

Meeting: Transport for the North Audit & Governance Committee

Subject: Financial Outturn 2021/22

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1. Purpose of the Report:

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

2. Recommendations:

2.1 That the Committee notes the outturn position for 2021/22.

3. Main Issues:

3.1 In summary, over the course of financial year 2021/22 TfN incurred expenditure of £52.33m against an opening committed budget (i.e. excl. contingency) of £60.18m, representing a £7.85m underspend. 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 £4.57m, £0.57m higher than originally planned.

3.2 *Budget Summary*

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.

3.3 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. The Outturn for the year has been included within this table.

	Base £m	Forecast 1 £m	Forecast 2 £m	Forecast 3 £m	Outturn £m
Northern Powerhouse Rail	48.48	48.48	45.62	45.62	41.44
IPBA	0.89	0.89	0.86	0.86	0.87
Integrated & Smart Ticketing	1.52	1.52	1.23	1.23	1.08
Programmes Total	50.89	50.89	47.71	47.71	43.39
Rail Operations	3.16	3.19	3.10	3.04	2.93
Operational Areas	6.13	6.10	6.22	6.27	6.01
Net total (excl contingency)	60.18	60.18	57.03	57.02	52.33
Contingency	18.52	4.09	0.00	0.00	0.00
Total	78.70	64.27	57.03	57.02	52.33

3.4 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.24% of TfN posts being vacant by the end of the year.

- 3.5 The net outturn of £52.33m is a shortfall of £7.85m compared to the original budget. This was driven by underspend in programme areas: NPR (£7.04m), IST (£0.44m) and IBPA (£0.02m). There was also an underspend in Rail Operations (£0.23m). 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. The marginal underspend (£0.12m) is due to activity already underway where completion has slipped into the beginning of the next financial year.
- 3.6 Only minor changes occurred between Revisions 2 and 3. The further gross reduction of £4.69m between the Revision 3 and Outturn of £52.33m was largely driven by NPR where there was a £4.18m reduction as work was delayed by the uncertainty and then transfer of the programme to DfT. After allowing for £0.01m increase in IPBA, the remaining £0.51m underspend arose in Operational Areas (£0.26m), IST (£0.15m) and Rail Operations (£0.11m).
- 3.7 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.
- 3.8 *Outturn Financial Position*

TfN incurred expenditure totalling £52.33m to the end of the financial year 2021/22 as shown in the following table.

	Outturn £m	Base £m	Variance £m	Variance %
Northern Powerhouse Rail	41.44	48.48	(7.04)	(15%)
IPBA	0.87	0.89	(0.02)	(2%)
Integrated & Smart Ticketing	1.08	1.52	(0.44)	(29%)
	43.39	50.89	(7.50)	(15%)
Rail Operations	2.93	3.16	(0.23)	(7%)
Operational Areas	6.01	6.13	(0.12)	(2%)
Total	52.33	60.18	(7.85)	(13%)

- 3.9 Set against the opening base net budget, exclusive of contingency, this represents an underspend of £7.85m. 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.

3.10 *Integrated and Smart Ticketing Programme*

	Outturn	Base	Variance	Variance
Integrated & Smart Ticketing	£m	£m	£m	%
Phase 1	0.06	0.48	(0.42)	(88%)
Phase 2	0.32	0.20	0.12	60%
Programme costs	0.70	0.84	(0.14)	(17%)
	1.08	1.52	(0.44)	(29%)

3.11 To meet the costs relating to the closure of the programme, the IST budget was £1.52m. The outturn was £1.08m, generating a saving of £0.44m. This was a ring-fenced grant funded budget, and the balance of the grant will be repaid to DfT in 2022/23.

3.12 *NPR Programme*

	Outturn	Base	Variance	Variance
Northern Powerhouse Rail	£m	£m	£m	%
Rail Studies	25.23	27.60	(2.37)	-9%
Programme Development	8.57	11.85	(3.28)	-28%
Modelling & Economic Appraisal	3.48	3.20	0.28	9%
Programme Support	4.16	5.83	(1.67)	-29%
	41.44	48.48	(7.04)	-15%

3.13 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 was total expenditure of £41.44m, generating an underspend of £7.04m against base budget, with no use of the contingency envelope.

