

Meeting: Transport for the North Board
Subject: Appendix 5.2: Forecast Financial Position at 2021/22 Outturn
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1. Purpose of the Report:

1.1 This appendix provides a summary of the forecast financial position of TfN as at the outturn of financial year 2021/22.

2. Executive Summary:

2.1 TfN forecasts that over the course of financial year 2021/22 it will incur expenditure of £53.12m against an opening committed budget (i.e. excl. contingency) of £60.18m, representing a £7.06m underspend.

2.2 The majority of this underspend is within the NPR programme which is funded by ring-fenced TDF grant. A small element relates to core funded activities. As a result, the Core Grant reserves carried forward into 2022/23 are forecast to be £4.41m, £0.41m higher than planned in the budget.

3. Budget Summary:

3.1 TfN's gross budget for financial year 2021/22 was £78.70m, of which £18.52m was contingency. TfN monitors financial performance against the net budget – that is, the budget excluding contingency. The net budget for 2021/22 was £60.18m.

3.2 Over the course of the year TfN has formally revised its budget three times, after quarters 1, 2 and 3 as shown in the following table.

	Base	Forecast 1	Forecast 2	Forecast 3	Outturn
	£m	£m	£m	£m	£m
Northern Powerhouse Rail	48.48	48.48	45.62	45.62	42.08
IPBA	0.89	0.89	0.86	0.86	0.86
Integrated & Smart Ticketing	1.52	1.52	1.23	1.23	1.14
Programmes Total	50.89	50.89	47.71	47.71	44.08
Rail Operations	3.16	3.19	3.10	3.04	2.99
Operational Areas	6.13	6.10	6.22	6.27	6.05
Net total (excl contingency)	60.18	60.18	57.03	57.02	53.12
Contingency	18.52	4.09	0.00	0.00	0.00
Total	78.70	64.27	57.03	57.02	53.12

3.3 TfN is constituted, and is required to function, as a standalone statutory entity. As members will be aware, TfN has no revenue raising powers, and is almost entirely funded by grants from DfT. Prior to the funding letter that was received on 14 February 2022, TfN experienced significant uncertainty about its funding for the 2022/23 budget year, which limited the ability to plan and commit expenditure that could impact upon the year ahead. This impacted particularly on core funded activity, where TfN has maintained a regime of cost control which reined back on commitments that ran into next year. In addition, a vacancy management process has been in place with c.18% of TfN posts being vacant by the end of the year.

3.4 The estimated net outturn of £53.12m is a shortfall of £7.06m compared to the original budget. This was driven by underspend in programme areas: NPR

(£6.40m), IST (£0.38m) and IBPA (£0.03m). There was also an underspend in Rail Operations (£0.17m). Underspend in Operational Areas was minimised through a budget virement process, reallocating underspends, and savings to fund new opportunities identified as supportive of the business plan. Marginal underspend (£0.08m) is due to activity already underway where completion has slipped into the beginning of the next financial year.

- 3.5 Only minor changes occurred between Revisions 2 and 3. The further gross reduction of £3.90m between the Revision 3 and forecast Outturn of £53.12m was largely driven by NPR where there was a £3.54m reduction as work was delayed by the uncertainty and then transfer of the programme to DfT. The remaining £0.36m underspend arose in Operational Areas (£0.22m), IST (£0.09m) and Rail Operations (£0.05m).
- 3.6 Changes to expenditure forecasts affect TfN's funding position. In most cases, where TfN underspends against its budget its funding position is simply corrected by drawing down on less government grant. However, when underspend was due to be funded from TfN's Core Grant underspend will flow through to reserves. These reserves are then available for future deployment, being matched against slipped activity or deployed to meet anticipated shortfalls between core expenditure (net of recharge to programmes) and funding allocations.

