Transport for the North Board Meeting – Item 8

Subject: TfN Budget & Reserve Strategy 2018/19

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Meeting Date: Thursday 5 April 2018

1. Executive Summary:

1.1 Financial year 2018/19 represents the first budgetary period in which TfN will exist as a statutory sub-national transport body (STB).

1.2 This will result in material changes to much of the organisation's ways of working. In particular, the transition to operational autonomy brings with it significant change to the financial operating environment in which the organisation will exist. Principally, this will be through TfN being directly responsible for its own financial affairs.

1.3 TfN will be subject to essentially the same statutory framework as its partner local transport and combined authorities. Such legislation confers upon the organisation a set of requirements that shape how the organisation conducts its financial affairs. These requirements will be familiar to TfN members.

1.4 However, these requirements are further complemented by TfN's relationship with the Department for Transport - particularly around its funding - and how the organisation has been constituted. Taken together, these statutory obligations and the nature of the funding and partnership arrangements set the parameters in which TfN will set its financial strategies, and manage its operations.

1.5 TfN has prepared for STB status by pre-emptively adopting a Financial Framework that discharged much of the requirements of a public body, allowing it to operate in collaboration with (and under the supervision of) the Accountable Body (GMCA) and other contracting and delivery partners.

1.6 This Financial Framework has been updated as part of the development of TfN's constitution. These changes are primarily reflected in the proposed adoption of Financial Regulations and a Scheme of Delegation.

1.7 This report sets out TfN's financial operating environment, and the budgets that will support delivery of the TfN business plan for 2018/19 and beyond. These budgets are underpinned by a reserve strategy, which serves as TfN's back-stop mitigation against financial risk.

1.8 The budgets set out in this report have been informed by a business planning process. That process identified TfN's key strategic priorities and identified a common 'golden thread' from strategy to delivery that was maintained throughout the process. The 'golden thread' ensured that when detailed individual departmental plans were being designed and objectives set, there was a common and coordinated approach to delivery across the organisation. These common goals are what underpin the expenditure profile and budget for 2018/19. The Business plan for 2018/ 19 is presented as a separate item to this Board.

2. Issue:

2.1 TfN has conducted a business planning process designed to deliver upon the key priorities affirmed for the organisation at the September 2017 Partnership Board in Hull.

2.2 This business plan includes the programmes of activity that deliver the key priorities, but also the role of the organisation: what it will do, and how it will do it. That business plan in turn drives the resourcing and financial plans for the organisation, resulting in the annual budget.

2.3 Following an iterative process, a budget is proposed that aligns resource to key priorities. The budget itself is differentiated between costs incurred in the delivery of programmes of activity, and the costs incurred in running the operations of TfN and meeting broader aspirations.

2.4 The total budget for 2018/19 is proposed at £80.03m, consisting of:

TfN Expenditure	£m	%
Programmes	69.80	87%
Operations	10.23	13%
Total TfN Expenditure	80.03	

2.5 It should be noted that the total includes £12.46m of VAT costs incurred on supplies and services which will not be recoverable by TfN, whilst programme spend is shown at an 'upper' level inclusive of contingency.

2.6 It is proposed that this expenditure is funded through a mixture of grant, contributions, and brought forward reserves:

TfN Resource	£m	%
Integrated & Smart Ticketing Grant	48.61	61%
Transport Development Fund Grant	17.94	22%
Core grant	10.00	12%
Reserves	2.52	3%
Rail North Grant & Contributions	0.96	1%
	80.03	

2.7 The draw of £2.52m of reserves indicated in the table above for 2018/19 is part of a proposed reserve strategy that will see a planned draw on reserves to enable a managed transition down from current expenditure levels, which include additional establishment costs, to a lower steady-state cost-base. This approach will result in reserves of £3m at the end of 2018/19 and is set out in more detail in Section 11.

