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| Meeting: | Transport for North Board |
| Subject: | Budget and Business Planning |
| Authors: | Iain Craven (Finance Director) and Paul Kelly (Financial Controller) |
| Sponsor: | Martin Tugwell (CEO) |
| Meeting Date: | Tuesday 25 January 2022 |

1. Purpose of the Report:

- 1.1 This report sets out the current position with regard to Transport for the North's (TfN) funding position for 2022/23, and the consequential impacts on business planning, budgeting, and the organisation more broadly.
- 1.2 Further, it presents the financial performance of TfN over the first nine months of the financial year 2021/22 and provides the Budget Revision 3 reforecast through to the end of the year.
- 1.3 Finally, it provides a summary update on the current corporate risk position, notes the need for a substantial revision of the document once the impacts of the NPR transition and funding allocation on TfN's objectives are understood, and proposes the deferral of the next Corporate Risk Register report until these matters are resolved at the March Board.

2. Recommendations:

- 2.1 **Note** the current uncertainty in relation to TfN's financial position and the steps taken in mitigation;
- 2.2 **Approve** that TfN **commence** and **complete** the required TUPE process with the DfT in relation to posts funded through Transport Development fund;
- 2.3 **Consider** and **note** the financial performance in the nine-month period to December 2021 and **approve** Revision 3 Budget;
- 2.4 **Note** the current risk position and **approve** the deferral of the Corporate Risk Register report until the Board meeting in June 2022.

3. 2022/23 Funding position

- 3.1 Item 6 on the 24 November 2021 Board agenda (Funding & Business Planning 2022/23 Update) noted that TfN's Spending Review submission had set out the importance of receiving early notification of our funding allocation. Unfortunately, as at the time of writing this has not been forthcoming, meaning that TfN does not know what its Core funding position will be for the new financial year starting on 1 April 2022.
- 3.2 The November 2021 report set out the uncertainties that TfN faced (and continues to face) in relation to its funding for 2022/23. Whilst the publication of the IRP has provided some certainty around the direction of travel, the practical consequences of this for TfN are still not understood. Significant matters that remain to be confirmed include cover for NPR programme wind-down costs, the extent of ongoing TfN involvement in programme development through co-sponsorship and analytical support, and the availability and quantum of additional funding over and above the Core allocation to support these activities.

3.3 Whilst TfN has undertaken a prioritisation exercise in line with the objectives previously agreed by the Board within the Spending Review submission, it is not practical to take this any further. TfN currently has no basis upon which to make meaningful planning assumptions that wouldn't be likely to create significant issues within the organisation.

Process to Date

- 3.4 TfN officers have been engaging with DfT officials up to the most senior levels with regard to our funding position. This has been ongoing since before our submission to the Spending Review on 9 September. Further detailed information with regard to TfN's financial position was provided at the DfT's request in December and early January. We understand that a submission to ministers regarding TfN funding was due to be submitted w/c 10 January.
- 3.5 In our submissions to the department, it has been made clear that the mitigations that allowed TfN to manage the 40% cut to its Core funding allocation in 2021/22 are no longer available to us and, as a consequence, holding our Core funding at the reduced 2021/22 level would result in the need for TfN to reduce its current operational expenditure by about a third. This would have direct consequences for TfN's ability to undertake its programme of activity and discharge its functions on behalf of the North.
- 3.6 Officers, led by the CEO, are working with DfT officials to effect the transition of the NPR programme to its future state, as indicated in the IRP in November. However, whilst progress is being made, a detailed service specification has not been provided and it appears unlikely that this transfer, or the associated collateral activity, will be completed before the start of the new financial year.
- 3.7 Once the detailed service specification is received from DfT, the necessary TUPE process will commence through to its conclusion. This relates to those posts supporting the NPR Programme and funded through the Transport Development Fund (TDF).
- 3.8 In the meantime, DfT has requested TfN second two employees to support SOBC development to align with the IRP and co-ordinate policy, infrastructure and analytical inputs into an integrated programme plan. This request is currently being worked through on the basis of enabling the secondments to happen.

