at £60.18m.

2.3 The following table summarises the 2021/22 Budget and Revision 1. Whilst there have been movements between the Rail and Operational areas (and within Core funded budget lines) the overall Revision 1 forecast for committed expenditure remains consistent with the original 2021/22 Budget.

	<b>21/22 Revision 1</b>	<b>21/22 Budget</b>	<b>Var.</b>	<b>Var.</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>
<b>Programmes:</b>				
Northern Powerhouse Rail	48.48	48.48	-	-
IPBA	0.89	0.89	-	-
Integrated & Smart Ticketing	1.52	1.52	-	-
	<b>50.90</b>	<b>50.90</b>	-	-
Rail Operations	3.19	3.16	(0.03)	(1%)
Operational Areas	6.10	6.13	0.03	1%
<b>Committed (Net) Budget</b>	<b>60.18</b>	<b>60.18</b>	-	-
NPR Contingency	4.09	18.52	(14.43)	(78%)
Gross Budget	64.27	78.70	(14.43)	(18%)

- 2.4 TfN approved its 2021/22 Budget at the TfN Board meeting on 24 March 2021. The net budget, against which TfN will monitor performance, was set at £60.18m. The addition of NPR contingency of £18.52m produced a gross budget of £78.70m. It was noted in the budget report that the ongoing uncertainties around the Integrated Rail Plan (IRP) for the North and Midlands and the normal departmental approvals required for any commitment, meant that it was not possible to be certain as to the extent of any draw down on these contingent funds. It was expected that this budget would be periodically updated over the course of the year.
- 2.5 Whilst TfN had understood that there was a reasonable possibility that the IRP might be published in July, we learned on 19 July (the day that 27 July Board reports were issued) that it would be delayed into the autumn.
- 2.6 As set out in section 4, the NPR contingency has been reduced by £14.43m from £18.52m to £4.09m, resulting from the impact of the original IRP delay to July. Consequentially, the overall gross budget for the year has been reduced from £78.70m to £64.27m. The impact that the further delay to the IRP will have on the programme (most likely in the form of further reductions in activity and therefore committed and contingency budgets) will be considered and reported once sufficient clarity regarding the IRP has been achieved – at the latest this should be at Budget Revision 2. A further verbal update will be provided at the 27 July Board, although it is unlikely given ongoing uncertainty in relation to the IRP that this will be definitive.
- 2.7 The programme team has produced estimates of the impact of further delays to the IRP. These are dependent on both the timing and the content of the document – the former because that impacts upon the amount of time left in the financial year to act upon its direction, the latter because of the potential time it takes to review the document and agree a course of action based upon its recommendations. Clearly the further the IRP recommendations are from TfN’s proposed network, the more challenging it will be to quickly agree on a downstream work programme. As an indication, and assuming that TfN is allowed by the department in the meantime to proceed with the “no regrets” activities that were included in the original budget, it is estimated that a delay of the IRP until November might result in a c.£5m shortfall against the committed budget.

### **3. Financial Summary: year-to-date 30 June 2021**

- 3.1 The table below summarises the three-month period ending June 2021. As noted in para 2.3, TfN monitors performance against its committed (net) budget.

	21/22 YTD Actual	21/22 YTD Budget	Var. £m	Var. %
	£m	£m	£m	%
<b>Programmes:</b>				
Northern Powerhouse Rail	11.30	11.50	0.20	2%
IPBA	0.21	0.24	0.03	14%
Integrated & Smart Ticketing	0.91	1.12	0.21	23%
	<b>12.41</b>	<b>12.86</b>	<b>0.44</b>	<b>4%</b>
Rail Operations	0.58	0.67	0.09	16%
Operational Areas	1.52	1.68	0.16	10%
	<b>14.51</b>	<b>15.21</b>	<b>0.70</b>	<b>5%</b>

### **Programme Areas**

#### **Northern Powerhouse Rail (NPR)**

- 3.2 Year-to-date expenditure of £11.30m is £0.20m (2%) below budget. Ground investigations work is running slightly ahead, offset by marginal shortfalls in a number of areas caused by activity being delayed due to the IRP and vacancies in the TAME team.

#### **Investment Programme Benefits Analysis (IPBA)**

- 3.3 Year-to-date expenditure of £0.21m is £0.03m (12%) behind budget. This is considered to be a timing difference, and it is expected that this shortfall will be recovered in the next quarter.

#### **Integrated and Smart Travel (IST)**

- 3.4 The year-to-date costs incurred to close down the IST programme are £0.91m, £0.21m (19%) behind budget. Most of the internal costs of closing down the programme have now been recognised, but it is taking longer than expected to obtain final Phase 1 costings from the TOCs. It is likely that the final costs will be marginally below budget, with any savings being passed back to DfT per the grant conditions.

