

Transport for the North Board Meeting

Item 5.4

Subject: Budget Revision 1

Author: Gareth Sutton, Financial Controller

Sponsor: Iain Craven, Finance Director

Meeting Date: Wednesday 31 July 2019

1. Purpose of the Report:

- 1.1 This report outlines the financial performance of Transport for the North over the first quarter of financial year 2019/20.
- 1.2 The report further provides a reforecast of the full year budget, taking account of the latest delivery information provided.
- 1.3 The report concludes with an update on Transport for the North's cash and investment position as at Quarter 1.

2. Executive Summary:

- 2.1 Over the course of Quarter 1 Transport for the North has incurred expenditure of £7.60m leaving it behind the opening budget, adjusted for slippage, by £1.73m.
- 2.2 Transport for the North's programme areas generated the majority of this underspend:

	Q1 Expenditure	Q1 Budget	Variance
	£m	£m	£m
Programme Areas	£6.23	£7.48	£1.25
Rail North	£0.52	£0.53	£0.02
Operational Areas	£0.86	£1.33	£0.47
Total	£7.60	£9.34	£1.73

- 2.3 The pace of expenditure in the programme areas was largely impacted by changes to delivery profiles, and the uncertainty surrounding the ABBOT project in the IST programme area.
- 2.4 Taking account of these issues, a revised budget of £65.57m is proposed for the remainder of the financial year. This budget reflects adjustments for brought forward slipped activity, significant revisions

to the ABBOT IST project, and pared down requirements for programme contingency:

	Base Budget £m	Revision 1 £m	Variance £m
Programmes:			
Revenue Programmes	£35.61	£34.08	£1.53
Capital Programmes	£33.00	£14.25	£18.75
Programme Contingency	£27.38	£7.79	£19.59
	£95.99	£56.12	£39.87
Operational Areas (net)	£7.19	£7.36	-£0.17
Rail Operations	£1.92	£2.08	-£0.16
Total	£105.10	£65.57	£39.53

3. Financial Summary: Quarter 1

3.1 Over the course of Quarter 1 £7.60m of expenditure was incurred, leaving Transport for the North £1.73m behind its opening budget:

	Q1 Actuals £m	Q1 Budget £m	Variance £m
Programmes:			
IST Capital	£2.67	£3.75	£1.07
IST Revenue	£0.48	£0.29	-£0.18
	£3.15	£4.04	£0.89
NPR	£2.95	£3.28	£0.33
Major Roads	£0.13	£0.15	£0.03
Total Programmes	£6.23	£7.48	£1.25
Rail Operations	£0.52	£0.53	£0.02
Operational Areas (net)	£0.86	£1.33	£0.47
Transport for the North	£7.60	£9.34	£1.73

3.2 Programme Areas

Transport for the North's programme areas consist of:

1. The Integrated & Smart Ticketing Programme (IST)
2. The Northern Powerhouse Rail programme (NPR)
3. The Major Roads Programme (Strategic Development Corridors)

Integrated & Smart Ticketing

- 3.3 IST variances accounted for the majority of underspend over Quarter 1. Within the programme underspend was driven by reprofiling of asset implementation on the ITSO on Rail scheme, whilst the pace of expenditure in the ABBOT scheme fell behind forecast:

	Q1 Actuals	Q1 Budget	Variance	Variance
	£m	£m	£m	%
Phase 1 - ITSO on Rail	£0.84	£1.34	£0.50	37%
Phase 2 - Customer Information	£0.41	£0.48	£0.07	15%
Phase 3 - Accounts Based Back Office	£0.94	£1.45	£0.51	35%
Programme Costs	£0.95	£0.77	-£0.18	-24%
	£3.15	£4.04	£0.89	

- 3.4 Costs ran ahead of budget in the programme areas reflecting higher than forecast recharges.

Northern Powerhouse Rail (NPR)

- 3.5 The NPR programme incurred expenditure of £2.95m over Quarter 1. The majority of this expenditure was incurred through a rail studies contract with Network Rail (£2.44m).
- 3.6 Whilst the major Network Rail contract is largely on budget, underspends have been incurred across other engineering support and project management professional service commissions (£0.18m).
- 3.7 Modelling studies in support of the NPR business case fell behind profile in Quarter 1 with contracts not being concluded until July (£0.13m).
- 3.8 Over the course of the quarter the programme fell behind forecast by £0.33m.

