
Meeting:	Audit and Governance Committee
Subject:	Year-to-date financial position; Budget Revision 2 reforecast; Incremental Grant Claim; Mid-Year Treasury Management Update; Opting in to the PSAA regime for the appointment of external auditors.
Author:	Paul Kelly – Financial Controller
Sponsor:	Iain Craven – Finance Director
Meeting Date:	Friday 19 November 2021

1. Purpose of the Report:

- 1.1 This report sets out the financial performance of Transport for the North ("TfN") over the first seven months of the financial year 2021/22 and provides the Budget Revision 2 reforecast through to the end of the year.
- 1.2 The committee are also asked to note the bid for incremental funding submitted by TfN in response to a request from DfT for proposals covering the following:
 - Local Authority Capacity and Capability
 - Decarbonisation
 - Electric Vehicle Charging Infrastructure
 - Planning for local bus services
 - STB Common Analytical Framework

This claim is incremental to our current budget and any grant received will be ring fenced to deliver specifically approved activities.

- 1.3 Detail is also provided with regard to TfN's performance against its Treasury Management Strategy as required by the TfN Constitution.
- 1.4 The committee are to note the intention to continue opting into the Public Sector Audit Appointments (PSAA) regime through which our external auditors are appointed.

2. Recommendations:

- 2.1 Consider and note the financial performance in the seven-month period to October 2021.
- 2.2 Consider and note Revision 2 Budget.
- 2.3 Note the submission for incremental grant and that the budget may need to be increased once the additional funding request to DfT has been confirmed.
- 2.4 Note the compliance with Treasury Management Strategy.
- 2.5 Note the intention to continue to opt in to the PSAA regime through which our external auditors are appointed. The decision to formally opt in will be presented to the TfN Board for approval at its meeting on 24 November.

3. Executive Summary

3.1 Over the seven-month period to October 2021, TfN incurred expenditure of £30.91m, which was £2.95m (9%) below budget. The key elements that make up this variance are set out in section 4.

3.2 The following table summarises the 2021/22 Budget Revision 2 reforecast compared to Budget and Revision 1.

Forecast Expenditure	2021/22 Budget £m	Variance £m	2021/22 Revision 1 £m	Variance £m	2021/22 Revision 2 £m
Programmes:					
Northern Powerhouse Rail	48.48	0.00	48.48	2.86	45.62
Integrated & Smart Ticketing	1.52	0.00	1.52	0.29	1.23
IPBA	0.89	0.00	0.89	0.04	0.86
	50.90	0.00	50.90	3.18	47.71
Rail Operations	3.16	(0.03)	3.19	0.09	3.10
Operational Areas (net)	6.13	0.03	6.10	(0.13)	6.23
Committed Budget	60.18	0.00	60.18	3.15	57.03
NPR Contingency	18.52	14.43	4.09	4.09	0.00
Total	78.70	14.43	64.27	7.24	57.03

3.3 TfN approved its 2021/22 Budget at the TfN Board meeting on 24 March 2021. The net budget, against which TfN monitors performance, was set at £60.18m. This net budget envelope was confirmed in the Revision 1 reforecast approved by the Board in July. However, a slowdown in NPR expenditure caused by ongoing delays to the publication of the Integrated Rail Plan (IRP), combined with savings on the winding up of the IST programme, mean that the proposed Budget Revision 2 net forecast will be £57.03m, a reduction of £3.15m.

3.4 The addition of NPR contingency of £18.52m produced an original gross budget of £78.70m. It was noted in the budget report that the ongoing uncertainties around the IRP 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. Ongoing delay to the publication of the IRP led to the contingency sum being reduced by £14.43m to £4.09m in Revision 1. Further delays to the IRP, which was most recently expected to be published in October, means that it is no longer considered likely that any element of that contingency will be utilised, and it has therefore been reduced to zero.

3.5 The programme team has produced estimates of the impact of the 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. The current estimate indicates a reduction in the NPR budget of £2.86m for the full year. This is less than the estimate of c.£5m included in Budget Revision 1, but the year-end position still remains subject to significant uncertainty.

3.6 In the summer, DfT approached a number of STBs and invited requests for an incremental grant claim to support a number of DfT initiatives, i.e.

