

Transport for the North Board – Item 9

- Subject:** Year-to-Date Financial Monitoring, Budget Revision 2 and Mid-Year Treasury Management Update
- Author:** Gareth Sutton, Financial Controller
- Sponsor:** Iain Craven, Finance Director
- Meeting Date:** Wednesday 8 January 2020

1. Purpose of the Report:

- 1.1 This report provides an update on the financial performance of Transport for the North (“TfN”) as at the end of November (Period 8).
- 1.2 The report also outlines the second formal budget reforecast for the year. This budget reforecast, known as Revision 2, was undertaken at the mid-year point and reforecasts TfN expenditure to the end of the financial year.
- 1.3 The report concludes by providing a compliance update on TfN performance against its agreed Treasury Management Strategy as at the mid-year mark.

2. Executive Summary:

Year to-date Monitoring (to close of Period 8)

- 2.1 Year to-date Expenditure: £26.15m
Variance to Budget Revision 1: £9.56m underspend
Variance to Opening Budget: £15.98m underspend

NPR: £3.30m underspend against Revision 1
IST: £4.28m underspend against Revision 1

Budget Revision 2

- 2.2 Total Forecast Expenditure: £52.91m
Variance to Budget Revision 1: £4.88m
Variance to Base Budget: £24.80m

IST: £22.22m underspend against base budget, principally relating to Phase 3 ABBOT following the ‘active pause’ agreed by Board.

Mid-Year Treasury Management Update

- 2.3 TfN can report compliance against all the parameters set out in its Treasury Management Strategy.

- 2.4 As at the 30 September, £20.29m of cash was held of which £5.6m was uncommitted and unrestricted.

3. Financial Monitoring

Year to-date Summary: Periods 1-8

- 3.1 This section of the report details financial performance up to the end of November 2019, Period 8.
- 3.2 Expenditure levels are primarily compared to the Revision 1 budget. This budget was adopted after the first quarter of the financial year to reflect revised delivery profiles and brought forward slippage.
- 3.3 Over the eight months to the end of November TfN incurred expenditure of £26.15m. This placed TfN £9.56m under the Revision 1 budget forecasts (for this timeframe) of £35.70m.
- 3.4 Underspend occurred across all TfN's spending areas, but was pronounced in the high-spending, highly sensitive programme areas where £7.93m or 83% of the total underspend accrued:

	YTD Actuals £m	R1 Budget £m	Variance £m	Variance %
Programmes:				
IST Capital	£2.82	£6.80	£3.98	59%
IST Revenue	£4.44	£4.74	£0.30	6%
IST	£7.26	£11.54	£4.28	37%
NPR	£13.61	£16.91	£3.30	20%
Major Roads	£1.06	£1.40	£0.34	24%
Total Programmes	£21.93	£29.86	£7.93	27%
Rail Operations	£1.23	£1.37	£0.14	10%
Operational Areas (Net)	£2.98	£4.47	£1.49	33%
TfN Total	£26.15	£35.70	£9.56	27%

Programme Areas: Periods 1-8

- 3.5 TfN's major programme areas incurred expenditure totalling £21.93m over the year to-date. This places the programme areas cumulatively £7.93m (27%) behind the Revision 1 budget.

- 3.6 **Integrated & Smart Ticketing Programme (IST)**
Significant variations to budget accrued in the IST programme where year to-date expenditure of £7.26m places the programme £4.29m (37%) behind budget:

IST Programme	YTD Actuals £m	R1 Budget £m	Variance £m	Variance %
Phase 1 - ITSO on Rail	£2.39	£5.08	£2.69	53%
Phase 2 - Customer Information	£1.18	£1.39	£0.21	15%
Phase 3 - Accounts Based Back Office	£2.03	£3.37	£1.34	40%
Programme Costs	£1.65	£1.70	£0.05	3%
	£7.26	£11.54	£4.29	37%

- 3.7 Phase 1 variances largely reflect the slower than expected conclusion of contracting by the northern train operating companies for the provision of platform validator equipment. At the time of writing these contracts had been finalised.
- 3.8 Phase 2 variances reflect delays to the finalisation of major contracts around bus fare information and disruption messaging. These contracts are now finalised with activity underway.
- 3.9 Phase 3 variances reflect previously reported issues around the shortfall in bus operator support for the programme's accounts based back office proposals. This shortfall led to an 'active-pause' being agreed with Board in July. Whilst all capital delivery costs were removed from the budget at Revision 1, the active-pause has led to lower than forecast development costs.

