
Meeting: Transport for North Board
Subject: Budget and Business Planning 2022/23
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Meeting Date: Wednesday 30 March 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.

2. Recommendations:

2.1 **Approve** the interim budget as detailed in section 5.

2.2 **Approve** the proposed use of reserves which includes:

- £0.1m of activity slipped from 2021/22 to 2022/23
- £0.125m in quarter one 2022/23 to support operating costs. This representing 25% of the previously proposed annual allocation of £0.5m.
- cost of transition to a new structure anticipated to be incurred in the quarter.

2.3 **Note** the processes by which TfN is following to prepare the business plan and full budget for 2022/23 for consideration by the Board at its June meeting.

2.4 **Delegate authority** for the Chief Executive to initiate any time critical activity within the proposed annual budget if it falls within the annualised funding envelope of £7.1m (including 2021/22 slippage and excluding transition costs).

2.5 TfN Board notes the Outturn report included at Appendix 4.1

2.6 TfN approves the Annual Treasury Management Strategy as detailed in Appendices 4.2 and 4.3

3. Background

3.1 As reported at the CEO consultation call on 23 February, TfN received a funding allocation ("The Funding Letter") from the department on 14 February. This included:

- £6.5m Core allocation which 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.
- DfT confirming that it would like TfN to continue to provide analytical support to the NPR programme. The Funding Letter sets out that TfN will be provided with an £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). This funding will secure the capability of the function and will be supplemented by external procurement to support specific work programmes requested by DfT
- Confirmation that 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.

- Confirmation that DfT will fund 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 In January TfN received confirmation that it had secured an in-year allocation of £336,000, although the bulk of this grant will be expended in 2022/23. This grant is to be used in support of six areas of activity, contingent on them being consistent with the TfN Business Plan.
- 3.3 TfN funding has been granted on a single-year basis. The Funding Letter states that "future years funding will be adjusted appropriately depending on TfN's performance in the coming financial year".
- 3.4 Whilst the clarity provided by the funding letter is welcomed, the timing is such that it has not been possible to conclude our budgeting and business planning processes in time for this meeting to consider.
- 3.5 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, and as set out in the CEO consultation call of 23 February, the full impact of the FY2021/22 funding cuts will now flow through into the organisation and require a material reduction in activity and expenditure from previous years.
- 3.6 The reduction in activity as a result of closing down the NPR programme will significantly reduce the level of activity the TfN's support services are required to manage. This will in turn reduce the level of resourcing required, notwithstanding the base level of organisational infrastructure required to deliver ongoing activity.
- 3.7 The reserve release in 2022/23 will be dependent upon the level of transition costs incurred in moving to a sustainable organisational structure. The projected retained reserve of £2.9m at 2024/25 (from £0.5m release per year for three years from a base of £4.4m) is therefore overstated to the extent of those costs
- 3.8 As noted 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 17 posts previously TDF funded posts identified to transfer to DfT. The transfer date is now confirmed as 1 April 2022.

Instead of directly TUPE transferring the TAME service, the DfT has instead identified those TAME posts supporting the evidence base for NPR and wider IRP remain within TfN and agreed a service level agreement with TfN to deliver these services for 2022/23 on their behalf. The funding for this DfT Service sits outside of the core funding as this is not a TfN service.

In summary 17 FTE posts have been directly transferred to DfT and we have 24 FTE posts ringfenced to deliver a dedicated service to DfT. Therefore, to date TfN's core people establishment has reduced by a total of 41 FTE as a direct consequence of the IRP.

DfT have confirmed that if the service is not continued beyond 2022/23, it will fund any transition costs relating to these roles.

- 3.9 The reduction in Core funding, in combination with the changes in working arrangements post publication of the IRP, requires organisation change of TfN. As identified in the CEO consultation call of 23 February this is likely to result in redundancies amongst TfN's workforce. Aligned to TfN's Security of Employment policy and a request from UNISON as reported to TfN Board previously we have opened up our Voluntary Redundancy policy on the 21 March.
- 3.10 The CEO/HR are continuing to communicate with the staff, employee forum and trade union representatives to keep them informed of progress in relation to setting the Budget and Business Planning.

