

Transport for the North Board – Item 5

Subject: 2020/21 Quarter 1 Outturn and Budget Revision 1

Author: Paul Kelly, Financial Controller

Sponsor: Iain Craven, Finance Director

Meeting Date: Wednesday 29 July 2020

1. Purpose of the Report:

- 1.1 This report details the financial position of TfN for the three-month period ending June 2020.
- 1.2 It also provides a reforecast of the 2020/21 budget, taking into account the latest delivery and programme information.

2. Executive Summary:

- 2.1 Over the three-month period to June 2020, TfN incurred expenditure of £12.33m which was £2.17m below budget.
- 2.2 Of this shortfall, 70% has been generated by slower than expected progress on the IST programme, in particular Phase 1 (ITSO on Rail), where installation work has been impacted by restrictions on access to stations due to Covid-19. Officers are working with Network Rail and the TOCs to review implementation plans. In addition, Covid-19 has caused the deferral of planned external engagement activity, including the TfN Conference.
- 2.4 The following table summarises the base Budget and Revision 1.

| | Base Budget £m | Revision 1 £m | Variance £m | Variance % |
|--------------------------|----------------------|------------------|----------------|---------------|
| Programmes: | | | | |
| Revenue Programmes | £51.30 | £52.28 | -£0.98 | -2% |
| Capital Programmes | £4.04 | £5.58 | -£1.53 | -6% |
| | £55.34 | £57.86 | -£2.52 | -5% |
| | | | | |
| Operational Areas (net) | £7.46 | £7.76 | -£0.30 | -4% |
| Rail Operations | £2.98 | £2.82 | £0.15 | 5% |
| Committed budgets | £65.78 | £68.44 | -£2.66 | -4% |

| | | | | |
|-----------------------|---------------|---------------|--------------|-----------|
| Programme Contingency | £22.27 | £18.06 | £4.21 | 19% |
| Total | £88.05 | £86.50 | £1.55 | 2% |

- 2.5 Please note that the table in 2.4 reflects a reallocation of £1.86m from capital to revenue programmes to correct a mismatch between the supporting and summary tables in the original Budget. The overall budget level was not affected.
- 2.6 TfN approved its “base” opening budget at the TfN Board meeting of 12 March 2020. This totalled £88.05m inclusive of £22.27m of programme contingency and a net budget of £65.78m. It was expected this budget would be updated three times over the course of the year.
- 2.7 Budget revision 1 is proposed to decrease the overall budget by £1.55m to £86.50m. However, as this includes a £4.21m reduction in programme contingency to £18.06m it represents an increase of £2.66m in TfN’s committed expenditure of £68.44m against the original budgeted amount of £65.78m.
- 2.8 An analysis of the overall budget variance across programmes and type of variance is detailed below:

| Programme Expenditure (No contingency) | Base Budget £m | Slippage from 19/20 £m | Slippage to 20/21 £m | Changes in year £m | Revision 1 £m |
|---|-------------------|------------------------------|----------------------------|--------------------------|------------------|
| IST Programme: | | | | | |
| Capital Expenditure | £4.04 | £1.01 | £0.00 | £0.53 | £5.58 |
| Revenue Expenditure | £5.64 | £0.00 | £0.00 | -£1.50 | £4.15 |
| | £9.69 | £1.01 | £0.00 | -£0.97 | £9.73 |
| NPR Programme | | | | | |
| NPR Programme | £43.78 | £0.00 | £0.00 | £3.53 | £47.31 |
| Strategic Development Corridors | £1.88 | £0.04 | -£1.08 | -£0.01 | £0.83 |
| Total Programme Expenditure | £45.66 | £0.04 | -£1.08 | £3.52 | £48.14 |
| Operational Areas | | | | | |
| Operational Areas | £7.46 | £0.18 | -£0.02 | £0.14 | £7.76 |
| Rail Operations | £2.98 | -£0.01 | £0.00 | -£0.14 | £2.82 |
| Committed Budgets | £65.78 | £1.22 | -£1.10 | £2.54 | £68.44 |
| Contingency | | | | | |
| Contingency | £22.27 | £0.00 | £0.00 | -£4.21 | £18.06 |
| Total Expenditure | £88.05 | £1.22 | -£1.10 | -£1.67 | £86.50 |

- 2.9 The operation of the TAME team has been impacted by the Covid-19 pandemic and the departure of senior staff members at the start of the year. This, combined with increased demands of the NPR programme to support the benefits case and the sifting programme, has prompted a more significant re-evaluation of the team’s 2020/21 Business Plan. The decision has therefore been taken to prioritise the delivery of the

extensive modelling outputs required to support the sifting process and the production of the SOC.

