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<b>Meeting</b>	Transport for North Board
<b>Subject:</b>	Budget and Business Planning 2023/24
<b>Author:</b>	Paul Kelly, Finance Director
<b>Sponsor:</b>	Martin Tugwell, Chief Executive
<b>Meeting Date:</b>	Thursday 23 March 2023

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**1. Purpose of the Report:**

- 1.1 This report sets out Transport for the North's 2023/24 Business Plan and Budget and its associated funding arrangements.

**2. Recommendations:**

**The Board is recommended to:**

- 2.1 **Note and comment** on the draft Business Plan for 2023/24 (included at Appendix 2), and **delegate** the steps required to finalise the Business Plan to the Chair and Chief Executive.
- 2.2 **Approve** the budget for 2023/24 as detailed in section 5.
- 2.3 **Note** the Outturn report included at Appendix 1 in particular the projected closing reserves at 31 March 2023 of £3.7m.
- 2.4 **Approve** the proposed use of reserves of £0.83m in 2023/24.
- 2.5 **Note** the A&G committee reviewed the Annual Treasury Management Strategy.

**3. Background:**

- 3.1 Transport for the North received a funding allocation ("The Funding Letter") from the department on 14 January 2023. This included, for each of the next two years:
- £6.5m to deliver the core statutory duties, which is the same as 2022/23; and
  - £0.71m to enable Transport for the North to support the development of wider STB and LTA capacity and capability.
- 3.2 DfT have indicated the funding received for development of wider STB and LTA capacity and capability should be used to support:
- Development of a Common Analytical Framework;
  - Rolling out EVC tool to other STB's;
  - Develop tools to support LTA's on LTP's;
  - Improving Transport for the North's policy and TAME teams; and
  - Supporting authorities on BSIP's, Business Case and Scheme development.
- 3.3 Transport for the North funding has been granted on a two-year basis. The Funding Letter states that "Future years funding, beyond the period covered by this letter, will take account of the Transport for the North's performance in delivering on these priorities in the next two financial years."
- 3.4 In addition to these allocations Rail North Partnership Grant will continue, subject to indexation of costs. Transport for the North will also continue to receive Rail Administration Grant to resource Rail North Partnership and Strategic Rail activity.

- 3.5 In addition to the above DfT separately confirmed they would like Transport for the North to continue the analytical support to the NPR programme. Staff and support costs of £1.5m have been agreed for each of the next two years costs and contracted costs will be scoped and agreed.
- 3.6 In the Grant Funding Agreement ("GFA") for 2022/23 DfT confirmed that if the service is not continued beyond 2022/23, it will fund any transition costs relating to these roles. This arrangement is anticipated to be continued within the 2023/24 GFA.
- 3.7 DfT have previously underwritten, and provided funds for, the cost of the offices (rent and share of estimated dilapidations) that had been occupied by the NPR programme team that transitioned to DfT on 1 April 2022.
- 3.8 The medium-term sustainability challenge was aired in the budget approval papers for the 2021/22 and 2022/23 budgets. This issue, which was outside the three-year forecasting window in 2021/22 and 2022/23, now manifest itself in year 3 of our financial forecasting window, i.e., 2025/26. In order to maintain our current capacity and capability and continue to deliver our statutory duties, Transport for the North has assumed a step change in core grant funding from £6.5m per year for the next two-year period to £8.0m per year for each of the following three years.

#### 4. Business Planning

- 4.1 Transport for the North's statutory function and responsibilities remain unchanged. This serves to emphasise the importance of ensuring that Transport for the North's top level target outcomes and objectives are grounded in its work on the Strategic Transport Plan. The Department has indicated in the Funding Letter that it is committed to Subnational Transport Bodies and recognises the role they can play in supporting both local and national government.
- 4.2 The key drivers for Transport for the North remain undiminished, namely:
- Realising the **economic potential** of the North – our work on the Northern Powerhouse Independent Economic Review is the first foundation of our work;
  - Enabling **development that is sustainable** for the long term – our Regional Decarbonisation Strategy provides a second foundation for our work; and
  - Ensuring that transport **solutions enable individuals to realise their potential** – our work on Transport Related Social Exclusion is the third foundation.
- 4.3 Explicit to the way forward is the central role that investment in the North's transport system (both infrastructure and services) has to play. Specifically, there is a need for:
- A Strategy: an outcome focused long-term strategic plan for the development of the North's transport system;
  - An Investment Programme - a prioritised programme that provides the context for the development and delivery of detailed proposals as a co-ordinated programme focused on delivering the agreed outcomes; and
  - Implementation – investing in the capacity and capability required to develop and then accelerate implementation of the Strategy and its Investment Programme.
- 4.4 Taken together, the high-level outcomes and objectives, and the more detailed proposals regarding how this should translate into day-to-day operational

delivery, are being used as the basis for both a reorganisation of Transport for the North's operations and the work programme for 2023/24.