4. Business Planning

- 4.1 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 in relation to the Strategic Transport Plan. It also emphasises the importance of ensuring the Business Plan has identifiable 'SMART' targets against which progress can be measured and which can inform future discussions with the DfT on funding.
- 4.2 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".
- 4.3 Given the continuation of TfN's statutory responsibilities, the discussion at the CEO consultation call of 23 February reaffirmed that TfN's current targeted outcomes remain relevant, and these are being used as the basis for business planning:
- Transformed economic performance
 - Improved productivity
 - Enhanced inclusivity, health, and access to opportunities for all
 - Better quality of life.
- 4.4 Similarly, the same discussion reaffirmed that the key NTC objectives adopted during last year's business planning process also remain relevant, and these are being carried forward into 2022/23:
- Championing an inclusive and sustainable North
 - Leading Strategic transport delivery
 - A long-term northern funding settlement
 - Putting Passengers first
- 4.5 Whilst the overarching Golden Thread remains consistent, the business planning work now under way needs to prioritise activities moving forward so as to place the organisation on a sustainable financial footing. For the consultation call held on 23 February the CEO set out the framework that is being used to shape the business planning work now underway.
- 4.6 Explicit to the way forward 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, this will need to include:
 - Commissioning work to review and update the Independent Economic Review
 - Reviewing and updating the Regional Evidence Base
 - Reviewing the current Strategic Transport Plan and preparing a draft of the revised Plan.

- 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, this will need to include:
 - Using the analytical capability within TfN to work with partners to identify future investment requirements
 - Working with partners to prioritise future investment requirements and to ensure these are taken into account within the investment programmes of national bodies – e.g. National Highways, Network Rail
 - Working with Government and partners to improve the delivery of agreed priorities
- Implementation – investing in the capacity and capability required to develop and then accelerate implementation of the Strategy and its Investment Programme, this will need to include
 - Continuing to work with DfT through the Rail North Partnership to ensure the delivery of rail services reflects the North’s priorities
 - Strengthening the working relationships with national bodies – such as National Highways, Network Rail, GBR Transition Team – using them to ensure TfN’s work on the Strategic Transport Plan is shaped by their input
 - Working with partners to identify opportunities to apply the knowledge and capabilities held by TfN in support of the delivery of agreed regional priorities.

4.7 In this way TfN’s work on the Strategic Transport Plan will be user centred, place-based and outcome focused.

4.8 It will also enable TfN continues to provide added value by being a:

- Centre of technical excellence for the North – holding and collating information and analytical tools that are available to and can support all TfN partners
- Source of trusted information – commissioning technical work, the outputs of which are available to TfN partners, and which is then used to shape and inform debate in the North and nationally
- Strategic thought leader:
 - Sector specific – for example freight and logistics, ev-charging infrastructure
 - Systems thinking – helping to align policy activity in the transport sector with that in digital connectivity and energy systems in order to achieve agreed strategic outcomes
- Enabler of accelerated delivery – supporting the preparation of business cases and making the case for managing delivery as a managed programme (seeking a simplification of, and reduction in processes).

4.9 The transition to the new operating model will require a redesign of TfN organisation and a reduction in the overall number staff.

4.10 It is important that the transition to the new model is achieved quickly and that we reduce our level of our ongoing expenditure. Undue delay will mean exposing TfN to month-on-month expenditure that is in excess of our available funding and therefore risk exhausting our reserves. The timeline being pursued will ensure that TfN’s commitments and responsibilities in respect of its HR policies and procedures will be complied with.