2.10 In consultation with TfN programme teams, the TAME team has identified four broad areas where it is appropriate to delay work until 2021/22 therefore allowing resources to be focused on NPR modelling and supporting the SOC. This is in addition to the deferral of NPR modelling activity not considered essential to support the sifting process and deliver the SOC:

- **Further model development** can be delayed where enhancements are not essential for this year's NPR and Investment Programme Benefits Analysis (IPBA) programmes.
- **Software systems** improvements designed to improve efficiency, resilience and assurance would be beneficial but can be delayed.
- **Sharing** Analytical Framework tools with TfN Partners should focus on a small number of easy demonstration projects, rather than the coordinated programme of sharing that was originally planned.
- **Delivery of Modelling and Appraisal to support the IPBA** will have its start date delayed from November 2020, when it would have coincided with peak activity to finalise the NPR SOC, to April 2021. This will help to de-risk the NPR SOC programme and enable delivery of higher quality outputs. Opportunities to improve preparedness for IPBA have also been identified, putting TAME in a stronger position to start the work in 2021 than would have been the case in 2020.

3. Financial Summary: Period 3 (June 2020) year to date

3.1 The table below summarises the three-month period ending June 2020.

| | Actuals £m | Budget £m | Var. £m | Var. % |
|--------------------------------|---------------|---------------|--------------|------------|
| Integrated and Smart Ticketing | £1.70 | £3.16 | £1.46 | 46% |
| Northern Powerhouse Rail | £8.74 | £8.76 | £0.02 | 0% |
| Major Roads | £0.16 | £0.19 | £0.03 | 15% |
| Programmes | £10.60 | £12.10 | £1.51 | 12% |
| Rail Operations | £0.53 | £0.84 | £0.30 | 36% |
| Operational Areas | £1.21 | £1.56 | £0.35 | 23% |
| | £12.33 | £14.50 | £2.17 | 15% |

3.2 [Programme Areas](#)

Integrated & Smart Ticketing Programme (IST)

- 3.3 There was a programme wide underspend of £1.46m in the three-month period to June 2020. This arose from the separate phases as follows:

Phase 1

- The total Phase 1 underspend versus the Budget is £1.04m.
- Working restrictions impacted on the ability of the franchises to deliver effective marketing initiatives.
- The issues in relation to contracting undertaken by Northern since Autumn 2019 have continued to cause delays.
- The delivery of platform validator machines and other pieces of field equipment, largely manufactured in China, was delayed. This was exacerbated by lockdown measures that impacted upon the ability of contractors to gain access to sites to install equipment.
- Programme schedules are currently being revised by the TOC's.

Phase 2/3/4 and Programme Team

- The total underspend on Phases 2,3 and 4 versus the Budget is £0.42m.
- This largely reflects lower than forecast external support costs.
- Activity on Phase 4 remains low pending IPDC review / approval of the Strategic Outline Case.

Northern Powerhouse Rail

- 3.4 The overall NPR programme incurred expenditure in line with budget with overspends and underspends within elements of the programme:

- This reflects expenditure £1.24m ahead of budget on the Network Rail contract as activity continues to accelerate to the conclusion of the Sequence 4 activity. The variances to date are against the forecast compiled in February. These overspends against budget are fully funded through Transport Development Fund commitments received from DfT and have been reflected in the Revision 1 reforecast.
- Overspend against this contract was offset by an underspend of £0.39m on budgeted Pre-sequence 5 activity by Network Rail, a number of key contracts and delayed recruitment activities that were deferred until the Department for Transport was in a position to commit funding.
- Underspend on modelling work of £0.24m year to date due to delays to contracting new activity, notably around freight.
- Vacancies within the TAME structure continued to drive underspends in the recharged staff budget of £0.36m year to date.

The use of contractors to fill the remaining positions from July will see activity accelerate in the next quarter.

Strategic Development Corridors

3.5 Budgeted expenditure for the first three periods was only £0.19m against which there was an underspend of £0.03m.

3.6 Operations

Rail Operations

3.7 Net expenditure was £0.53m against a budget of £0.84m, representing an underspend of £0.3m in the three-month period across the Rail North Partnership and Strategic Rail teams. This principally reflects underspend due to staff vacancies and associated onboarding costs.

