

**Meeting:** Audit and Governance Committee  
**Subject:** Financial Update  
**Author:** David Spilsbury – Interim Financial Controller  
**Sponsor:** Paul Kelly – Interim Finance Director  
**Meeting Date:** Friday 18 November 2022

- 1.1 To update on the current financial position in the financial year 2022/23.  
 1.2 Performance against the Treasury Management Strategy is reported as required by the TfN Constitution.

**2. Recommendations:**

The Committee is recommended to note and consider:

- 2.1 • Financial performance to September 2022;  
 2.2 • Budget Revision 2; and  
 2.3 • Compliance with Treasury Management Strategy.

**3. Main Issues:**

Financial Position 2022/23

- 3.1 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>

- 3.2 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

### 3.3 *Hosted Services*

Expenditure of £3.23m YTD represents an underspend of £0.50m (13%). Expenditure in these areas is subject to dedicated funding streams 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.

### 3.4 *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.

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

#### Budget Revision 2

3.6 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.

<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>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>	-
<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>Total Funding</b>	<b>16.51</b>	<b>16.51</b>	-

3.7 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>

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.

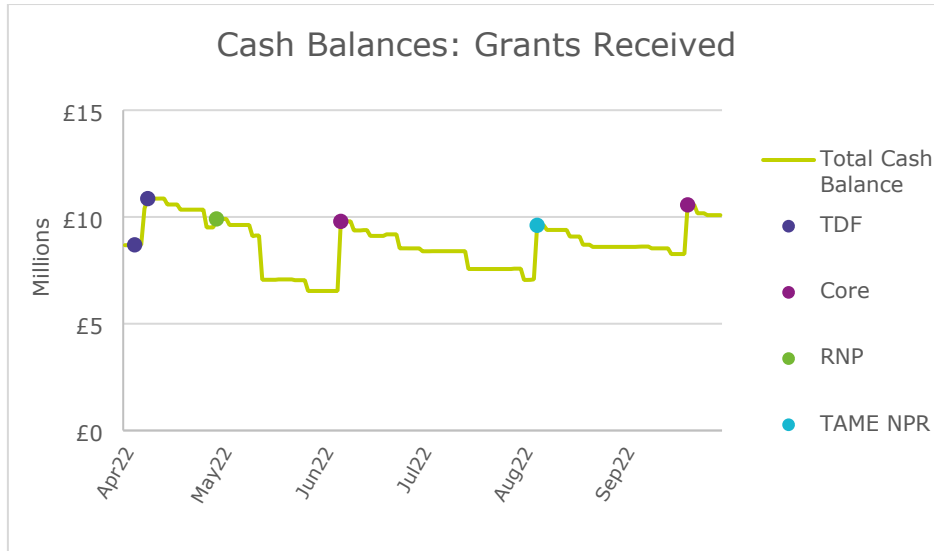
#### Mid-Year Treasury Management Update

3.8 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.

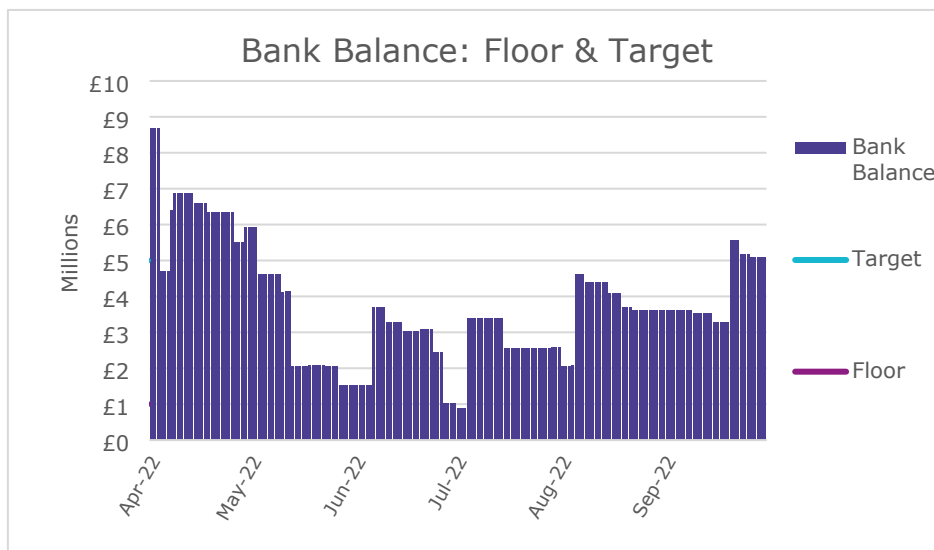
In 2022/23 to date, TfN has operated within the parameters set out in its Treasury Management Strategy.

3.9

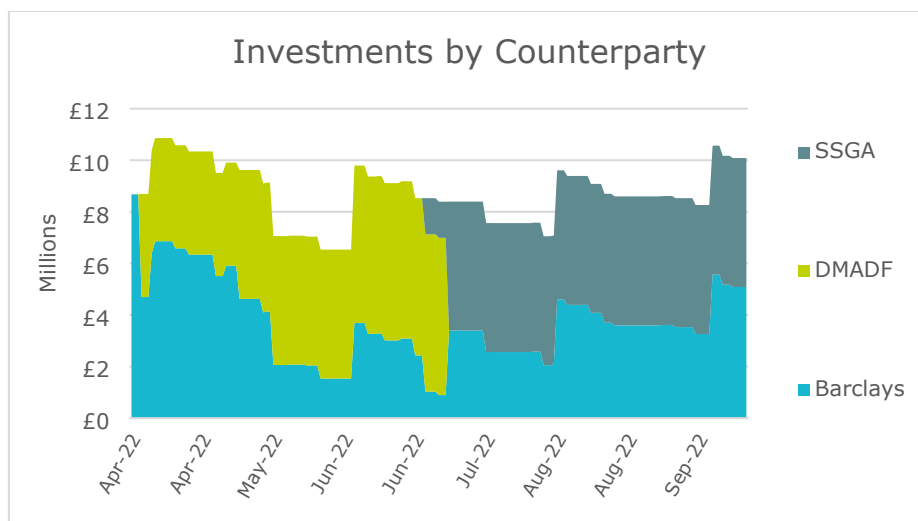
The following charts showing performance against key parameters. It shows that TfN has managed cash and investments within its counterparty criteria, placing cash deposits with secure bodies and institutions on liquid terms.



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.



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. At times we have held a balance above £5m as we paused investment awaiting a suitable opportunity. 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.



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 at 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).

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.

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.

#### **4. Corporate Considerations:**

##### **4.1 Financial Implications**

The financial implications are included within the report.

##### **4.2 Resource Implications**

There are no HR implications.

##### **4.3 Legal Implications**

There are no legal implications.

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

This report does not significantly alter our assessment of risk and all risks are captured within our risk registers.

##### **4.5 Environmental Implications**

There are no environmental implications.

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

There are no quality and diversity matters.

##### **4.7 Consultations**

No consultation is required.

#### **5. Background Papers**

##### **5.1 2022/23 Budget**

#### **6. Appendices**

None

## **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) TfN	Transport for the North
b) NPR	Northern Powerhouse Rail
c) YTD	Year to Date
d) TRU	TransPennine Route Upgrade
e) RMAP	Rail Modelling & Appraisal Partner
f) DfT	Department for Transport
g) TDF	Transport Development Fund
h) RNP	Rail North Partnership
i) TAME	Technical Assurance, Modelling and Economics
j) SSGA	State Street Global Advisors
k) DMADF	Debt Management Account Deposit Facility
l) S&P	Standard & Poor's