- Local Authority Capacity and Capability
- Decarbonisation
- Electric Vehicle Charging Infrastructure
- Planning for local bus services
- STB Common Analytical Framework

A bid for £0.75m was submitted on 20 October 2021 covering these activities in the current and next financial years. At the time of writing, we are awaiting confirmation of any allocation. Any agreed allocation will be ring-fenced for the specifically agreed activities.

- 3.7 TfN has operated within the parameters set out in its Treasury Management Strategy.
- 3.8 In August 2018 TfN elected to opt in to the PSAA scheme for a period of 5 years covering 2018/19 to 2022/23. This scheme acts as an independent entity to appoint and manage the external audit appointments. We are proposing to continue with this scheme for the next five-year period from 2023/24 to 2027/28. To allow sufficient time to deliver the services the scheme administrator requires early confirmation of our intention to opt in.

4. Main Issues:

Year-to-date monitoring

- 4.1 The table below summarises the seven-month period ending October 2021. As noted in para 3.3, TfN monitors performance against its committed (net) budget.

	2021/22 YTD Budget	2021/22 YTD Actual	Var £m	Var %
Programmes:				
Northern Powerhouse Rail	26.85	24.44	2.41	9%
IPBA	0.62	0.52	0.10	16%
Integrated & Smart Ticketing	1.05	1.01	0.03	3%
	28.52	25.97	2.55	9%
Rail Operations	1.68	1.52	0.16	10%
Operational Areas	3.67	3.42	0.25	7%
Total	33.86	30.91	2.95	9%

- 4.2 Over the first seven months of the 2021/22 financial year TfN has incurred expenditure of £30.91m. This level of expenditure is £2.95m behind the Budget Revision 1 reforecast that was approved by the Board in July.

Programme Areas

- 4.3 Most of the underspend relates to TfN's programme areas (£2.55m), the majority of which in turn falls within the NPR programme (£2.41m). The underspend has arisen as the programme has slowed due to uncertainty around the publication and content of the IRP.

Northern Powerhouse Rail (NPR)

- 4.4 Year-to-date expenditure of £24.44m is £2.41m (9%) below budget. Programme expenditure has continued to fall behind the Revision 1 profile due to further delays to the publication of the IRP. Modelling work is ahead of budget due to additional requirements requested by the DfT.

Investment Programme Benefit Analysis (IPBA)

- 4.5 Year-to-date expenditure of £0.52m is £0.1m (16%) behind budget. Underspend to date is due to modelling work, which has taken longer than expected. The original budget contained an envelope for additional tasks outside of the initial remit. Although some of this expenditure has been deferred, £0.04m has been identified as a saving and is reflected in the Revision 2 forecast.

Integrated and Smart Travel (IST)

- 4.6 The year-to-date costs incurred to close down the IST programme are £1.01m, £0.03m (3%) behind budget. Underspend relates to the final Customer Insights work, which started later than forecast, but is now in progress.

Operations

Rail Operations

- 4.7 Year-to-date, Rail Operations is £0.16m under the Revision 1 Budget. This mainly falls within the Strategic Rail team and represents activities that have slipped into future periods, including a discrete contribution to capacity analysis on the East Coast mainline of £0.07m, delayed reliability work and paused work at Leeds station due to delay in IRP publication. This work is expected to be completed during this financial year.

Operational Areas

- 4.8 Year-to-date, operational areas are £0.25m below the Revision 1 Budget. This mainly falls within the Strategy & Policy area, where expenditure is £0.22m behind. However, expenditure in October increased by 35% as four new contracts commenced and a further four tenders are currently out to market or at evaluation stage, meaning expenditure is expected to increase significantly in the remaining months of the year.

Budget Revision 2

- 5.1 The table below summarises the reforecast of committed (net) budgets, with contingency separately disclosed. The overall committed budget will be reduced to £57.03m principally reflecting the effect of IRP delay on NPR programme activity.