Operational Areas

3.8 Net expenditure across the operational areas of £1.21m representing an underspend of £0.35m against the budget of £1.56m. This largely relates to underspend in Business Capabilities as a result of COVID-19 with the deferral of activity (including the TfN conference), significantly reduced facilities expenditure and underspend in Core funded modelling activity due to vacancies and delays to forecast data purchases. These activities are anticipated to be delivered in the remaining part of the year.

4.0 Budget Revision 1

4.1 The table below summarises the reforecast of net budgets with separately disclosed contingency. This shows an overall decrease in budget of £1.55m.

| | Base Budget £m | Revision 1 £m | Variance £m | Variance % |
|--------------------------|----------------------|------------------|----------------|---------------|
| Programmes: | | | | |
| Revenue Programmes | £51.30 | £52.28 | -£0.98 | -2% |
| Capital Programmes | £4.04 | £5.58 | -£1.53 | -6% |
| | £55.34 | £57.86 | -£2.52 | -5% |
| Operational Areas (net) | £7.46 | £7.76 | -£0.30 | -4% |
| Rail Operations | £2.98 | £2.82 | £0.15 | 5% |
| Committed budgets | £65.78 | £68.44 | -£2.66 | -4% |
| Programme Contingency | £22.27 | £18.06 | £4.21 | 19% |
| Total | £88.05 | £86.50 | £1.55 | 2% |

- 4.2 Budget revision 1 is proposed to decrease the overall budget by £1.55m to £86.50m. However, as this includes a £4.21m reduction in programme contingency to £18.06m it represents an increase of £2.66m in TfN's committed expenditure of £68.44m against the original budgeted amount of £65.78m.

Programme Areas

- 4.3 The following table summarises net budgets (excluding contingency) by programme.

| Programme Expenditure (No contingency) | Base Budget £m | Revision 1 £m | Variance £m | Variance % |
|---|----------------------|------------------|----------------|---------------|
| IST Programme: | | | | |
| Capital Expenditure | £5.91 | £5.58 | £0.33 | 6% |
| Revenue Expenditure | £3.77 | £4.15 | £-0.38 | -10% |
| | £9.69 | £9.73 | £-0.04 | 0% |
| | | | | |
| NPR Programme | £43.78 | £47.31 | £-3.53 | -8% |
| Strategic Development Corridors | £1.88 | £0.83 | £1.05 | 56% |
| | | | | |
| Total Programme Exp. | £55.35 | £57.86 | £-2.51 | -4% |

IST Programme

- 4.4 The overall budget of the IST programme is forecasted to increase by £0.04m. The analysis by phase is detailed in the following table.

| (No Contingency) | Base Budget £m | Revision 1 £m | Variance £m | Variance % |
|-----------------------|----------------------|---------------------|----------------|---------------|
| Phase 1 | £3.56 | £4.90 | £-1.34 | -38% |
| Phase 2 | £2.66 | £2.58 | £0.08 | 3% |
| Phase 3 | £0.98 | £0.12 | £0.87 | 88% |
| Phase 4 | £0.89 | £0.35 | £0.55 | 61% |
| IST Programme Support | £1.60 | £1.79 | £-0.19 | -12% |
| | £9.69 | £9.73 | £-0.04 | 0% |

- 4.5 The increase in forecast across Phase 1 is due to a combination of slippage from 2019/20 of £0.92m and addition of £0.84m in-year to fund additional PVALs at stations.
- 4.6 The reduction in forecasts on Phase 3 represents the cessation of work from June 2020, reflecting the uncertainty over how and when contactless on rail will proceed at a national level.

- 4.7 The reduction in forecasts on Phase 4 represents the reduction in activity whilst TfN awaits a response from DfT in relation to the Phase 4 SOC and the associated funding commitment, which is not expected until the autumn. If approval for the SOC is received from the Department in the meantime, TfN will proceed with activity to the extent that it is in receipt of the funding that it has requested and provide a revised budget to the next available TfN Board meeting.

Northern Powerhouse Rail Programme

- 4.8 The Budget Revision 1 for the NPR programme, including contingency movements, is detailed below. Whilst the overall forecast, including contingency, has remained static at £59.95m, the net committed amount has increased by £3.48m to £47.31m, with a corresponding decrease in the overall contingency level.