Northern Powerhouse Rail (NPR)

- 3.10 The NPR programme is currently £3.30m underspent against the Revision 1 budget. This represents an underspend of 19% against budgeted expenditure of £16.91m:

NPR Programme	YTD Actuals £m	R1 Budget £m	Variance £m	Variance %
NPR Team	£0.85	£0.97	£0.12	12%
Rail Studies	£11.02	£12.70	£1.68	13%
Analysis and Modelling	£1.69	£3.11	£1.42	46%
Communications	£0.05	£0.13	£0.08	63%
	£13.61	£16.91	£3.30	19%

- 3.11 Expenditure incurred via the Sequence 4 Network Rail contract has fluctuated throughout the year, in part reflecting the iterative nature of the remitting of work. Network Rail activity and expenditure is reviewed and reforecast on a monthly basis.
- 3.12 Delays to the commissioning of activity within the Transport Analysis, Modelling and Economics (TAME) function has also led to a number of

contracts running behind budget profiles whilst procurement efficiencies have also generated savings. TAME underspend of £1.42m over the year to-date represents a 46% underspend on forecast.

Major Roads

- 3.13 The Major Roads directorate is delivering TfN's Strategic Development Corridor workstream. Year-to-date, the directorate has incurred expenditure of £1.06m placing it under budget by £0.34m (24%):

Major Roads Programme	YTD			
	Actuals £m	R1 Budget £m	Variance £m	Variance %
Major Roads Team	£0.28	£0.28	£0.00	1%
SDC Studies	£0.71	£0.94	£0.23	24%
Major Route Network Activity	£0.05	£0.14	£0.09	62%
Communications	£0.01	£0.04	£0.03	66%
	£1.06	£1.40	£0.34	24%

- 3.14 Underspend has largely accrued due to delays in the commissioning of the 'quantitative' modelling element of the SDC workstream, along with some savings arising from procurement efficiencies on the 'qualitative' element of this activity. Budget assigned for work around the Major Route Network (£0.09m) is no longer expected to be used this year.

Rail Operations

- 3.15 The Rail Operations functions cover the work of TfN's Strategic Rail team and the Rail North Partnership team. Over the year-to-date expenditure has largely stayed on budget, with some underspends accruing from lower than forecast requirements for professional service support in the Strategic Rail team:

	YTD Actuals £m	R1 Budget £m	Variance £m	Variance %
Strategic Rail	£0.57	£0.69	£0.12	17%
Rail North Partnership	£0.67	£0.68	£0.01	1%
	£1.24	£1.37	£0.13	9%

Operational Areas

- 3.16 The operational budget covers the functions of the back, middle, and front office of the organisation along with the business infrastructure.
- 3.17 Over the year to-date, these areas have incurred net expenditure of £2.98m. That level of expenditure places the areas 33% behind the Revision 1 forecasts:

	YTD Actuals £m	R1 Budget £m	Variance £m	Variance %
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Leadership	£0.22	£0.20	£-0.02	-8%
Finance & Business Systems	£0.60	£0.60	£0.00	-1%
Business Capabilities	£2.02	£2.62	£0.60	23%
Programme Management Office	£0.15	£0.36	£0.20	58%
Strategy & Policy	£1.44	£2.21	£0.76	35%
Gross Expenditure	£4.43	£5.99	£1.55	26%
- Recharges to Programmes	£-1.45	£-1.51	£-0.06	4%
Net Expenditure	£2.98	£4.47	£1.49	33%

3.18 Underspend within the Business Capabilities directorate represents savings from lower than forecast external support requirements (£0.10m) in the Legal & Governance function; revised profiling of communications and stakeholder engagement expenditure (£0.14m); and delays to the conclusion of contracting for ICT kit and equipment refreshes (£0.19m).

