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<b>Meeting</b>	Transport for North Board
<b>Subject:</b>	Budget and Business Planning 2024/25
<b>Author:</b>	Paul Kelly, Finance Director
<b>Sponsor:</b>	Martin Tugwell, Chief Executive
<b>Meeting Date:</b>	Wednesday 20 March 2024

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## **1. Purpose of the Report:**

- 1.1 This report sets out Transport for the North's 2024/25 Business Plan and Budget and its associated funding arrangements.

## **2. Recommendations:**

### **The Board is recommended to:**

- 2.1 **Note, support and comment** on the draft Business Plan for 2024/25 (included at Appendix 1).
- 2.2 **Approve** the draft business plan and **delegate** authority to the Chair and Chief Executive of Transport for the North to undertake the steps required to finalise the Business Plan.
- 2.3 **Note** the forecasted outturn for 2023/24 as detailed in section 7 and the projected closing reserves as of 31 March 2024 is £3.6m.
- 2.4 **Approve** the proposed use of reserves of £1.3m in 2024/25.
- 2.5 **Approve** the budget for 2024/25 as detailed in section 5.

## **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 Subnational Transport Body ("STB") and Local Transport Authority (LTA") capacity and capability.
- 3.2 DfT has 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 the Electric Vehicle Charging Infrastructure ("EVCI") tool to other STB's
  - Developing tools to support LTA's on Local Transport Plans ("LTPs")
  - Improving Transport for the North's policy and TAME teams
  - Supporting authorities on their Bus Service Improvement Plan's ("BSIP's"), Business Cases and Scheme developments.
- 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, and to maintain the entities current capacity and capability, Rail North Partnership Grant, Rail Administration Grant / Local

Contributions will increase in line with formal agreements to a level required to meet anticipated costs.

- 3.5 In addition to the above DfT has separately confirmed it would like Transport for the North to continue the analytical support to the NPR programme.
- 3.6 In the Grant Funding Agreement ("GFA") DfT confirmed that if the service is not continued beyond 2024/25, it will fund any transition costs relating to these roles.
- 3.7 The medium-term sustainability risk has been aired in all previous budget submissions and will manifest itself in 2025/26. In order to mitigate the risk and maintain our current capacity and capability, output and continue to deliver our statutory duties, Transport for the North requires a step change in core grant funding from £7.2m in 2024/25 to £9.3m per year for each of the three subsequent years, i.e. 2025/26, 2026/27 and 2027/28.
- 3.8 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.

#### **4. Business Planning:**

- 4.1 Transport for the North's statutory function and responsibilities remain unchanged.
- 4.2 Our work for the year ahead is grounded in the Strategic Transport Plan, and the North's ambitions for economic growth, decarbonisation and more opportunities for all.
- 4.3 The Department has indicated that it is committed to Subnational Transport Bodies and recognises the role they can play in supporting both local and national government.
- 4.4 Last year we launched the 'TfN offer' to support local transport planning through evidence, analysis and tools; we will continue to build and augment this service over 2024/25 for our partners.
- 4.5 A key focus for Business Planning is the need to establish a sustainable financial position for the medium/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 on 27 February 2024 and the Business Plan was updated to reflect their comments. The Committee recommended the Business Plan was submitted to the Board for approval.
- 4.7 Transport for the North operates a virement process to maximise the delivery of activities in year. Prioritised activities can be introduced in year if capacity exists within the agreed budget envelope.
- 4.8 In addition, budget revisions or changes to Transport for the North's business activities can be periodically agreed by board if new incremental activity is identified.

#### **5. 2024/25 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 2024/25 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 2024/25:
  - DfT core funding of £7.21m 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

- Rail North Grant / local contributions to continue at current levels subject to contractual and / or agreed indexation
- Rail North Partnership grant assumed to increase by £0.27m due to 3 additional roles (contingent on funding approval).

5.3 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 and the wider TfN Offer, a step change in core grant funding from £7.2m per year for 2024/25 to £9.3m per year for each of the following three years
- This does not include any incremental funding associated with increased level of activity/service provision identified over the next three 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 be maintained at the levels in the 2024/25 budget
- 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 Grant Funding Agreement
- Rail North Partnership and local contributions to continue at current levels subject to indexation.