Impacts of the Funding Delay

- 3.9 TfN is communicating with its staff, employee forum and trade union representatives to keep them informed of progress in relation to our Core funding and the NPR Transition. Current indications are that staff morale is low, and that the ongoing uncertainties are having an increasingly disruptive impact on the organisation.
- 3.10 As members are aware, TfN is required to have a fully funded and approved budget in place before the start of the new financial year. As virtually all TfN expenditure is funded by DfT grant, producing a meaningful business plan and associated budget in the absence of a funding settlement is not possible. Whilst every effort will be made to produce a fully worked up and robust business plan and budget for approval at the 30 March 2022 Board meeting, it may be necessary to produce an interim plan and budget that can then be refined in due course.
- 3.11 TfN's reserves are forecasted to total £4.2m at 31 March 2022. Reserves at this level, representing approximately 40% of our 2021/22 Core expenditure, provide comfort that TfN is not at immediate financial risk. However, drawing upon these reserves to manage delays and uncertainty in transitioning to a post-NPR model and a new (hopefully three year) funding environment means that there will be less money available to support future activity.

3.12 Should TfN receive a reduced Core budget allocation, there may be a need to review its corporate objectives, priorities and organisational design, and to undertake a downsizing programme which may require workforce reductions/compulsory redundancies. As requested in the letter from UNISON sent in November 2021 to the TfN Chair and TfN Board Members, if workforce reductions are required, all necessary best practice people processes will be implemented in accordance with TfN’s Security of Employment Policy, including a review of vacant posts and implementation of a voluntary redundancy process.

Next Steps

3.13 TfN officers will continue to engage with the Department with the intention of gaining clarity on the Core funding allocation at the earliest possible opportunity.

3.14 In parallel, we will continue to work with the department to agree and manage the transition to the new NPR arrangements under the IRP. This will include the level of activity that will continue within TfN and the mechanism by which this will be funded. Given that ongoing co-sponsorship and TAME responsibilities could run to substantial sums, in reality we need resolution to both 3.13 and 3.14 before the budget can be finalised.

3.15 An internal working group has been established within the organisation, led by the CEO to manage the business planning and budgeting process once funding certainty has been achieved. This approach was adopted to develop this year’s budget and business plan and should allow the organisation to move at pace once the funding allocation is received.

3.16 To address the challenges created by the January 2021 funding allocation letter, a member working group was established. This acted as a sounding board for officers in the development of the business plan and allowed potentially difficult issues to be discussed in detail. Depending on the timing and substance of the funding announcement, it may be necessary to establish a similar group, although this may be manageable through the General Purposes Committee.

4. Year-to-date monitoring

4.1 The table below summarises the nine-month period ending December 2021. TfN monitors performance against its committed (net) budget.

| | 21/22 YTD Budget £m | 21/22 YTD Actual £m | Var £m | Var % |
|------------------------------|------------------------------|------------------------------|-------------|-----------|
| Programmes: | | | | |
| Northern Powerhouse Rail | 31.56 | 30.99 | 0.57 | 2% |
| IPBA | 0.74 | 0.69 | 0.05 | 7% |
| Integrated & Smart Ticketing | 1.15 | 1.07 | 0.08 | 7% |
| | 33.45 | 32.75 | 0.71 | 2% |
| Rail Operations | 2.25 | 2.06 | 0.19 | 8% |
| Operational Areas | 4.55 | 4.46 | 0.09 | 2% |

| | | | | |
|--------------|--------------|--------------|-------------|-----------|
| Total | 40.25 | 39.27 | 0.99 | 2% |
|--------------|--------------|--------------|-------------|-----------|