4.11 The key steps and timings to deliver the business plan and budget are:

- Establish Business Plan priorities – March/April 2022
- Seek informal steer from Board members –April 2022
- Complete cost and resource Business Plan – April/May 2022
- Confirm affordability of the Business Plan – April/May 2022

- Seek formal approval of 2022/23 Budget – June 2022

5. Interim Budget

- 5.1 The Business Planning process now under way is being driven by the approach outlined above consistent with the golden thread and the framework endorsed by the Board during the consultation call on 23 February. This will enable the development of a proposed reorganisation of TfN upon which consultation with the staff will take place. To the extent that this is a reduction from the current organisational structure, this process will enable the cost of the transition to be identified: e.g. notice and redundancy costs. These costs, whilst currently unknown, will need to be funded from TfN reserves.
- 5.2 This transition cost is assumed to be incurred in Q1 but, as it is intrinsically linked to the size and mix of headcount reduction (which is as yet unknown), it has not been possible to assign a budgetary value. However, it is anticipated that the reserves currently held will be sufficient to cover the transition costs.
- 5.3 Whilst work to prepare the Budget for the full year continues it is necessary for the Board to agree a Q1 interim budget in order to enable TfN to continue to operate. The total Q1 budget is £3.90m as detailed below. The programme budgets are indicative for the year and are funded by ring fenced budgets.

Budget	22/23 Q1 £m	22/23 Q2 £m	22/23 Q3 £m	22/23 Q4 £m	22/23 Total £m
Programmes:					
Northern Powerhouse Rail	0.20	0.07	0.07	0.07	0.41
NPR Analytical Support	1.42	1.41	1.41	1.41	5.66
Development projects	0.00	0.34	0.00	0.00	0.34
	1.62	1.83	1.49	1.48	6.41
Rail Operations	0.58	0.56	0.56	0.56	2.27
Operational Areas	1.71	1.42	1.42	1.46	6.00
Total	3.90	3.81	3.47	3.50	14.68

Northern Powerhouse Rail

- 5.4 The provision of £0.41m (£0.2m for Q1) represents the estimated costs associated to closing the NPR programme that would have been incurred in the year to 2022/23. It includes:
- £0.2m for accommodation costs (underwritten by the DfT) for the period to March 2023 but does not include the period to December 2023 (as per the underwrite). This will be included in the 2023/24 budget with any closure and dilapidation costs associated with the termination of the lease.
 - Estimated costs of £0.1m for the salaries and transition costs of roles that had been dedicated to the programme but were not transferred under TUPE.
 - £0.1m for contracted costs that TfN is unable to mitigate as a consequence of the transfer of the NPR programme to DfT.
 - We are currently concluding when these funds will be remitted but DfT have confirmed all costs relating to the closure of the NPR programme will be funded from TDF or reimbursed via the sponsorship team.

NPR Analytical Support

- 5.5 The total estimated budget of £5.66m (£1.42m for Q1) represents the costs associated to delivering the TAME solution to the NPR programme. It includes:
- £1.5m for staff / resource / support based costs.
 - £4.2m to deliver the externally procured services required to meet DfT specified service. At the date of writing this grant allocation had not been formally confirmed. Commitments against this estimated costs will be specified and agreed in advance for each quarter and have a confirmed funding allocation.

Development Projects

- 5.6 The total budget of £0.34m (£nil for Q1) represents the costs associated to delivering the schemes funded under a ring-fenced allocation confirmed in January 2022. These include:
- Clean mobility visions project
 - Northern hydrogen transport networks
 - Reducing the barriers to bus travel across LTA boundaries
 - Analytical support on BSIP implementation
 - Digital mobility hub pilot
 - Extension of TfN infrastructure charging project

The Business Planning process currently underway will be used to confirm that these projects remain priorities for TfN moving forward.

Rail Operations / Operational Areas / Core funded budgets

- 5.7 The core funded budgets are detailed below.

	22/23 Q1 £m
Cost breakdown:	
Salaries	1.37
Non-discretionary	0.36
Discretionary	0.12
Total	1.85

- 5.8 The salaries budget of £1.37m for quarter 1 consists of 66 roles, costed for the full three months of the quarter, as detailed below.

Budget Q1 22/23 Core Headcount	Staff £m	Int'ms £m
Major Roads	6.00	0.00
Leadership	3.00	0.00
Finance	5.00	3.00
Business Capabilities	23.00	3.00
Strategy & Policy	18.00	0.00
Strategic Rail	5.00	0.00
Total	60.00	6.00

- 5.9 Non-discretionary spend of £0.36m represents costs that will be incurred independently to business plan objectives such as office accommodation and business support costs such as licences, internal audit, insurance etc.

