

Meeting: Scrutiny Committee

Subject: Budget Update

Author: Paul Kelly – Financial Controller

Sponsor: Iain Craven – Finance Director

Meeting Date: Thursday 4 November 2021

1. Purpose of the Report:

1.1 To update the committee on progress towards Budget Revision 2 that will be considered by TfN Board on 24 November 2021.

2. Recommendations:

2.1 That the Committee note the financial performance in the six months to September 2021 and that Budget Revision 2 will be finalised and presented to the Board once the result for October 2021 is available in early November.

3. Main Issues:

3.1 The attached appendix and the table below summarise the financial performance for the six-month period to 30 September 2021. October 2021 is currently forecast to be the month with the highest Core funded expenditure for 2021/22 and the October result will therefore have a significant impact on the Budget Revision 2 forecast through to the year end.

	Actuals £'000	Revision 1 £'000	Variance £'000	%	Budget £'000	Variance £'000	%
Integrated and Smart Ticketing	1,000	1,028	28	3%	1,266	266	21%
Northern Powerhouse Rail	21,111	22,309	1,197	5%	23,718	2,606	11%
IPBA	416	452	35	8%	400	(16)	(4%)
Programmes	22,528	23,789	1,261	5%	25,383	2,856	11%
Rail Operations	1,261	1,285	24	2%	1,465	204	14%
Operational Areas	2,890	3,164	274	9%	3,308	418	13%
Total	26,679	28,238	1,559	6%	30,156	3,478	12%

3.2 The financial performance is compared against Budget Revision 1 and the original budget. The overall expenditure level was maintained for Budget Revision 1, which was done at the end of the first quarter, but the phasing of

spend was amended to better reflect anticipated delivery of activities across the year.

3.3 As set out in the 2021/22 Budget, additional measures have been put in place to drive the delivery of the TfN Core funded work programme set out in the Business Plan. The appendix details an underspend for the six-month period to September 2021 of £0.302m against Budget Revision 1. The majority of this saving is understood to be due to timing differences which are expected to reverse in the second half of the year. October 2021 is forecast to be month with the highest activity, and therefore expenditure levels, in the 2021/22 financial year and therefore Budget Revision 2 will be finalised once the result for October is fully understood in early November.

3.4

Directorate	Actual £'000	Revision 1 £'000	Variance £'000	Budget £'000	Variance £'000
IPBA	416	452	35	400	(16)
Major Roads	426	428	2	433	7
Strategy & Policy	1,011	1,226	216	1,334	323
Leadership	153	151	(2)	156	2
Finance	417	407	(11)	412	(6)
Business Capabilities	1,577	1,646	69	1,669	92
PMO	76	76	-	75	(1)
Strategic Rail	446	438	(7)	627	181
Overhead Recharge	(770)	(770)	-	(770)	-
Total	3,752	4,054	302	4,335	583

3.5 In addition to the reforecast, TfN is currently bidding for funds from DfT to support two programmes of incremental work. The work is anticipated to commence in the current financial year but will continue into 2022/23. The total value of the funding is £0.756m inclusive of irrecoverable VAT.

3.6 The first programme includes activities identified by DfT and are centred around decarbonisation, bus solutions, EV infrastructure activity and building capability in resource constrained local authorities. Proposals have been submitted for £0.588m.

3.7 The second programme includes activities to support a common analytical framework accessible by other STBs. The proposal was submitted for £0.168m.

3.8 With the exception of rail operations, which is partially Core grant funded, the remaining activity is funded from discrete ringfenced grant.

3.9 The original Northern Powerhouse Rail ("NPR") budget consisted of a committed base budget of £48.48m and a contingency of £18.52m, totalling £67m. Whilst Budget Revision 1 retained the £48.48m base budget, the delay in issuing the Integrated Rail Plan (IRP) was reflected by a reduction in the contingency value by £14.43m to £4.09m. The risk of further reductions to these budgets as a consequence of further delay in issuing the IRP was

highlighted within the Budget Revision 1 report, where it was estimated that a delay in issuing the IRP to November might result in a £5m shortfall against the committed budget.