5.4 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 £16.5m, as follows:

	24/25 Budget £m
<b>Operational:</b>	
Rail & Roads	2.75
Strategy, Policy & Communications	3.71
	<hr/> 6.46
<b>Business Support:</b>	
Leadership	0.35
Finance	0.81
Human Resources & Accommodation	0.80
Information Technology	0.46
	<hr/> 2.43
<b>Total Operational:</b>	<b>8.89</b>
<b>Hosted:</b>	
Rail North Partnership	1.87
NPR Analytical Support	5.70
<b>Total Hosted:</b>	<b>7.57</b>
<b>Total Costs</b>	<b>16.46</b>

5.5 The 2024/25 budget includes £0.2m relating to activities either deferred from or partially delivered in 2023/24.

Total headcount budgeted in 24/25 are shown in the table below:

<b>Total Headcount</b>	<b>23/24 Budget</b>	<b>24/25 Budget</b>	<b>variance</b>
Core	68	71	3
Rail North Partnership	18	21	3
NPR Analytical Support	25	26	1
<b>Total</b>	<b>111</b>	<b>118</b>	<b>7</b>

- 5.6 The headcount increases by 7, of this:
- within the core funded activities, two incremental roles are proposed in the TAME function to support the TfN Offer as detailed in section 3.2 and one role is proposed to enhance communications and stakeholder engagement;
  - three additional roles are proposed within the Rail North Partnership to strengthen the capability around engagement with the Northern and TransPennine teams and additional Stakeholder Engagement support; and
  - NPR Analytical Support resource is proposed to increase by one with a movement of two roles from consultant to staff based delivery to enhance value for money.
- 5.7 5 of the 26 heads in the NPR Analytical Support line are consultant posts and as such these costs are not captured as staff costs.

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

- 5.8 The 2024/25 core funded budget and its comparison to 2023/24 budget is as follows:

<b>Comparison of Core expenditure</b>	<b>23/24 Budget £m</b>	<b>24/25 Budget £m</b>	<b>variance £m</b>
<b>Operational:</b>			
Rail & Roads & Legal	2.30	2.75	0.45
Strategy, Policy & Communications	3.33	3.71	0.38
	5.63	6.46	0.83
<b>Business Support:</b>			
Leadership	0.40	0.35	(0.04)
Finance	0.88	0.81	(0.07)
Human Resources & Accommodation	1.07	0.80	(0.26)
Information Technology	0.47	0.46	(0.01)
	2.81	2.43	(0.38)
<b>Total Operational &amp; Business Support:</b>	<b>8.44</b>	<b>8.89</b>	<b>0.45</b>

- 5.9 The variance between the two years of £0.45m mainly reflects an increase in discretionary spend plus three additional resources within Operations, offset by reduced accommodation costs in Business Support. In Operations, the additional resource predominantly relates to delivery of the TfN offer plus the 24/25 budget contains £0.2m of slipped discretionary activity from 23/24.
- 5.10 The core funded budgets by cost category are detailed below:

	23/24 Budget £m	24/25 Budget £m	variance £m
<b>Total Core by Cost Type</b>			
Staff	5.55	5.98	0.44
Staff Support	0.25	0.29	0.04
Business Infrastructure	1.17	0.96	(0.21)
External costs	1.47	1.65	0.18
<b>Total</b>	<b>8.44</b>	<b>8.89</b>	<b>0.45</b>

5.11 As detailed below, this includes additional activity and resources (3 FTE's) associated with delivery of the incremental activity requested in the funding letter and detailed in section 3.2 and within communications and stakeholder engagement. In addition, the salaries budget includes spinal point movements in line with employment contracts and a provision of 5% for a cost-of-living increase.

5.12 The core funded salaries budget of £5.98m consists of 71 roles, as detailed below.

	23/24 Budget	24/25 Budget	variance
<b>Core Headcount</b>			
Rail & Roads & Legal	22	22	-
Strategy, Policy & Communications	30	33	3
Leadership	2	2	-
Finance	6	6	-
Human Resources & Accommodation	5	5	-
Information Technology	3	3	-
<b>Total</b>	<b>68</b>	<b>71</b>	<b>3</b>

5.13 Two of the three additional roles relate to the delivery of the TfN Offer with the third role supporting communications and stakeholder engagement.