- 4.2. Over the first nine months of the 2021/22 financial year TfN has incurred expenditure of £39.27m. This level of expenditure is £0.99m behind the Budget Revision 2 reforecast that was approved by the Board in November 2021.
- 4.3. Most of the underspend relates to TfN's programme areas (£0.71m), the majority of which in turn falls within the NPR programme (£0.57m). The underspend has arisen as the programme has slowed due to the timing and content of the IRP and the resultant transition to the DfT.
- 4.7. Year-to-date, Rail Operations is £0.19m under the Revision 2 Budget. This represents lower than anticipated expenditure on several professional services contracts due to a pause after the publication of the IRP. This delayed work is expected to be completed during this financial year.
- 4.8. Year-to-date, operational areas are broadly in line with the Revision 2 Budget.

5. Budget Revision 3

- 5.1. The table below summarises the reforecast of committed (net) budgets, with contingency separately disclosed. The overall committed budget will be held at £57m.

| Forecast Expenditure | 21/22 Budget £m | Var £m | 21/22 Rev 1 £m | Var £m | 21/22 Rev 2 £m | Var £m | 21/22 Rev 3 £m |
|------------------------------|-----------------------|--------------|----------------------|-------------|----------------------|-------------|----------------------|
| Programmes: | | | | | | | |
| Northern Powerhouse Rail | 48.48 | 0.00 | 48.48 | 2.86 | 45.62 | 0.00 | 45.62 |
| Integrated & Smart Ticketing | 1.52 | 0.00 | 1.52 | 0.29 | 1.23 | 0.00 | 1.23 |
| IPBA | 0.89 | 0.00 | 0.89 | 0.04 | 0.86 | 0.00 | 0.86 |
| | 50.90 | 0.00 | 50.90 | 3.18 | 47.71 | 0.00 | 47.71 |
| Rail Operations | 3.16 | (0.03) | 3.19 | 0.09 | 3.10 | 0.06 | 3.04 |
| Operational Areas (net) | 6.13 | 0.03 | 6.10 | (0.13) | 6.23 | (0.04) | 6.27 |
| Committed Budget | 60.18 | 0.00 | 60.18 | 3.15 | 57.03 | 0.01 | 57.02 |
| NPR Contingency | 18.52 | 14.43 | 4.09 | 4.09 | 0.00 | 0.00 | 0.00 |
| Total | 78.70 | 14.43 | 64.27 | 7.24 | 57.03 | 0.01 | 57.02 |

- 5.2. The NPR and IST programmes have been retained at the same level as Budget Revision 2. As final costs are concluded, any reduced level of expenditure in these areas will result in repayment of grant.
- 5.3. The IRP indicated that the NPR programme would not be delivered by TfN beyond 31 March 2022. Reduced expenditure (compared to Budget Revision 2) due to slowing down and curtailing contractual activity will be partially offset by the costs of closing down the programme. The NPR Grant Funding Agreement allows project closure costs to be funded through the TDF and we are working closely with DfT to establish the extent and timing of these costs. We have proposed a similar approach to that adopted in relation to the IST programme, so that any excess NPR funding will be returned to DfT once costs are finalised.
- 5.4. 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 Core funding allocation will be utilised by the end of the year.

- 5.5 As noted above, TfN currently lacks any funding certainty with regard to its Core operations. At the time of writing no confirmation had been received regarding the levels of Core funding for 2022/23.
- 5.6 This uncertainty regarding funding beyond the end of 2021/22 has required action to be taken within TfN to limit the organisation's exposure to new long-term commitments. This has included a recruitment freeze until such time as the new funding arrangements are clearer.
- 5.7 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).
- 5.8 Budget Revision 3 will be funded in a manner consistent with Budget Revision 2, with draw on reserves of £2.48m representing a marginal (£0.06m) decrease in the forecast compared to the base budget. This, combined with an increase in reserves of £0.13m, due to actual expenditure at year-end position in 2020/21 being lower than forecast, gives a forecast year-end Core cash reserve to £4.19m.