3.14 Delays to the publication of the IRP, initially anticipated in the first quarter of the financial year, 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.

3.15 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.

3.16 Following the publication of the IRP, new NPR governance arrangements were announced, which led to 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 being incurred because of the programme closure.

3.17 The outturn position of £41.44m reflects the agreed remit on the programme to the end of the financial year. Residual programme closure costs being incurred in the next financial year are included in the 2022/23 interim budget.

3.18 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.

3.19 *Investment Programme Benefits Analysis*

The IPBA programme completed below the original budget, reflecting a partial saving on the allocated contingency.

3.20 Rail Operations

Rail Operations	Outturn	Base	Variance	Variance
	£m	£m	£m	%
Rail North Partnership	1.44	1.80	(0.36)	(20%)
Strategic Rail	1.49	1.36	0.13	10%
	2.93	3.16	(0.23)	(7%)

3.21 The under spend 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.

3.22 Operational Areas

Operational Areas	Outturn	Base	Variance	Variance
	£m	£m	£m	%
Leadership	0.30	0.31	(0.01)	(3%)
Finance & Business Systems	0.89	1.01	(0.12)	(12%)
Business Capabilities	2.85	3.09	(0.24)	(8%)
Programme Management Office	0.14	0.14	0.00	0%
Strategy & Policy	2.49	2.36	0.13	6%
Major Roads	0.88	0.76	0.12	16%
Total Expenditure	7.55	7.67	(0.12)	(2%)
Costs apportioned to NPR	(1.54)	(1.54)	0.00	0%
Net Expenditure	6.01	6.13	(0.12)	(2%)

3.23 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.

3.24 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.

3.25 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.

3.26 Funding

TfN resourced its expenditure of £52.33m from a mixture of grant, contributions, contracted income and reserves as shown in the following table.

Funding	Outturn £m	Base £m	Variance £m	Variance %
IST Grant	1.08	1.52	(0.44)	(29%)
TDF Grant (NPR)	41.44	48.48	(7.04)	(15%)
Core Grant	6.00	6.00	0.00	0%
Rail North Grant & Contribution	1.44	1.32	0.12	9%
Contracted Income	0.27	0.32	(0.05)	(16%)
Total In-Year Grant	50.23	57.64	(7.41)	(13%)
Use of Reserves	2.10	2.54	(0.44)	(17%)
Total Resource	52.33	60.18	(7.85)	(13%)

3.27 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.

3.28 The implications of underspend against grant envelopes varies by funding stream are as follows:

- IST grant has been used to fund the wind down of the programme and the 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.

3.29 The budgeted and actual movements in TfN’s Core reserves in year are as follows with underspends described above:

Core Grant Reserves	Outturn £m	Base £m	Variance £m
Reserve b/f	6.67	6.54	0.13
Draw	(2.10)	(2.54)	0.44
Contribution	0.00	0.00	0.00
Reserve c/f	4.57	4.00	0.57

3.30 The year-end Core cash reserve is forecast to be £4.57m, an increase of £0.57m 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 £0.44m (due to higher than anticipated rail grants and some slipped activity).

4. Corporate Considerations

4.1 Financial Implications

The financial implications have been considered and are included in the report.

4.2 Resource Implications

There are no resource implications within this report.

4.3 Legal Implications

Legal implications are addressed within the report.

4.4 Risk Management and Key Issues

There are no material risks to be considered within this report.

4.5 ***Environmental Implications***

A full impact assessment has not been carried out because it is not considered necessary for this report.

4.6 ***Equality and Diversity***

A full impact assessment has not been carried out because it is not considered necessary for this report.

4.7 ***Consultations***

A consultation has not been carried out because it is not considered necessary for this report.

5. Background Papers

5.1 None

6. Appendices

6.1 None