### **Operations**

#### **Rail Operations**

- 3.5 Year-to-date expenditure was £0.58m, £0.09m (16%) behind budget. The underspend is driven by vacancies in the RNP and TRU teams, where roles are funded from discrete grant, and the vacant IST role (in the Strategic Rail team), which is funded from core budget. An appointment for the IST role has now been made.

## Operational Areas

- 3.6 Year-to-date expenditure was £1.52m, £0.16m (11%) behind budget. However, a sizeable proportion of this underspend was made up of one-off items impacted by the ongoing effects of the pandemic – notably £0.10m for works to TfN offices to make the Manchester and Leeds sites Covid compliant (including additional equipment to support hybrid working of TfN’s geographically dispersed workforce) and £0.02m for conferences - that are already being delivered.

## 4.0 Budget Revision 1

- 4.1 The table below summarises the reforecast of committed (net) budgets, with contingency separately disclosed. The overall committed budget will be retained at £60.18m.

	21/22 Revision 1	21/22 Budget	Var.	Var.
	£m	£m	£m	%
<b>Programmes:</b>				
Northern Powerhouse Rail	48.48	48.48	-	-
IPBA	0.89	0.89	-	-
Integrated & Smart Ticketing	1.52	1.52	-	-
	<b>50.90</b>	<b>50.90</b>	-	-
Rail Operations	3.19	3.16	(0.03)	(1%)
Operational Areas	6.10	6.13	0.03	1%
<b>Committed (Net) Budget</b>	<b>60.18</b>	<b>60.18</b>	-	-
NPR Contingency	4.09	18.52	(14.43)	(78%)
Gross Budget	64.27	78.70	(14.43)	(18%)

- 4.2 TfN has made good progress on the delivery of its Core funded activity and analysis indicates that the major part of the underspend at the end of Q1 is made up of timing differences. In addition, the newly adopted review process has led to an increased level of virements, which further supports the expectation that the overall delivery of activity over the year will be in line with that set out in the business plan and budget.
- 4.3 Further, whilst the delay to the IRP means that the risk to the programme has significantly increased, discussions with the programme indicate both that there is a significant quantity of work that still needs to be performed, and that there is currently no basis on which to prepare a revised work programme. The original budget will be therefore be retained as a basis for monitoring and control.
- 4.4 Whilst TfN had understood that there was a reasonable possibility that the IRP might be published in July, we learned on 19 July (the day that

27 July Board reports were issued) that it would be delayed into the autumn.

- 4.5 As set out in section 4, the NPR contingency has been reduced by £14.43m from £18.52m to £4.09m, resulting from the impact of the original IRP delay to July. Consequentially, the overall gross budget for the year has been reduced from £78.70m to £64.27m. The impact that the further delay to the IRP will have on the programme (most likely in the form of further reductions in activity and therefore committed and contingency budgets) will be considered and reported once sufficient clarity regarding the IRP has been achieved – at the latest this should be at Budget Revision 2. A further verbal update will be provided at the 27 July Board, although it is unlikely given ongoing uncertainty in relation to the IRP that this will be definitive.

### **NPR Programme**

- 4.5 The overall committed budget of the NPR programme has been retained at £48.48m. The gross total, including contingencies, has been reduced by £14.43m to £4.09m, reflecting the original delay to the announcement of the IRP to July and the impact that this has already had on activity that might have been performed in the second half of the year.

	<b>21/22 Revision 1</b>	<b>21/22 Budget</b>	<b>Var.</b>	<b>Var.</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>
Programme Development	13.23	13.23	-	-
Network Rail Studies	27.60	27.60	-	-
Programme Support	7.65	7.65	-	-
	<b>48.48</b>	<b>48.48</b>	-	-

- 4.6 As noted in the budget report, whilst TfN is allocated funding to deliver the NPR programme, and sets budgets on that basis, the ability to deliver activity is conditional on departmental approvals to commit at a budget line level. This means that TfN's response to IRP delays is managed in tandem with DfT, which controls the level of activity that can be committed in the absence of a clear plan.
- 4.7 The programme is within 2% of its committed budget to date. Whilst the delays to its publication have created significant uncertainty, there is scope to reprofile activity in the remaining periods of 2021/22 as the current profile of committed activity only includes £3.8m of Network Rail expenditure in Q4 – meaning that there is significant capacity in the final quarter to absorb delays from earlier in the year. However, the further delay to the publication of the IRP on 19 July means that the risk that activity will be delayed, with consequential impacts on TfN's ability to utilise its funding allocations, has significantly increased. This is considered further in para 4.10.