6. Corporate Risk Reporting

- 6.1 TfN's constitution requires that policies and procedures to manage risk are put in place and that significant corporate risks are periodically reported to the Board. In order to discharge these responsibilities, TfN has adopted a Risk Management Strategy, approved annually by the Audit & Governance Committee. Per the strategy, the Corporate Risk Register Report is provided to the board for review and comment every six months. The Corporate Risk Register was last provided to the Board in September 2021 and is next due in March 2022.
- 6.2 The publication of the IRP has crystallised some risks in relation to TfN's current objectives, for example in relation to the delivery of the North's preferred NPR network. At the same time, it has introduced considerable fresh uncertainty to the organisation with regard to future co-sponsorship and delivery arrangements.
- 6.3 This is exacerbated by the continuing absence of a Core funding allocation, and the potential requirement to reassess TfN's objectives to reflect the availability of funding. Taken together, the IRP and the Core settlement are likely to impact on TfN's corporate objectives in a way that requires a comprehensive review of the Corporate Risk Register in the context of TfN's revised circumstances.
- 6.4 **Post-IRP and funding driven risks**
- 6.5 The following risks have been identified through TfN's risk management processes. Whilst they cover a range of discrete business and organisational issues, they either arise from or are reinforced by the uncertainty that currently exists across TfN. In addition, they are consistent with concerns that have been raised by officers in other settings, including Employee Forum.
- 6.6 The risk themes that have been highlighted are as follows:
- TfN's future role, both in the context of STB's generally and specifically in relation to the intentions of, and relationships with, DfT and Members.
 - TfN's role in the ongoing management of the operational railway.
 - TfN's policy, objectives and role on NPR in the context of the IRP.
 - The breadth and depth of TfN's role in developing evidence and policy in the future.

- Ongoing funding and resourcing, both in terms of transition and having the tools to deliver TfN's programme.
- The retention of staff and staff morale post IRP, with specific concerns around staff on FTCs and the impact of potential TUPE.

6.7 Risks do not exist in isolation – they only have significance in relation to TfN's stated objectives as set out in its STP and policy documents, and in its business plan. The current Corporate Risk Register reflects a suite of objectives that are in many cases no longer current or may need to be reconsidered. The Risk Register therefore needs to undergo a full review once the NPR co-sponsorship and delivery arrangements are understood, the funding allocation has been received and the 2022/23 Business Plan has been completed.

6.8 The next scheduled board meeting at which the Corporate Risk Register is due to be presented is March 2022, meaning that it will need to be updated in February for approval at that month's Audit & Governance Committee. This timetable would require Corporate Risk Register Report to be updated and presented to the board at the point of maximum uncertainty in relation to TfN's future objectives – calling into question the utility of the information provided and the time commitment of relevant officers at what is likely to be a critical point in the preparation of the budget.

6.9 It is therefore proposed that a brief risk update, rather than a full update of the Corporate Risk Register Report, be provided to the Board as part of the finance report that will be presented to March Board.

6.10 Once the business planning and budgeting have been completed officers, working with the Audit & Governance Committee, will undertake a comprehensive review of the corporate risk position for presentation at the subsequent board meeting. This will highlight the challenges created by the IRP and the current funding position.

7. Corporate Considerations:

Financial Implications

7.1 The financial implications are included within the report.

Resource Implications

7.2 The HR implications are covered within this report.

Legal Implications

7.3 The Legal implications are covered within this report.

Risk Management and Key Issues

7.4 The risk implications are included within the report.

Environmental Implications

7.5 There are no environmental implications as a result of this report. Future decarbonisation activities as defined within the decarbonisation strategy will be dependent on future funding.

Equality and Diversity

7.6 There are no equality and diversity matters.

Consultations

7.7 No consultation is required.

8. Background Papers

8.1 2021/22 Budget

Budget Revision 1
Budget Revision 2