4.5 A key focus for Business Planning is the need to establish a sustainable financial position for the long-term future of Transport for the North.

4.6 A summary of the approach taken to compile the Business Plan and its activities was shared with and welcomed by the Scrutiny Committee.

## **5. 2023/24 Budget**

5.1 Based on Transport for the North's operating and funding environment, a number of budget and planning assumptions were made in order to propose a sustainable cost profile / budget for 2023/24 that would form the basis of future years budgets. Funding and cost assumptions are required for future years to establish a sustainable cost base in our proposed budget year.

5.2 Budget assumptions for 2023/24:

- DfT core funding captured of £7.21m (£0.71m to enable Transport for the North to support the development of wider STB and LTA capacity and capability) as per the January 2023 funding allocation;
- Employee costs to increase in line with existing terms and conditions;
- Cost of living increase assumed at 5% per annum;
- A further 2% of staff costs has been provided to cover the risk of a higher cost of living settlement;
- Office accommodation – the occupancy arrangement for the current Manchester office ceases in December 2023. We are currently finalising the arrangements for accommodation more suited to our ongoing requirements and a better value for money solution. A one-off provision has been provided in the budget to meet the costs of transition out of and into the new premises;
- A one-off provision of £200k plus VAT to mitigate risks that crystallise or opportunities that arise in the year; and
- Rail North Partnership and local contributions to continue at current levels subject to indexation.

5.3 Budget assumptions for 2024/25:

- DfT core funding captured of £7.21m (£0.71m to enable Transport for the North to support the development of wider STB and LTA capacity and capability) as per the January 2023 funding allocation;
- Employee costs to increase in line with existing terms and conditions;
- Cost of living increase assumed at 5% per annum;
- Externally contracted professional services are assumed to continue at the same level as 2023/24, excluding the one-off costs associated with refresh of the STP and with the risk provision noted above;
- An assumed inflationary increase of 3% has been applied to all external costs;
- Assumptions have been limited to business areas that directly affect core funded activities and the use of reserves. Any changes, either increase or curtailment, of NPR TAME services are assumed to be funded in full by DfT. This is consistent with the current GFA and expected to be continued within further GFA's; and
- Rail North Partnership and local contributions to continue at current levels subject to indexation.

5.4 Budget assumptions for 2025/26, 2026/27 and 2027/28:

- In order to maintain our current capacity and capability and continue to deliver our statutory duties, Transport for the North has assumed a step

change in core grant funding from £6.5m per year for 2023/24 and 2024/25 to £8.0m per year for each of the following three years. This does not encompass any incremental funding associated with increased level of activity / service provision identified over the next two years;

- Employee costs to increase in line with existing terms and conditions;
- Cost of living increase assumed at 5% per annum;
- Externally contracted professional services assumed to continue the same level as 2024/25, with an inflationary increase of 3%;
- Assumptions have been limited to business areas that directly affect core funded activities and the use of reserves. Any changes, either increase or curtailment, of NPR TAME services are assumed to be funded in full by DfT. This is consistent with the current GFA and expected to be continued within further GFA's; and
- Rail North Partnership and local contributions to continue at current levels subject to indexation.

5.5 The Business Planning process has now completed, driven by the golden thread that links the Board priorities and departmental objectives. The fully funded budget proposal for the year is £16.12m, comprised as follows:

	<b>Budget £m</b>
<b>Operational:</b>	
Rail & Roads	2.30
Strategy, Policy & Communications	3.33
	<b>5.63</b>
<b>Business Support:</b>	
Leadership	0.40
Finance	0.88
Human Resources & Accommodation	1.07
Information Technology	0.47
	<b>2.81</b>
<b>Sub-total:</b>	<b>8.44</b>
<b>Hosted:</b>	
Rail North Partnership	1.62
NPR Analytical Support	5.86
	7.48
NPR Closure Costs	0.20
<b>Sub-total:</b>	<b>7.68</b>
<b>Total Costs:</b>	<b>16.12</b>

5.6 The 2023/24 budget includes a small amount of slippage relating to 2022/23 core activities of £0.04m and remaining elements of 2022/23 In-Year funding activity (£0.03m), the latter relating to EVCI and Connected Mobility.