3.19 Material year to-date underspends have accrued across the Strategy and Policy directorate but are centred on the TAME function. Economic appraisal activity has slipped, with work being pushed further into the year, or into the following year, generating to-date underspend of £0.35m. Similarly, the development of the analytical framework within the Modelling has been conducted at a lower cost than forecast, with some slippage also contributing to to-date underspend of £0.24m.

Year-to-Date Funding Applied

3.20 TfN has resourced its year-to-date funding from a combination of unapplied grants received in the prior financial year brought forward, and grants received in-year as part.

Funding Stream	Actuals	
	£m	%
TDF – Rail Grant	£12.98	50%
IST - Capital and Revenue Grant	£7.26	28%
Core Grant	£5.25	20%
Rail North Grant & Contributions	£0.65	2%
TDF – Roads Grant	£0.01	0%
Reserves	£0.00	0%
	£26.15	

Budget Revision 2

Summary

3.21 Taking account of the year-to-date position, TfN conducted a second budget reforecast exercise at the mid-year mark.

3.22 This revised budget is known as Revision 2. The Revision 2 reforecast reflects the latest delivery profiles provided by the programme teams

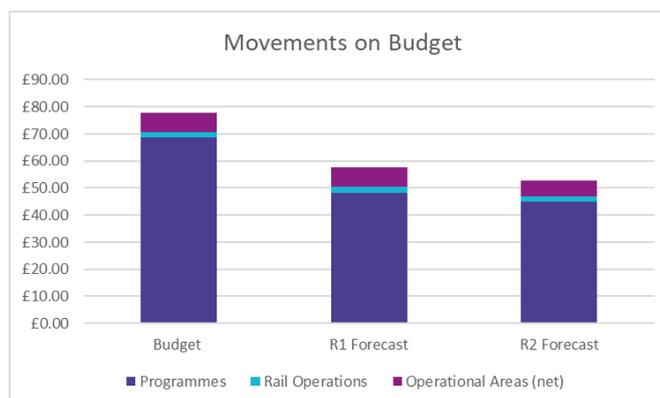
and adjusts for reprofiling of contractual commitments on activity slipped from earlier in the year.

- 3.23 Recognising Board scheduling, the Revision 2 budget proposals have been shared with the Department for Transport, the Audit and Governance Committee, and the Scrutiny Committee in advance to promote scrutiny and challenge. TfN has also monitored against this budget since November.
- 3.24 The Revision 2 reforecast exercise has returned a full-year expenditure position of £52.91m. This level of expenditure is £24.80m below the opening base budget and £4.88m behind the Budget Revision 1 that was adopted in July:

Forecast Expenditure * exclusive of contingency	Budget Cycle > Revision 2 £m	Variance to Revision 1 £m	Variance to Opening Bud. £m
Programmes	£44.85	£-3.49	£-23.75
Rail Operations	£2.00	£-0.09	£0.08
Operational Areas (net)	£6.05	£-1.31	£-1.14
	£52.91	£-4.88	£-24.80

*negatives = underspend

- 3.25 Officers believe that the major budgetary adjustments were recognised at Revision 1, with the removal of the significant IST Phase 3 delivery expenditure. This accounts for the less pronounced movement between Revision 1 and Revision 2, compared to the opening budget:



Revision 2 Programme Areas

- 3.26 The Revision 2 budget forecasts total programme led expenditure of £44.85m. This amounts to 85% of TfN's overall programme but is significantly below the opening budget (£68.60m) and the Revision 1 budget adopted in August (£48.34m):

Programmes	Budget	Variance	R1 Forecast	Variance	R2 Forecast
	£m	£m	£m	£m	£m

IST Programme	£36.28	-£19.81	£16.47	-£1.12	£14.06
NPR Programme	£29.75	-£0.41	£29.34	-£0.41	£28.93
Major Roads Programme	£2.57	-£0.04	£2.53	-£0.66	£1.87
Total Programme Expenditure	£68.60	-£20.26	£48.34	-£2.20	£44.85