Major Roads (Strategic Development Corridors)

- 3.9 Limited expenditure of £0.13m was incurred over Quarter 1, with the majority being staffing and team costs.
- 3.10 Expenditure on the East and West Strategic Development Corridors commenced at the end of the quarter and will accelerate as the year progresses.
- 3.11 Variance to budget was immaterial with a £0.03m underspend.

Rail Operations

- 3.12 The Rail Operations function consists of the Strategic Rail team and the Rail North Partnership team.

- 3.13 Expenditure was largely on budget over the first quarter with only minor variances relating to staffing:

	Q1 Actuals £m	Q1 Budget £m	Variance £m	Variance %
Strategic Rail	£0.24	£0.26	£0.03	11%
Rail North Partnership	£0.28	£0.27	-£0.01	-5%
	£0.52	£0.53	£0.02	7%

Operational Areas

- 3.14 The operational budget covers the functions of the back, middle, and front office of the organisation along with business infrastructure.
- 3.15 A material underspend of £0.35m accrued in these areas during Quarter 1, whilst higher than forecast recharges were generated:

	Q1 Actuals £m	Q1 Budget £m	Variance £m	Variance %
Leadership	£0.07	£0.07	£0.00	-2%
Finance & Business Systems	£0.25	£0.26	£0.01	6%
Business Capabilities	£0.71	£0.88	£0.16	19%
Programme Management Office	£0.07	£0.10	£0.03	31%
Strategy & Policy	£0.44	£0.58	£0.14	25%
Gross Expenditure	£1.54	£1.89	£0.35	19%
- Recharges to Programmes	-£0.68	-£0.57	£0.11	-20%
Net Expenditure	£0.86	£1.33	£0.47	10%

- 3.16 The principal source of underspend within the Business Capabilities directorate was delays to the conclusion of contracting for an ICT hardware refresh. This project is advancing through its final stages of governance approvals.
- 3.17 Underspends with the Strategy & Policy directorate reflects re-profiling of professional service activity within the Transport Analysis, Modelling, & Economics function along with staffing underspends. A recruitment exercise within this area is now largely complete.

4.0 Budget Revision 1

- 4.1 Transport for the North adopted its 'base' opening budget in February 2019. This budget will be updated three times over the course of the year. Updates will reflect the latest delivery information from the programme and operations teams.
- 4.2 Budget Revision 1 represents the first iteration of budget reforecast. This Revision is notable for three things:

1. Slipped activity and costs from the prior financial year is now brought forward to the new year with resource carried forward;
2. A major revision has been made to the Phase 3 ABBOT scheme of the IST programme, removing all delivery costs from the financial year; and,
3. The requirement for contingency within the IST programme has been reviewed, with significant reductions in forecast requirements.

4.3 The following table highlights these movements. Increases in expenditure reflect the adoption of slippage, whilst the table highlights the reduction in expenditure in the IST programme:

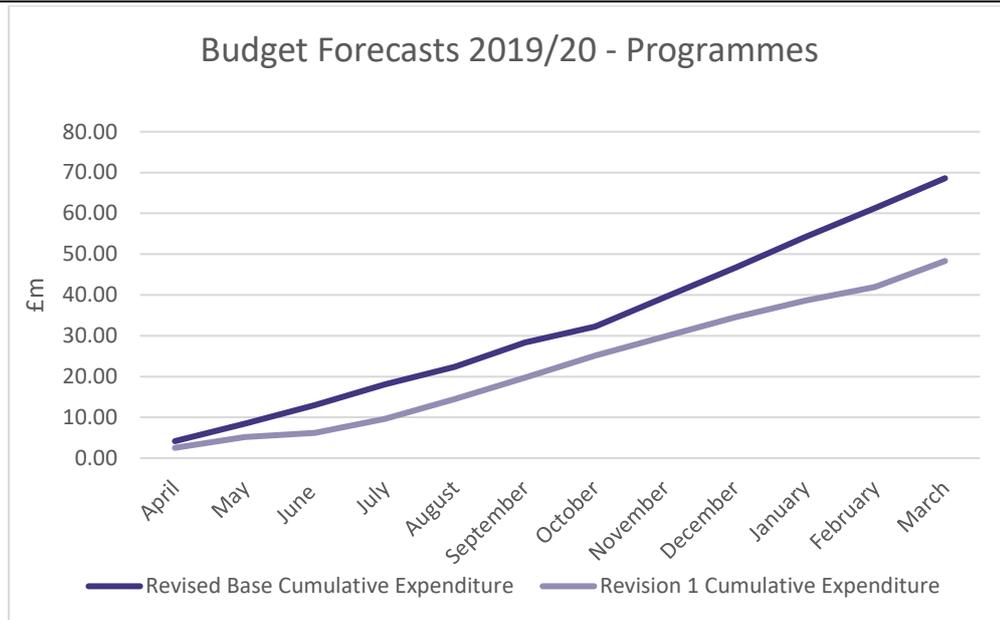
	Base Budget £m	Revision 1 £m	Variance £m
Programmes:			
Revenue Programmes	£35.61	£34.08	£1.53
Capital Programmes	£33.00	£14.25	£18.75
Programme Contingency	£27.38	£7.79	£19.59
	£95.99	£56.12	£39.87
Operational Areas (net)	£7.19	£7.36	-£0.17
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Total	£105.10	£65.57	£39.53