Total heads budgeted in 23/24 are shown in the table below:

<b>Budget Headcount</b>	<b>Staff Heads 22/23</b>	<b>Staff Heads 23/24</b>	<b>var</b>
Core	62	68	6
Rail North Partnership	18	18	-
NPR Analytical Support	24	25	1
<b>Total</b>	<b>104</b>	<b>111</b>	<b>7</b>

5.7 6 of the 25 heads in the NPR Analytical Support line are consultant posts and as such these costs are not captured as staff costs.

5.8 The headcount increases by 6 to reflect the additional resource to support the incremental activities in the funding letter detailed in section 3.2. NPR Analytical Support increases by 1, reflecting recharge of a new ICT resource supporting the Azure framework.

### **Operational & Business Infrastructure budgets**

5.9 The 2023/24 core funded budget and its comparison to 2022/23 budget is as follows:

<b>Comparison of Core expenditure</b>	<b>22/23 £m</b>	<b>23/24 £m</b>	<b>Var £m</b>
<b>Operational:</b>			
Rail & Roads	1.92	2.30	0.38
Strategy, Policy & Communications	2.87	3.33	0.46
	<b>4.79</b>	<b>5.63</b>	<b>0.84</b>
<b>Business Support:</b>			
Leadership	0.35	0.40	0.05
Finance	0.82	0.88	0.06
Human Resources & Accommodation	1.06	1.07	0.01
Information Technology	0.39	0.47	0.08
	<b>2.61</b>	<b>2.81</b>	<b>0.20</b>
<b>Total Core (excluding transition)</b>	<b>7.40</b>	<b>8.44</b>	<b>1.04</b>
Transition costs	1.44	-	(1.44)
<b>Total Core (including transition)</b>	<b>8.84</b>	<b>8.44</b>	<b>(0.40)</b>

5.10 Excluding the one-off transition costs in 2022/23, the variance between the two years of £1.04m reflects the incremental activity detailed in section 3.2, staff cost increases, one-off costs associated with the Strategic Transport Plan, and costs associated to moving the office relocation.

5.11 The core funded budgets by cost category are detailed below:

	22/23 Budget	23/24 Budget	var
	£m	£m	£m
<b>Cost breakdown:</b>			
Salaries	5.08	5.54	0.47
Staff Support	0.23	0.25	0.02
Business Infrastructure	0.97	1.17	0.20
External Contracted Costs	1.12	1.47	0.35
<b>Total excluding Transition costs</b>	<b>7.40</b>	<b>8.44</b>	<b>1.04</b>
Transition costs	1.44		(1.44)
<b>Total</b>	<b>8.84</b>	<b>8.44</b>	<b>(0.40)</b>

5.12 As detailed below, this includes additional activity and resources (6 FTE's) associated with delivery of the incremental activity requested in the funding letter and detailed in section 3.2. In addition, the salaries budget includes a provision of 5% for a cost-of-living increase, plus a further 2% to cover the risk of an increased settlement; the latter equates to £0.3m.

5.13 The core funded salaries budget of £5.54m consists of 68 roles, as detailed below.

Budget Core Headcount	Staff Heads 22/23	Staff Heads 23/24	var
Rail & Roads & Legal	20	22	2
Strategy, Policy & Communications	26	30	4
Leadership	2	2	-
Finance	6	6	-
Human Resource & Accommodation	5	5	-
Information Technology	3	3	-
<b>Total</b>	<b>62</b>	<b>68</b>	<b>6</b>

5.14 The additional six FTE's all relate to the incremental activity requested in the funding letter and detailed in section 3.2.

5.15 Business Infrastructure spend of £1.17m represents costs such as office accommodation, software licences, external and internal audit, insurance etc. The 2023/24 budget also includes a one-off provision of £0.15m for costs associated with the office relocation.