Forecast Expenditure	2021/22	Variance	2021/22	Variance	2021/22
	Budget £m	£m	Revision 1 £m	£m	Revision 2 £m
Programmes:					
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- 5.2 TfN has continued to make good progress on the delivery of its Core funded activity and whilst work remains to be done, it is expected that the major part of the Core underspend as at the end of October will be made up by the end of the year. This view is predicated on projected activity levels through to the end of the year, supported by the recently adopted review process has led to an increased level of virements.
- 5.3 The sole contingency within Budget Revision 1 of £4.09m was held within the NPR programme. Due to the delay in publication of the IRP, the contingency has been removed in its entirety for Budget Revision 2.
- 5.4 TfN currently lacks any funding certainty with regard to either its Core operations or its programmes. At the time of writing no confirmation had been received regarding the levels of Core funding for 2022/23 and the future structure of the NPR programme is likely to hinge on the recommendations in the IRP.
- 5.5 This uncertainty regarding funding beyond the end of 2021/22 has required action to be taken within TfN to limit the organisations exposure to new long-term

commitments. This has included a recruitment freeze until such time as the new funding arrangements are clearer.

Northern Powerhouse Rail

- 5.6 The main element of this overall budget reduction is the £2.86m decrease in the NPR programme, reflecting ground already lost as a result of uncertainty around the content and timing of the IRP. It is hoped that the IRP may now be released in November. However, further delays to publication increase the risk of further reductions in activity through to the year end.

IST Programme

- 5.7 The IST programme has been reduced by £0.29m to £1.23m for Budget Revision 2. This reduction essentially reflects the earlier demobilisation of the IST team than was originally forecast. The budget is ring fenced and any residual funding will be returned to DfT.
- 5.8 The residual IST grant funding that had been provided to support the original IST programme has either been repaid or, with the agreement of DfT, rebadged as core grant. This, in conjunction with any final repayments relating to this year's budget, will eliminate all the IST earmarked reserves.

Operations

- 5.9 The remaining budgets, which are predominantly core funded, have been, at an aggregate level, held at the same level as Budget Revision 1. There have been minor movements between IPBA, Rail Operations and other Operational areas.
- 5.10 The delivery of activity in line with the Core budget has been supported by the revised virement process that was introduced at the start of the year. This has allowed new activities (which support the business plan) to be brought forward to be delivered during the year, usually in place of activity that has been delayed. This has resulted in some acceleration of activities from future years, where these are integral to a long-term programme (i.e. the development of the STP).

Virement / expenditure control

- 5.11 Through the monthly budget virement process, new opportunities identified as supportive of the delivery of the 2021/22 Business Plan are reviewed by OBT. In October the following activities were approved:
- NPIRER Prime and Enabling capabilities data
 - Legal advice for data sharing in TAME
 - Developing metrics to establish our carbon footprint "base"
 - STP Preparation – review, strawman & objectives
 - Developing a TfN combined rail services specification
 - Business planning support
- 5.12 To date, £0.50m of new activities have been approved, these are funded from a combination of the strategic risk allocation, realised savings and reserves.

Funding

- 5.13 The Revision 2 budget of £57.03m will be resourced as follows.

Funding	2021/22 Budget £m	Variance £m	2021/22 Revision 1 £m	Variance £m	2021/22 Revision 2 £m
Core Grant	6.00	0.00	6.00	0.00	6.00
IST Grant	1.52	0.00	1.52	(0.29)	1.23
NPR - TDF Grant	48.48	0.00	48.48	(2.86)	45.62
Rail Operations Grants:					
<i>Esk Valley</i>	1.65	0.12	1.76	(0.07)	1.70
<i>DfT Grant</i>	0.06	0.00	0.06	(0.00)	0.06
<i>Local Contributions</i>	0.69	0.12	0.81	0.00	0.81
<i>Network Rail (TRU)</i>	0.63	0.00	0.63	0.00	0.63
<i>Network Rail (TRU)</i>	0.27	0.00	0.27	(0.06)	0.21
Total In-Year Grant	57.65	0.12	57.76	(3.21)	54.55
Use of Reserves	2.54	(0.12)	2.42	0.07	2.48
Total Resource	60.18	0.00	60.18	(3.15)	57.03

- 5.14 A reduction in the NPR committed budget, in addition to the release of the full NPR contingency amount, means that the overall funding envelope for NPR activity has been reduced to £45.62m.
- 5.15 The virement of budgets between Rail operations and Core operations means a forecast draw on reserves of £2.48m, an increase of £0.06m compared to Revision 1 budget, but a reduction of £0.06m against base budget. The adjusted draw on reserves for 2021/22, combined with the increase in reserves of £0.13m due to actual draw on reserves in 2020/21 being lower than forecast, gives a forecast year-end Core cash reserve to £4.19m.

