Transport for the North Board – Item 6

Subject:	Transport for the North (TfN) Budget Revision 1 and Year-to-Date Monitoring
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Sponsor:	Iain Craven, Finance Director
Meeting Date:	Thursday 16 August 2018

1. Executive Summary:

1.1 This report provides an update on TfN's financial position after the first four months of financial year 2018/19.

1.2 Taking account of that position, and updated forecasts for the remaining eight months of the financial year, the report also presents a revised budget for adoption. This revised budget is known as 'Revision 1'.

1.3 The report highlights that over the first four months of the year TfN has underspent against its base budget by £6.51m, or 35% of the expected expenditure levels.

1.4 This underspend is principally driven by significant slippage within the Integrated & Smart Ticketing (IST) Programme, primarily within the Phase 1 ITSO on Rail project. This position reflects the impact of the delays to the conclusion of the Phase 1 contracting arrangements in the previous financial year.

1.5 Over the first quarter of the financial year it has also become apparent that the delays to the passage of Phase 3 of the IST programme through government gateways will have a material impact upon the profile of expenditure relating to the delivery of that activity.

1.6 Adopting a revised budget at this stage affords TfN the opportunity to work to a financial budget better aligned to the latest delivery timetables.

1.7 The proposed Revision 1 budget presented in this report stands at £56.52m, £23.51m below the initial base budget. Of this variance £22.78m (97%) relates to adjustments made to the IST programme's expenditure profile, with costs principally slipping out of financial year 2018/19 into the following period.

1.8 These underspends, and other adjustments, offset the impact of delayed activity and associated costs slipping out of the previous financial year into 2018/19. These costs stand at £2.21m and simply represent changes to the timing and delivery of previously approved activity. Earmarked resource does exist to fund these costs, subject to the approval of grant drawdowns. However, at this stage it is forecast that the Revision 1 budget can accommodate these costs through the reallocation of resource from forecast underspend.

2. Recommendation:

2.1 Note the year-to-date underspend of £6.51m.

2.2 Approve the proposed Revision 1 budget.

2.3 Note the potential need to seek budget variations later in the year to fund slipped activity from the previous financial year.

3. Issues:

Base Budget Refresh

3.1 TfN's opening 'base' budget was developed as part of the annual business planning exercise conducted in January 2018.

3.2 That business planning exercise identified the programmes of activity that TfN would undertake, and the costs of delivering them. The exercise also identified the costs associated with developing and maintaining the organisational infrastructure expected of TfN as a public body.

3.3 The business planning exercise led to the adoption of a budget standing at £80.03m for financial year 2018/19.

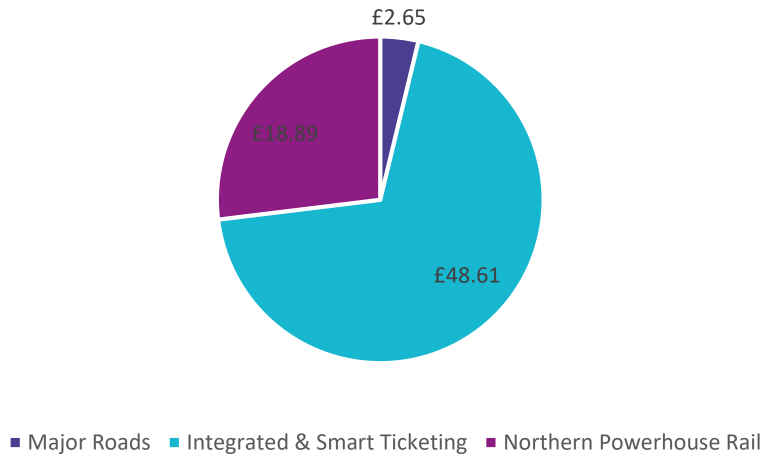
3.4 Recognising the differentiation between delivering discrete programmes of activity and maintaining basic organisational infrastructure, that budget was further split into two composite portfolios:

Portfolio	Base £m	%
Programmes	£70.15	88%
Operations	£9.89	12%
	£80.04	

3.5 Splitting the budget in this manner encourages cost transparency and oversight by grouping the larger scale and more sensitive programme activity apart from the smaller and more stable patterns of expenditure in the operations areas.

3.6 In this context, it was notable that the majority of TfN's opening budget was centred on its programmes of activity. These programmes are:

a) The Integrated & Smart Ticketing programme (IST);
b) The Northern Powerhouse Rail programme (NPR); and,
c) The Major Roads Network (MRN) programme.



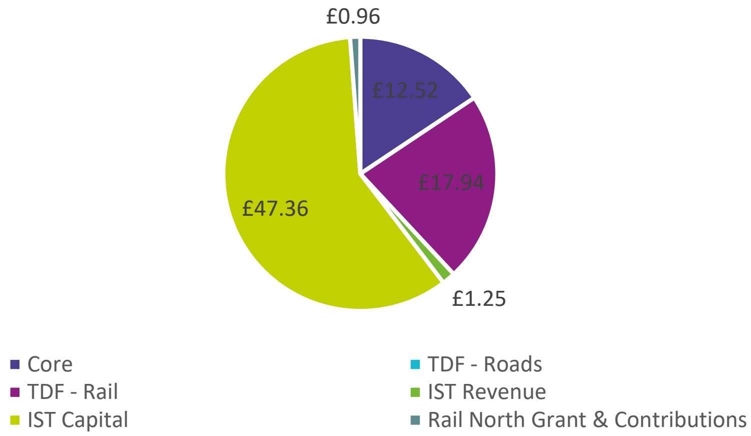
3.7 Together, the programme areas accounted for 88% of the adopted base budget, but also most of the risk.

