

Meeting: Transport for the North Board

Subject: TfN Budget and Reserve Strategy 2022/23

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Sponsor: Martin Tugwell, Chief Executive

Meeting Date: Thursday 30 June 2022

1. Purpose of the Report:

1.1 This report sets out TfN’s financial operating environment, and the budgets that will support delivery of the TfN business plan for 2022/23 and beyond. These budgets are underpinned by a reserve strategy, which serves as TfN’s back-stop mitigation against financial risk.

2. Recommendations:

- 2.1 It is recommended that TfN Board:
- a) Approves the Budget as presented in this report;
 - b) Approves the transfer of the earmarked devolution reserve of £0.5m to general reserve. This activity would be considered alongside normal business planning;
 - c) Approves the reserve strategy as presented in this report; including the use of reserves in 2022/23 of £1.7m;
 - d) Notes the Outturn reserves as detailed in section 7.10; and
 - e) Notes that the staffing numbers included within this report are projected and subject to on-going UNISON and employee consultation.

3. Executive Summary

- 3.1 Financial year 2022/23 represents the fifth period over which Transport for the North (TfN) has existed as a statutory sub-national transport body (STB). The proposed budget for 2022/23 is £16.5m.
- 3.2 As previously reported to the Board, TfN received its funding allocation from the Department for Transport (“DfT”) on 14 February 2022 that set out a reduced funding envelope for 2022/23 compared to TfN’s CSR submission but an increase on the funding allocation of 2021/22.
- 3.3 The TfN remit for 2022/23 includes the delivery of core duties and hosted services. TfN proposes a gross budget for the year of £16.52m, inclusive of expenditure slipped from 2021/22 of £0.1m.

The following summarises the budget against activity.

	22/23
	£m
Operational Areas	8.84
Rail North Partnership	1.60
NPR Analytical Support	5.66
NPR Closure Costs	0.41
	16.52

The following summarises the budget by cost type.

22/23	
Budget	
Total by Cost Type	£m
Staff	7.31
Staff Support	0.35
Business Infrastructure	1.33
Discretionary Spend	6.09
	15.07
Transition costs	1.44
Total:	16.52

3.4 The budget is funded through a number of sources as detailed below:

22/23	
Budget	
Funding	£m
Core grant	6.50
In-Year funding	0.34
Use of Reserves	1.66
	8.50
Contract Income*	0.04
Rail North Grant/Local Contributions*	0.30
Core Duties	8.84
<i>Hosted Services:</i>	
TDF Rail Modelling	5.66
Rail North Partnership Grant	0.96
Rail North Grant/Local Contributions*	0.35
Contract Income*	0.29
NPR Closure Settlement	0.41
Hosted Services	7.68
Total Resource	16.52

*Revenue partly funds Core activities

3.5 As previously discussed with the Board members, TfN's Budget and Business Planning processes this year needs to reflect:

- The level of funding available to TfN;
- The request from DfT to provide the Analytical modelling function for NPR; and
- The change in TfN's role in relation to Northern Powerhouse Rail – from Co-client to Co-sponsor.

Whilst there is no change in TfN's statutory role as a Sub-national Transport Body, the Budget and Business Planning processes have required a review of activities, to ensure that they are focused on TfN's core responsibilities and role and are affordable.