6. Additional DfT funding request of 20 October 2021

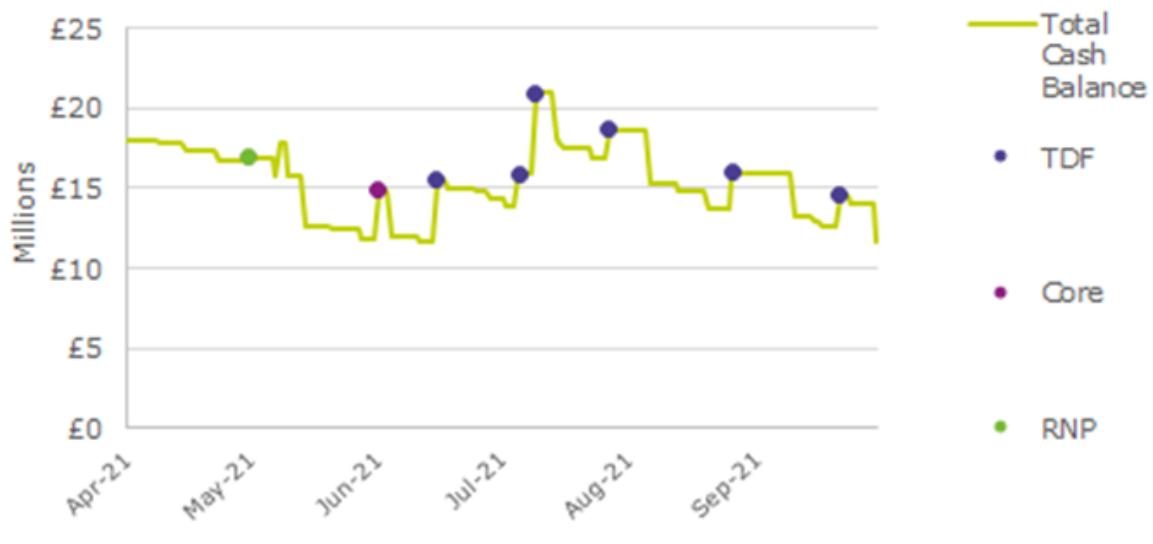
- 6.1 DfT approached a number of STB's and invited requests for an incremental grant claim to support a number of DfT initiatives, i.e.
- Local Authority Capacity and Capability
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 - Planning for local bus services
 - STB Common Analytical Framework

- 6.2 A bid for £0.75m was submitted on 20 October 2021 covering activities in the current and next financial years. At the time of writing, we are awaiting confirmation of any allocation. To the extent any allocation is granted, TfN is likely to require its Core budget be increased to accommodate this incremental activity. Any agreed allocation will be ring-fenced for the specifically agreed activities.