2.8 In the longer term, reserve levels will be targeted at no less than £2m in any given year to mitigate against financial shock.

3. **Purpose:** For Approval

3.1 For the Board to approve the TfN budget for 2018/19.

4. Operating Environment:

4.1 TfN's financial affairs are shaped by its operating environment. Parameters are set by the way in which the organisation is funded, and the practical consequences of certain limitations that are not common to local and combined authorities.

4.2 These limitations affect the organisation's approach and ability to access funds to manage risk. Unlike most partner authorities, TfN cannot access credit in the form of loans and overdrafts to manage short-term cash flow fluctuations. In addition, it cannot levy or precept upon local tax bases to manage longer-term requirements as a council or local transport authority would.

4.3 These limitations mean that careful management is required in order to avoid insolvency risk: that is, ensuring TfN maintains sufficient cash and the resource to meet liabilities. The need for careful management is increased by TfN's inability to recover VAT, which means that, from 1 April 2018, it is exposed to higher costs without an associated increase in its resource.

4.4 The issues emphasise the importance of risk management when developing budgets, particularly the need for focused cost-transparency, and alignment of costs to funding streams. In particular, it underscores the importance of managing resource to ensure TfN protects funding streams which afford TfN flexibility.

4.5 Due to the conditions placed upon the discreet grants which fund programme activity, discretionary resource is limited to TfN's annual core grant (£10m). This grant, and the reserves that flow from it, must be used to mitigate the insolvency risk to which TfN could otherwise be exposed.

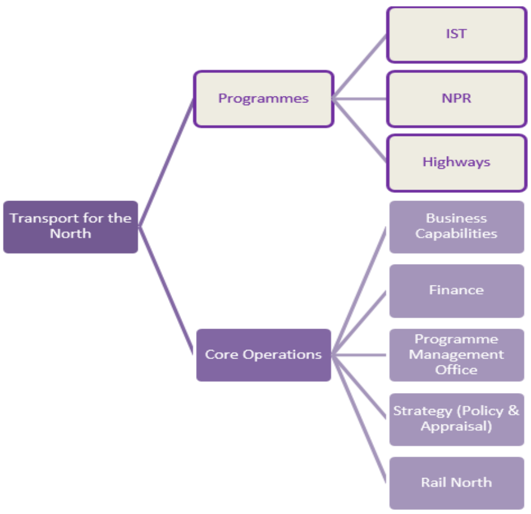
5. Budget Structure:

5.1 TfN's budgets consist of its body of delivery programmes and its core operations. For budgetary purposes, a differentiation is drawn between operational and programme costs based upon the scale of the activity, and its funding source.

5.2 Programme spend is in support of discreet areas of activity that often attract ring-fenced funding. The programmes are generally materially larger (or will be larger) than the underlying cost base of the wider organisation which supports them.

5.3 Organisational operational spend consists of those costs incurred in the delivery of the ongoing business of TfN, the infrastructure required of any public body, and the supporting functions that enable TfN to deliver upon its programmes of activity and broader aspirations.

5.4 Broadly, the budgetary structure of the organisation can be presented as follows:



5.5 Drawing a differentiation between operations and programmes in this manner assists TfN in the management of its financial affairs for three principal reasons.

5.6 Primarily, the distinction allows for better cost-transparency. It is important for the organisation to see the true costs of running programmes of activity to allow it to both understand and manage those costs.

5.7 In addition, the scale of the programmes is sufficiently large that if reported without distinction to the operation costs it could affect the visibility of important issues within the operations element of the budget. That is, a relatively immaterial variance of 1% in the programme area (£0.69m) would be equivalent to a material variance of 6% in the operational area.

5.8 Finally, the budget structure reflects how the areas of activity are funded. Programmes of activity are principally funded by discreet grant awarded by DfT. That grant is awarded for pre-approved activity, and is drawn down on a need basis. Conversely, the varied business functions of TfN within the operations element of the budget structure must be funded from the finite £10m annual core grant, over which TfN has discretion on its application.