- 3.10 For the six-month period to September 2021, NPR is £1.197m (5%) under Budget Revision 1. This is consistent with the risk identified previously of further delay in issuing the IRP.
- 3.11 Integrated and Smart Ticketing is £0.028m (3%) under budget revision 1. This activity captures the costs required to close down the IST programme. The grant to fund these activities is ring fenced to this programme and any unrequired grant will be reimbursed to DfT.
- 3.12 Budget revision 2 will be finalised once the October result is understood and submitted to TfN Board on 24 November.

4. Budget Revision 2 Considerations:

Core Budget

- 4.1 As noted previously, TfN has no revenue raising powers and is not able to borrow. This results in a reliance on grant allocations which in turn drives a prudent approach to budgeting and forecasting.
- 4.2 As per paragraph 3.4, the Core outturn at the half year was £0.302m behind Revision 1 and £0.583m behind the original budget. However, analysis of core underspend to date indicates the majority of individual cost lines will be caught up in the remaining part of the year. A significant risk still remains that further timing driven underspends will materialise in the remaining part of the year. From experience, the risk of exceeding the core budget is significantly lower than the risk of a material budget shortfall should activity not be progressed as planned.
- 4.3 This risk of a material budget shortfall has been partially mitigated by initiating incremental activity. If all forecast activity is delivered, TfN may need to consider increasing its Core budget in Budget Revision 3 in January through additional reserve releases, or alternatively initiating corrective action, such as slowing down activity. As October is the month with the highest forecasted activity, it is considered appropriate to factor in the performance to October in Budget Revision 2.
- 4.4 As noted in paragraphs 3.5-3.7, TfN has made an application for additional in year funding from monies made available to Sub-national Transport Bodies by DfT. This was submitted on 21 October. If this exercise is successful, in part or in whole, then the Revision 2 Core budget estimate will be amended as appropriate.

Northern Powerhouse Rail

- 4.5 The content and timing of the IRP will be critical in assessing the nature and level of expenditure in the remaining periods of 2021/22 and therefore in

producing the Budget Revision 2 forecast. As mentioned above, the initial delay in publication of the IRP to July 2021 reduced the likelihood of utilising the full level of the contingency budget (reduced by £14.43m to £4.09m in Budget Revision 1). At the same time the risk to committed budgets from further delay (to November 2021) in issuing the IRP was highlighted as c£5m.

- 4.6 Once the IRP has been received and its contents fully understood it should be possible to forecast levels of NPR activity for the rest of 2021/22 and into 2022/23. Given the ongoing delay to the publication of the IRP, this may not be possible prior to the Budget Revision 2 report being provided to the board. In that instance, a best estimate based on circumstances as they are understood at the time will be used to forecast NPR activity for the balance of the year.

Integrated & Smart Travel

- 4.7 Budget revision 2 for the IST programme is likely to be lower than the current forecast as the shutdown of the programme has been delivered at a lower cost than originally expected. As this programme is funded from a ring-fenced grant, any savings will be returned to DfT.

5. Corporate Considerations:

Financial Implications

- 5.1 The financial implications are captured within the report.

Resource Implications

- 5.2 There are no direct resourcing implications as a result of this report

Legal Implications

Legal implications are included within the report.

5.3

Risk Management and Key Issues

- 5.4 The main risks are identified within the report.

Environmental Implications

- 5.5 There are no environmental implications relating to this report. This report does not constitute or influence a plan or programme which sets the framework for future development consents of projects listed in the EIA Directive and therefore does stimulate the need for SEA or EIA.

Equality and Diversity

- 5.6 There are no equality and diversity implications relating to this report.

Consultations

5.7 No consultations were required for this report.

6. Background Papers

6.1 2021/22 Business Plan and Budget.
Budget Revision 1.

7. Appendices

7.1 Period 6 (6 months to September 2021) financial progress review