- 3.6 Given the uncertainty regarding future funding ahead of last year's Spending Review, since last summer the Executive has been proactively managing the establishment. The use of fixed term contracts and holding vacancies enabled on-going liabilities to be managed whilst enabling TfN to continue to deliver an extensive programme of technical work. This proactive approach, coupled with applications for Voluntary Redundancy (eight offers made and accepted), will enable the reshaping of TfN to take place more quickly than would otherwise have been possible, noting that all proposed changes to TfN's structure and individual job roles will be subject to full and meaningful consultation with employees affected and TfN's recognised Trade Union, UNISON.
- 3.7 In reshaping and reducing the establishment, the Executive will ensure that TfN is both capable of delivering its priority areas of activity and affordable in the medium-term. A guiding principle throughout has been a focus on retaining (and in some instances increasing) the technical capacity and capability. At the same time, given that TfN moving forward will be a smaller and less complex organisation, the opportunity has been taken to reduce support functions.
- 3.8 Focusing on investing in TfN's technical capacity and capability means that the budget for commissioning specialist advice from consultants can be reduced significantly.
- 3.9 The key planning assumptions that underpin the Budget include:
- DfT core funding levels assumed to continue at £6.5m for this spending review period;
 - In-year funding of £336k secured in autumn 2021 is for 2022/23 only;
 - To mitigate against higher cost interim solutions, future appointments to TfN will be on a permanent basis unless circumstances are such that fixed term contracts are more appropriate;
 - Employee costs to increase in line with existing terms and conditions;
 - Cost of living increase assumed at 3% per annum;
 - The majority of voluntary redundancies are assumed to be made on or before 1 July, but a limited number deferred until 30 September and 30 October to allow business continuity. These dates may vary based on operational roll out;
 - Closure of the Leeds office – this is budgeted to be vacated before the end of Q2/September 2022;
 - Retention of Manchester office – current lease runs until December 2023: a review of future accommodation requirements will be undertaken as part of Business Planning for 2023/24; and
 - Discretionary/commission costs from 2023/24 onwards anticipated to be capped at c£0.7m plus VAT going forward (consistent with the focus on investing in retaining TfN's technical capability and capacity).
- 3.10 TfN is funded almost wholly by Government and continuing uncertainty during 2021/22 over future funding caused some of our planned activity to slow down or be rescheduled. Therefore, much of last year's planned recruitment was put on hold. As a result, TfN's staff numbers varied between 105-110 in the second half of 2021/22, averaging 25-30 vacant posts.
- 3.11 The funding settlement for 2022/23 required a material cost reduction, alongside the TUPE transfer of the Co-client North Powerhouse Rail Team (circa 17 Posts) to the DfT in April 2022 following publication of the Integrated Rail Plan with a further 24 FTE posts ring-fenced to deliver a dedicated analytical "hosted service" to DfT for FY2022/23 (circa 30% reduction to TfN's core people establishment). This context has naturally shaped our approach to resource planning which seeks to ensure TfN

continues to progress and organise itself to best meet our organisational priorities and objectives, which are directed and approved by TfN's Board.

- 3.12 Our approach to people resourcing reflects the financial constraints within which we operate, with a proposed circa 38 post reduction in our established posts alongside a review and re-alignment of our Senior Management Structure which will be implemented during quarter 2/3 of this financial year. As part of that review it is proposed that the number of Directors will be reduced from 8 to 5 (including CEO and Rail North Partnership director), with a realignment of the reporting lines for individual teams to reflect that proposed reduction. It should be noted that all proposed changes to TfN's structure and individual roles will be subject to full and meaningful consultation with employees affected and TfN's recognised Trade Union, UNISON.
- 3.13 We have sought to manage the required reduction in the previous establishment of 137 posts in 2021/22 through removal of vacant posts where possible, noting also the change in terms of the 41 posts (circa 30%) affected by the NPR Team TUPE transfer or the move to the dedicated analytical service to DfT. However, as previously advised to the Board, the scale of reductions and proposed re-organisation will necessitate both voluntary and possibly compulsory redundancies. As part of this process TfN is also undertaking a grading and evaluation exercise to ensure that pay and grading levels across TfN remain robust aligned to TfN's future operating model and organisational remit. The Board will be kept informed of the outcome of this exercise as necessary.
- 3.14 This Budget and associated Business Planning is based on our proposed establishment for 2022/23 being 103 roles of which 41 are within hosted activities, comprising 17 posts in the Rail North Partnership team and 24 posts within the NPR Tame Analytical Modelling team. Within the 62 core funded roles, priority has been given to retaining technical capability and capacity. This will be a second year of workforce reductions across the organisation and will see TfN's core service establishment reduced by 57% (83 posts) and overall total establishment by 36% (58 posts).
- 3.15 Transition costs represent estimated one-off costs relating to staff who will be displaced either through redundancy (voluntary or potentially compulsory). These include redundancy terms and notice periods commensurate with an individual's terms and conditions of employment. These costs are effectively crystallising a future liability that would only be avoided if the individual was retained in the organisation and chose to resign at a point in the future that suited their individual circumstances. Therefore, the transition cost is a cost of implementing the optimal solution for TfN, any other solution being sub-optimal. The proposed approach, which crystallises a future cost, allows the wider structure to be implemented with immediate effect and allow focus on business plan activities.
- 3.16 The key factor affecting TfN budgeting and funding on a medium-term basis is a cost base that is subject to inflation with an assumed core funding allocation that is not inflation linked. This will be an increasing issue to mitigate going forward as we effectively make a large proportion of our costs non-variable/staff based with limited flexible discretionary/commission based spend (as detailed above). Recruiting staff on a permanent basis is a better value for money proposition compared with the continued use of interim or consultant-based resourcing solutions.
- 3.17 Based on the new operating model, which places more emphasis on investing in retaining TfN's technical capacity and capability, a subsequent reduction in commissioned activity and the challenge of an unindexed grant allocation with a cost base subject to inflationary pressure, the minimum reserve has been retained at its current levels.