5.14 Business Infrastructure spend of £0.96m represents the costs of delivering a standalone statutory entity. This includes costs such as office accommodation, software licences, external and internal audit, insurance etc.

5.15 External costs include £0.2m of anticipated slippage from 2023/24.

### **Hosted Budgets**

#### **Rail North Partnership**

5.16 The Rail North Partnership budget is:

	23/24 Budget £m	24/25 Budget £m	variance £m
<b>Rail North Partnership by Cost Type</b>			
Staff	1.55	1.78	0.23
Staff Support	0.04	0.05	0.01
Business Infrastructure	0.04	0.05	0.01
<b>Total:</b>	<b>1.62</b>	<b>1.87</b>	<b>0.25</b>

5.17 The increase mainly relates to the proposed introduction of 3 additional staff members to support delivery.

5.18 The staff budget reflects the following heads:

	23/24 Budget	24/25 Budget	variance
<b>Total Headcount</b>			
Rail North Partnership	15	18	3
TransPennine Route Upgrade	3	3	-
<b>Total</b>	<b>18</b>	<b>21</b>	<b>3</b>

### NPR Analytical Support

5.19 The total estimated budget of £5.7m represents the costs associated to delivering the TAME solution to the NPR programme. It includes:

- £1.5m for staff / resource / support-based costs
- £4.2m 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.

## 6. Funding:

6.1

	23/24 Budget £m	24/25 Budget £m	variance £m
<b>Funding</b>			
Core grant	6.50	6.50	-
TfN Offer	0.71	0.71	-
In-Year funding (23/24 c/f)	0.03		(0.03)
Use of Reserves	0.83	1.27	0.44
	<b>8.07</b>	<b>8.48</b>	<b>0.41</b>
Contract Income	0.04	0.04	0.00
Rail North Grant/Local Contributions	0.32	0.36	0.04
<b>Core Duties</b>	<b>8.43</b>	<b>8.89</b>	<b>0.45</b>
<i>Hosted Services:</i>			
TDF Rail Modelling	5.86	5.70	(0.16)
Rail North Partnership Grant	0.96	1.23	0.27
Rail North Grant/Local Contributions	0.40	0.42	0.02
Contract Income	0.27	0.23	(0.04)
NPR Closure Settlement	0.20		(0.20)
<b>Hosted Services</b>	<b>7.68</b>	<b>7.57</b>	<b>0.09</b>
<b>Total Resource</b>	<b>16.12</b>	<b>16.46</b>	<b>0.54</b>

6.2 In addition to the core grant, use of reserves of £1.27m is required to provide a fully funded budget. As mentioned above, £0.2m of this relates to activity deferred from 2023/24.

6.3 The NPR Tame grant of £5.7m is ring fenced and will be reimbursed if expenditure levels are lower than budgeted.

6.4 Rail operation grants are indexed in line with the underlying agreement and contracted income will recover 24/25 costs.

## 7. Forecast Financial Position to Outturn:

7.1 TfN forecasts that it will incur expenditure totalling £14.85m to the end of the financial year 2023/24 as shown in the following table:

	23/24 Outturn £m	23/24 Budget £m	variance £m
<b>Operational:</b>			
Rail & Roads & Legal	2.30	2.30	0.00
Strategy, Policy & Communications	3.38	3.33	(0.06)
	5.68	5.63	(0.05)
<b>Business Support:</b>			
Leadership	0.37	0.40	0.02
Finance	0.76	0.88	0.12
Human Resources & Accommodation	0.94	1.07	0.13
Information Technology	0.41	0.47	0.07
	2.48	2.82	0.34
<b>Total Operational &amp; Business Support:</b>	<b>8.16</b>	<b>8.45</b>	<b>0.28</b>
<b>Hosted:</b>			
Rail North Partnership	1.64	1.62	(0.01)
NPR Analytical Support	4.86	5.86	1.00
	6.49	7.48	0.99
NPR Closure Costs	0.20	0.20	-
<b>Total Hosted:</b>	<b>6.69</b>	<b>7.68</b>	<b>0.99</b>
<b>Total Costs</b>	<b>14.85</b>	<b>16.12</b>	<b>1.27</b>