Budget Revision 1: Programme Areas

4.4 Expenditure within the programme areas reflects the reductions in the IST programme and variations within the other programmes:

Programme Expenditure (No Contingency)	Base Budget £m	Revision 1 £m	Variance £m
IST Programme:			
Capital Expenditure	£33.00	£14.25	£18.75
Revenue Expenditure	£3.28	£2.21	£1.07
	£36.28	£16.46	£19.82
NPR Programme	£29.75	£29.34	£0.41
Major Roads Programme	£2.57	£2.53	£0.04
Total Programme Exp.	£68.60	£48.33	£20.27

The following graphic highlights that programme expenditure will fall below the base budget and not recover during this financial year:

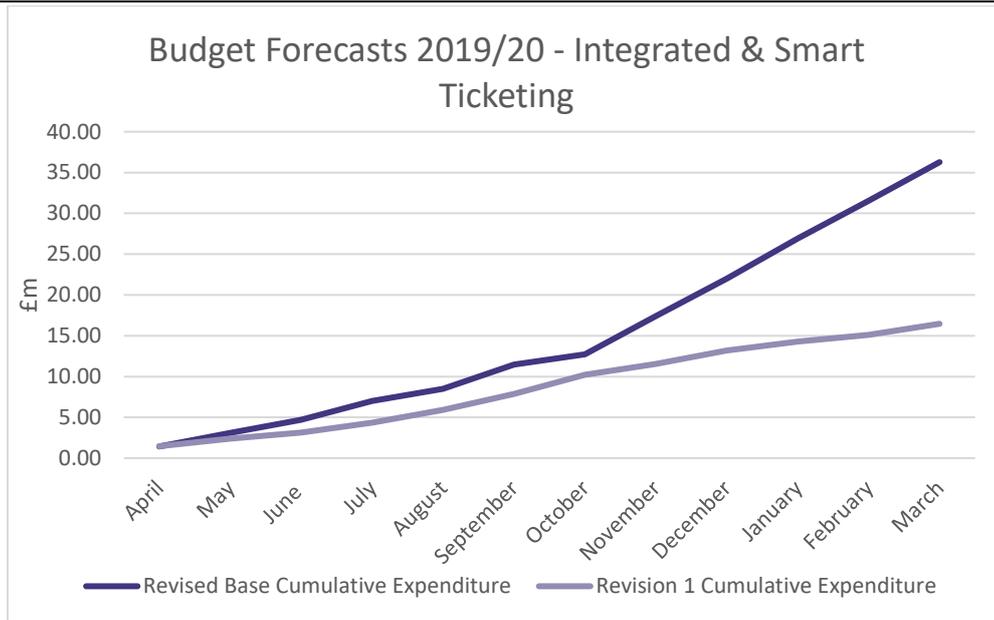


IST Programme

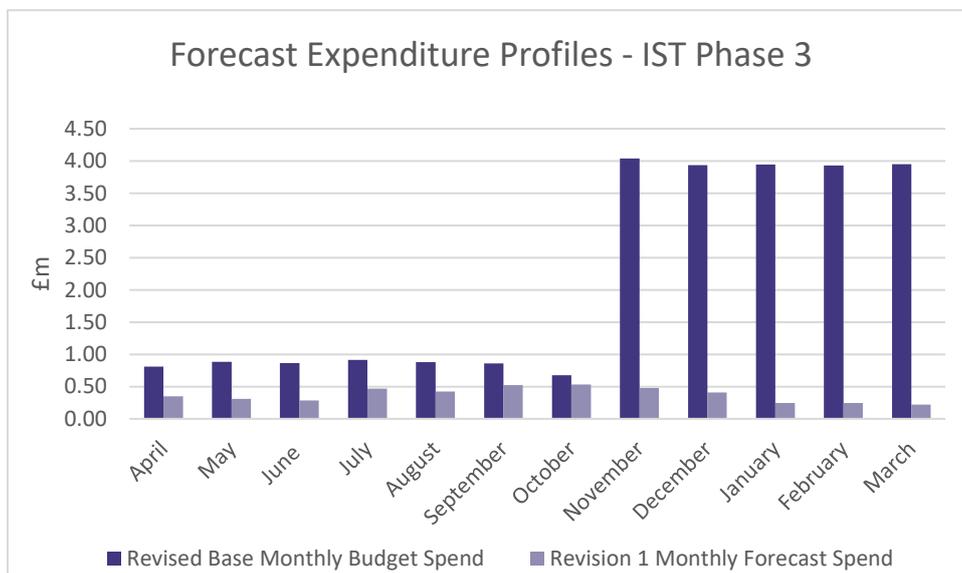
- 4.5 Forecast expenditure in the IST programme is materially impacted by the developments within the ABBOT project. Uncertainty on this project, as detailed elsewhere in this agenda pack, has led to the proposed delivery activity and costs being removed from financial year 2019/20.
- 4.6 The following table highlights that Phases 1 and 2 of the programme are progressing well and plan to increase the amount of activity over the base budget, whilst Phase 3 of the programme is reduced significantly:

(No Contingency)	Base Budget £m	Revision 1 £m	Variance £m
Phase 1	£5.68	£6.59	-£0.91
Phase 2	£2.28	£2.65	-£0.37
Phase 3	£25.69	£4.49	£21.20
Programme Costs	£2.63	£2.74	-£0.11
	£36.28	£16.46	£19.82

- 4.7 Increases in costs in Phase 1 and 2 principally reflects the adoption of brought forward slippage, but also the acceleration of some activity.
- 4.8 The following graphic usefully highlights that underspends will become more pronounced towards the end of the year as proposed post full business case ABBOT delivery activity falls away:



The following table further shows the variance in Phase 3 ABBOT expenditure at Revision 1 to the base budget. The revised forecast expenditure reflects an assumed increase in expenditure to submission of full business case, and then a reduction whilst that submission is reviewed and contractors are stood down:



An options paper is presented elsewhere in the Board papers that will determine how the ABBOT scheme develops. Decisions made there will likely require a re-costing exercise to be undertaken and a budget reforecast provided when we bring forward Budget Revision 2.

Northern Powerhouse Rail Programme

The NPR programme is adjusted at Revision 1 to reflect a number of changes in the resourcing model adopted by the programme in this financial year, and the absorption of brought forward slippage (£0.28m).

The following table shows expenditure against programme headings and highlights that activity that was to be undertaken by internal resource has been removed. This reflects the change in delivery model to contractors, aligned to the one-year funding settlement that Transport for the North receives to fund the NPR programme:

	Base Budget	Revision 1	Variance	
	£m	£m		£m
NPR Team	1.95	1.54		0.41
Stakeholder Engagement	0.23	0.25	-	0.02
Modelling & Economic Appraisal	4.77	5.38	-	0.61
Rail Studies	22.8	22.16		0.64
	29.75	29.34		0.41

Contingency held to manage risk in the programme has been increased from £1.20m to £1.87m. This reflects the complexity of the programme, and the cost sensitivity of the major Network Rail contract to adjustments.

Major Roads

The Major Roads budget is largely unchanged on the opening base budget, with a minor underspend of £0.03m.

The budget has absorbed slippage from the prior year of £0.08m but removed costs of £0.09m including £0.06m of slippage.

Rail Operations

The Rail Operations area shows an increase on the base budget of £0.16m.

Of this value £0.09m relates to brought forward slippage from the prior year, whilst the majority of the balance relates to cost neutral reappportionments of costs from the operational teams (ICT, accommodation).

These recharges are designed to provide greater cost transparency on the cost of supporting the Rail Operations functions.

Operational Areas

At Revision 1, the net (after recharges) expenditure in the operational areas has increased by £0.17m.

This movement reflects a number of items including:

- Brought forward slippage of £0.22m;
- Budget virement savings as a result of staff restructuring of £0.09m;
- Net overspends of £0.23m; and,
- Increased recharges to programme areas for incremental activity of £0.19m.