3.8 Expenditure profiles for the activity were based on assumptions often influenced by external factors, such as the performance of delivery partners and the pace of progress through funding approval gateways. In the case of the IST programme, profiles also included amounts set-aside as contingency reflecting the innovative nature of the activity.

3.9 The opening base budget was funded from a variety of forecast in-year grant to be received from the Department for Transport, and the use of core-grant reserves accrued from prior-year underspend. The use of reserves in this manner forms part of TfN's prudent reserve strategy as adopted alongside the budget.

3.10 The following chart shows the sources of funding for the base budget:

![TRANSPORT FOR THE NORTH]



3.11 Since the adoption of the base budget at the inaugural TfN meeting of the 5th April, a number of factors require this position to be updated:

a) Budget virements processed during the first four months of year to reallocate resource within existing budget parameters;
b) The finalisation of the 'outturn' position from 2017/18, including activity and costs that slipped out of that financial year into 2018/19;
c) The adoption of new grants awarded from the Department;
d) Financial performance over the first three months of the year; and,
e) Updated forecasts and assumptions for the delivery of activity and associated costs.

3.12 This next section of the report details the impact of these movements, cumulating in the proposed Revision 1 budget.

Budget Virements

3.13 Following the adoption of the base budget in April, a number of budget virements were authorised by the Finance Director in consultation with budget holders.

3.14 A budget virement reflects the reallocation of existing resource between different budget heads within the existing budgetary envelope. That is, a virement allows for the reorganisation of the budget without changing the overall budget ceiling.

3.15 The virements approved during the first four months of the year allowed for resource to be reallocated to different budget holders to reflect, amongst other things, transfers of responsibilities and better alignment of financial and delivery responsibilities.

3.16 The following table highlights the net virements, and shows the new revised base budget:

Directorates	Base £m	Virement £m	Revised Base £m
Programme Areas:			
Northern Powerhouse Rail (NPR)	£18.89	£0.02	£18.92
Integrated & Smart Ticketing	£48.61	£0.00	£48.61
Major Roads	£2.65	£0.00	£2.65
	£70.15	£0.02	£70.17
Operations Areas:			
Leadership	£0.29	£0.06	£0.34
Finance	£0.87	£0.00	£0.87
Business Capabilities	£3.82	£0.03	£3.85
Programme Management Office	£0.51	£0.00	£0.51
Strategy & Policy	£2.81	-£0.11	£2.71
Rail North	£1.58	£0.00	£1.58
	£9.89	-£0.02	£9.86
	£80.03	**£0.00**	**£80.03**

The Impact of Prior-Year Slippage

3.17 Slippage refers to planned activity that has not been undertaken in the financial period in which it was budgeted. When activity slips from one period to another, the costs of that activity also move.

3.18 At the end of financial year 2017/18, £2.21m of activity (inclusive of VAT costs) planned for Quarter 4 slipped out of that period and into the first quarter of the new financial year.

3.19 As it was forecast that these costs would be incurred in the prior year, the costs were not included in the budget for financial year 2018/19. In that respect these costs represent an unbudgeted pressure.

3.20 Slippage is, however, common to most organisations operating programmes of activity, and mechanisms exist to allow for the request of resource allocated to fund activity in prior periods to be 'carried-forward' into the new period alongside the costs.

3.21 Carrying resource forward in this manner represents a budget variation requiring TfN Board approval, and as such requests for the reallocation of funds should be made in the context of the overall financial position - including consideration of forecast underspends in other areas.

3.22 At Quarter 1, slipped activity added new costs to the base budget position as follows:

Directorates	Slippage £m
Programme Areas:	
Northern Powerhouse Rail (NPR)	£0.06
Integrated & Smart Ticketing	£1.72
Major Roads	£0.23
	£2.01
Operations Areas:	
Leadership	£0.00
Finance	£0.00
Business Capabilities	£0.00
Programme Management Office	£0.00
Strategy & Policy	£0.04
Rail North	£0.16
	£0.20
	£2.21

3.23 The need for a request for the carry-forward of resource and budget variations to accommodate this slippage is considered as part of the proposed Revision 1 budget request.

Adoption of New Grants

3.24 Since the start of the financial year, TfN has received two new grant awards from the Department for Transport and its agencies that were not budgeted for in the base budget.

3.25 These awards are for:

a) Trans-Pennine Tunnel modelling work (£120k); and,
b) Additional TfN/Rail North Partnership staff in response to the Arriva Rail Northern recovery plan (£112k).