- 5.10 The discretionary spend currently represents anticipated slippage from 2021/22 of £0.1m and a limited budget of £0.1m for high priority commissioned professional services that support the finalised business plan objectives. This budget will meet the Q1 proportion of prioritised spend. The remaining quarters and any other discretionary spend, to the extent they are relevant, are anticipated to be funded from savings made from the restructure.

6. Funding

Funding	Q1 22/23 Budget £m
Core Grant	1.625
Development Grant	0.00
NPR Grants:	1.61
<i>Transition/closure</i>	<i>0.20</i>
<i>Analytical Support</i>	<i>0.38</i>
<i>Analytical External Contracts</i>	<i>1.04</i>
Rail Operations Grants:	0.44
<i>Esk Valley</i>	<i>0.02</i>
<i>DfT Grant</i>	<i>0.20</i>
<i>Local Contributions</i>	<i>0.16</i>
<i>Network Rail (TRU)</i>	<i>0.06</i>
Total In-Year Grant	3.68
Use of Reserves	0.222
Total Resource	3.90

- 6.1 Core funded activities would require funding of £1.85m made up of £1.63m / 25% of in year funding and £0.2m of reserves of which £0.1m represents slippage from 2021/22.
- 6.2 The NPR grants totalling £1.61m in Q1 are ring fenced grants that will be reimbursed if expenditure levels are lower than budgeted.
- 6.3 Rail operation grants are anticipated to reoccur at levels similar to previous years.
- 6.4 Transition costs incurred in moving to a sustainable organisational structure, which are as yet unknown, will be met from reserves.

7. Cost Control

- 7.1 During the Business Planning period we will continue the scrutiny of activities to ensure that where work is taken forward it is of the highest priority. This is consistent with the approach outlined during the consultation call on 23 February.
- 7.2 The organisational restructure is planned to be implemented from end of Q1 (i.e. end of June 2022). If the restructuring, or elements of it, can be implemented in advance of this date, there would be budget capacity to accelerate activities scheduled outside the quarter whilst staying within the funding envelope.

8. Future Year Budgeting

- 8.1 Once the business plan for 2022/23 has been finalised, resourced, costed and deemed affordable, a full year budget will be compiled.
- 8.2 On the assumption the full year budget can be accommodated within the core funding envelope of £7.1m (£6.5m 2022/23 in year funding, £0.5m of reserve release and £0.1m of slippage from 2021/22), to ensure will minimise delivery risk, we would seek

a delegation to initiate the adoption of this budget in advance of the June board meeting and then seek formal approval at the June board meeting.

- 8.3 As referenced above, it is envisioned that any transition costs will need to be funded from the forecast general reserve at 31 March 2022 of £4.4m. The annual 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.
- 8.4 If the structural reorganisation were not implemented by 30 June 2022, significant reductions in business plan activity would need to be implemented to maintain appropriate reserves to the current year and future year's budgets.

9. Corporate Considerations:

Financial Implications

- 9.1 The financial implications are included within the report.

Resource Implications

- 9.2 As detailed above, TfN's core funding settlement and changes to working practices aligned to the IRP this have to date resulted in a core people establishment reduction of approx 41 posts FTE (circa 30%), with further workforce reductions (redundancies) considered likely to be identified through the business planning process.

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

Given this will be the second year of workforce reductions across the organisation (approx. 41% establishment reduction to date over the last two years) and only a one-year budget allocated this will impact on future attraction/recruitment and workforce retention levels.

We will sight members of the actual core people establishment reductions over the two year period at the end of the Business planning process.

Legal Implications

- 9.3 The legal implications are covered within this 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 equality and diversity matters.

Consultations

- 9.7 No consultation is required.

10. Appendices

- 10.1 Appendix 1 – Forecast Financial Outturn 2021/22
- 10.2 Appendix 2 – Treasury Management Strategy Cover paper
- 10.3 Appendix 3 – Treasury Management Strategy