- 4.8 Further, whilst the risk to the delivery of the NPR budget has clearly increased significantly, in the absence of any further definite information, there is very limited basis for performing a reforecast. It is therefore proposed that the budget is retained and continues to provide the basis for performance monitoring until such time as greater clarity is achieved regarding government's intentions.
- 4.9 The 2021/22 budget included an NPR contingency of £18.52m. This was held partly to mitigate against cost risks, but in the main was intended to provide resources to allow further work to be developed in year as the programme progressed. The lead in times associated with this work mean that the original delay to the publication of the IRP to July had already resulted in significant reductions in the extent to which the contingency could be deployed prior to the end of the financial year. The contingency sum in Revision 1 has therefore been reduced by £14.43m to £4.09m and, whilst further detailed work will need to be performed, it is likely that the further delay to the IRP means that it will not be possible to set in train any activity that would require the contingency to be deployed prior to the financial year end.
- 4.10 The programme team has produced estimates of the impact of further delays to the IRP. These are dependent on both the timing and the content of the document – the former because that impacts upon the amount of time left in the financial year to act upon its direction, the latter because of the potential time it takes to review the document and agree a course of action based upon its recommendations. Clearly the further the IRP recommendations are from TfN's proposed network, the more challenging it will be to quickly agree on a downstream work programme. As an indication, and assuming that TfN is allowed by the department in the meantime to proceed with the "no regrets" activities that were included in the original budget, it is estimated that a delay of the IRP until November might result in a c.£5m shortfall against the committed budget.

#### **IPBA**

- 4.11 The underspend of £0.03m at the end of Q1 is expected to be temporary. Work is progressing on the programme and no changes to the budget are proposed as a result of Revision 1 reforecasting activity.

#### **IST Programme**

- 4.12 The IST budget is an estimate that provided budget capacity to complete Phase 1, make arrangements for the various elements of Phase 2, and then close the programme down. Whilst the IST outturn is expected to be lower than the original budget, some uncertainty remains in this regard and the differences are likely to be marginal in the context of the overall budget. The forecast has therefore been kept in line with budget until final costings from the TOCs have been received.

### Rail Operations

- 4.13 There has been an increase of £0.03m in Rail Operations – this can be broken down as follows:

	<b>Value £m</b>
<b>Base Budget</b>	<b>3.16</b>
Additional role	0.04
20/21 slippage	0.01
Budget virement	(0.02)
<b>Revision 1</b>	<b>3.19</b>

The base budget was set prior to confirmation of the 2021/22 DfT grant for Rail North Partnership. The table shows the additional grant received and other movements from the original budget.

### Operational Areas

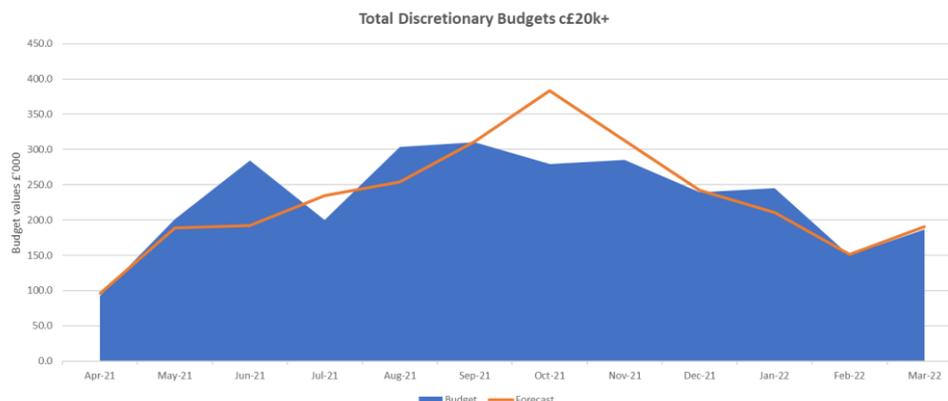
- 4.14 Forecast expenditure in Budget Revision 1, after recharges and budget virement, has decreased by £0.03m.