3.27 The next section of this report provides additional detail.

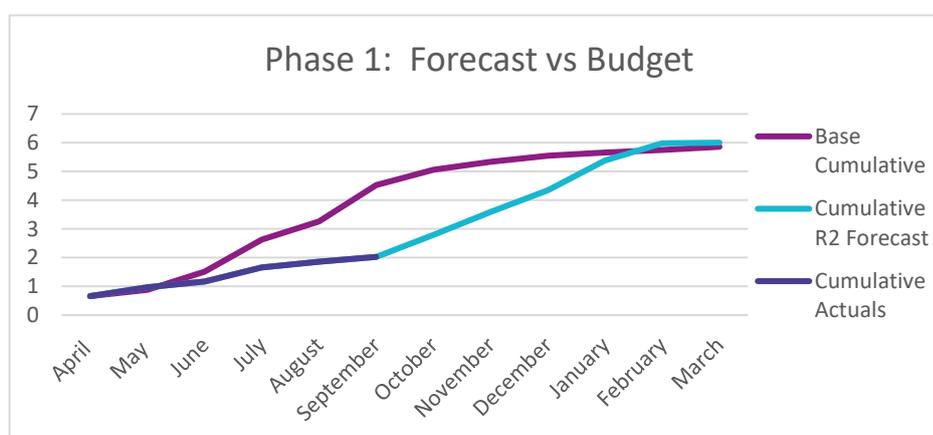
Integrated and Smart Ticketing (IST) Programme

3.28 Expenditure levels for all three phases of the IST programme have been reduced as part of the Revision 2 reforecast exercise:

Programmes	Opening Budget £m	Variance £m	R1 Forecast £m	Variance £m	R2 Forecast £m
Phase 1 - ITSO on Rail	£5.68	£0.91	£6.59	£0.32	£6.00
Phase 2 - Customer Information	£2.28	£0.37	£2.65	-£0.37	£2.21
Phase 3 - Accounts Based Back Office	£25.69	-£21.20	£4.49	-£1.26	£3.23
Programme Costs	£2.63	£0.11	£2.74	-£0.03	£2.62
IST Programme	£36.28	-£19.81	£16.47	-£1.12	£14.06

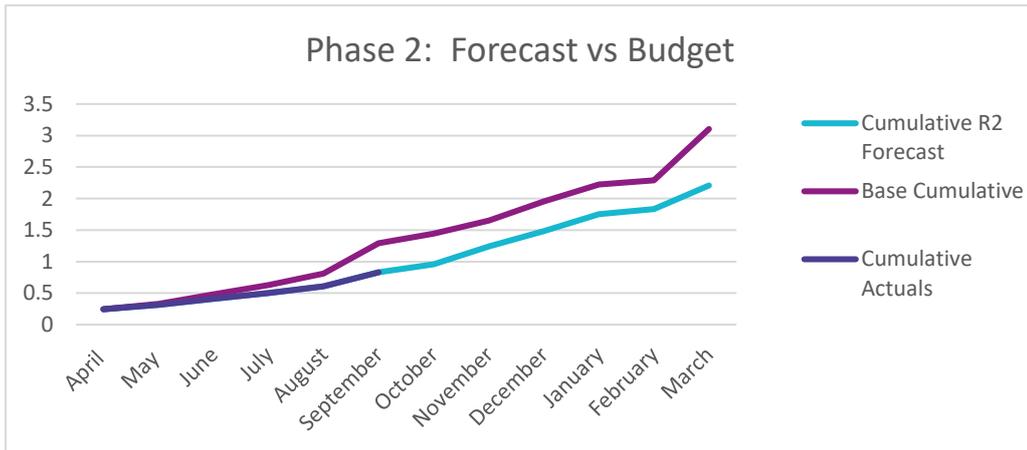
3.29 Phase 1 expenditure has been reduced from the Revision 1 total of £6.59m to £6.00m. This recognises that delays to the train operating companies' contracting with the suppliers of platform validators is likely to see some expenditure fall into the new financial year.

