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**Meeting:** Transport for North Board Chief Executive Consultation Call  
**Subject:** Finance and Business Planning update  
**Author:** Paul Kelly – Interim Finance Director  
**Sponsor:** Martin Tugwell – Chief Executive  
**Meeting Date:** Wednesday 14 December 2022

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**1. Purpose of the Report:**

- 1.1 The report captures the latest funding position and the business planning process for 2023/24.
- 1.2 This report sets out the financial performance of Transport for the North (“TfN”) over the first seven months of the financial year 2022/23 and provides the Budget Revision 2 reforecast through to the end of the year.
- 1.3 Detail is also provided with regards to TfN’s performance against its Treasury Management Strategy as required by the TfN Constitution.

**2. Recommendations:**

- 2.1 It is recommended that the Board:
  - a) Note the financial performance in the six-month period to September 2022
  - b) Approve the Revisions 2 Budget
  - c) Note compliance with the Treasury Management Strategy
  - d) Note the funding and business planning update.

**3. Context**

- 3.1 The Autumn Statement was a reminder of the pressures on public sector finances, not just for the remainder of the current Parliament but for the immediate period beyond.
- 3.2 As the update on the Northern Powerhouse Independent Economic Review reminds us, the scale of the economic challenge facing the North remains. More importantly though it also reminds us as to the size of the prize to be won by unlocking the economic potential of the North.
- 3.3 TfN was established to make the case on behalf of the North and provide Government with statutory advice on the strategic infrastructure priorities that enable the partners (including Government) realise that economic potential.
- 3.4 TfN’s unrivalled analytical and modelling capability ensures that its advice is grounded in an understanding of where we start from, whilst the overarching narrative for the updated Strategic Transport Plan (STP2) summarises how investment in strategic infrastructure and services will enable that economic potential to be unlocked.
- 3.5 Enabling the cost effective and efficient delivery of that investment is particularly important in current circumstances. In this regard the Department’s recognition of the role of Sub-national Transport Bodies (such as TfN) as regional centres of excellence is particularly welcome. TfN’s offer to its partners (both across the North and nationally) is an opportunity that will be reflected in its Business Planning.
- 3.6 Notwithstanding the pressures on the Department’s capital budget, it is welcome that the Autumn Statement confirmed funding for the Government’s proposals in respect of HS2, TRU and implementation of the Integrated Rail Plan. As noted elsewhere on the agenda, realising the North’s economic potential will ultimately require the

transformative effect of Northern Powerhouse Rail in full. It is therefore essential that TfN continues to work with DfT (and its partners) in the delivery of committed projects, and use the momentum achieved to help make the case for additional funding at subsequent Spending Reviews.

#### **4. Funding Update**

- 4.1 As conveyed in the budget papers presented to Board in March and June 2022, the post IRP transfer of the NPR programme to DfT, coupled with the core funding allocation confirmed on 14 February, instigated the need for an organisational restructure and cost reduction programme.
- 4.2 With the support of DfT officials, TfN chose to migrate towards an operating model that was built on capacity and capability with permanent employees as opposed to a reliance on third party consultancy services.
- 4.3 With final appointments being in place within the final quarter, the revised structure and appointees are anticipated to be in place by the final quarter of 2022/23.
- 4.4 At the Board meeting in June 2022, it was also noted that unless subsequent years core funding allocations were increased in line with our cost base, there would, as TfN reserves are systematically utilised, be sustainability issues in the medium-term.
- 4.5 To air and hopefully manage the medium-term sustainability issue, a number of sessions have been conducted with Departmental officials to further explain TfN's cost base and, due to its focus on permanent staff, its limited flexibility.
- 4.6 During these sessions, Departmental officials have been cautious of indicating when the core funding allocation would be confirmed as the implications of the autumn statement would need to be understood.
- 4.7 Departmental officials are however aware of the implications of delaying confirmation of the core allocation and are hopeful of confirmation being possible early in the new year. They also were hopeful that the allocation could extend to the remaining term of the spending review, i.e. to cover the two-year period to March 2025.
- 4.8 During the year, the potential for TfN to offer good value for money solutions acting as a Centre of Excellence has been discussed with Departmental officials. If TfN's core funding allocation were to be extended this would allow TfN to expand its scope of work in support of its partners.
- 4.9 Based on the conversations with Departmental officials, it is reasonable to assume that TfN will be able to conclude its budget and business planning cycles in the required timescales.