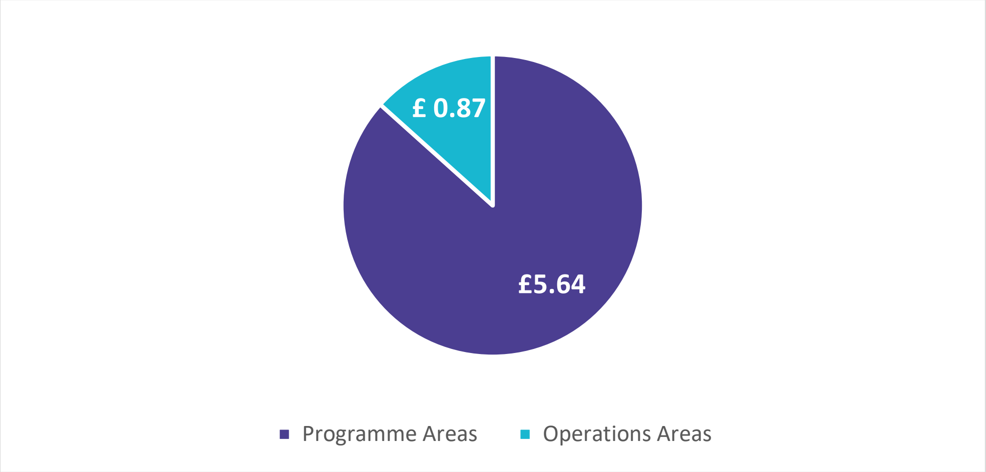
3.26 Adopting these grants impacts upon the budget ceiling as it relates to new activity and costs, and the requirement for a budget variation to accommodate this is considered as part of the Revision 1 budget request.

Financial Performance in Periods 1-4

3.27 Over the first four months of the new financial year TfN underspent against its opening budget by £6.51m, or 35% of the forecast expenditure.

3.28 This underspend principally arose in the programme areas (87%), but was exacerbated by underspend in the operational areas:

Periods 1-4	Base £m	Actuals £m	Variance £m	Variance %
Programmes	£15.11	£9.47	£5.64	37%
Operations	£3.38	£2.51	£0.87	26%
	£18.49	£11.98	£6.51	35%



3.29 At this stage, underspend is principally due to in-year slippage with a minor amount of savings (£0.18m) arising from recruitment delays and efficiencies on professional services commissioning.

3.30 Expenditure in the year-to-date highlights that TfN is principally a commissioning body, with the majority of expenditure grouped around people costs (£2.59m) and the provision of expert third-party professional services for studies and policy support (£6.71m).

3.31 As TfN cannot recover the VAT charged on goods and services, any slippage or savings generated further generates an associated movement on the amount of VAT budgeted for:

Cost Type	Base £m	Actuals £m	Variance £m	Variance %
People	£2.41	£2.59	-£0.18	-8%
Travel	£0.07	£0.07	£0.00	-7%
Premises	£0.12	£0.12	£0.00	0
ICT	£0.18	£0.08	£0.11	48%
Communications	£0.01	£0.01	£0.00	0
Consumables	£0.03	£0.07	-£0.04	-65%
Insurance	£0.01	£0.01	£0.00	38%
Stakeholder Engagement	£0.15	£0.09	£0.06	42%
Professional Services	£7.49	£6.71	£0.79	10%
Irrecoverable VAT	£2.98	£1.79	£1.20	40%
Capital	£5.04	£0.46	£4.58	91%
	£18.49	£11.98	£6.51	35%

3.32 Variance analysis by cost-type highlights that the major movements have been within the programme areas, and in particular around forecast capital expenditure in support of the IST programme where expenditure is £5.54m or 70% behind budget.

3.33 Programme area underspend of £5.64m represents a net figure with underspend in the IST and Major Roads areas offsetting an acceleration of costs and activity ahead of budget in the NPR area:

Programmes	Base £m	Actuals £m	Variance £m	Variance %
Northern Powerhouse Rail	£5.41	£5.69	-£0.28	-5%
Integrated & Smart Ticketing	£8.32	£2.83	£5.48	66%
Major Roads	£1.39	£0.95	£0.44	32%
	£15.12	**£9.47**	**£5.64**	**37%**

3.34 Underspend in the IST programme principally relates to the Phase 1 ITSO on Rail project and continues a trend seen in the previous year, as delays to the conclusion of contracting arrangements with train operating companies (TOCs) impacted on delivery timescales. This issue is now largely resolved, and it is anticipated that costs will accelerate as the TOCs conclude their procurement activity.

3.35 However, underspends have occurred across the IST programme, with slippage on Phase 2 and Phase 3 as both phases continue their progress through government's gateway approval processes before entering into the delivery phase:

	Budget £m	Actual £m	Variance £m	Variance %
Phase 1	£3.57	£0.67	£2.90	81%
Phase 2	£1.46	£0.32	£1.14	78%
Phase 3	£2.85	£1.69	£1.16	41%
Programme Costs	£0.43	£0.17	£0.27	63%
	£8.32	**£2.83**	**£5.47**	**66%**

3.36 The Northern Powerhouse Rail programme continues to proceed towards the submission of its OBC document to the Department for Transport, with the programme spending marginally ahead of budget over the first four months of the year (£0.28m).

3.37 This acceleration of costs on the Network Rail contract has been tolerated in support of the OBC delivery. The arrangements for the drawdown of Transport Development Fund grant to resource this activity, as agreed previously with the Department, are sufficiently flexible to support this approach.

3.38 The Major Roads area saw a £0.44m underspend for the four months representing c. 32% of their budgeted expenditure. This material underspend was principally due to slippage in professional service costs incurred in support of the Strategic Development Corridor (SDC) studies.

3.39 This slippage is itself largely due to the delays in the release of the required modelling data analytics. The risks to the delivery timetable, and contractual issues are dealt with as part of the Revision 1 proposals.