- 3.18 On this current trajectory, TfN will encounter sustainability issues in the medium-term as the ability of the brought forward reserve to accommodate ongoing activity is placed under pressure. Due to the assumptions around staff levels, staff cost increases, the move to a resource based operating model and an unindexed core grant, the draw in 2025/26 would be significantly higher than in earlier years and, all else being equal, forecast a reserve level below the minimum reserve. Many of these pressures are not unique to TfN and will require the Executive to work with the DfT as potential solutions are looked at ahead of a future Spending Review.
- 3.19 As discussed previously with Board members the Business Planning process used the 'golden thread' from strategy to implementation that continues to define TfN's work. This ensures that detailed individual departmental plans are aligned to a common and coordinated approach to delivery across the organisation. These common goals are what underpin the expenditure profile and budget for 2022/23.
- 3.20 The Executive have in place specific monitoring arrangements that will ensure progress against the Budget monitored and allow potential variances to be identified and managed to ensure that momentum in delivering the objectives set out in the business plan is maintained.

4. Operating Environment:

- 4.1 TfN's financial affairs are shaped by its operating environment. Parameters are set by the way in which the organisation is funded, and the practical consequences of certain limitations that are not common to local and combined authorities.
- 4.2 These limitations affect the organisation's approach and ability to access funds to manage risk. Unlike most partner authorities, TfN cannot access credit in the form of loans for capital investment and overdrafts to manage short-term cash flow fluctuations. In addition, it cannot levy or precept upon local tax bases to manage longer-term requirements as a council or local transport authority would.
- 4.3 These limitations mean that careful management is required in order to avoid insolvency risk: that is, ensuring TfN maintains sufficient cash and the resource to meet our liabilities. The need for careful management is increased by TfN's inability to recover VAT, which means that it is exposed to higher costs without an associated increase in its resources.
- 4.4 These issues emphasise the importance of risk management when developing budgets, particularly the need for focused cost transparency, and alignment of costs to funding streams. In particular, it underscores the importance of managing resource to ensure TfN protects funding streams which afford TfN flexibility.
- 4.5 Due to the conditions placed upon the discrete grants which fund hosted activities, discretionary resource is limited to TfN's annual Core grant (increased by £0.5m to £6.5m in 2022/23 with a recognition that co-sponsor arrangements could cost in the region of £0.4m) and the deployment of the reserve created from underspends against this grant in prior years. This grant, and the reserves that flow from it, must also be used to mitigate the insolvency risk to which TfN could otherwise be exposed.
- 4.6 The key factor affecting TfN budgeting and funding on a medium-term basis is a cost base that is subject to inflation with an assumed core funding allocation that is not inflation linked. This will be an increasing issue to mitigate going forward as we effectively make a large proportion of our costs non-variable/staff based with limited flexible discretionary/commission based spend (as detailed above). Based on our three-year budget planning assumptions recruiting staff on a permanent basis is a better value for money proposition compared with the continued use of interim or consultant-based resourcing solutions.

4.7 This approach is complemented by the manner in which TfN manages its discrete grant streams. 'Discrete' grant streams refer to funding which is restricted to certain activity.

5. Budget Structure:

5.1 In previous years TfN had a remit that included significant programme delivery. Previous budgets were therefore structured with a distinction between programme and operational activities.

The transfer of the NPR programme to DfT, coupled with reduced core funding levels, and the agreement to provide a ring fenced funded analytical service in support of DfT's NPR programme using resources hosted by TfN, has provided the opportunity to re-present the budget structure.

5.2 Organisational operational expenditure consists of those costs incurred in the delivery of the ongoing business of TfN, the infrastructure required of any public body, and the supporting functions that enable TfN to deliver upon its programmes of activity and broader aspirations.