6. Discussion:

6.1 2018/19 Budget

The 2018/19 budget is driven by the business plan. This plan is consistent with previous years' activity and the objectives agreed at the September 2017 Partnership Board, including: adopting the STP, submission of the NPR SOBC and "touch points", the delivery of Strategic Corridor Studies; and Smart business case approval / delivery.

6.2 The 2018/19 budget was derived following a number of challenges that are likely to continue into future years. Notably:

- How to use a finite, un-indexed funding stream (core grant) to resource costs impacted by to inflation;
- How to fund programme development costs not resourced from discreet funding (such as the Strategic Development Corridor studies);
- How to resource the enabling functions required of a statutory body; and, most pressingly,
- How to balance basic organisational requirements with the need to target resource at key development objectives.

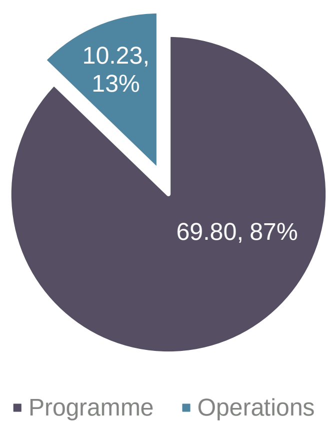
6.3 For the 2018/19 budget, these issues were exacerbated by the adjudication that TfN would not be granted VAT recovery powers as enjoyed by northern partner bodies. This was counter to the planning assumption previously adopted by TfN and the DfT. This issue adds 20% to the cost of TfN's supplies and services into the future, but also adds 20% to the cost of staffing until TfN officers TUPE transfer from their current employing bodies to TfN (expected by July 2018).

6.4 The unexpected VAT costs are worsened by one-off costs associated with the transition to STB status and 'year 1' issues, which add c. £0.8m to the budget. This is further compounded by the completion of three individual Strategic Corridor Studies that commenced in 2017/18 and the start of one new study which requires external support. Taken in aggregate, these issues result in a material one-year spike in the organisation's cost base.

6.5 This report proposes that the budget is resourced through a mixture of in-year grant and brought forward reserves (prior year underspend). Using reserves in this manner recognises that TfN's cost-base is peaking in 2018/19, before falling once one-off and material development costs fall-away. Using reserves in this manner is sustainable in the short-term, and allows us to protect key elements of TfN's approach to quality evidenced-based decision-making.

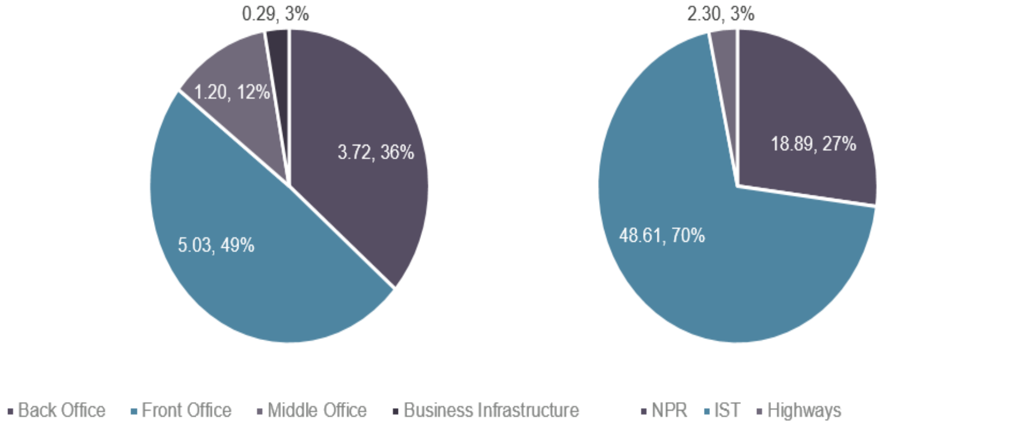
6.6 **2018/19 Budget Summary**

As identified, the proposed budget of £80.03m can be differentiated between the programme and operational areas:

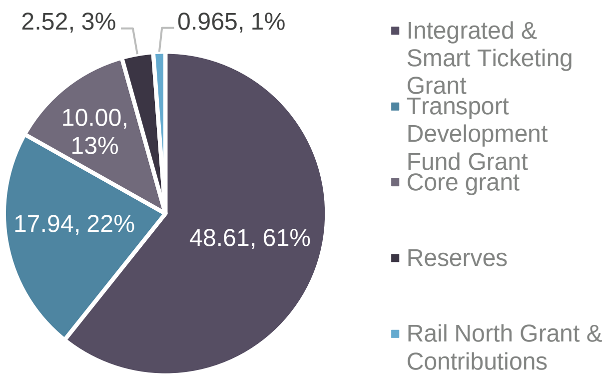


These areas can be further broken down into activity areas:

Operations Budget (£10.23m) Programme Budget(£69.80m)



6.7 This activity will be funded from the following resource:



The next section of this report will look at the operations and programme areas of the budget in more detail.

6.8 **Programme Budget**

The programme budget includes the discreet areas of activity where projects are either underway (as with the ITSO on Rail element of the IST programme) or working towards business case submission and/or approval.

6.9 In 2018/19 it is forecast that there will be three thematic elements of the programme budget:

- Integrated & Smart Ticketing (IST);

- Northern Powerhouse Rail (NPR); and,
- Highways (principally Strategic Corridor Studies 'SDCs').

Forecast costs are shown based on as 'upper' case level. This recognises the highest level of spend anticipated on each area based on available resource, accounting for contingency (for both cost variances and emerging priorities) and optimism bias.

6.10 Forecast costs are as follows:

Programme	£m	Expenditure Type
Integrated & Smart Ticketing (IST)	48.61	Capital & Revenue
Northern Powerhouse Rail (NPR)	18.89	Revenue
Highways (SDCs)	2.30	Revenue
Total Programme Expenditure	69.80	

The costs of the programmes are principally around professional services and development activity. This is a key differentiation to the operations budget where the majority of costs are incurred on staff and business infrastructure.

6.11 Professional services are principally drawn from major contracts for studies – such as that with Network Rail for the NPR programme – whilst development costs represent the payments made to partners and contractors for the development of the IST infrastructure. It is notable that there is £11.46m of irrecoverable VAT within these numbers:

Cost Type	Value (£m)	%
Irrecoverable VAT	11.46	16%
Professional Services	16.50	24%
Development Costs	40.51	58%
Resourcing	1.29	2%
Supplies and Services	0.01	0%
Travel	0.04	0%
Total Costs	69.80	

6.12 The costs shown above include a mixture of capital and revenue expenditure. It is TfN's policy, where possible, to capitalise project costs post outline business case (OBC) approval when there is sufficient certainty that a project will lead to the creation of an economic asset or economic benefit. Whether expenditure is of a revenue or capital nature determines, in part, how it will be resourced.

6.13 The NPR and Highways programmes are currently pre-OBC, and the expenditure is revenue in nature. They will be funded from TDF revenue grant, where TfN costs meet the required DfT criteria, or from core grant contributions.

6.14 The IST programme is formed from three tranches of activity. At this stage tranche 1 (ITSO on Rail) and 2 (customer information) are both post-OBC and fall to be capitalised. Tranche 3 (accounts based back office) is pre-OBC, but expects to achieve OBC approval before the end of financial year 2017/18 or in Q1 2018/19. As such, Tranche 3 may for a period of time incur revenue expenditure before it falls to be capitalised. IST revenue and capital grant is available to fund these costs.

