

Meeting: Transport for North Board
Subject: Funding, Business Planning and Budget Update
Authors: Iain Craven (Finance Director) and Paul Kelly (Financial Controller)
Sponsor: Martin Tugwell (CEO)
Meeting Date: Wednesday 23 February 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 It further sets out the approach that TfN will adopt in the development of a fundable budget and also outlines the actions that it is proposed are adopted in the short-term to help ensure that TfN's financial stability is maintained.

2. Recommendations:

- 2.1 **Note** the funding position for 2022/23 and the impact that that will have on TfN's ability to undertake its intended programme of activity.
- 2.2 That the Board **consider** and **approve** the objectives set out in paragraphs 4.3 – 4.8 as the basis for business planning.
- 2.2 **Consider** and **note** the process by which TfN will proceed to a business plan and budget for 2022/23, in particular the intention to adopt an Interim Budget on 30 March.
- 2.3 **Approve** the cost control measures proposed to safeguard TfN reserves until such time as the objectives for 2022/23, and the Interim Budget are approved.

3. 2022/23 Funding position

- 3.1 TfN received a funding allocation letter (the Funding Letter) from the department on 14 February (Appendix 1). The funding included in that letter, and a comparison to both the CSR Submission and the funding allocation for 2020/21 is set out in the following table.

TfN 2022/23 Funding Allocation	2022/23 £'m	CSR £'m	2021/22 £'m
Core Funding ¹	6.5	10.0	6.0
NPR TDF ²	-	104.5	75.0
NPR Analytical Support ³	1.5	-	-
2021/22 in-year funding carry over ⁴	0.3	-	-
Development Pipeline funding ⁵	-	2.0	-

1. The £6.5m Core allocation includes an additional £0.4m to cover the DfT's estimate of the cost of TfN undertaking its new role of NPR Co-sponsor. The balance of £6.1m represents a 1.6% increase in nominal terms on current-year funding (although this will be offset by the effect of inflation year-on-year), although it is a significant shortfall on the CSR submission.

2. The Integrated Rail Plan for the North and Midlands, published in November 2021, set out that the arrangements for NPR would transition from a co-client hosted by TfN to sole-clienting by DfT. Transport Development Fund (TDF) grant for the NPR programme will therefore cease as at 31 March 2022.
 3. DfT has indicated that it would like TfN to continue to provide analytical support to the NPR programme. The Funding Letter indicates that TfN will be provided with an additional £1.5m to support the finalisation of the NPR Strategic Outline Business Case (SOBC) and wider analytical work for the next steps of the Integrated Rail Plan (IRP). No specific commitment to resource levels for external consultancy support are included in the Funding Letter, but ongoing discussions with DfT officials have indicated that funding for external support to deliver these outputs could be in the region of £3.5m.
 4. TfN was invited to bid for in-year funding from DfT in 2021/22. Whilst an in-year allocation of £336,000 was agreed with the department it is likely that the bulk of this grant will be expended in 2022/23. This grant is sub-ringfenced across seven activities, and delivery of the activity is contingent on it being supportable within the TfN business plan.
 5. No funding was received in relation to the CSR request regarding the development of an Infrastructure Pipeline.
 6. The Rail North Partnership Grant will remain at current levels, subject to indexation and confirmation from DfT regarding any additional posts. TfN will also continue to receive Rail Administration Grant to resource Rail North Partnership and Strategic Rail activity.
 7. The Funding Letter also states that DfT will fund any unexpected NPR wind down costs that fall into 2022/23. This, when considered alongside the previous discussions with DfT which confirmed that the Grant Funding Agreement for 2021/22 will cover the in-year costs, means that TfN will have full cover for the costs of closing down the NPR programme.
- 3.2 This funding has been granted on a single-year basis, rather than the three-year settlement that was requested in the CSR. The Funding Letter states that “future years funding will be adjusted appropriately depending on TfN’s performance in the coming financial year”.
- 3.3 Whilst the clarity that has now been provided is welcome, the timing is such that it has not been possible to bring a draft business plan and budget to the February Board Call as was originally intended. It does, however, allow us to indicate the level of the challenge that is faced in coming to a business plan and budget for 2022/23.
- 3.4 As previously noted, the 40% cut to Core funding that was received in January 2021 was mitigated, with the assistance of DfT, by £1.5m of recharges into the NPR programme and by the release of £2.5m of reserves. Neither of these is now possible given the change in working arrangements post-IRP. As a consequence, the full impact of the FY2021/22 funding cuts will now flow through into the organisation. The reduction in expenditure that is required is significant and set out in detail at paragraph 3.6.
- 3.5 Given its scale, the reduction in activity as a result of closing down the NPR programme should significantly reduce the level of activity the TfN’s support services are required to manage. This should reduce the level of resourcing required to maintain those services, notwithstanding the base level of organisational infrastructure required to deliver ongoing activity and allow TfN to discharge its responsibilities as a Statutory entity.
- 3.6 The following table provides an indication of the reduction in expenditure that will be required to align TfN’s expenditure with its resources over the next three years, assuming no further funding reductions. It assumes that the £0.4m provided in