Periods 1-4 Operations Area Performance

3.40 Over the first four months of the year, the back, middle, and front office teams that comprise the 'operations' areas underspent against budget by £0.87m, or 26% of forecast expenditure.

3.41 Underspend was largely incurred in the Strategy & Policy area (£0.50m) and the Business Capabilities area (£0.29m), offsetting costs that have run ahead of budget in the Rail North team:

Operations	Base £m	Actuals £m	Variance £m	Variance %
Leadership	£0.10	£0.10	£0.00	3%
Finance	£0.29	£0.29	£0.00	0%
Business Capabilities	£1.28	£0.99	£0.29	23%
Programme Management Office	£0.23	£0.10	£0.13	56%
Strategy & Policy	£0.95	£0.45	£0.50	53%
Rail North	£0.54	£0.59	-£0.06	-9%
	£3.38	**£2.51**	**£0.87**	**26%**

3.42 A number of year-to-date savings have arisen in the Strategy & Policy area around modelling and economic appraisal professional services support, where contracts have been awarded for less than the budget estimate. This has been exacerbated by staffing savings due to recruitment delays, and slippage in a number of other modelling studies.

3.43 Underspend in the Business Capabilities directorate represents underspends across a number of different activity heads. Principally, expenditure in the ICT business area was £0.13m below budget due to lower than expected costs associated with the implementation of the new back-office systems, and delays to the conclusion of an outsourced ICT systems support contract.

3.44 This was exacerbated by lower than forecast expenditure in the Learning and Skills area (£0.06m) as external training provision was not undertaken at the levels planned, and expenditure within the Stakeholder Engagement and Communications team fell below the forecast levels, in part due to that team's attention being focussed on the rail timetabling issues (£0.06m).

3.45 That latter issue contributed, in part, to the overspend seen on Rail North, as additional resource was added to the team to provide further capacity and skills. That issue was compounded by slippage associated with professional service contracts falling out of Quarter 4 2017/18 into Quarter 1 2018/19.

3.46 Variances in the operational areas are not unexpected at this stage of TfN's organisational life. As systems and processes are embedded, and contracts for services adopted, it is expected that cost profiles will settle down into more predictable expenditure patterns.

Proposed Budget to be Adopted as Revision 1

Summary Proposals

3.47 Taking account of the changes to the base budget assumptions discussed, it is proposed that a new budget be adopted for the residual 9 months of the financial year. This would be named the 'Revision 1' budget.

3.48 This budget will be better aligned to the latest cost profiling and delivery timetables available to the organisation and will, therefore, afford better transparency over financial activity.

3.49 It is proposed that a revised budget to the value of £56.53m be adopted. This represents a £23.51m, or 29%, reduction on the opening base budget.

3.50 Reflecting the known scale and sensitivity of the programme areas, the Revision 1 budget reduces programme expenditure by a net £23.47m to £46.70m for the year. The Revision 1 budget assumes that expenditure within the operations area will broadly balance against base budget assumptions after accommodating slippage brought forward for the prior year and new grant activity:

Portfolio	Revised Base Budget* £m	Revision 1 £m	Variance £m	Variance %
Programmes	£70.17	£46.70	£23.47	33%
Operations	£9.86	£9.83	£0.03	0%
	£80.03	**£56.53**	**£23.51**	**29%**

**Budget revised for in-year virements*

3.51 Programme expenditure variances principally centre on the IST programme, and in particular reductions in the forecast Phase 3 Accounts Based Back-Office expenditure.

3.52 This issue is compounded by reductions in the in-year NPR programme due to accelerated activity in the prior-year, and revisions to assumptions around required work in this financial-year.

3.53 Reductions in the NPR and IST programmes are, however, marginally offset by forecast additional activity in the Major Roads area. This additional activity reflects work packages that slipped into 2018/19 from the prior year, whilst contingency has also been taken against the potential for additional costs to arise on the Strategic Development Corridor studies due to the delays in delivering TfN's analytical framework.

3.54 Programme area expenditure is now forecast as follows:

Programmes	Revised Base Budget £m	Revision 1 £m	Variance £m	Variance %
Northern Powerhouse Rail	£18.92	£17.85	£1.06	6%
Integrated & Smart Ticketing	£48.61	£25.83	£22.78	47%
Major Roads	£2.65	£3.01	-£0.37	-14%
	£70.17	**£46.70**	**£23.47**	**33%**

3.55 Operational activity is expected to broadly balance back to base budget after new grant activity is added into the budget and slippage from 2017/18 is accommodated. These new costs can be absorbed into the budget due to underspend generated from slippage and savings.

3.56 Operational area expenditure is now forecast as follows:

Operations	Revised Base Budget £m	Revision 1 £m	Variance £m	Variance %
Leadership	£0.34	£0.34	£0.00	0%
Finance	£0.87	£0.88	£0.00	-1%
Business Capabilities	£3.85	£3.66	£0.19	5%
Programme Management Office	£0.51	£0.49	£0.01	3%
Strategy & Policy	£2.71	£2.65	£0.06	2%
Rail North	£1.58	£1.80	-£0.22	-14%
	£9.86	**£9.83**	**£0.03**	**0%**

3.57 The budget adjustments adopted as part of Revision 1 impact upon the cost mix. The cost mix represents the categories of expenditure TfN incurs in order to deliver its activity.