#### **5. Business Planning update:**

- 5.1 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.
- 5.2 Based on such, TfN's business planning cycle has commenced with a focus on business-as-usual activities centred around its core duties. As clarity emerges around TfN's role as a Centre of Excellence, the business planning process will, if needed, be modified.
- 5.3 Given the continuation of TfN's statutory duties, its current targeted outcomes remain relevant, and these are being used as a basis for business planning:

## Strategic Transport Plan

- Consulting on and finalising the Strategic Transport Plan (including the associated Integrated Sustainability Appraisal)
- Updating the Regional Decarbonisation Strategy
- Supporting LTAs to revise their LTPs (subject to DfT confirmation/funding) – noting that revised guidance for LTPs is anticipated in 2023

## Shaping the future

- Review TfN Investment Programme against revised STP objectives
- Communicating the North's strategic road (RIS3/4) and rail investment priorities to Government
- Working with Government to realise the benefits of the Rail Reform programme at the earliest opportunity
- Revisiting the Future Travel Scenarios

## Implementation through collaboration

- Continuing to work through the Rail North Partnership & through the Strategic Rail team on Manchester Recovery Task Force, ECML and rail operations
- Further work on connected mobility in support local partners, buses and EVCI (subject to DfT funding)
- Continuing to support and shape the development of NPR (working as Co-Sponsor), TRU and HS2
- Work with partners to implement actions set out in Decarbonisation, Freight & Logistics, and Inclusive Transport Strategies

## Evidence Based Strategic Thinking

- Continuation of the TfN research programme and thought leadership activity, including the next phases of the NPIER programme
- Implementing the Centre of Excellence, data sharing and Common Analytical Framework (subject to funding)
- Provision of TAME DfT service for NPR (and wider schemes)

5.4 Work around developing TfN as a Centre of Excellence is currently being discussed with DfT officials but will be finalised when more clarity over incremental funding is understood and how this can be delivered alongside TfN's statutory obligations.

## 6. Year-to-date monitoring:

6.1 The financial performance for the 6 months to September 2022 is summarised below:

	Actuals	Budget	Var.	Var.
	£m	£m	£m	%
<b>Hosted Services</b>				
NPR Programme Closure	£0.23	£0.27	£0.04	15%
NPR Analytical Support	£2.31	£2.63	£0.32	12%
Rail North Partnership	£0.69	£0.83	£0.14	17%
	<b>£3.23</b>	<b>£3.73</b>	<b>£0.50</b>	<b>13%</b>
<b>Operational Areas</b>				
Strategy & Policy	£0.95	£0.96	£0.01	1%
Major Roads	£0.19	£0.18	-£0.01	-5%
Strategic Rail	£0.47	£0.50	£0.03	7%

Back Office	£2.73	£3.36	£0.63	19%
	<b>£4.34</b>	<b>£5.00</b>	<b>£0.66</b>	<b>13%</b>
	<b>£7.57</b>	<b>£8.73</b>	<b>£1.16</b>	<b>13%</b>

6.2 Overall, by the end of September we had planned to spend £8.73m and have actually spent £7.57m, an underspend of £1.16m (13%). This underspend was driven by lower than planned expenditure in Hosted Services and transition costs in Operational Areas.

6.3 **Hosted Services:**

Expenditure of £3.23m YTD represents an underspend of £0.50m (13%). Expenditure in these areas is funded by ring-fenced grants which cannot be repurposed.