relation to Co-sponsorship will be used to cover the incremental cost of resourcing that role. A reduction of expenditure on Core funded activity of over a third will be required, assuming a controlled release of reserves.

	21/22 £'m	22/23 £'m	23/24 £'m	24/25 £'m
Base Expenditure (21/22 Rev 3)	10.0	10.0	10.0	10.0
Cost pressure (5%, then 2.5%)	-	0.5	0.8	1.0
Total Costs	10.0	10.5	10.8	11.0
Funding				
Core Funding	6.0	6.1	6.1	6.1
Recharges	1.5	-	-	-
Reserve Releases ¹	2.5	0.5	0.5	0.5
Total Funding	10.0	6.6	6.6	6.6
Retained Reserve	4.2	3.7	3.2	2.7
Base Core Saving Required	-	3.9	4.2	4.4
Percentage Cost reduction²	-	37%	39%	40%

1. The reserve release in 2022/23 will vary to match the level of transition costs incurred in moving to an organisational structure that can be supported by the funding available. The retained reserve of £2.7m at 2024/25 is therefore overstated to the extent of those costs.
2. The 2021/22 budget included a non-recurring IPBA consulting cost of c.£0.9m. This expenditure will now be spread across 2021/22 and 2022/23 but should fall away thereafter.

- 3.7 The NPR analytical support funding will take the form of ringfenced grants that will only be drawn down to the extent that the activity is carried out. TfN will apply the same principles to this funding that were applied to the TDF – namely that we will only commit to expenditure when we have a written commitment from the departmental budget holder that they are content to fund it. Our assumption is that the funding allocation of £1.5m is to pay for team resourcing and will be committed at the start of the year. However, we are currently working with the department to gain absolute clarity in this regard. Given the level of the Core funding settlement, it is important that the DfT requirement is fully funded by associated grant. The value of work that the DfT may commission from this resource is currently uncertain but could be in the region of £3.5m.
- 3.8 As noted in paragraph 3.1 above, the NPR grant funding agreement allows for the Q4 and final close down costs of the NPR programme to be met from TDF funding. This interpretation has been confirmed by the department. The department has also confirmed in the Funding Letter that this will include relevant costs that emerge after the year end. TUPE consultation is on-going, with 16 previously TDF funded posts identified to transfer to DfT. The target transfer date is 1 April 2022.
- 3.9 Reductions of Core funding at this level will have significant implications for TfN's ability to deliver the objectives previously set out by the Board. It is likely that addressing the funding challenge set out above will result in redundancies amongst TfN's Core funded workforce. It is further likely that TfN will instigate a voluntary redundancy process, the timing of which will be dependent on business planning.

3.10 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. Per the report to the January Board, indications are that staff morale is low, and that the ongoing uncertainties are having an increasingly disruptive impact on the organisation.

4. Business Planning and Budget 2022/23

4.1 As noted in previous reports, TfN is required to set a fully funded budget prior to the start of the new financial year.

4.2 Previously, TfN has always ensured that it has a robust business plan in place, from which a budget could be derived. The required reductions in expenditure mean that it is more important than ever that Transport for the North is clear that its Business Plan both reflects the aspirations of its members and is consistent with its statutory functions.

4.3 It is therefore critical that the Board is sighted on, and happy with, the outcomes that TfN is targeting through its "Golden Thread" and the objectives that it adopts to support the delivery of those outcomes. This provides the basis for prioritisation decisions that will need to be made when considering departmental objectives and individual activities.

4.4 TfN's statutory function and responsibilities remain unchanged. This serves to emphasise the importance of ensuring that TfN's top level target outcomes and objectives are grounded in its work on the Strategic Transport Plan. The Department has indicated in the Funding Letter that it is "keen for TfN to focus on development of the revised Strategic Transport Plan for the North, and to focus activity on supporting key Departmental priorities, such as decarbonisation and helping to build local authority capability".