3.58 Reflecting the material changes to programme activity, it is forecast that the major area of change will be around capital expenditure incurred in the delivery of the IST programme (80% of the total variance), with an associated knock-on impact on irrecoverable VAT costs:

	Revised Base Budget £m	%	Revision 1 £m	%	Variance £m	Variance %
People	£7.43	9%	£6.92	12%	£0.51	7%
Travel	£0.20	0%	£0.20	0%	£0.00	0%
Premises	£0.36	0%	£0.35	1%	£0.00	1%
ICT	£0.52	1%	£0.42	1%	£0.09	18%
Communications	£0.02	0%	£0.03	0%	-£0.01	-65%
Consumables	£0.10	0%	£0.16	0%	-£0.06	-55%
Insurance	£0.03	0%	£0.03	0%	£0.00	2%
Stakeholder Engagement	£0.57	1%	£0.47	1%	£0.10	18%
Banking Costs	£0.01	0%	£0.00	0%	£0.01	85%
Professional Services	£22.11	28%	£22.35	40%	-£0.23	-1%
Irrecoverable VAT	£12.50	16%	£8.14	14%	£4.36	35%
Capital	£36.17	45%	£17.45	31%	£18.73	52%
	£80.03		**£56.52**		**£23.51**	**29%**

3.59 It is proposed that this activity be funded in line with the original base budget, through a mixture of in-year grant and brought-forward core grant reserve:

	£m	£m
Total Expenditure		**£56.53**
Resourced from:		
In-Year Grants		
Core Revenue Grant	£10.00	
Transport Development Fund - Roads	£0.12	
Transport Development Fund - Rail	£16.98	
Integrated & Smart Ticketing - Capital	£24.69	
Integrated & Smart Ticketing - Revenue	£1.14	
Rail North Grant & Contributions	£1.05	
		£53.97
Deficit to be Resourced from Reserves		**£2.55**
Reserves		
Draw on Core Revenue Grant Reserve		£2.55

3.60 The proposed funding draw down has changed against the base-budget to reflect the reduced need for in-year grant; the new grant made available for discrete activity; and a marginally increased need (£0.03m) for additional core grant drawdown required to meet brought-forward slippage:

Fund	Base £m	Revision 1 £m	Variance £m	Variance %
Core Revenue Grant	£12.52	£12.55	-£0.03	0%
Transport Development Fund - Roads	£0.00	£0.12	-£0.12	-
Transport Development Fund - Rail	£17.94	£16.98	£0.96	5%
Integrated & Smart Ticketing - Capital	£47.36	£24.69	£22.67	48%
Integrated & Smart Ticketing - Revenue	£1.25	£1.14	£0.11	9%
Rail North Grant & Contributions	£0.96	£1.05	-£0.09	-9%
	£80.03	**£56.53**	**£23.50**	**29%**

3.61 Drawing down on additional core grant reserves would require a TfN Board decision, so at this time it is proposed to withhold any request until later in the financial year when requirements are clearer.

Revision 1 – Programme Area Activity

3.62 Integrated & Smart Ticketing

The principal change at Revision 1 relates to the material reduction in forecast IST programme expenditure.

3.63 This reduction represents a net position, with reductions in Phase 2 and Phase 3 activity offsetting an increase in Phase 1 expenditure:

	Base £m	Revision 1 £m	Variance £m	Variance %
Phase 1	£13.21	£14.10	-£0.89	-7%
Phase 2	£4.04	£1.73	£2.31	57%
Phase 3	£30.11	£9.12	£20.99	70%
Programme Costs	£1.25	£0.88	£0.37	30%
	£48.61	**£25.83**	**£22.78**	**47%**

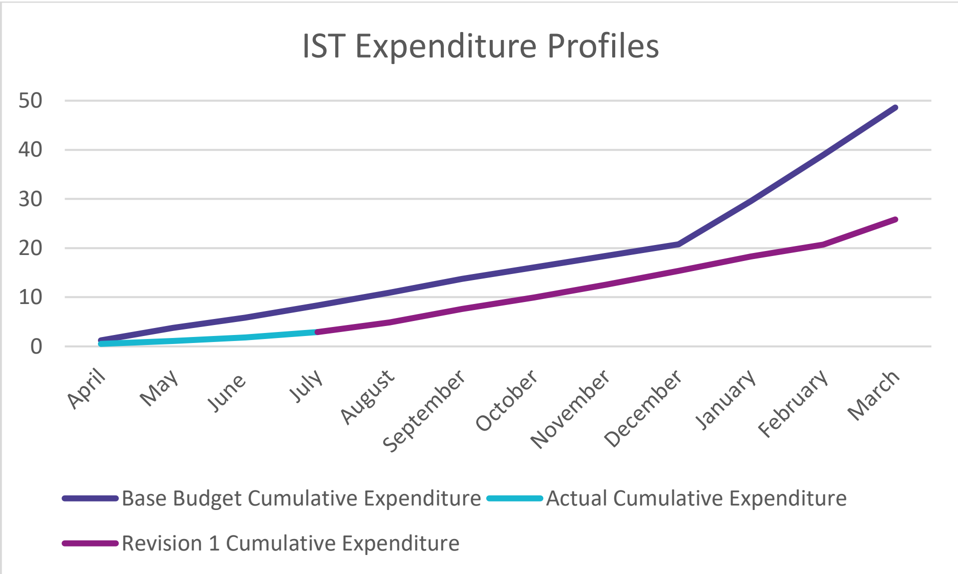
3.64 Increased expenditure in the Phase 1 area relates to brought forward slippage from the prior year, whilst underspends in Phases 2 and 3 are principally due to activity slipping entirely out of this financial year and into future accounting periods:

	P1 £m	P2 £m	P3 £m	Programme £m
Base Budget	£13.21	£4.04	£30.11	£1.25
+ Virements	£0.00	£0.00	£0.00	£0.00
+ Prior Year Slippage	£1.72	£0.00	£0.00	£0.00
- In-year Slippage and Savings	-£0.83	-£2.31	-£20.99	-£0.37
= Revision 1 Budget	**£14.10**	**£1.73**	**£9.12**	**£0.88**

3.65 The material slippage on Phase 3 reflects the known and previously reported delays to the project securing passage through the Department for Transport's OBC gateway, and knock-on delays to the submission of a full business case.

3.66 These delays render the existing expenditure profiles out-of-date, with significant amounts of expenditure being pushed into financial year 2019/20.

3.67 The following graphic highlights that the significant increase in the pace of expenditure forecast for Quarter 4 in the opening base budget has now been reduced significantly:



3.68 It should be noted, however, that these expenditure profiles retain contingency to the value of £3.72m relating to Phase 1 procurement. The requirement for this resource to be deployed will become clearer as the year progresses. Should the contingency not be required this will be of benefit to the project and the public purse, however it will result in increased underspend against the budget.

3.69 TfN has ensured the Department for Transport remain apprised of the sensitivity around this project, supporting the Department in its cash and budget management.

Northern Powerhouse Rail (NPR)

3.70 The Revision 1 budget reduces forecast NPR expenditure by £1.06m. This movement represents two principal issues:

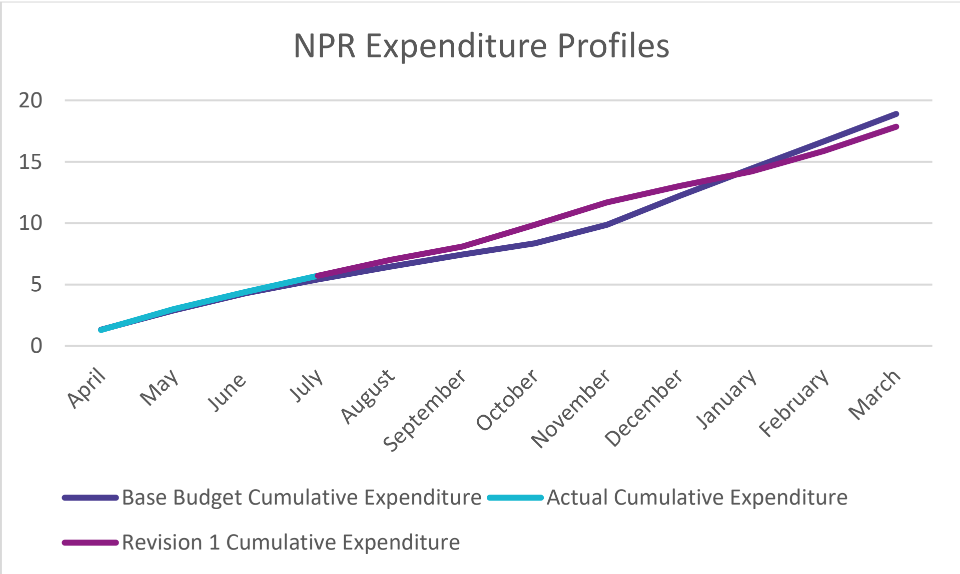
a) The removal of £0.25m of forecast expenditure associated with HS2 consultation activity (£0.30m after VAT); and,
b) The removal of £0.63m (£0.76m after VAT) of Network Rail contract costs from this financial year.

3.71 The latter issue reflects that the activity associated with this cost was accelerated into Quarter 4 of the prior year in support of the timely delivery of the NPR strategic outline business case.

3.72 The following table highlights the net movements on the NPR budget:

	NPR £m
Base Budget	£18.89
+ Virements	£0.02
+ Prior Year Slippage	£0.09
- Accelerations into Prior Year	-£0.76
- In-year Slippage and Savings	-£0.40
= Revision 1 Budget	**£17.85**

3.73 Revised expenditure profiles for the programme highlights that expenditure is now expected to run ahead of base budget profiles over Quarters 2 and 3, before falling back below base budget in Quarter 4:



3.74 Actual expenditure profiles over the year-to-date suggest this level of expenditure is achievable.

Major Roads Programme

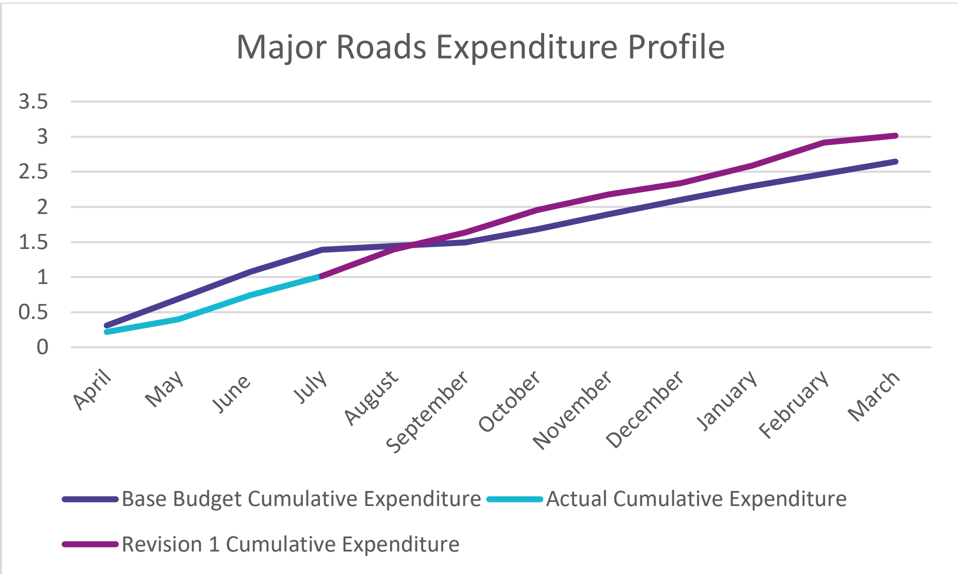
3.75 The Major Roads programme's cost-base is centred around the delivery of the Strategic Development Corridor studies. The budget adjusted for Revision 1 shows an increase in expenditure of £0.37m.

3.76 This position reflects a number of movements, including the addition of new grant and the accommodation of prior-year slippage:

	Major Roads £m
Base Budget	£2.65
+ Virements	£0.00
+ Prior Year Slippage	£0.23
+ New Grant Award	£0.12
+ Net additional resource for contingency	£0.02
= Revision 1 Budget	**£3.01**

3.77 New grant was awarded from the Highways Agency for a Trans-Pennine Tunnel modelling related study, whilst additional resource is also made available to act as contingency against the potential for additional costs to be incurred as a result of delays to the delivery of the TfN analytical framework required to support the Strategic Development Corridor studies.

3.78 The following graphic highlights that although expenditure has fallen behind budget over the year-to-date, it is now expected to climb ahead of the base budget over Quarter 2 as costs catch up to profile and then accelerate beyond:



Core Operations

3.79 The core operations area is forecast to outturn broadly on budget with a net variance of only £0.06m. This small variance does, however, mask a number of in-year movements including: virements; the accommodation of brought forward slippage; the adoption of new grants; and, in-year underspends and cost pressures.

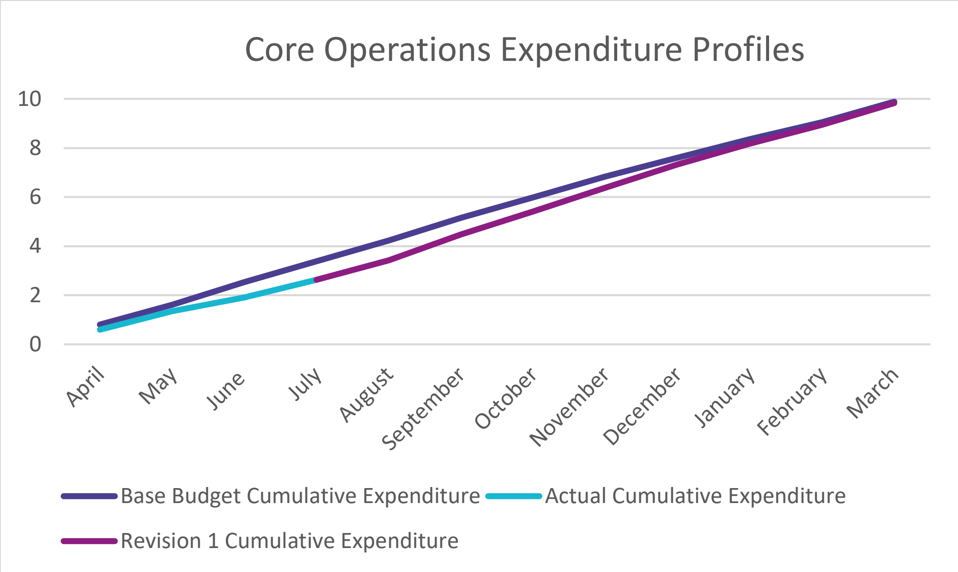
Operations	Base £m	Vire-ments £m	Slipp. £m	New Grant £m	Net In-Year Move ment £m	Rev. 1 £m	Var. £m	Var. %
Leadership	£0.29	£0.06	£0.00	£0.00	£0.00	£0.34	-£0.06	-21%%
Finance	£0.87	£0.00	£0.00	£0.00	£0.00	£0.88	£0.00	-1%%
Business Capabilities	£3.82	£0.03	£0.00	£0.00	-£0.19	£3.66	£0.16	4%%
Prog. Mgmt. Office	£0.51	£0.00	£0.00	£0.00	-£0.01	£0.49	£0.01	3%%
Strategy & Policy	£2.81	-£0.11	£0.04	£0.00	-£0.10	£2.65	£0.16	6%%
Rail North	£1.58	£0.00	£0.16	£0.11	-£0.05	£1.80	-£0.22	-14%%
	£9.89	**-£0.02**	**£0.20**	**£0.11**	**-£0.35**	**£9.83**	**£0.06**	**1%**

3.80 The principal source of movement in-year has been around the Rail North area, where the reaction to the rail time-tabling issues were felt most keenly.