- 7.2 Against the original budget of £16.12m, this represents a shortfall of £1.27m. The majority is driven by underspend in NPR Analytical Support (£1.0m) and results from the delay in agreeing the workplan for the year with DfT. Operational areas are slightly overspent by £0.05m and Business Support functions are underspent by £0.34m.
- 7.3 As in previous years, a budget virement process has operated throughout the year, reallocating underspends and savings to fund new opportunities supportive of the business plan. The £0.28m underspend in Operational and Business Support mainly represents deferred activity into 2024/25 (£0.2m) plus savings made on office relocation costs.
- 8. Medium-Term Financial Strategy and Reserve Strategy:**
- 8.1 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.
- 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 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.
- 8.4 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
- 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.

- 8.5 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.
- 8.6 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.
- 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 The operating model remains unchanged from 2023/24 and it is not proposed to modify the minimum reserve.
- 8.9 From year to year, general reserves may be drawn upon in-year, or contributions made from surpluses.
- 8.10 In 2023/24 Transport for the North budgeted to utilise £0.8 in reserves to maintain the entities capacity and capability.
- 8.11 The forecasted outturn for 2023/24 (detailed above) requires a reserve utilisation of £0.2m giving a closing general reserve of £3.6m as of 31 March 2024. The main reasons for the reduction in reserve utilisation was the realisation of investment income (this is specifically not budgeted as agreed within the Treasury Strategy) and staff cost savings from recruiting through the year and either partially or fully deferring activity originally budgeted in 2023/24.
- 8.12 This reserve release is forecast to leave Transport for the North with total Core Grant Reserves of £3.6m by the end of 2023/24.
- 8.13 As detailed above, Transport for the North is proposing a draw from reserves totalling £1.3m in 2024/25. This represents the additional funding required to ensure we maintain our current capacity and capability and deliver the business plan outcomes.
- 8.14 This approach to Transport for the North's medium-term financial strategy is predicated on the following approach to non-core funded expenditure:
  - such activity will be resourced from specific grants
  - activity levels will be tailored to the funding available and any grant restrictions thereon.
- 8.15 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.
- 8.16 Transport for the North proposes to draw £1.3m from the General Reserve in financial year 2024/25, based on a brought forward Core Grant Reserve balance of £3.6m. The following table highlights forecast core grant requirements, resource, and the associated requirements for reserve support:

## 8.17 Reserve table

	23/24	24/25	25/26	26/27
Reserves	Outturn	Budget	Forecast	Forecast
	£m	£m	£m	£m
<b>Total Core Grant Reserve:</b>				
<b>Balance b/f</b>	3.8	3.6	2.4	2.7
Inflows:				
Core grant	7.2	7.2	9.3	9.3
Other grants/income	0.8	0.4	0.4	0.4
	8.0	7.6	9.7	9.7
Outflow	(8.2)	(8.9)	(9.4)	(9.8)
(Draw)/Contribution	(0.2)	(1.3)	0.3	(0.1)
<b>Balance c/f</b>	<b>3.6</b>	<b>2.4</b>	<b>2.7</b>	<b>2.6</b>

- 8.18 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.
- 8.19 The core funding allocation for the two-year period from 2023/24 to 2024/25 crystallises the medium-term sustainability issue referenced in earlier years budget submissions.
- 8.20 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 £7.2m for 24/25 to £9.3m per year for each of the subsequent three years.
- 8.21 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.

## 9. Corporate Considerations:

### ***Financial Implications***

- 9.1 The financial implications are included within the report.

### ***Resource Implications***

- 9.2 The resource implications are included within the report.

### ***Legal Implications***

- 9.3 Any legal implications are included within the report. Transport for the North's is operating within the terms of the funding letter and its constitutional functions and powers.

### ***Risk Management and Key Issues***

- 9.4 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 and the 2024/25 business plan.

### ***Environmental Implications***

- 9.5 There are no environmental implications.

### ***Equality and Diversity***

- 9.6 Where applicable an Equality Impact Assessment will be undertaken.

**Consultations:**

- 9.7 No consultation is required.

**10. Background Papers:**

- 10.1 Funding Business Planning and Budget Update for March 22 Board
- 10.2 Draft TfN Business Plan for March 23 Board

**11. Appendices:**

- 18.1 Appendix 1 – Draft 2023-24 Business Plan