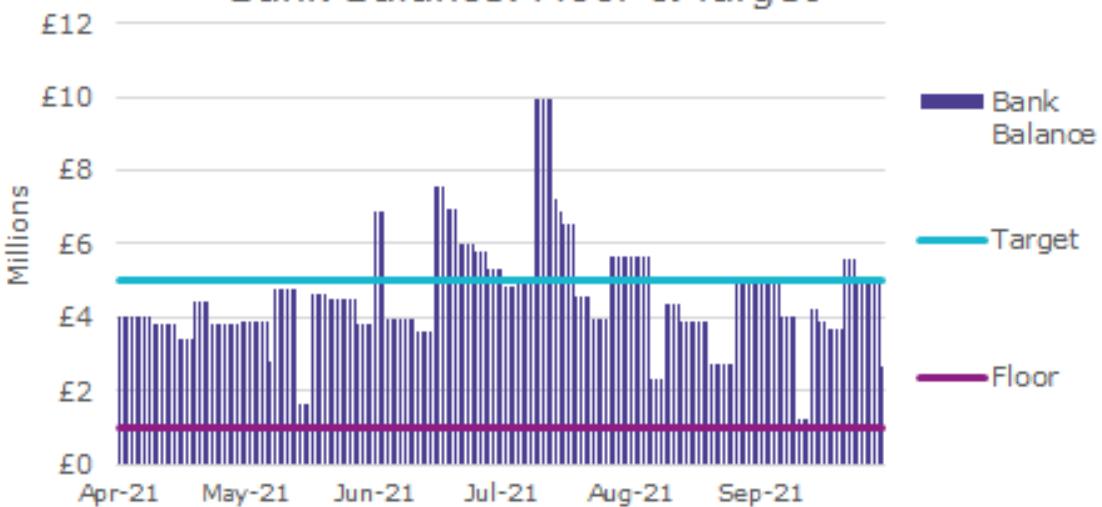
7. Mid-Year Treasury Management Update

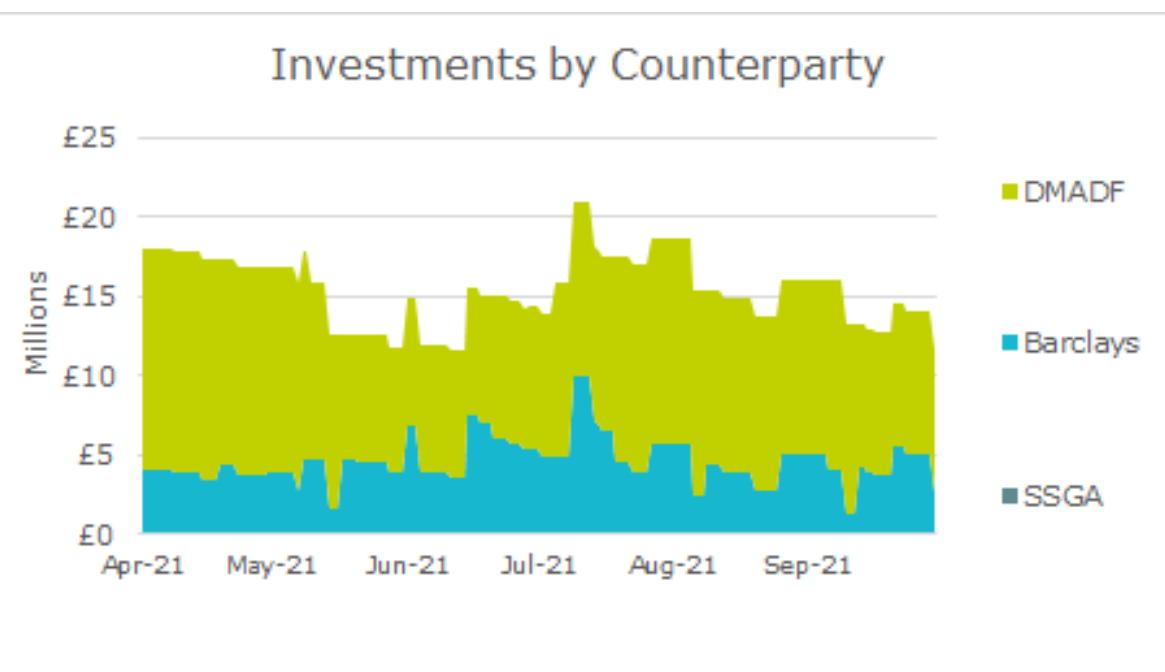
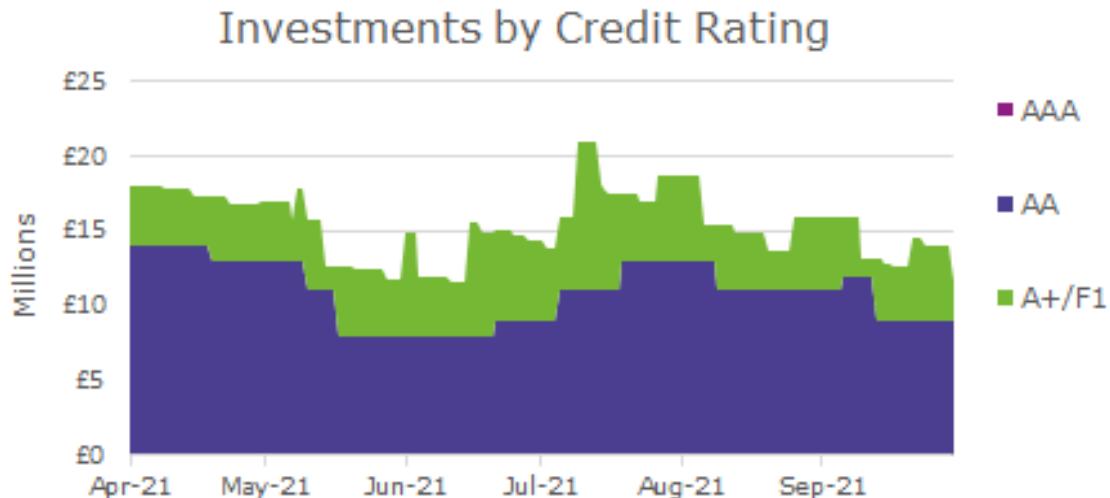
- 7.1 TfN's constitution obliges officers to report to Board at the mid-year mark on performance against the Treasury Management Strategy. This strategy prescribes how TfN will manage cash and investments. Unlike partner bodies, TfN is prohibited from accessing credit, so no rules are set around borrowing.
- 7.2 The following charts showing performance against key parameters. It shows that TfN has managed cash and investments within its counterparty criteria, placing cash deposits with secure bodies and institutions on liquid terms.