3.81 Rail North started the year with a cost pressure of around £0.16m on slippage brought forward from the prior year relating to professional service activity.

3.82 This was then exacerbated by the need to resource TfN's response to the Arriva Rail North recovery plan through the acquisition of additional capacity for the team. The Department for Transport have indicated that they will release £0.11m of new grant to support this activity, with TfN meeting the balance from its core grant resource and in-year savings.

3.83 Although core operations expenditure has lagged behind budget over the first quarter, it is forecast that the pace of expenditure will accelerate as systems and processes settle down and contracts are finalised:



Cash Position

3.84 As at the end of Period 4, TfN's cash position remained robust. Balances were principally held by TfN in its own right, though cash was also retained by Greater Manchester Combined Authority to allow it to discharge the obligations it entered into as TfN's financial accountable body during its pre-statutory body phase.

3.85 Transport for the North started the financial year with £15.39m of cash at bank. Since that point, the Department for Transport has advanced funds in relation to activity for the new financial year (£13.12m), whilst cash payments of £11.07m have been made.

3.86 At the close of Period 4, Transport for the North retained £17.44m cash at the bank, which after cash is set aside for existing obligations leaves £10.74m of uncommitted resource:

	TfN £m	GMCA £m	Total £m
Opening Cash Position	**£0**	**15.39**	**15.39**
Transfers	£9.45	-£9.45	£0.00
Grants Received	£13.12	£0.00	£13.12
Payments Made	-£5.31	-£5.76	-£11.07
= Closing Cash Position	**£17.26**	**£0.18**	**£17.44**
- Accrued Expenditure	-£6.67	-£0.03	-£6.70
= Net Available Cash	**£10.59**	**£0.15***	**£10.74**

**to be returned to TfN following the final settlement by GMCA of outstanding amounts incurred on behalf of TfN through its role as TfN's accountable body*

3.87 This resource is earmarked to resource part of this financial year's budget and Transport for the North's target year-end cash reserve balance of £3m. The value is also elevated by the year-end slippage of £2.21m.

Grant Unapplied and Reserves

3.88 TfN holds unapplied grants and reserves on its balance sheet awaiting deployment.

3.89 These balances are held as part of TfN's adopted reserve strategy which aims to retain a core grant cash buffer against financial shock and enable the organisation to react to opportunities that may arise. As part of this strategy TfN aims to hold no less than £3m in core-grant reserve at the end of financial year 2018/19, with that value reducing down to £2m by the end of financial year 2019/20.

3.90 At this stage TfN is forecast to hold in excess of its target year-end core grant reserve. This is principally due to the accommodation of brought-forward slippage within the Revision 1 budget, which has reduced the need to carry-forward 2017/18 slipped grant resource. It is anticipated that this resource will now largely be required to fund current year slippage that will fall into the next financial-year:

Grant & Reserves	Bal b/f £m	Forecast Exp £m	Received £m	Required	Bal c/d £m
Core Grant	£6.16	-£12.55	£5.00	£5.00	£3.61
Transport Development Fund - Rail	-£0.37	-£16.98	£0.00	£17.35	£0.00
Transport Development Fund - Road	£0.00	-£0.12	£0.12	£0.00	£0.00
IST Revenue	£0.00	-£1.14	£3.00	£0.00	£1.86
IST Capital	£3.32	-£24.69	£5.00	£16.37	£0.00
Rail North	£0.00	-£1.05	£0.00	£1.05	£0.00
	£9.11	**-£56.53**	**£13.12**	**£39.77**	**£5.47**

4. Options Considered:

4.1 The Revision 1 budget proposed in this paper has been developed with budget holders across the organisation.

4.2 An opportunity to amend this proposed budget will be available at the end of Quarter 2 and Quarter 3 before the close of the financial year.

5. Considerations:

5.1 TfN must operate to a budget throughout the financial year. It is proposed that a new 'Revision 1' budget be adopted at this stage to align to the latest programme delivery timetables.

6. Preferred Option:

6.1 This report recommends that the Revision 1 budget proposal be adopted by TfN Board in September 2018.

6.2 Continuing to work to the opening base budget would reduce the value of financial monitoring and reporting, as the financial planning would be misaligned to delivery activity.

List of Background Documents

Required Considerations

Please confirm using the yes/no options whether or not the following considerations are of relevance to this report.

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

Consideration	Comment	Responsible Officer	Director
Sustainability / Environment	A full impact assessment has not been carried out because it is not required for this report.		

Legal

~~Yes~~	No

Consideration	Comment	Responsible Officer	Director
Legal	The legal implications have been considered	Gareth Sutton	Iain Craven

	and are included in the report.		

Finance

Yes	~~No~~

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~~

Consideration	**Comment**	**Responsible Officer**	**Director**
Resource	The resource implications have been considered and are included in the report.	Gareth Sutton	Iain Craven

Risk

Yes	~~No~~

Consideration	**Comment**	**Responsible Officer**	**Director**
Risk	A risk assessment has been carried out and the key risks are included in the report.	Gareth Sutton	Iain Craven

Consultation

~~Yes~~	No

Consideration	**Comment**	**Responsible Officer**	**Director**

Consultation	A consultation has not been carried out because it is not required for this report.	Gareth Sutton	Iain Craven