| NPR | Base Budget £m | Revision 1 £m | Variance £m | Variance % |
|------------------------------------|-------------------|------------------|----------------|---------------|
| Committed Budget: | | | | |
| Programme Development | £13.40 | £12.83 | £0.57 | 4% |
| Network Rail Studies | £26.40 | £30.56 | £-4.16 | -16% |
| Programme Support | £3.03 | £2.96 | £0.07 | 2% |
| Core Team | £0.95 | £0.95 | £0.00 | 0% |
| | £43.78 | £47.31 | £-3.53 | 8% |
| Uncommitted Contingency: | | | | |
| <u>Earmarked Resource</u> | - | | | |
| Programme Development | £1.20 | £0.00 | £1.20 | 100% |
| Ground Investigations (Leeds-Hull) | £1.20 | £0.50 | £0.70 | 58% |
| Constructability Assessment | £6.00 | £5.00 | £1.00 | 17% |
| Network Rail Studies | £3.16 | £0.00 | £3.16 | 100% |
| | £11.56 | £5.50 | £6.06 | 52% |
| | | | | |
| Unearmarked Resource | £4.62 | £7.14 | £-2.53 | -55% |
| | | | | |
| | £59.95 | £59.95 | £0.00 | 0% |

NPR Programme Development

- 4.9 The operation of the TAME team has been impacted by the Covid-19 pandemic and the departure of senior staff members at the start of the year. This, combined with increased demands of the NPR programme to support the benefits case and the sifting programme, has prompted a more significant re-evaluation of the team's 2020/21 Business Plan. The decision has therefore been taken to prioritise the delivery of the

extensive modelling outputs required to support the sifting process and the production of the SOC.

- 4.10 This has resulted in non-essential NPR modelling activity being deferred to allow the team to focus on its core priorities. This has resulted in a decrease in expenditure of £0.96m and, whilst this has been offset by the extension of delivery contracts for Scheme Development and Programme Support, this has resulted in an overall reduction in the Programme Development budget of £0.57m to £12.83m. The earmarked contingency associated with Programme Development has also been removed.

NPR Network Rail Studies

- 4.12 Further work to understand the level of work required from Network Rail in support of the programme has been undertaken since the Budget was prepared earlier in the year. This exercise has identified additional activity required to undertake the sifting process and deliver the SOC. This has resulted in an increase in the forecast Network Rail expenditure for the year of £4.16m. TfN has received funding commitment from the DfT in relation to this activity and removed the associated earmarked contingency.

Strategic Development Corridors

- 4.13 The Investment Programme Benefits Analysis (IPBA) work (previously known as Strategic Development Corridors Quantitative Assessment – SDC2b) was originally planned for completion by September 2021. Due to available capacity in the Modelling team and other priorities (including the NPR SOC, the Economic Recovery Plan in response to Covid-19 and Decarbonisation), this work is now expected to start in the following financial year and will be completed in Spring 2022.
- 4.14 The revised completion date means that the team will only be able to feed-in part of the investment case to Government in 2021, as while the qualitative assessment providing the evidence for sequencing options will be complete, the benefits of each of these options will not be available. There will, however, still be time to provide inputs into future rail and road investment strategies. In addition, the qualitative work can feed into the Economic Recovery Plan.
- 4.15 Whilst this will result in a decrease in planned activity for the delivery team, it will free up resources to help manage and co-ordinate TfN's response to Covid-19 (including the development of TfN's Economic Recovery Plan) and decarbonisation. In addition, the completed, but as yet unpublished, Major Roads Report will require significant amendment to recognise the impact of Covid-19 on travel patterns in the North.

Rail Operations

- 4.16 Rail operations shows a decrease in the base budget of £0.15m.
- 4.17 The majority of this decrease relates to delayed engagement of Blake Jones resources. Budget Revision 1 assumes these resources will be in place by September 2020, although there is a risk of further delay as there is still no clarity on when or if the funding will become available.

Operational Areas

- 4.18 Forecast expenditure in Budget Revision 1, after recharges, has increased by £0.3m
- 4.19 This increase mainly relates to the Strategy and Policy function and includes:
- Brought forward activity from 2019/20 of £0.18m
 - An increase in costs due to an omission in the base budget of £0.12m.

| Operational Areas | Base Budget £m | Revision 1 £m | Variance £m | Variance % |
|-----------------------------|-------------------|------------------|----------------|---------------|
| Leadership | £0.32 | £0.30 | £0.01 | 4% |
| Finance & Business Systems | £1.35 | £1.35 | £0.00 | 0% |
| Business Capabilities | £3.78 | £3.76 | £0.01 | 0% |
| Programme Management Office | £0.32 | £0.35 | -£0.02 | -7% |
| Strategy & Policy | £2.70 | £3.00 | -£0.29 | -11% |
| Total Expenditure | £8.46 | £8.76 | -£0.30 | -3% |
| Recharges to Programmes | -£1.00 | -£1.00 | £0.00 | 0% |
| Net Expenditure | £7.46 | £7.76 | -£0.30 | -3% |