6.15 In this context, it is proposed that the programmes are resourced as follows:

Resourcing	Resource	Value (£m)	%
Reserves brought forward	Revenue	0.67	1%
Core grant	Revenue	2.56	4%
IST grant	Capital & Revenue	48.61	70%
TDF grant	Revenue	17.96	25%
		69.80	

6.16 The above table highlights that 95% of programme activity is funded by discreet grant. This emphasises the reliance on individual programme funding streams to resource material development activity.

7. Integrated & Smart Ticketing (IST):

7.1 The IST budget is comprised of the direct delivery of activity (such as the procurement through train operating companies of hardware for ITSO on Rail), the design and development of proposed activity (as with the customer information and accounts based back office activity), and the incremental costs to the TfN organisation of delivering the overall programme of activity. The latter point includes the costs of staffing, and incremental business infrastructure costs such as accommodation and ICT provision.

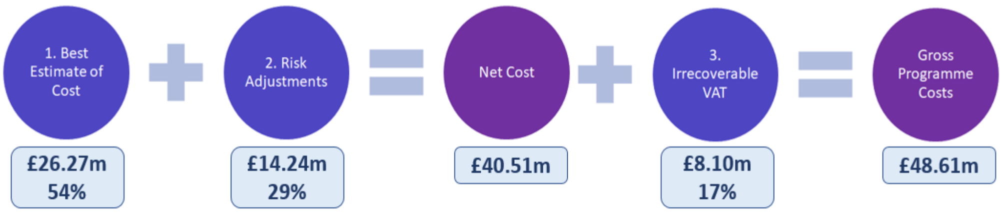
7.2 All these costs are charged into discreet IST grant awarded by DfT. This grant comprises revenue and capital allocations. This reflects that activity can only be capitalised post-OBC approval. TfN will draw upon the resource as is required to support costs. DfT have agreed to release grant quarterly in advance of need, recognising TfN's inability to cash flow large volumes of expenditure.

7.3 IST forecasts are shown at the 'upper' level. This level includes best estimates on scheme costs, but also contingency and optimism bias costs. These latter costs are significant (£14.24m), and reflect the complexity of delivering an innovative ICT project in such a challenging operating environment.

7.4 In a best-case scenario for the public-purse, TfN would deliver this programme at the 'lower' case, which would mean that activity had been procured at the forecast base levels without the need to draw upon risk contingency. In delivering at this level, significant savings would also accrue on VAT. However, for the purposes of full-cost transparency it is important to show the 'upper' case level at which the Department for Transport have either approved a scheme (as with Tranche 1) or will be asked to approve a scheme (as with Tranches 2 and 3).

7.3

Designation	Area	Value (£m)	%
Activity Area	Tranche 1	13.21	27%
	Tranche 2	4.04	8%
	Tranche 3	30.11	62%
	Un-apportioned Programme Costs	1.25	3%
Total IST		48.61	



7.4 Within these numbers is £8.10m of VAT. At this moment it is not clear if all this value will be incurred, as VAT costs will only arise if a taxable supply is created between TfN and another party. The nature of the developing commercial arrangements will determine this treatment, but for the purposes of this budget exercise it prudent to assume VAT will be incurred.

7.5 IST costs are particularly sensitive to the pace of the tranches through DfT's business case approval process. Should the activity not progress as forecast, it is likely that the cost profile and the cost mix will change as delivery plans are adjusted.

7.6 The progress of tranche 3 of the programme through the OBC approval process will determine the nature of expenditure (capital/revenue) and how the programme is resourced. At this stage it is expected that OBC approval will be forthcoming in either late March 2017/18 or early 2018/19.

8. Northern Powerhouse Rail:

8.1 The NPR programme budget principally consists of the major Network Rail contract for the provision of rail studies. These studies are supplemented by economic analysis and modelling to determine the benefits of proposed interventions, which will inform the design of the NPR SOBC submission to DfT, and the work that follows.