Cash Balances: Grants Received



Bank Balance: Floor & Target





- 7.3 In October we reimbursed DfT £1.27m relating to capital funding for the IST programme and agreed to reallocate the remaining revenue grant of £2.21m as a partial settlement of the remaining 2021/22 core funding of £3m. The balance of £0.79m will be remitted by DfT in due course.
- 7.4 It is worth noting that the interest rate environment that currently persists is resulting in very low returns on cash invested (in some investments we had negative yield). Whilst TfN will continue to keep the position under review there is no intention at present to change the focus of our Treasury Management Strategy and its prioritisation on security and liquidity over yield.
- 7.5 TfN has operated within the parameters set out in its Treasury Management Strategy.

8. Appointment of Public Sector Audit Appointments ("PSAA") to appoint our External Auditors

- 8.1 The PSAA is an entity set up to appoint auditors to local public and government bodies. They also set fees and oversee the delivery of consistent, high-quality, and effective external audit services.
- 8.2 In August 2018, TfN elected to utilise the services of the PSAA, i.e. become an opted-in authority for the purposes of the appointment of our external auditor under the provisions of the Local Audit and Accountability Act 2014 and the requirements of the Local Audit (Appointing Person) Regulations 2015 (the Regulations).
- 8.3 This was a national scheme and covered the 5 years from 2018/19 to 2022/23.
- 8.4 It is proposed that TfN continues with this arrangement for the next five years (2023/4 to 2027/28). The PSAA requires that this decision be taken at a full meeting of the authority, and it is therefore the intention to seek the required approval at the TfN board meeting on 24 November.

9. Corporate Considerations:

Financial Implications

- 9.1 The financial implications are included within the report.

Resource Implications

- 9.2 The HR implications are covered within this report.

Legal Implications

- 9.3 The legal implications are included within the report.

Risk Management and Key Issues

- 9.4 The risk implications are included within the report.

Environmental Implications

- 9.5 There are no environmental implications.

Equality and Diversity

- 9.6 There are no quality and diversity matters.

Consultations

- 9.7 No consultation is required.

10. Background Papers

- 10.1 2021/22 Budget
Budget Revision 1
Treasury Management Strategy
DfT incremental funding request of 20 October 2021

Glossary of terms, abbreviations and acronyms used (if applicable)

*Please include any technical abbreviations and acronyms used in the report in this section.
(Please see examples below.) This will provide an easy reference point for the reader for
any abbreviations and acronyms that are used in the report.*

- a) *IRP* *Integrated Rail Plan*
- b) *NPR* *Northern Powerhouse Rail*
- c) *PSAA* *Public Sector Audit Appointments*