	<b>21/22 Revision 1</b>	<b>21/22 Budget</b>	<b>Var.</b>	<b>Var.</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>
Leadership	0.29	0.31	0.02	7%
Finance	0.87	1.01	0.13	15%
Business Capabilities	3.08	3.09	0.01	0%
Strategy & Policy	2.50	2.36	(0.13)	(5%)
Major Roads	0.75	0.75	0.00	0%
PMO	0.14	0.14	0.00	-
<b>Total Expenditure</b>	<b>7.64</b>	<b>7.67</b>	<b>0.03</b>	<b>0%</b>
Recharges to NPR	(1.54)	(1.54)	0.00	-
<b>Net Expenditure</b>	<b>6.10</b>	<b>6.13</b>	<b>0.03</b>	<b>1%</b>

- 4.15 The virements (see below) undertaken in Q1 have resulted in an additional £0.14m being added to Revision 1, most of which has not yet been expended. This, alongside the fact that the bulk of the Q1 underspend was generated by timing differences, means that Core budgets will be maintained in line with the original budget.
- 4.16 In addition to these virements there has been slippage from the previous year of c.£0.04m, an amendment to correct the original budget, and a number of minor changes due to minor amendments to activity levels. The result of these adjustments is an overall Revision 1 which is consistent with the Budget for the full year, although the “strategic risk reserve” that previously sat in the finance budget has largely been committed.

4.17 The phasing of Revision 1 has been analysed and is considered to be deliverable. The graph below indicates that, whilst there is a slight peak in October, the profile of discretionary expenditure reported is still very much deliverable over the balance of the 2021/22 financial year.

4.18



### Virements

4.19 As indicated in the 2021/22 budget report, TfN has introduced an enhanced monitoring and virement process to provide increased assurance regarding the delivery of the business plan and budget. This process allows the timely redeployment of resources between activities that support the overall delivery of the business.

4.20 The additional activities that have been approved have been reflected in the Revision 1 reforecast and are included in the table:

Description	Value £m
Enhanced NoRMS Preparation	0.025
Bradford local connectivity assessment	0.020
Bradford St James Market assessment	0.015
Network Rail, Rail Demand Information System	0.050
NorMITS Rail Matrix	0.025
	<b>0.135</b>

## 5. Funding

5.1 The Revision 1 budget of £60.18m (exclusive of contingency) will be resourced as follows.

	21/22 Revision 1	21/22 Budget	Var.	Var.
	£m	£m	£m	%
Core Grant	6.00	6.00	-	-
IST Grant	1.52	1.52	-	-
NPR - TDF Grant	48.48	48.48	-	-
Rail Operations Grants:	1.76	1.65	(0.12)	(7%)
<i>Esk Valley</i>	0.06	0.06	-	-
<i>DfT Grant</i>	0.81	0.69	(0.12)	(15%)
<i>Local Contributions</i>	0.63	0.63	-	0%
<i>Network Rail (TRU)</i>	0.27	0.27	-	-
<b>Total In-Year Grant</b>	<b>57.77</b>	<b>57.65</b>	<b>(0.12)</b>	<b>-</b>
Use of Reserves	2.42	2.54	0.12	-
<b>Total Resource</b>	<b>60.18</b>	<b>60.18</b>	<b>-</b>	<b>-</b>

5.2 The reduction in the contingency amount means that the overall funding envelope for NPR activity has been reduced from £67.00m to £52.57m.

5.3 The decrease in the draw on reserves for 2021/22 of £0.12m (due to higher than anticipated rail grants) combined with the increase in reserves of £0.13m due to actual draw on reserves in 2020/21 being lower than forecast, increases the forecast year-end Core cash reserve to £4.25m.

## 6. Conclusion:

6.1 This report provides an update on TfN's financial position over the first three months of the year and a reforecast of the 2021/22 budget.

6.2 In accordance with TfN's approach to updating budgets, Budget Revision 1 has been compiled based on latest programme and operational information.

## 7. Recommendations:

7.1 That Board notes and comments on the contents of this report and approve the Budget Revision 1.

7.2 That Board notes the first quarter budget virements and that these have now been absorbed into this Revision.

## **8. Corporate Considerations:**

### ***Financial Implications***

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

### ***Resource Implications***

8.2 The TfN HR Team have confirmed that the resource implications have been considered and set out within the report.

### ***Legal Implications***

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

### ***Risk Management and Key Issues***

8.4 A risk assessment has been carried out and the key risks are included in the report.

### ***Environmental Implications***

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

### ***Equality and Diversity***

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

### ***Consultations***

8.7 A consultation has not been carried out because it is not required for this report.

## **9. Background Papers**

9.1 This report references the 2021/22 Budget report.

## **10. Appendices**

10.1 There are no appendices to this report.

**Glossary of terms, abbreviations and acronyms used**

- |    |      |  |
|----|------|--|
| a) | DfT  | Department for Transport               |
| b) | NPR  | Northern Powerhouse Rail               |
| c) | IRP  | Integrated Rail Plan                   |
| d) | IPBA | Investment Programme Benefits Analysis |
| e) | IST  | Integrated Smart Travel                |