5.3 The "hosted" services include Rail North Partnership and those analytical modelling services provided to DfT in support of the NPR outline business case.

5.4 The Rail North Partnership team is hosted by TfN and manages the northern rail franchises on behalf of the Secretary of State. TfN's Strategic Rail team which advises the Rail North Committee on franchise matters, is captured within operational activities above.

5.5 Drawing a differentiation between operations and hosted activities in this manner assists TfN in the management of its financial affairs and HR strategy as it aligns activities to funding streams.

5.6 The budget structure is aligned to how activities are funded. Hosted activities are funded by discrete grants awarded by DfT. Conversely, the varied business functions of TfN within the operations element of the budget structure must be funded from the finite £6.5m Core grant, over which TfN has discretion on its application and its historic reserves.

6. Budget 2021/22 Background:

6.1 As previously discussed with the Board members, TfN's Budget and Business Planning processes this year needs to reflect:

- The level of funding available to TfN;
- The request from DfT to host a dedicated Analytical modelling function for NPR; and
- The change in TfN's role in relation to Northern Powerhouse Rail – from Co-client to Co-sponsor.

Whilst there is no change in TfN's statutory role as a Sub-national Transport Body, the Budget and Business Planning processes have required a review of activities, to ensure that they are focused on TfN's core responsibilities and role and are affordable.

6.2 Given the uncertainty regarding future funding ahead of last year's Spending Review, since last summer the Executive has been proactively managing the establishment. The use of fixed term contracts and holding vacancies enabled on-going liabilities to be managed whilst enabling TfN to continue to deliver an extensive programme of technical work. This proactive approach, coupled with applications for Voluntary Redundancy (eight offers made and accepted), will enable the reshaping of TfN to take place more quickly than would otherwise have been possible, noting that all proposed changes to TfN's structure and individual job roles will be subject to full and meaningful consultation with employees affected and TfN's recognised Trade Union, UNISON. Only once all such consultation processes are

concluded can actual establishment numbers be confirmed, and the full establishment profile reported back to the Board.

- 6.3 In reshaping and reducing the establishment, the Executive will ensure that TfN is both capable of delivering its priority areas of activity and affordable in the medium-term. A guiding principle throughout has been a focus on retaining (and in some instances increasing) the technical capacity and capability. At the same time, given that TfN moving forward will be a smaller and less complex organisation, the opportunity has been taken to reduce support functions.
- 6.4 Focusing on investing in TfN's technical capacity and capability means that the budget for commissioning specialist advice from consultants can be reduced significantly.
- 6.5 As reported at the CEO consultation call on 23 February 2022 and the TfN Board meeting on 30 March 2022, TfN received its funding allocation from the department on 14 February. This included:
- A one-year Core allocation of £6.5m including £0.4m to cover DfT's estimate of TfN undertaking its role of NPR Co-sponsor.
 - DfT confirming that it would like TfN to continue to provide analytical support to the NPR programme.
 - 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 and local authority member contributions to resource Rail North Partnership and Strategic Rail activity.
 - Confirmation that DfT will fund NPR wind down costs.
- 6.6 In addition, the meetings noted:
- An incremental grant allocation of £336,000, the majority of which was anticipated to be expended in 2022/23.
 - The 40% cut to Core funding that was received in January 2021 had been 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 were now possible given the change in working arrangements post-IRP. As a consequence, the full impact of the FY2021/22 funding cuts would now flow through into the organisation and require a material reduction in activity and expenditure from previous years.
 - The requirement to utilise reserves in 2022/23 to meet transition costs incurred in moving to a sustainable organisational structure and that this value would be firmed up during the process to finalise the 2022/23 Business Plan and Budget.
- 6.7 An interim budget for Quarter 1 was agreed by the Board at its meeting on 30 March therefore providing time to complete the business planning and budget processes for conclusion at the June 2022 Board meeting.
- 6.8 On 25 April the CEO took Board members through the proposed priority areas of work and key deliverables. Following the endorsement of those proposals, the Executive has used them to guide the Business Planning process that includes the programmes of activity that will deliver the key priorities, but also the role of the organisation: what it will do, and how it will do it. That business plan in turn drives the proposed resourcing and financial plans for the organisation, resulting in the annual budget.
- 6.9 Following an iterative process, the Budget being presented aligns the available resource to key priorities. The budget itself is differentiated between the costs incurred in running TfN and the costs of delivering hosted services. This is reflective of the different governance arrangements around these activities.