3.30 At the point of adopting the Revision 2 budget it was forecast that this issue would be resolved by November and expenditure levels would recover by the end of the financial year:



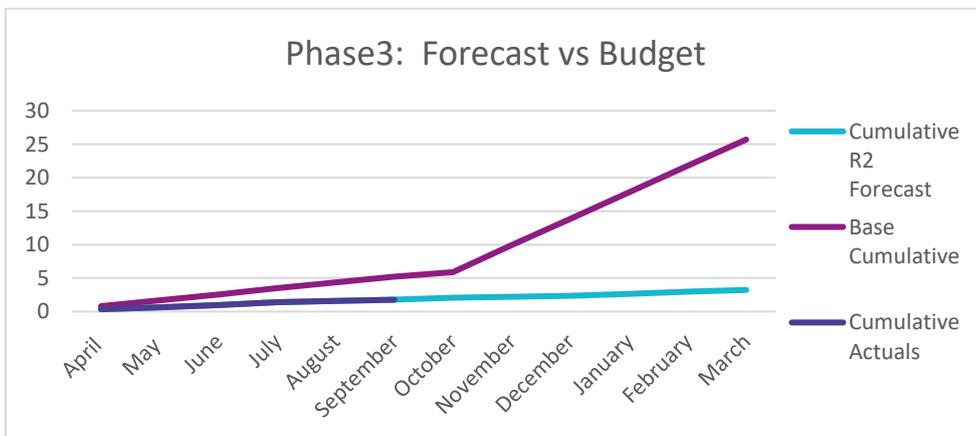
3.31 However, year-to-date monitoring highlights that this issue has continued to slip and there is now a risk that expenditure will be incurred into the new financial year.

3.32 Phase 2 expenditure has seen delays to the finalisation of contracts for major bus fares and disruption messaging contracts. It is now forecast that this expenditure will not recover in year, with activity and expenditure slipping into the new year:



3.33 Phase 3 forecast expenditure was significantly reduced at Revision 1 to reflect the removal of all capital delivery activity. This action follows the shortfall of bus operator support for the project’s accounts based back office proposals.

3.34 As part of the Revision 2 reforecast exercise expenditure was reduced further to reflect the ‘active pause’ agreed at July TfN Board, and the reduced development expenditure that arose from that. Expenditure is now forecast at £3.23m for the year, £22.46m below the opening budget assumptions. The following chart exemplifies the movement, but shows that the issue was largely accounted for after Quarter 1:



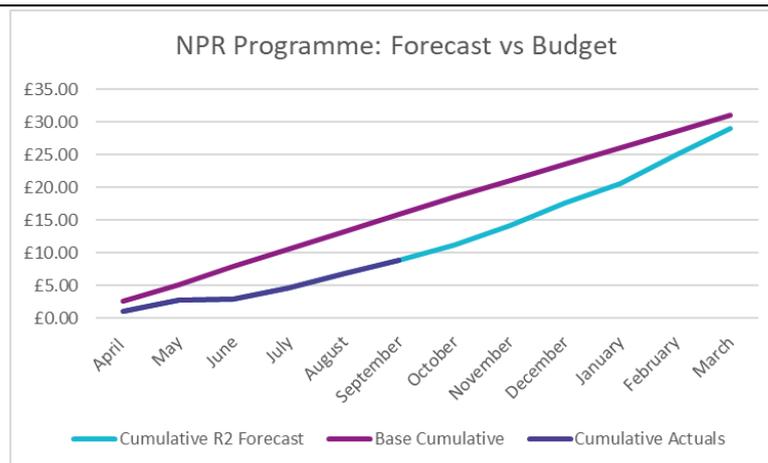
- 3.35 The Revision 2 budget assumes that development costs for Phase 3 continue into quarter 4. This assumption will be revisited following January Board.