5.16 External contracted costs include additional resource for the incremental activity requested in the funding letter and detailed in section 3.2 (£0.28m), plus one-off costs associated with the STP refresh (£0.21m) and the risk provision (£0.24m). Also included is a small, anticipated slippage from 2022/23 of £0.04m.

### Hosted Budgets

#### Rail North Partnership

5.17 The Rail North Partnership budget is shown below:

	22/23 Budget	23/24 Budget	var
	£m	£m	£m
<b>Cost breakdown:</b>			
Salaries	1.45	1.55	0.10
Staff Support	0.08	0.04	(0.04)
Business Infrastructure	0.08	0.04	(0.04)
<b>Total</b>	<b>1.61</b>	<b>1.62</b>	<b>0.01</b>

5.18 This value is on a par with 22/23 and the budget has been shared with, and agreed by, DfT representatives in a similar manner to previous years. The increase in salary costs reflect a provision for a cost-of-living increase whereas reduced staff support costs result from no recruitment fees for new staff. Reduced business infrastructure costs are due to the closure of the Leeds Office.

5.19 The staff budget reflects the following heads:

Budget	22/23	23/24	
Rail North Partnership	Staff	Staff	
Headcount	Heads	Heads	var
Rail North Partnership	15	15	-
TransPennine Route Upgrade	3	3	-
<b>Total</b>	<b>18</b>	<b>18</b>	<b>-</b>

#### **NPR Analytical Support**

5.20 The total estimated budget of £5.86m represents the costs associated to delivering the TAME solution to the NPR programme. It includes:

- £1.5m for staff / resource / support-based costs; and
- £4.4m to deliver the externally procured services required to meet DfT specified service. Commitments against the estimated costs will be specified and agreed in advance for each quarter.

Departmental officials have confirmed the intention to continue the provision of this service.

#### **NPR closure costs**

5.21 The provision of £0.2m represents the accommodation costs for the section of the office that had been occupied by the NPR programme team (underwritten by the DfT) for the period to December 2023, along with a commensurate share of the dilapidation costs associated with the termination of the lease.

## **6. Funding**

Funding	22/23 Budget	23/24 Budget	var
	£m	£m	£m
Core Grant (inc. Centre of Excellence)	6.50	7.21	0.71
In-Year funding (23/24 c/f)	0.34	0.03	(0.31)
Use of Reserves	1.66	0.83	(0.83)

	<b>8.50</b>	<b>8.07</b>	<b>(0.43)</b>
Contract Income	0.04	0.04	0.00
Rail North Grant/Local Contributions	0.30	0.32	0.02
<b>Core Duties</b>	<b>8.84</b>	<b>8.44</b>	<b>(0.40)</b>
<b>Hosted Services</b>			
TDF Rail Modelling	5.66	5.86	0.20
Rail North Partnership Grant	0.96	0.96	0.00
Rail North Grant/Local Contributions	0.35	0.40	0.05
Contract Income	0.29	0.27	(0.03)
NPR Closure Settlement	0.41	0.20	(0.21)
<b>Hosted Services</b>	<b>7.68</b>	<b>7.68</b>	<b>0.01</b>
<b>Total Resource</b>	<b>16.52</b>	<b>16.12</b>	<b>(0.40)</b>

6.2 In addition to the core grant, use of reserves of £0.83m are required to provide a fully funded budget. As mentioned in commentary above, a significant element of this reserve draw is to fund one-off costs (STP2, office relocation, risk etc) that are not anticipated to reoccur in following years.

6.3 The NPR Tame grant of £5.86m is ring fenced and will be reimbursed if expenditure levels are lower than budgeted.

6.4 The NPR closure grant of £0.2m is ring fenced and will be reimbursed if expenditure levels are lower than budgeted.

6.5 Rail operation grants and contracted income are at a similar level to 22/23.

## **7 Medium-Term Financial Strategy and Reserve Strategy**

7.1 Under statute, all local government bodies – including Transport for the North – are required to operate to a locally defined reserves strategy that ensures that the organisation always holds a prudent level of reserves.

7.2 Such reserves enable the organisation to operate with a degree of flexibility and guard against financial shock.

7.3 A prudent reserve strategy is particularly important to Transport for the North as it has few other levers to mitigate financial risk. As previously noted, unlike other partners, Transport for the North 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.