7. 2022/23 Budget

7.1 Based on the above operating and funding environment, a number of budget and planning assumptions were made in order to propose a sustainable budget for the medium term/next three years. These included:

- DfT core funding levels assumed to continue at £6.5m for this spending review period;
- In year funding of £336k secured in Autumn 2021 for 2022/23 only;
- To mitigate against higher cost interim solutions, future appointments to TfN will be on a permanent basis unless circumstances are such that fixed term contracts are more appropriate;
- Employee costs to increase in line with existing terms and conditions;
- Cost of living increase assumed at 3% per annum;
- The majority of voluntary redundancies are assumed to be made on or before 1 July, but a limited number deferred until 30 September and 30 October to allow business continuity. These dates may vary based on operational roll out;
- Closure of the Leeds office – this is budgeted to be vacated before the end of Q2/September 2022;
- Retention of Manchester office – current lease runs until December 2023: a review of future accommodation requirements will be undertaken as part of Business Planning for 2023/24; and
- Discretionary / commission costs from 2023/24 onwards anticipated to be capped at c£0.7m plus VAT going forward (consistent with the focus on investing in retaining TfN’s technical capability and capacity).

7.2 The TfN remit for 2022/23 includes the delivery of core duties and hosted services. TfN proposes a gross budget for the year of **£16.52m**, inclusive of expenditure slipped from 2021/22 of £0.1m.

The following summarises the budget against activity.

	22/23
	Budget
	£m
Operational Areas	8.84
Rail North Partnership	1.60
NPR Analytical Support	5.66
NPR Closure Costs	0.41
	16.52

The following summarises the budget by cost type.

	22/23
	Budget
Total by Cost Type	£m
Staff	7.31
Staff Support	0.35
Business Infrastructure	1.33
Discretionary Spend	6.09
	15.07
Transition costs	1.44
Total:	16.52

7.3 The budget is funded through a number of sources as detailed below:

	22/23
	Budget
Funding	£m
Core grant	6.50
In-Year funding	0.34
Use of Reserves	1.66
	8.50
Contract Income*	0.04
Rail North Grant/Local Contributions*	0.30
Core Duties	8.84
<i>Hosted Services:</i>	
TDF Rail Modelling	5.66
Rail North Partnership Grant	0.96
Rail North Grant/Local Contributions*	0.35
Contract Income*	0.29
NPR Closure Settlement	0.41
Hosted Services	7.68
Total Resource	16.52

*Revenue partly funds Core activities

- 7.4 It should be noted that VAT costs cannot be recovered. Irrecoverable VAT accounts for £1.5m of the overall budget of £16.5m. Of this, £0.8m relates to the NPR Analytical Support budget and the balance of £0.7m in operational expenditure.
- 7.5 The proposed draw from reserves for 2022/23 is £1.7m. This includes £1.4m for transition costs as detailed below and £0.3m to support the operation in year.
- 7.6 TfN's reserves were created from Core grant underspends in previous years when TfN was building its capacity and capability and are drawn upon in line with the reserve strategy adopted by TfN each year. The Core funding allocation received on 14 February 2022, coupled with the transfer of the NPR programme to DfT, has reaffirmed the need to utilise reserves to deliver a balanced budget.
- 7.7 That strategy will see a planned draw on reserves to deliver a funded budget which includes material one-off costs, including the costs associated with the transition of TfN to its new operating model, but also supports ongoing activity levels. This approach will result in general reserves of approximately £2.9m at the end of the 2022/23 financial year and is set out in more detail in Section 7.18.
- 7.8 The operational / core duty element of the budget is summarised in the following table. Overall operational area expenditure is proposed at £8.84m, (inclusive of £1.44m of transition costs) and £7.39m (excluding £1.44m of transition costs).