Northern Powerhouse Rail

- 3.36 The Revision 2 reforecast exercise returned forecast expenditure of £28.87m for the year, with £2.95m of grant resource held in reserve. This level of expenditure is £0.88m below the opening base budget, and largely reflects efficiencies and slippage on TAME contracting.

NPR	Opening Budget £m	Variance £m	R1 Forecast £m	Variance £m	R2 Forecast £m
NPR Team	£1.95	-£0.41	£1.54	-£0.15	£1.39
Rail Studies	£22.80	-£0.64	£22.16	£0.15	£22.31
TAME	£4.77	£0.61	£5.38	-£0.47	£4.91
Stakeholder Engagement	£0.23	£0.02	£0.25	£0.01	£0.26
Forecast Expenditure	£29.75	-£0.42	£29.33	-£0.46	£28.87
Contingency Reserve	£1.20	-£1.08	£1.87	-£0.67	£2.95
Total Resource Requirement	£30.95	-£1.50	£31.20	-£1.13	£31.82

- 3.37 Contingency reserve is held to manage financial shock within the programme's contracts, but also to deploy throughout the year to meet member and Department aspirations.
- 3.38 As part of the mobilisation exercise for the forthcoming year, an exercise is underway to determine what activity can be commenced in Quarter 4 to ensure the programme is able to maximise its funding allocation in the new year.
- 3.39 Whilst Revision 2 forecasts envisage an acceleration in activity and expenditure as contracts ramp up, there is an increasing risk that some TAME commissions will not be able to recover lost time and thus will slip into the new year. The following graphic highlights the increase in activity required to meet the Revision 2 levels of expenditure:



Revision 2: Operational Areas

- 3.40 The Revision 2 exercise returned net expenditure forecasts of £6.05m for the operational areas. This is £1.14m below the opening budget assumptions, and materially lower (£1.31m) than the Revision 1 forecast adopted after the first quarter of the year.

Operational Areas	Budget £m	Variance £m	R1		R2
			Forecast £m	Variance £m	Forecast £m
Leadership	£0.27	£0.03	£0.30	£0.03	£0.33
Finance & Business Systems	£1.23	£0.01	£1.24	£0.00	£1.24
Business Capabilities	£3.72	£0.16	£3.88	−£0.28	£3.60
Programme Management Office	£0.39	£0.09	£0.48	−£0.17	£0.31
Strategy & Policy	£3.58	£0.07	£3.65	−£0.98	£2.67
Gross Expenditure	£9.19	£0.36	£9.55	−£1.41	£8.14
- Recharges to Programmes	−£2.00	−£0.19	−£2.19	£0.10	−£2.09
Net Expenditure	£7.19	£0.17	£7.36	−£1.31	£6.05

- 3.41 Around £0.91m, or 80%, of the reduction in expenditure is derived from Strategy and Policy directorate adjustments, with the major movements coming from the TAME function.
- 3.42 The Revision 2 exercise forecasts savings from activity displacement and procurement efficiencies of c. £0.73m, with slippage of a number of commissions into the new financial year of £0.17m.

Revision 2 Forecast Funding

- 3.43 As part of the Revision 2 budget reforecast exercise, funding requirements for the year have been reviewed. The DfT has been apprised of these requirements.

- 3.44 To resource total Revision 2 forecast expenditure of £52.91m TfN now expects to apply a combination of brought forward grant and grant received in-year in the following manner:

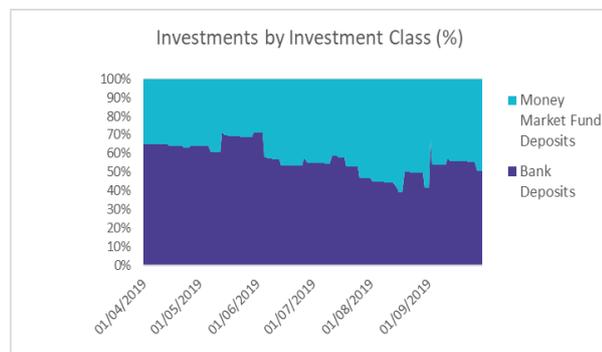
Funding Profile	Revision 2 £m	Base Budget £m	Variance £m	Variance %
Total Forecast Expenditure	£52.91	£77.73	£24.82	32%
Funded by:				
TDF - Rail	£27.92	£28.80	£0.88	3%
TDF - Roads	£0.02	£0.02	£0.00	0%
Core Grant	£9.73	£10.00	£0.27	3%
IST - Revenue	£6.12	£3.28	-£2.84	-87%
IST - Capital	£7.94	£33.00	£25.06	76%
RNP Grant & Contribution	£1.18	£1.18	£0.00	0%
-Surplus/Deficit	£0.00	£1.46	£1.46	-5%
Use of Reserves	£0.00	£1.46	£1.46	100%