**NPR Programme Closure:**

YTD expenditure of £0.23m is £0.04m below budget. This reflects reduced closure costs due to redeployment of personnel and reduction in infrastructure costs where contractual terms have allowed.

**NPR Analytical Support:**

Expenditure of £2.31m YTD, represents an underspend of £0.32m (12%). This is predominantly due to a lower than anticipated expenditure rate on the RMAP contract. Discussions are on-going with the DfT regarding additional analysis requirements to make best use of the available funding.

**Rail North Partnership:**

Expenditure of £0.69m YTD, is £0.14m under budget. This predominantly relates to the TRU contract where there have been two vacancies since the start of the year, one of which has been recruited in September.

6.4 **Operational Areas:**

Expenditure of £4.35m YTD, represents an underspend of £0.66m (13%). This is mainly due to lower than budgeted transition costs. These are partially offset by increased staff costs with the continuation of interim and agency staff while recruitment to the new organisational structure continues. Although further transition costs are pending, it is anticipated that there will be a net underspend in relation to staff and transition of c£0.30m. This one off "saving" will flow into reserves for use in future years.

6.5 There have been a range of virements approved to date and these are captured in Budget Revision 2.

6.6 With the refocus on delivery of TfN's statutory obligations, the opportunity to streamline corporate reporting was considered. From 2022/23, TfN has moved from monthly to quarterly operating reports for external stakeholders but will continue reports monthly at the Operating Board.

**7. Budget Revision 2:**

7.1 Based upon the latest information, including the position at 30 September, Budget Revision 2 has been constructed. Overall, this revision does not alter the funding envelope, which indicates that the funding approved by the Board in June is expected to be sufficient for the year.

7.2

<b>Expenditure</b>	<b>Original £m</b>	<b>Revised £m</b>	<b>Change £m</b>
Operational Areas	8.84	8.84	-
Rail North Partnership	1.60	1.60	-
NPR Analytical Support	5.66	5.66	-
NPR Closure Costs	0.41	0.41	-
	<b>16.51</b>	<b>16.51</b>	<b>-</b>
<b>Funding</b>			
Core grant	6.50	6.50	-
In-Year funding	0.34	0.34	-
Use of Reserves	1.66	1.66	-
	8.50	8.50	-
Contract Income	0.04	0.04	-
Rail North Grant/Local Contributions	0.30	0.30	-
<b>Core Duties</b>	<b>8.84</b>	<b>8.84</b>	<b>-</b>
<i>Hosted Services:</i>			
TDF Rail Modelling	5.66	5.66	-
Rail North Partnership Grant	0.96	0.96	-
Rail North Grant/Local Contributions	0.35	0.35	-
Contract Income	0.29	0.29	-
NPR Closure Settlement	0.41	0.41	-
<b>Hosted Services</b>	<b>7.67</b>	<b>7.67</b>	<b>-</b>
<b>Total Funding</b>	<b>16.51</b>	<b>16.51</b>	<b>-</b>

7.3 Most of the changes have arisen within Operational Areas of the business, and more detail is provided showing this below.

<b>Operational Expenditure</b>	<b>Original £m</b>	<b>Revised £m</b>	<b>Change £m</b>
Major Roads	0.31	0.47	0.16
Strategy & Policy	2.26	2.17	- 0.09
Strategic Rail	1.20	1.35	0.15
Business Capabilities	2.46	2.46	-
Finance	0.82	0.60	- 0.22
Leadership	0.35	0.35	-
	7.40	7.40	0.00
Transition costs	1.44	1.44	-
<b>Total Operational:</b>	<b>8.84</b>	<b>8.84</b>	<b>0.00</b>

7.4 The Finance budget line has been used to capture the savings required to support virement to date. This will correct later in the year as other savings are realised.