4.0 Periods 1-11 Financial Performance

- 4.1 TfN's financial performance up to the end of February, measured against the Revised Budget 3 year to date, is detailed below:

	Actuals	Revision 3 YTD	Variance	Variance
	£m	£m	£m	%
Northern Powerhouse Rail	36.34	36.46	(0.12)	(0%)
IPBA	0.85	0.85	0.00	0%
Integrated & Smart Ticketing	1.13	1.15	(0.02)	(2%)
Programmes	38.32	38.46	(0.14)	(0%)
Rail Operations	2.68	2.67	0.01	0%
Operational Areas	5.45	5.59	(0.14)	(3%)
	46.45	46.72	(0.27)	(1%)

- 4.2 Over the year to-date a range of issues have been evident, including:
- Underspend on the NPR programme connected to the Integrated Rail Plan.
 - Throughout the year savings in core funded activities have been redeployed to deliver new activities supportive of the business plan.
 - The delayed notification of 2022/23 funding and the challenges posed by the allocation has led to some activity being paused.

5.0 Forecast Financial Position to Outturn

- 5.1 TfN forecasts that it will incur expenditure totalling £53.12m to the end of the financial year 2021/22 as shown in the following table.

	Outturn	Base	Variance	Variance
	£m	£m	£m	%
Northern Powerhouse Rail	42.08	48.48	(6.40)	(13%)
IPBA	0.86	0.89	(0.03)	(3%)
Integrated & Smart Ticketing	1.14	1.52	(0.38)	(25%)
	44.08	50.89	(6.81)	(13%)
Rail Operations	2.99	3.16	(0.17)	(5%)
Operational Areas	6.05	6.13	(0.08)	(1%)
Total	53.12	60.18	(7.06)	(12%)

- 5.2 Set against the opening base net budget, exclusive of contingency, this represents an underspend of £7.06m.

Integrated and Smart Ticketing Programme

Integrated & Smart Ticketing	Outturn £m	Base £m	Variance £m	Variance %
Phase 1	0.29	0.48	(0.19)	(40%)
Phase 2	0.14	0.20	(0.06)	(30%)
Programme costs	0.71	0.84	(0.13)	(15%)
	1.14	1.52	(0.38)	(25%)

- 5.4 To meet the costs relating to the closure of the programme, the IST budget was £1.52m. The forecast outturn is £1.14m, generating a saving of £0.38m. This was a ring-fenced budget and will be repaid to DfT post year end.

NPR Programme

Northern Powerhouse Rail	Outturn £m	Base £m	Variance £m	Variance %
Rail Studies	25.37	27.60	(2.23)	(8%)
Programme Development	7.77	11.85	(4.07)	(34%)
Modelling & Economic Appraisal	3.24	3.20	0.04	1%
Programme Support	5.70	5.83	(0.13)	(2%)
	42.08	48.48	(6.40)	(13%)

- 5.6 The NPR Programme started the year with a total allocation of £67.00m, which included a base budget of £48.48m, supplemented with additional uncommitted contingency of £18.52m, to respond to emerging priorities post IRP publication. The outturn forecast indicates that the programme will incur total expenditure of £42.08m, generating an underspend of £6.40m against base budget, with no use of the contingency envelope.
- 5.7 Delays to the publication of the IRP, initially anticipated in the first quarter of the financial year, have had an impact on the run-rate of the programme throughout the year, generating underspends against the base budget. A lack of clarity on the timing and content of the IRP, led TfN to maintain the committed budget at Revision 1, reducing the contingency envelope.
- 5.8 At Revision 2, the base budget was reduced to reflect accumulated underspends in the first half of the year and releasing the remaining contingency envelope.
- 5.9 Following the publication of the IRP, new NPR governance arrangements were announced, which will see the closure of the NPR programme within TfN. The NPR budget was maintained between revision 2 and 3 allowing for capacity to absorb any additional costs that may be incurred because of the programme closure.
- 5.10 The forecast outturn position of £42.08m reflects agreed remit on the programme to the end of the financial year. Residual programme closure costs likely to be incurred in the next financial year continue to be discussed with the department and are included in the 2022/23 interim budget.
- 5.11 TfN has continued to communicate revised NPR forecasts to DfT through quarterly funding letters allowing surplus funding to be redeployed at the Department's discretion in-year.

Investment Programme Benefits Analysis

- 5.12 The IPBA programme is expected to complete below the original budget, reflecting a partial saving on the allocated contingency.