4.5 Given the consistency of the statutory responsibilities, TfN's current targeted outcomes therefore remain relevant and it is recommended that these are re-approved by the Board as a basis for business planning:

- Transformed economic performance
- Improved productivity
- Enhanced inclusivity, health, and access to opportunities for all
- Better quality of life.

4.6 Similarly, the key NTC objectives that were adopted during last year's business planning process also remain relevant, and it is likewise recommended that these are approved by the Board to be carried forward into 2022/23:

- Championing an inclusive and sustainable North
- Leading Strategic transport delivery
- A long-term northern funding settlement
- Putting Passengers first

4.7 Whilst the overarching Golden Thread remains consistent TfN will, as set out above, be operating within a significantly reduced expenditure envelope in 2022/23. At the 17 December Board call, and again at the 25 January Board, the CEO set out a broad consideration of TfN's future function (attached as Appendix 2 of this report) in the context of its current outcomes and objectives. It is proposed that this document is used as the basis for the development of the business plan for 2022/23.

4.8 Explicit within the document is the central role that investment in the North's transport system (both infrastructure and services) has to play. Specifically, there is a need for:

- A Strategy: an outcome focused long-term strategic plan for the development of the North's transport system.
- An Investment Programme - a prioritised programme that provides the context for the development and delivery of detailed proposals as a co-ordinated programme focused on delivering the agreed outcomes.
- Implementation – investing in the capacity and capability required to develop and then accelerate implementation of the Strategy and its Investment Programme.

Further detail is set out in Appendix 2.

- 4.8 Taken together, the high-level outcomes and objectives, and the more detailed proposals regarding how this should translate into day-to-day operational delivery, will provide the basis for both a reorganisation of TfN's operations and the work programme for 2022/23.
- 4.9 The expenditure reductions noted in para 3.6 will require a reduction in activity to create a sustainable financial position for the long-term future of TfN. Compliance with our HR (Security of Employment) processes will mean that it is not possible to have a robust draft business plan completed by the March Board. This possibility has been identified in previous board papers, and whilst not ideal, is likely to be unavoidable based on the timing of the funding allocation.
- 4.10 It is therefore the intention to develop a business plan, including a transition plan, to the fullest extent possible by the March board, with a view to completing this work in Q1 of the new financial year. In parallel, TfN will develop an interim budget based on the draft business plan that in particular reflects the timing of the transition and explicitly highlights financial risks associated with it.
- 4.11 Per note 1 in para 3.6, it is envisioned that any transition costs will need to be funded from the forecast general reserve at 31 March 2022 of £4.2m. The budget will need to reconsider TfN's reserve strategy (taking into account the costs of transition, the appetite for year-on-year releases and the target balance at the end of the CSR period) for approval by the Board.
- 4.12 It is important that the transition to the new model is achieved quickly. Delay will mean exposing TfN to month-on-month expenditure that is in excess of our in-year funding and therefore risk exhausting our reserves.

5. Cost Control

- 5.1 As has been previously reported through the budget revision process, TfN has been broadly successful in 2021/22 in delivering its Core budget.
- 5.2 However, a combination of policy uncertainty, vacancy management, and a lack of certainty of funding into Q1 of 2022/23 has resulted in a natural slow down in Core activity levels in Q4 compared to previous forecasts.
- 5.3 Given the financial challenge that TfN faces, it is proposed that further steps be taken to control costs until such time that we can be certain that expenditure is supportive of TfN's plans in the future.
- 5.4 It is therefore proposed that TfN only enter into new expenditure budgeted for 2021/22 if it has been specifically approved by the CEO and Finance Director. Any such expenditure that is not deemed to be essential or which can be delayed should not take place.

6. Corporate Considerations:

Financial Implications

6.1 The financial implications are included within the report.

Resource Implications

6.2 The HR implications are covered within this report.

Full and proper consultation will be undertaken with UNISON and affected employees in relation to the Downsizing and Redundancy programme.

Given this will be the second year of workforce reductions across the organisation and only a one-year budget has been allocated this will impact on future attraction/recruitment and workforce retention levels.

Legal Implications

6.3 The legal implications are covered within this report.

Risk Management and Key Issues

6.4 The risk implications are included within the report.

Environmental Implications

6.5 There are no environmental implications.

Equality and Diversity

6.6 There are no equality and diversity matters.

Consultations

6.7 No consultation is required.

7. Appendices

7.1 Annex 1 - The Funding Letter

7.2 Annex 2 - Future for the Future