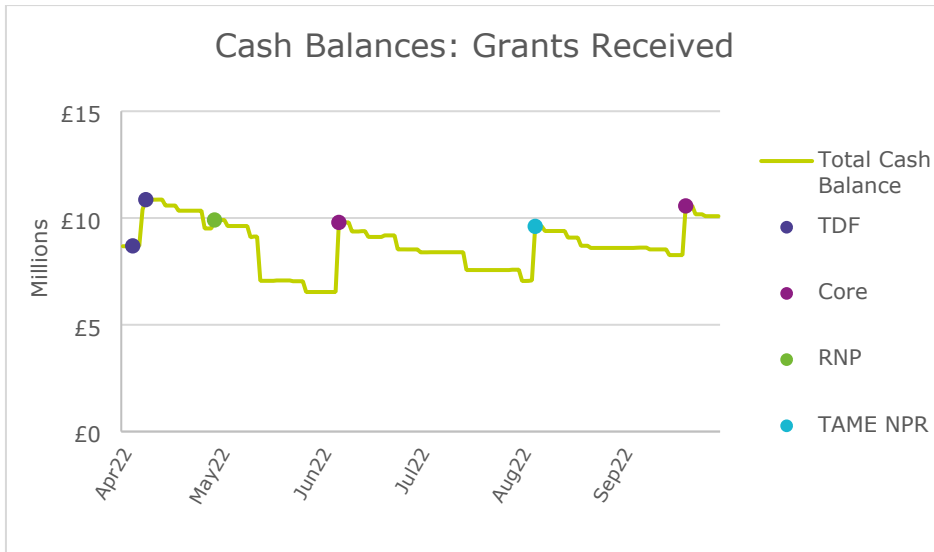
Savings in the region of £0.3m are anticipated in transition costs. Any saving in this area will increase reserves for financial planning of future years.

## 8. Mid-Year Treasury Management Update:

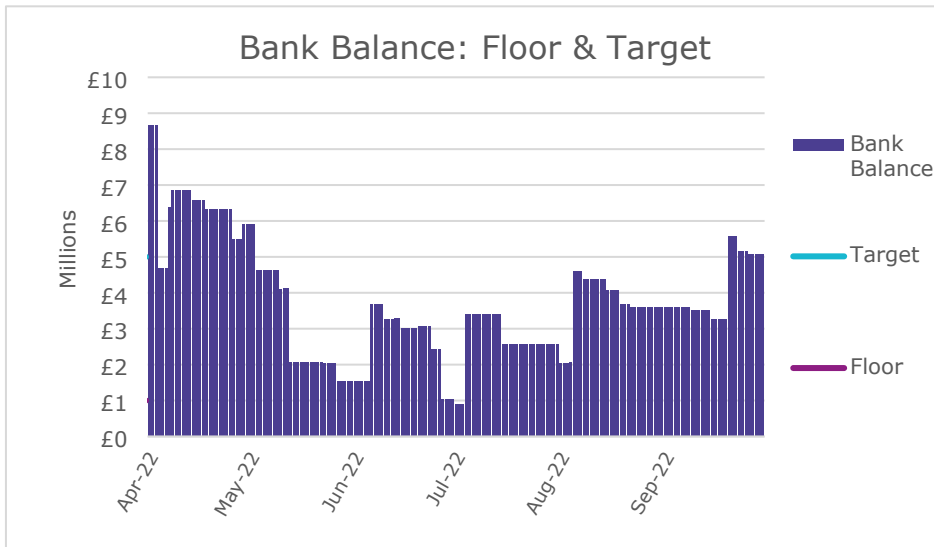
8.1 TfN's constitution obliges officers to report to Board at the mid-year mark on performance against the Treasury Management Strategy. Unlike many partner bodies, TfN is prohibited from borrowing. Therefore, the strategy directs how TfN will manage cash and investments. This information was shared with the Audit and Governance Committee in November. To date, TfN has operated within the parameters set out in its Treasury Management Strategy.