	21/22	22/23
	Outturn	Budget
Operational by Cost	£m	£m
Staff	4.98	5.08
Staff Support	0.33	0.23
Business Infrastructure	0.88	0.83
Discretionary Spend	3.02	1.26
	9.21	7.39
Transition costs		1.44
Programme recharge	(1.54)	
Total Operational:	7.67	8.84

- 7.9 TfN is funded almost wholly by Government and continuing uncertainty during 2021/22 over future funding caused some of our planned activity to slow down or be rescheduled. Therefore, much of last year's planned recruitment was put on hold. As a result, TfN's staff numbers varied between 105-110 in the second half of 2021/22, averaging 25-30 vacant posts.
- 7.10 The funding settlement for 2022/23 required a material cost reduction, alongside the TUPE transfer of the Co-client North Powerhouse Rail Team (circa 17 Posts) to the DfT in April 2022 following publication of the Integrated Rail Plan, with a further 24 FTE posts ring-fenced to deliver a dedicated analytical "hosted service" to DfT for FY2022/23 (circa 30% reduction to TfN's core people establishment).
- This context has naturally shaped our approach to resource planning which seeks to ensure TfN continues to progress and organise itself to best meet our organisational priorities and objectives, which are directed and approved by TfN's Board.
- 7.11 Our approach to people resourcing reflects the financial constraints within which we operate, with a proposed circa 38 post reduction in our established posts alongside a review and re-alignment of our Senior Management Structure which will be implemented during quarter 2/3 of this financial year. As part of that review it is proposed that the number of Directors will be reduced from 8 to 5 (including CEO and Rail North Partnership director), with a realignment of the reporting lines for individual teams to reflect that proposed reduction. It should be noted that all proposed changes to TfN's structure and individual roles will be subject to full and meaningful consultation with employees affected and TfN's recognised Trade Union, UNISON.
- 7.12 We have sought to manage the required reduction in the previous establishment of 137 posts in 2021/22 through removal of vacant posts where possible, noting also the change in terms of the 41 posts (circa 30%) affected by the NPR Team TUPE transfer or the move to the dedicated analytical service to DfT. However, as previously advised to the Board, the scale of reductions and proposed re-organisation will necessitate both voluntary and possibly compulsory redundancies.
- As part of this process TfN is also undertaking a grading and evaluation exercise to ensure that pay and grading levels across TfN remain robust aligned to TfN's future operating model and organisational remit. The Board will be kept informed of the outcome of this exercise as necessary.
- 7.13 This Budget and associated Business Planning is based on our proposed establishment for 2022/23 being 103 roles of which 41 are within hosted activities, comprising 17 posts in the Rail North Partnership team and 24 posts within the NPR

Tame Analytical Modelling team. Within the 62 core funded roles, priority has been given to retaining technical capability and capacity.

This will be a second year of workforce reductions across the organisation and will see TfN's core service establishment reduced by 57% (83 posts) and overall total establishment by 36% (58 posts) as set-out below:

Financial Year	Establishment		
	Core Services	Hosted Funded Services	Total Establishment
FY2020/21	145	16	161
FY2021/22	121	16	137
FY2022/23 (Projected)	62	41	103
Change over Two Years	-83 posts (-57%)	+25 posts (+256%)	-58 posts (-36%)

- 7.14 Adjusting the current year staffing budget of £5.08m for year-on-year inflation (£0.25m) and the premium associated with interim solutions (£0.18m), the like for year-on-year comparison would be £4.65m, representing a reduction of £0.33m against the prior year outturn. This comparison does not recognise the effect of the lower base due to the vacancy management initiative.
- 7.15 Transition costs represent estimated one-off costs relating to staff who will be displaced either through redundancy (voluntary or potentially compulsory). These include redundancy terms and notice periods commensurate with an individual's terms and conditions of employment. These costs are effectively crystallising a future liability that would only be avoided if the individual was retained in the organisation and chose to resign at a point in the future that suited their individual circumstances. Therefore, the transition cost is a cost of implementing the optimal solution for TfN, any other solution being sub-optimal. The proposed approach, which crystallises a future cost, allows the wider structure to be implemented with immediate effect and allow focus on business plan activities.
- 7.16 The following table analyses the operational budget across each business unit. This is indicative reporting on a basis comparable with the prior year. The format and content of reporting may be adjusted to reflect any changes to organisational structure.