Rail Operations

	Outturn	Base	Variance	Variance
Rail Operations	£m	£m	£m	%
Strategic Rail Team	1.72	1.80	(0.08)	(4%)
Rail North Partnership Team	1.27	1.36	(0.09)	(6%)
	2.99	3.16	(0.17)	(5%)

5.14 The reduced outturn position in Rail Operations results from vacancy savings. A small number of roles have remained vacant for a large part of the year due to funding uncertainties, the saving partially offset by use of contractor resource.

Operational Areas

	Outturn	Base	Variance	Variance
Operational Areas	£m	£m	£m	%
Leadership	0.30	0.31	(0.01)	(3%)
Finance & Business Systems	0.88	1.01	(0.13)	(13%)
Business Capabilities	2.88	3.09	(0.21)	(7%)
Programme Management Office	0.14	0.14	0.00	0%
Strategy & Policy	2.50	2.36	0.14	6%
Major Roads	0.89	0.76	0.13	17%
Total Expenditure	7.59	7.67	(0.08)	(1%)
Costs apportioned to NPR	(1.54)	(1.54)	0.00	0%
Net Expenditure	6.05	6.13	(0.08)	(1%)

5.16 TfN's core operations areas cover the back, front, and middle office teams familiar to any public body. They include the teams that allow TfN to discharge on its statutory obligations in relation to good governance and the sound-stewardship of public funds, along with the policy and strategy teams that help shape TfN's activity and its commitment to evidence-based decision making, and the communications and engagement teams that allow TfN to speak with one voice on behalf of the North.

5.17 The opening base budget for these teams stood at £7.67m gross, £6.13m net for the year after the apportionment of costs into the NPR programme of £1.54m.

5.18 The underspend in Core operational areas predominantly relates to slipped activity. TfN has operated a budget virement process this year whereby underspend in some areas of the business areas has been repurposed elsewhere for emerging opportunities during the year. This has predominantly involved additional budget being allocated to Strategy & Policy and Major Roads.

6.0 Funding

6.1 TfN will resource its forecast expenditure of £53.12m from a mixture of grant, contributions, contracted income and reserves as shown in the following table.

	Outturn	Base	Variance	Variance
Funding	£m	£m	£m	%
IST Grant	1.14	1.52	(0.38)	(25%)
TDF Grant (NPR)	42.08	48.48	(6.40)	(13%)
Core Grant	6.00	6.00	0.00	0%
Rail North Grant & Contribution	1.38	1.32	0.06	5%
Contracted Income	0.26	0.32	(0.06)	(19%)
Total In-Year Grant	50.86	57.64	(6.78)	(12%)
Use of Reserves	2.26	2.54	(0.28)	(11%)
Total Resource	53.12	60.18	(7.06)	(12%)

- 6.2 Variances between the planned use of resources compared to forecast outturn partly reflects the variances in expenditure. However, the reduction in Core funding and wind down of NPR activities has also impacted on expenditure.
- 6.3 The implications of underspend against grant envelopes varies by funding stream are as follows:
- IST grant will be used to fund the wind down of the programme and any unutilised grant will be returned to the department.
 - TDF grant is made available on an annual basis and awarded on a "need" basis with unused allocations being redeployed at the Department's discretion in-year.
 - Rail North grant is received in full by TfN each year with unused amount held for future use as grant unapplied.
 - Core grant is received in full by TfN each year with unused resource flowing through to the Core Grant Reserve.

- 6.4 The budgeted and actual movements in TfN's Core reserves in year are as follows with underspends described above:

	Outturn	Base	Variance
Core Grant Reserves	£m	£m	£m
Reserve b/f	6.67	6.54	0.13
Draw	(2.26)	(2.54)	0.28
Contribution	0.00	0.00	0.00
Reserve c/f	4.41	4.00	0.41

- 6.5 The year-end Core cash reserve is forecast to be £4.41m, an increase of £0.41m against base position. This is due to a combination of the higher than forecast opening position (£0.13m) and a reduced draw on reserves for 2021/22 of £0.28m (due to higher than anticipated rail grants and some slipped activity).

7.0 Recommendation:

- 7.1 That the TfN Board notes the estimated outturn position for 2021/22.