- 3.45 The material movement on IST – Revenue grant reflects the switch in funding source from capital to revenue for the Phase 3 Accounts Based Back Office project. This reflects a prudent accounting decision not to capitalise further Phase 3 activity until the project’s future is resolved.
- 3.46 Of significance is the mitigation of the need to draw on TfN’s finite Core Grant reserve to balance the revenue budget. The requirement for reserves is obviated through the underspends generated from slippage and savings.
- 3.47 A higher than forecast level of reserves is now available to support the forthcoming Business Plan and associated budget. Reserves will be deployed in a sustainable manner to support previously committed but slipped activity and non-repeating priority items.

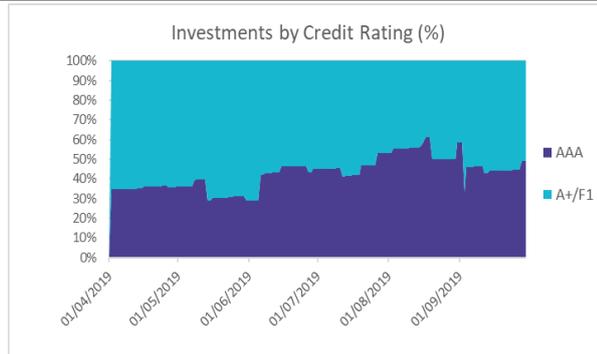
Mid-Year Treasury Management Strategy

- 3.48 As a Constitutional requirement, and following best practice, TfN Board receives a mid-year compliance update on the organisation’s performance against its adopted Treasury Management Strategy (TMS).
- 3.49 The TMS sets out how TfN will manage the risk inherent in its banking and cash investment activity. Unlike partner authorities, TfN does not have the vires to access credit (such as loans and overdrafts), so the TMS does not extend to rules and borrowing.

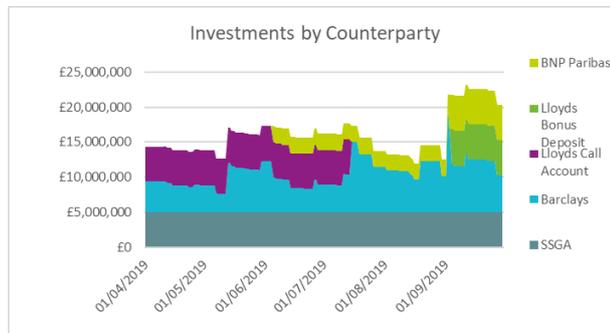
- 3.50 Accordingly, TfN’s Treasury Management activity is largely limited to maintaining an appropriate banking platform and managing cashflow surpluses appropriately.
- 3.51 To determine its approach to cash management (placing deposits) TfN employs a hierarchy of considerations:
1. The **security** of investments always has primacy;
 2. Investments must be **liquid** to enable TfN to get access to cash when it is required; and
 3. Investments must return acceptable **yield**.
- 3.52 TfN’s unique operating environment exposes it to risk. As TfN cannot raise its own resource from taxation and cannot secure credit in the form of loans or overdrafts, it is reliant upon the close management of financial commitments, the timely receipt of grant, and the effective safeguarding of cash when it is received.
- 3.53 Recognising this, TfN’s TMS is particularly prudent, with investments placed with only the most secure counterparties and for short durations. TfN also has access to appropriately qualified Finance officers and external advisors to keep abreast of market risk.
- 3.54 At the mid-year point officers can report compliance against TfN’s TMS.
- 3.55 Investments were placed entirely in money market funds and short-term deposits:



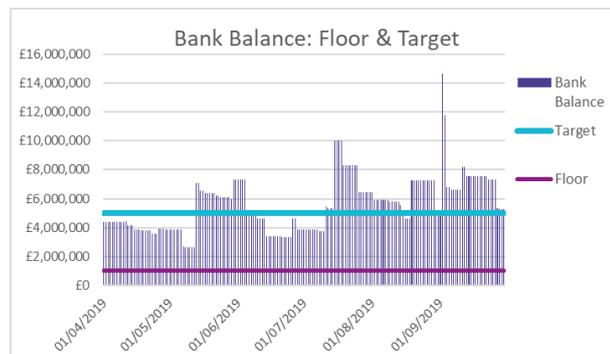
- 3.56 Investments were placed with high quality investment grade counterparties, with ratings not lower than a Fitch A+.



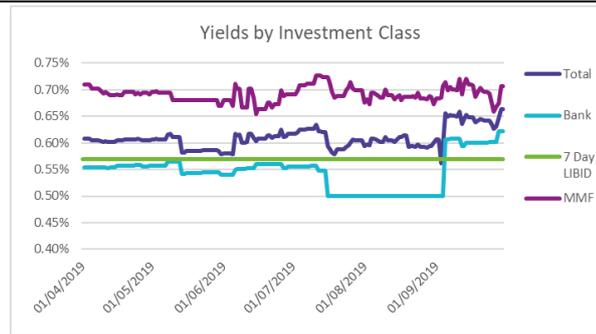
3.57 TfN used a small group of counterparties, including its own bank, with investments with each individual counterparty (barring its own bank) not exceeding the counterparty ceiling of £5m:



3.58 Cash deposits left with TfN’s own bank have been in line with policy, and have not fallen below the target ‘floor’ of £1m:



3.59 Though a lower consideration, TfN does seek to maximise yield without compromising on the security of its assets. TfN benchmarks against 7-day LIBID rates, and has marginally exceeded these over the timeframe:



3.60 As at the 30th September 2019, TfN held £20.30m in cash of which £5.58m was uncommitted:

	£m
Cash & Investments	£20.30
Consisting of:	
Payables	–£4.49
Grants Unapplied	–£10.45
Receivables	£0.22
Reserves b/f	–£5.58
	–£20.30

3.61 Investments were held with investment grade counterparties for short durations:

Cash & Cash Equivalents	£m	%	Class	Credit Rating	Liquidity
Barclays (own bank)	£5.30	26%	UK Bank Deposit	A+/F1 (Fitch)	1 day
Lloyds	£5.00	25%	UK Bank Deposit	A+/F1 (Fitch)	1 day
SSGA	£5.00	25%	MMF	AAA	1 day
BNP Paribas	£5.00	25%	MMF	AAA	1 day
	£20.30				

4. Conclusion:

- 4.1 This report proposes adoption of a Revision 2 budget. This reforecast accommodates major changes previously recognised through the Revision 1 exercise – principally around the Phase 3 ABBOT project – but also revised delivery assumptions.
- 4.2 Adoption of the Revision 2 forecast will align financial profiling to the latest delivery assumptions from the programmes and operational teams.
- 4.3 This report also notes that TfN has complied with its Treasury Management Strategy at the mid-year mark, with no exception issues to report.

5. Recommendation:

5.1 Approve the adoption of the Revision 2 budget.

5.2 Note the compliance with the Treasury Management Strategy.

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.	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.	Gareth Sutton	Iain Craven

Legal

Yes	No
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Consideration	Comment	Responsible Officer	Director
Legal	The legal implications have been considered and are included in the report.	Julie Openshaw	Dawn Madin

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	TfN 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	A risk assessment has been carried out and the key risks are included in the 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 because it is not required.	Gareth Sutton	Iain Craven