	Base Budget	Revision 1	Variance
	£m	£m	£m
Leadership	0.27	0.30	-0.03
Finance & Business Systems	1.23	1.24	-0.01
Business Capabilities	3.72	3.88	-0.16
Programme Management Office	0.39	0.48	-0.09
Strategy & Policy	3.58	3.65	-0.06
	9.19	9.54	-0.35
Recharges*	-2.00	-2.19	0.19
Net Expenditure	7.19	7.36	-0.17

*restated for budget reorganisation

Increases on budget reflect both the absorption of brought forward slippage, but also net increases on costs.

Cost increases have arisen largely from additional staffing and contractor requirements due to unforeseen circumstances, particularly in relation to the requirement to recruit into vacant senior positions.

Funding

The Revision 1 budget of £65.57m (inclusive of contingency) will be resourced as follows:

Funding (Inclusive of Contingency)	Base Budget	Revision 1	Variance
	£m	£m	£m
Integrated & Smart Ticketing Grant	£62.46	£22.38	£40.08
Transport Development Fund Grant	£30.00	£30.25	-£0.25
Rail North Grant & Contributions	£1.18	£1.18	£0.00
Core Grant	£10.00	£10.00	£0.00
Reserves	£1.46	£1.75	-£0.29
	£105.10	£65.56	£39.54

Increases in requirements for Transport Development Fund grant (TDF) and Core Grant reserves will be resourced from balances brought forward from the prior year.

At the end of financial year 2018/19 Transport for the North held £0.87m in unapplied TDF grant. Transport for the North, through formal grant governance, has at the time of writing requested a carry forward of this resource in the new financial year.

Equally, Transport for the North's closing position in 2018/19 saw it hold £5.58m in Core Grant reserves. This reserve is Transport for the North's general fund reserve which underpins its reserve strategy.

Slipped activity, savings and efficiencies place this reserve ahead of forecast by £0.62m, providing sufficient resource to meet the increased requirements for reserve draws.

5.0 Cash & Investments

5.1 Transport for the North's cash position over the quarter remains prudent relative to its affairs. Grant has been received from the Department for Transport and liabilities settled, leaving the organisation with total cash at bank and investments of £16.18m at the end of Quarter 1:

	£m	£m
Cash and Investments at 1st April		£14.37
Payments made	-£6.44	
Grant Received:		
Core Grant		£5.00
Transport Development Fund		£2.61
Rail North Partnership		£0.58
Rail North Local Contributions		£0.06
Investment Income		£0.01
	-£6.44	£22.63
Cash and Investments		£16.18

5.2 Cash held in advance of need was deposited with secure counterparties in line with Transport for the North's Treasury Management Strategy:

Cash & Cash Equivalents:		Rating	£m
Barclays	Bank Deposit	A+	£3.88
Lloyds	Bank Deposit	A+	£5.00
SSGA	Money Market Fund	AAA	£5.00
BNP Paribas	Money Market Fund	AAA	£2.30
			£16.18

6. Conclusion:

- 6.1 This report provides an update on Transport for the North's financial position over the first quarter of the year and a reforecast of the budget to the end of the year.
- 6.2 The reforecast budget – Budget Revision 1 – is notable for the decrease in forecast expenditure in the IST programme. This reflects the uncertainty around the Phase 3 ABBOT project, with delivery activity and costs now removed from the financial year.
- 6.3 Options for the ABBOT project are presented elsewhere within this agenda pack. When greater certainty is provided around the project the budget will again be recast, with forecasts presented as part of the Budget Revision 2 cycle at the half-year mark.

7. Recommendation:

7.1 Approve the Budget Revision 1.

8. Appendices:

8.1 None.

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.	Gareth Sutton	Iain Craven

Environment and Sustainability

Yes	No
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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 or this report.	Gareth Sutton	Iain Craven

Legal

Yes	No
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Consideration	Comment	Responsible Officer	Director
Legal	Transport for the North Legal Team has confirmed there are no legal implications.	Julie Openshaw	Dawn Madin

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Finance

Yes	No
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Consideration	Comment	Responsible Officer	Director
Finance	The financial implications have been considered and are included in the report.	Gareth Sutton	Iain Craven

Resource

Yes	No
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Consideration	Comment	Responsible Officer	Director
Resource	Transport for the North HR Team has confirmed there are no resource implications.	Stephen Hipwell	Dawn Madin

Risk

Yes	No
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Consideration	Comment	Responsible Officer	Director
Risk	The Transport for the North Risk team has confirmed that there are no risk implications for this report.	Haddy Njie	Iain Craven

Consultation

Yes	No
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Consideration	Comment	Responsible Officer	Director
Consultation	A consultation has not been carried out	Gareth Sutton	Iain Craven

	because it is not required for this report.		
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