8.2 The following charts show performance against key parameters. It shows that TfN has managed cash and investments within its counterparty criteria, placing cash deposits with secure bodies and institutions on liquid terms.

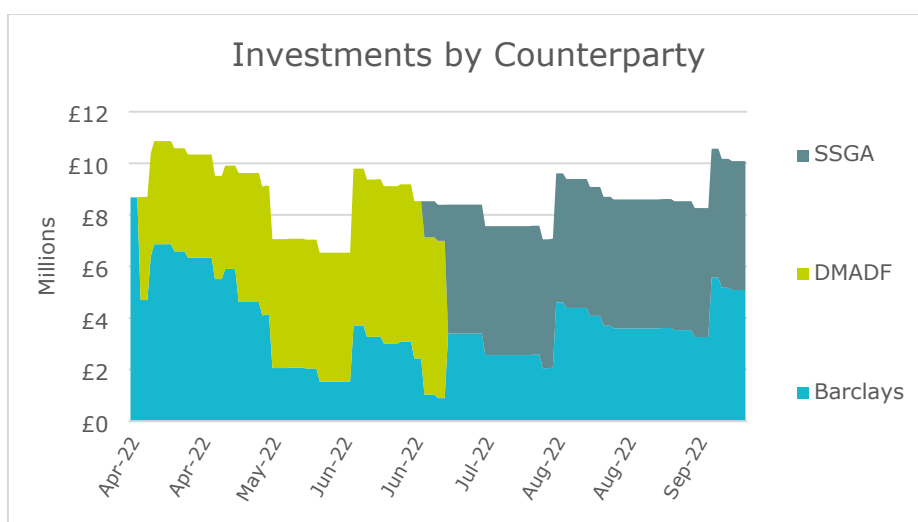
8.3



8.4 The principal source of income is grant from DfT which is received periodically leading to the pattern of cash balances shown above i.e. a peak on receipt of grant followed by a gradual run down of balances until the next grant instalment is received.



8.5 We aim to ensure that an adequate but not excessive balance is maintained in the main business bank account. This gives us a target of holding between £1m and £5m. As can be seen above, the business bank balance has usually fluctuated between these values. For three days in July we held a balance just below the floor (£0.9m) as we transitioned between investment types. In full compliance with our Treasury Strategy, at times we have held a balance above £5m, invariably linked to optimising our investment strategy. Although interest and dividends have been improving in recent months, in the early part of the year the interest return on our business account was favourable compared to alternatives at a similar level of security which were available.



8.6 During the year we have sustained a suitable balance in Barclays, our business bank account. Interest rates started to change in June/July and in response to better yields being available, with high levels of security, we shifted temporarily surplus funds away from DMADF (UK Government) into a money market fund with SSGA (AAA credit rated by S&P and Fitch).

8.7 It is worth noting that the interest rate environment has been changing significantly recently with new opportunities becoming available for secure investment of temporarily surplus cash. We are likely to see new counterparties emerge in the remainder of the financial year.

8.8 However, whilst we will continue to keep the position under review there is no intention at present to change the focus of our Treasury Management Strategy and its prioritisation on security and liquidity over yield.

## 9. Corporate Considerations:

### ***Financial Implications***

9.1 The financial implications are included within the report.

### ***Resource Implications***

9.2 The HR implications are covered within this report.

### ***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 quality and diversity matters.

### ***Consultations***

9.7 No consultation is required.

## 10. Background Papers:

10.1 2022/23 Interim and Final Budget

Treasury Management Strategy

**Glossary of terms, abbreviations and acronyms used (if applicable)**

*Please include any technical abbreviations and acronyms used in the report in this section. (Please see examples below.) This will provide an easy reference point for the reader for any abbreviations and acronyms that are used in the report.*

- a) IRP      Integrated Rail Plan
- b) NPR      Northern Powerhouse Rail
- c) STP      Strategic Transport Plan