7.4 Transport for the North's approach to managing financial risk therefore has to rest on two pillars:

- a) A prudent risk culture that ensures Transport for the North limits its exposure to financial risk arising from contracting and business operations; and
- b) A prudent reserve strategy that ensures Transport for the North always holds a level of cash at bank to guard against residual financial shock.

Practically, this means that Transport for the North 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.



- 7.5 It also means that Transport for the North'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 Transport for the North holds that can fund expenditure, it follows that financial risk must primarily be managed through this resource.
- 7.6 Following discussions with the DfT when Transport for the North was established as a statutory body, it was agreed that Transport for the North would target a core cash balance of *no less than* £2m to be held as a cash reserve in any given year.
- 7.7 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.
- 7.8 Based on the new operating model, which places more emphasis on investing in retaining Transport for the North'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.**
- 7.9 From year to year, general reserves may be drawn upon in-year, or contributions made from surpluses.
- 7.10 In 2022/23 Transport for the North budgeted to utilise £1.66m in reserves primarily to support transition costs associated with the restructure of Transport for the North due to the transfer of the NPR programme to DfT and the reduced funding allocation.
- 7.11 The actual reserve utilisation for 2022/23 was £0.87m giving a closing general reserve of £3.7m as of 31 March 2023. The main reason for the reduction in reserve utilisation was lower transition costs.
- 7.12 This reserve release is forecast to leave Transport for the North with total Core Grant Reserves of £3.7m by the end of 2022/23. At this level the Core Grant Reserves equate to 51% of current annual Core funding.
- 7.13 As detailed above, Transport for the North is proposing a draw from reserves totalling £0.8m, £0.6m of which relates to one-off activity in 2023/24.
- 7.14 If longer term funding arrangements more closely aligned to our proposed cost base are agreed, and such funds are agreed and remitted in advance, Transport for the North would be able to reassess its reserves strategy, including the required minimum.
- 7.15 This approach to Transport for the North'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.
- 7.16 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.
- 7.17 Transport for the North proposes to draw £0.8m from the General Reserve in financial year 2024/25, based on a brought forward Core Grant Reserve balance of £3.7m. The following table highlights forecast core grant requirements, resource, and the associated requirements for reserve support:

## 7.18 Reserve table

	23/24	24/25	25/26
	Bud	Bud	Bud
Reserves	£m	£m	£m
<b>Total Core Grant Reserve:</b>			
<b>Balance b/f</b>	3.70	2.87	2.33
Inflows:			
Core grant	6.50	6.50	8.00
Centre of Excellence	0.71	0.71	0.71
Other grants	0.40	0.38	0.40
	7.61	7.59	9.11
Outflow	(8.44)	(8.13)	(8.48)
(Draw)/Contribution	(0.83)	(0.54)	0.63
<b>Balance c/f</b>	<b>2.87</b>	<b>2.33</b>	<b>2.96</b>

- 7.19 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.
- 7.20 The core funding allocation of £6.5m for 2022/23 and its continuation for the two-year from 2023/24 to 2024/25 crystallises the medium-term sustainability issue referenced in earlier years budget submissions.
- 7.21 In order to maintain our current capacity and capability and continue to deliver our statutory duties, Transport for the North has assumed a step change in core grant funding from £6.5m per year for the next two-year period to £8.0m per year for each of the following three years.
- 7.22 Any further request for incremental services, which we will discuss and consider with departmental officials, will result in further funding requests. The Executive team will work with the DfT as potential opportunities and solutions are looked at ahead of a future Spending Review.
- 8. Corporate Considerations**
- 9. Financial Implications**
- 9.1 The financial implications are included within the report.
- 10. Resource Implications**
- 10.1 The resource implications are included within the report.
- 11. Legal Implications**
- 11.1 Any legal implications are included within the report.
- 12. Risk Management and Key Issues**
- 12.1 The risk implications are included within the report. Transport for the North will continue to review and update the corporate risk register in line with the funding allocation received, business plan 2023/24 and updated KPI's.
- 13. Environmental Implications**
- 13.1 There are no environmental implications.

**14. *Equality and Diversity***

14.1 There are no equality and diversity matters.

**15. *Consultations***

15.1 No consultation is required.

**16. *Background Papers***

**17. *Appendices***

17.1 Appendix 1 – 2022/23 Financial Forecast Outturn

Appendix 2 – Draft 2023-24 Business Plan