

## Transport for the North Board – Item 7

**Subject:** TfN Budget Revision 3 and Year-to-Date Monitoring

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**Sponsor:** Iain Craven, Finance Director

**Meeting Date:** Thursday 7 February 2019

### **1. Executive Summary:**

- 1.1 This report provides an update on Transport for the North's financial position after the first three quarters of financial year 2018/19.
- 1.2 Taking account of that position, and updated forecasts for the remaining 3 months of the financial year, the report also presents a revised budget for consideration.
- 1.3 This revised budget is known as 'Revision 3' and provides the fourth iteration of the budget for the year following the adoption of the opening 'base' budget in April, the 'Revision 1' budget in August, and the 'Revision 2' budget in December.
- 1.3 The Revision 3 budget forecasts full-year expenditure to outturn of £38.54m. This will generate an underspend against the Revision 2 budget adopted in December of £3.61m, and underspend against the opening base budget of £41.50m.
- 1.4 Of this full-year underspend, it is forecast that £20.67m (50%) will arise from contingency held to mitigate risk not being drawn upon.
- 1.5 Underspends have arisen from savings - where activity has delivered at a lower cost than anticipated, or contingency has not been required - and from slippage - where the pace of activity has slowed against forecast.
- 1.6 Where savings have been generated resource can be redeployed to other priorities, within the parameters set by grant conditions. Where slippage has occurred, grant resource will be carried over to be matched against the future expenditure.
- 1.7 The forecasts from within this report have been fed into the business and financial planning for financial year 2019/20.

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## **2. Recommendation:**

- 2.1 Note the year-to-date underspend of £2.96m and the forecast full year underspend of £3.61m, against the Revision 2 budget.
- 2.2 Approve the proposed full-year Revision 2 budget of £38.54m.
- 2.3 Note the requirement to carry-forward grant to support slipped activity in the new financial year, as referenced at 1.6 and Appendix 1.
- 2.4 Note the reporting of cost overruns on three professional services contracts detailed in Appendix 1.

## **3. Issues:**

### **Summary Position**

- 3.1 This summary position is split between:
  - a) TfN's operational areas;
  - b) TfN's programmes areas;
  - c) TfN's funding plan;
  - d) Reserve and unapplied grant statements; and,
  - e) TfN's cash flow position.

### **Operational Areas**

- 3.2 Summary financial information for TfN's operational areas is presented as follows:
  - a) Year to-date expenditure: £5.74m
  - b) Year to-date variance to base budget: £1.86m (underspend)
  - c) Forecast full-year expenditure: £9.00m
  - d) Forecast full-year variance to base budget: £0.89m (underspend)
    - o Of which £0.35m relates to slippage

### **Programme Areas**

- 3.3 Summary financial information for TfN's programme areas is presented as follows:

#### Major Roads Programme (Strategic Development Corridors):

- a) Year to-date expenditure: £1.93m
- b) Year to-date variance to base budget: £0.17m (underspend)
- c) Forecast full-year expenditure: £2.63m
- d) Forecast full-year variance to base budget: £0.02m (underspend)

#### Northern Powerhouse Rail:

- a) Year to-date expenditure: £10.83m
- b) Year to-date variance to base budget: £1.38m (underspend)
- c) Forecast full-year expenditure: £15.67m
- d) Forecast full-year variance to base budget: £3.13m (underspend)
  - Including:
    - o £0.13m Core grant funded resourcing underspends; and,
    - o £3m reallocation of resource to HS2 to support NPR related studies

Integrated and Smart Ticketing:

#### Capital Activity

- a) Year to-date expenditure: £7.04m
- b) Year to-date variance to base budget: £13.82m (underspend)
- c) Forecast full-year expenditure: £10.24m
- d) Forecast full-year variance to base budget: £37.12m (underspend)
  - o Principally reflects the deferment of significant Quarter 4 Phase 3 capital costs to the following financial year
  - o Of which £20.67m relates to contingency not drawn upon
- e) The DfT remain apprised of this situation, and grant will be rolled forward for use in future periods

#### Revenue Activity

- a) Year to-date expenditure: £0.70m
- b) Year to-date variance to base budget: £0.22m (underspend)
- c) Forecast full-year expenditure: £1.00m
- d) Forecast full-year variance to base budget: £0.25m (underspend)

#### **Funding**

- 3.4 TfN will fund this activity from a mix of in-year grants and reserve. Reserves are themselves the product of Core grant underspends from prior years, where TfN has retained the resource to match against future activity:

	£m
<b>Total Expenditure</b>	<b>£38.54</b>
<b>Revenue Expenditure</b>	<b>£28.31</b>
<b>Resourced by:</b>	
Core Grant	£10.00
Discrete Programme Grants	£16.03
Rail North Grant & Contributions	£1.07
	£27.10
<b>Capital Expenditure</b>	<b>£10.24</b>
<b>Resourced by:</b>	

Discrete Programme Grants	£10.24
<b>Funding Deficit</b>	<b>£1.20</b>
<b>Resourced by:</b>	
Core Grant Reserve	£1.20

### Reserve and Unapplied Grants:

- 3.4 TfN retains resource to fund its medium-term financial strategy from in-year receipts and brought forward grants. The following table identifies that grant resource remains available to support TfN's activity, and the organisation retains a prudent level of reserves to underpin its financial standing. Balances carried forward represent cash available to use in future periods and play an important part in balancing the 2019/20 budget as part of the reserve strategy:

	Bal b/f £m	Expend. £m	Receipts £m	Required £m	Bal c/f £m
Core Revenue					
Grant & Reserve	£6.16	-£11.20	£5.00	£5.00	£4.96
Grants Unapplied	£2.95	-£27.34	£16.01	£10.38	£2.00
	<b>£9.11</b>	<b>-£38.54</b>	<b>£21.01</b>	<b>£15.38</b>	<b>£6.96</b>

### Cash Flow Position

- 3.5 Over the first three quarters of the financial year TfN has received grant cash from the Department for Transport, and also Greater Manchester Combined Authority (GMCA) as the former accountable body for TfN's funding.
- 3.7 TfN remains in a strong cash position holding appropriate levels of cash for projected activity. The following table identifies cash movements over the reporting period, and the levels of uncommitted cash held:

	TfN £m	GMCA £m	Total £m
<b>Opening Cash Position</b>	<b>£0</b>	<b>15.39</b>	<b>15.39</b>
Transfers	£9.60	-£9.60	£0.00
Grants & Income Received	£21.10	£0.00	£21.10
Payments Made	-£20.95	-£5.79	-£26.74
<b>= Closing Cash Position</b>	<b>£9.75</b>	<b>£0.00</b>	<b>£9.75</b>
- Accrued Expenditure	-£5.81	£0.00	-£5.81
<b>= Net Available Cash</b>	<b>£3.94</b>	<b>£0.00</b>	<b>£3.94</b>

- 3.8 The above table highlights that residual cash and transacting activity previously managed through GMCA came to an end over Quarter 3.

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GMCA settled all obligations entered into on behalf of TfN and transferred the residual cash balance to TfN.

**5. Options Considered:**

- 5.1 The Revision 3 budget proposed in this paper has been developed with budget holders across the organisation.

**6. Considerations:**

- 6.1 TfN must operate to a budget throughout the financial year. It is proposed that a new 'Revision 3' budget be adopted at this stage to align to the latest programme delivery timetables.

**7. Preferred Option:**

- 7.1 This report recommends that the Revision 3 budget proposal be adopted by TfN Board in February 2018.
- 7.2 Continuing to work to the Revision 2 budget would reduce the value of financial monitoring and reporting, as the financial planning would be misaligned to delivery activity.

## List of Background Documents

Appendix 1: Revision 3 Analysis

### 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

<b>Consideration</b>	<b>Comment</b>	<b>Responsible Officer</b>	<b>Director</b>
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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<b>Consideration</b>	<b>Comment</b>	<b>Responsible Officer</b>	<b>Director</b>
Sustainability / Environment	A full impact assessment has not been carried out because it is not required for this report.	Gareth Sutton	Iain Craven

#### Legal

Yes	No
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<b>Consideration</b>	<b>Comment</b>	<b>Responsible Officer</b>	<b>Director</b>
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Legal	The legal implications have been considered and are included in the report.	Gareth Sutton	Iain Craven
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### Finance

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

### Resource

Yes	No
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<b>Consideration</b>	<b>Comment</b>	<b>Responsible Officer</b>	<b>Director</b>
Resource	The resource implications have been considered and are included in the report.	Gareth Sutton	Iain Craven

### Risk

Yes	No
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<b>Consideration</b>	<b>Comment</b>	<b>Responsible Officer</b>	<b>Director</b>
Risk	A risk assessment has been carried out and the key risks are included in the report.	Gareth Sutton	Iain Craven

### Consultation

Yes	No
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<b>Consideration</b>	<b>Comment</b>	<b>Responsible Officer</b>	<b>Director</b>
Consultation	A consultation has not been carried out because it is not required for this report.	Gareth Sutton	Iain Craven