	21/22	22/23
	Budget	Budget
	£m	£m
Operational:		
Major Roads	0.88	0.31
Strategy & Policy	2.64	2.26
Strategic Rail	1.65	1.20
Business Capabilities	2.85	2.46
Finance	0.89	0.82
Leadership	0.30	0.35
	<hr/>	<hr/>
	9.21	7.39
Transition costs		1.44
Programme recharge	(1.54)	
Total Operational:	<hr/>	<hr/>
	7.67	8.84

- 7.17 Operational area expenditure (excluding transition costs) is impacted across business areas as a consequence of the resource planning outlined above and the resultant reduction in discretionary spend as a consequence of building in-house capability.
- 7.18 Within the £16.52m overall budget, £1.6m relates to RNP and £5.66m relates to TAME analytical modelling undertaken on behalf of DfT.
- 7.19 The Rail North Partnership budget totals £1.6m of which £1.5m relates to staff related costs.
- 7.20 The TAME analytical modelling budget includes £1.5m (as identified within TfN's funding letter) to maintain the capability of the team and £4.16m for external contracted services to meet the service requirements.
- 7.21 TfN will continue to implement specific monitoring arrangements that will allow potential variances to be identified and resources to be managed to ensure that momentum in delivering the objectives set out in the business plan is maintained.

8. Medium-Term Financial Strategy & Reserve Strategy

- 8.1 Under statute, all local government bodies – including TfN – are required to operate to a locally defined reserves strategy that ensures that the organisation always holds a prudent level of reserves.
- 8.2 Such reserves enable the organisation to operate with a degree of flexibility and guard against financial shock.
- 8.3 A prudent reserve strategy is particularly important to TfN as it has few other levers to mitigate financial risk. As previously noted, unlike other its partners, TfN cannot access credit for short-term cash flow management and long-term investment, nor can it levy or precept upon a local tax-base to underwrite its operations.
- 8.4 TfN's approach to managing financial risk therefore has to rest on two pillars:
- a) A prudent risk culture that ensures TfN limits its exposure to financial risk arising from contracting and business operations; and
 - b) A prudent reserve strategy that ensures TfN always holds a level of cash at bank to guard against residual financial shock.

Practically, this means that TfN must work in collaboration with DfT and partners when entering into multi-year and high-risk transactions to ensure that the right balance of risk share is achieved.

- 8.5 It also means that TfN's reserve strategy must be managed in conjunction with the use of the annual Core grant allocations. As Core grant is the only discretionary resource TfN holds that can fund expenditure, it follows that financial risk must primarily be managed through this resource.
- 8.6 Following discussions with the DfT when TfN was established as a statutory body, it was agreed that TfN would target a core cash balance of *no less than* £2m to be held as a cash reserve in any given year.
- 8.7 The minimum of £2m was considered sufficient to allow for modest draws to be made in-year to meet un-budgeted opportunities that may arise, whilst also ensuring cash remained at bank to meet both unexpected costs and cash flow fluctuations.
- 8.8 Based on the new operating model, which places more emphasis on investing in retaining TfN's technical capacity and capability, a subsequent reduction in commissioned activity and the challenge of an unindexed grant allocation with a cost base subject to inflationary pressure, the **minimum reserve has been retained at its current levels.**

- 8.9 From year to year, this reserve may be drawn upon in-year, or contributions made from surpluses, with adjustments being made in following years to replenish.
- 8.10 In 2021/22 TfN budgeted to utilise £2.54m in reserves to support activity delayed from earlier years (principally IPBA) and support core activity. In addition, we were able to mitigate further draws on reserves by allocating £1.54m of cost to the NPR programme.
- The actual reserve utilisation for 2021/22 was £2.1m giving a closing general reserve of £4.6m as of 31 March 2022. The main reasons for the reduction in reserve utilisation were slippage into 2022/23 of £0.1m, increased RNP funding (for originally core fund budgeted activity) of £0.1m and general cost savings of c£0.3m.
- 8.11 As detailed above, TfN is proposing a draw from reserves totalling £1.7m of which £1.4m relates to transition costs arising due to the movement to a longer-term sustainable structure and £0.3m to support core activity. The in-year allocation is marginally lower than would normally be expected as a consequence of in-year grants allocated in the last financial year but agreed for delivery in 2022/23.
- 8.12 At the Board meeting of 30 March 2022, the actual value of transition costs wasn't known (it still is an estimate and dependent on the number and mix of personnel and timing) but the principle of utilising reserves for these costs was agreed by the Board.
- 8.13 This reserve release is forecast to leave TfN with total Core Grant Reserves of £2.9m by the end of 2022/23. At this level the Core Grant Reserves equate to 45% of current annual Core funding respectively.
- 8.14 If longer term funding arrangements more closely aligned to our proposed cost base are agreed, and such funds are agreed and remitted in advance, TfN would be able to reassess its reserves strategy, including the required minimum.
- 8.15 This approach to TfN's medium-term financial strategy is predicated on the following approach to programme expenditure:
- Non-core funded activity will be resourced from specific grants; and
 - Activity levels will be tailored to the funding available and any grant restrictions thereon.
- 8.16 The principal variables to manage through the medium-term financial strategy are therefore around the Core grant activity and, in particular, how to align the reserve strategy with business plans to allow key priorities to be resourced whilst managing inflationary pressures.
- 8.17 In a previous year, TfN created a Devolved Powers Reserve, an additional £0.5m of earmarked reserves, to support the development of future devolution proposals. Longer term sustainability assessments indicate this reserve will be required to support ongoing operations, so it is proposed this reserve is transferred back into General Reserves. The reserve table below has been prepared on the assumption this transfer will be approved.
- 8.18 TfN proposes to draw £1.7m from the General Reserve in financial year 2022/23, based on a brought forward Core Grant Reserve balance of £4.6m. The following table highlights forecast core grant requirements, resource, and the associated requirements for reserve support:

	21/22	22/23	23/24	24/25
	Act	Bud	Bud	Bud
Reserves	£m	£m	£m	£m
General Reserve:				
Balance b/f	6.17	4.07	2.90	2.50
Draw	(2.10)	(1.66)	(0.40)	(0.50)
Contribution	-	-	-	-
Transfer		0.50		
Balance c/f	4.07	2.90	2.50	2.00
Earmarked Devolved Powers:				
Balance b/f	0.50	0.50	-	-
Draw	-	-	-	-
Contribution	-	-	-	-
Transfer		(0.50)		
Balance c/f	0.50	-	-	-
Total Core Grant Reserve:				
Balance b/f	6.67	4.57	2.90	2.50
Draw	(2.10)	(1.66)	(0.40)	(0.50)
Contribution	-	-	-	-
Balance c/f	4.57	2.90	2.50	2.00

- 8.19 Future year draws on the reserve may be affected by differences from the assumptions made on pay and price inflation and also any future cost mitigation initiatives.
- 8.20 On this current trajectory, TfN will encounter sustainability issues in the medium-term as the ability of the brought forward reserve to accommodate ongoing activity is placed under pressure. Due to the assumptions around staff levels, staff cost increases, the move to a resource based operating model and an unindexed core grant, the draw in 2025/26 would be significantly higher than in earlier years and, all else being equal, forecast a reserve level below the minimum reserve. Many of these pressures are not unique to TfN and will require the Executive to work with the DfT as potential solutions are looked at ahead of a future Spending Review.
- 8.21 TfN would perform a review of its expenditure and its reserves strategy if a longer-term funding settlement were achieved.

9. Corporate Considerations

9.1 *Financial Implications*

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

9.2 *Resource Implications*

Proposed resource plans for all business areas have been identified and agreed as part of the business planning process.

All proposed changes to TfN’s structure and individual job roles will be subject to full and meaningful consultation with employees affected and TfN’s recognised Trade Union, UNISON.

This will be a second year of workforce reductions across the organisation and will see TfN’s core service establishment reduced by 57% (83 posts) and overall total establishment by 36% (58 posts) as set-out below:

Financial Year	Establishment		
	Core Services	Hosted Funded Services	Total Establishment
FY2020/21	145	16	161
FY2021/22	121	16	137
FY2022/23 (Projected)	62	41	103
Change over Two Years	-83 posts (-57%)	+25 posts (+256%)	-58 posts (-36%)

9.3 **Legal Implications**

Legal implications are covered within the report

9.4 **Risk Management and Key Issues**

A risk assessment has been carried out and the key risks are included in the report and risk register.

9.5 **Environmental Implications**

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

9.6 **Equality and Diversity**

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

9.7 **Consultations**

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

10. **Background Papers**

10.1 (TfN Board): Budget & Business Planning - January 2022

10.2 (TfN Board): Funding, Business Planning & Budget Update – February 2022

10.3 (TfN Board): Budget & Business Planning 2022/23 – March 2022

10.4 (Executive Board): Member’s Briefing – April 2022

11. **Appendices**

11.1 None