5. Funding

- 5.1 The Revision 1 budget of £86.50m (inclusive of contingency) will be resourced as follows:

| Funding | Base Budget £m | Revision 1 £m | Variance £m |
|----------------------------|-------------------|------------------|----------------|
| Core Grant | £10.00 | £10.00 | £0.00 |
| IST Grant | £15.78 | £15.14 | £0.64 |
| NPR - TDF Grant | £59.00 | £59.00 | £0.00 |
| Rail Operations Grants: | £1.88 | £1.79 | £0.09 |
| <i>Esk Valley</i> | £0.08 | £0.08 | £0.00 |
| <i>DfT Grant</i> | £0.68 | £0.68 | £0.00 |
| <i>Local Contributions</i> | £0.62 | £0.62 | £0.00 |

| | | | |
|-----------------------------------|---------------|---------------|--------------|
| <i>DfT - New Responsibilities</i> | £0.27 | £0.18 | £0.09 |
| <i>Network Rail (TRU)</i> | £0.23 | £0.23 | £0.00 |
| Total In-Year Grant | £86.66 | £85.93 | £0.74 |
| Use of Reserves | £1.39 | £0.57 | £0.82 |
| Total Resource | £88.05 | £86.50 | £1.56 |

- 5.2 The funding overall funding envelope for NPR activity remains unchanged, as the overall increase in committed expenditure is funded from is funded from contingency in the TDF allocation set aside for that purpose.
- 5.3 The reduction in the draw on reserves of £0.82m, will increase the forecast year-end Core cash reserve to £5.89m.

6. Conclusion:

- 6.1 This report provides an update on TfN's financial position over the first three months of the year and a reforecast of the 2020/21 budget.
- 6.2 In accordance with TfN's approach to updating budgets, Budget Revision 1 has been compiled based on latest programme and operational input.

7. Recommendation:

- 7.1 Note and comment on the contents of this report and approve the Budget Revision 1.

List of Background Documents:

There are no background papers to this report.

Required Considerations

Equalities:

| | | |
|-------------------------|-----|----|
| Age | Yes | No |
| Disability | Yes | No |
| Gender Reassignment | Yes | No |
| Pregnancy and Maternity | Yes | No |
| Race | Yes | No |
| Religion or Belief | Yes | No |
| Sex | Yes | No |
| Sexual Orientation | Yes | No |

| Consideration | Comment | Responsible Officer | Director |
|---------------|---|---------------------|-------------|
| Equalities | A full Impact assessment has not been carried out because it is not required for this report. | Paul Kelly | Iain Craven |

Environment and Sustainability

| | |
|-----|----|
| Yes | No |
|-----|----|

| Consideration | Comment | Responsible Officer | Director |
|---|--|---------------------|-------------|
| Sustainability / Environment – including considerations regarding Active Travel and Wellbeing | A full impact assessment has not been carried out because it is not required for this paper. | Paul Kelly | Iain Craven |

Legal

| | |
|-----|----|
| Yes | No |
|-----|----|

| Consideration | Comment | Responsible Officer | Director |
|----------------------|---|----------------------------|-----------------|
| Legal | The legal implications have been considered and are included in the report. | Julie Openshaw | Dawn Madin |

Finance

| | |
|-----|----|
| Yes | No |
|-----|----|

| Consideration | Comment | Responsible Officer | Director |
|----------------------|---|----------------------------|-----------------|
| Finance | The financial implications have been considered and are included in the report. | Paul Kelly | Iain Craven |

Resource

| | |
|-----|----|
| Yes | No |
|-----|----|

| Consideration | Comment | Responsible Officer | Director |
|----------------------|---|----------------------------|-----------------|
| Resource | TfN HR Team has confirmed there are no resource implications. | Stephen Hipwell | Dawn Madin |

Risk

| | |
|-----|----|
| Yes | No |
|-----|----|

| Consideration | Comment | Responsible Officer | Director |
|----------------------|--|----------------------------|-----------------|
| Risk | A risk assessment has been carried out and the key risks are included in the report. | Haddy Njie | Iain Craven |

Consultation

| | |
|-----|----|
| Yes | No |
|-----|----|

| Consideration | Comment | Responsible Officer | Director |
|----------------------|---|----------------------------|-----------------|
| Consultation | A consultation has not been carried out because it is not required for this report. | Paul Kelly | Iain Craven |