8.2 The budget also includes provision for the TfN officers employed within the NPR team. These officers direct the programme, manage the large contracts, and internally commission the economic analysis and modelling work.

8.3 Network Rail submitted an Integrated Delivery Plan in early 2018 which sets out how the rail studies necessary to support the submission of an SOBC by autumn 2018 will be achieved. This plan largely determines the scale and profiling of known costs for this budget. The costs of this activity – Sequence 3 studies – is forecast at £7.90m.

8.4 Though the costs of the work to complete Sequence 3 works are now known, uncertainty remains over the costs of post-OBC activity (the definition of which will be driven by the outputs from Sequence 3). At this stage there is a lack of clarity over both the scope of any works required, and the associated costs. Preliminary assumptions do, however, suggest that the activity will be resource and cost intensive. Based on the costs of work conducted to-date, budget is earmarked for this activity at £7.83m.

8.5 Reflecting this uncertainty, it is proposed to set a budget that affords TfN the resourcing flexibility to react to development opportunities that may arise on the back of the Sequence 3 studies and OBC review. This flexibility is manifested by c. £2m headroom on the TDF funding envelope for the year, and should allow TfN to accelerate activity in-year that may otherwise have been deferred until the next budget and funding cycle.

8.6 On this basis, the following table represents the current forecast for activity:

Designation	Team	Value (£m)	%
Northern Powerhouse Rail	Network Rail: Sequence 3	7.90	42%
	Transport Analysis Modelling Econ.	1.25	7%
	Other Rail Studies	0.96	5%
	TfN – NPR Team	0.95	5%
Committed Costs		11.06	
Forecast Development Costs	Network Rail: Future Work	7.83	41%
Total NPR		18.89	

8.7 NPR cost profiles are highly sensitive to the pace of delivery partners, and the progress of the programme through government's gateway approval processes. Equally, as studies are undertaken they often lead to new and unexpected challenges that require the remitting of further work. These factors make future work and cost forecasting particularly difficult. Budgets will be revised throughout the financial-year as better business information becomes available.

8.8 The NPR budget is principally resourced by grant from the DfT Transport Development Fund (TDF). In 2018/19, the DfT have made £20m of TDF available to TfN for NPR activity. TDF is a conditional grant that cannot be used to pay for TfN staffing time and overheads, and is released only for pre-approved activity. Accordingly, TDF resource is complemented by contributions from TfN's discretionary core resource. This contribution covers the costs of the NPR team, and any activity that is not approved for TDF support.

Resourcing	Value (£m)	%
Core grant	0.95	5%
TDF grant	17.94	95%
	18.89	

8.9 TDF funding is made available on a notional annual profile that was committed to by the Chancellor of the Exchequer in 2015. This profile was developed in isolation from the emerging TfN delivery models of the time, and is somewhat unaligned to forecast activity plans.

8.10 Annual funding allocations are rigid, with no current flexibility to transfer amounts from one year to the next. This means that unused allocations are lost to TfN. For 2018/19, this means that £2.06m is potentially at risk.

8.11 Whilst TfN is keen to maximise its annual allocations to support NPR development aspirations, its ability to do so is tempered by other practical and regulatory restrictions.

8.12 Primarily, the funding allocations do not necessarily reflect the level of resource TfN requires in any one year, and equally doesn't always reflect the level of resource TfN could usefully use in any one year.

8.13 TfN's activity plans are driven by the capacity of delivery partners such as Network Rail (and sub-contractors) to design and deliver rail studies. This places a capacity limitation on TfN's ability to spend in any given year. This limitation is not always negated by increased or accelerated expenditure.

8.14 TfN is also governed by the cultural and regulatory requirement to show value-for-money in its use of public-resource. Both DfT and TfN have an obligation to the safeguarding of this funding, with the governance around the funding restricting its use to a narrow pre-defined list of activities.

9. Highways:

9.1 The Highways programme budget principally resources a number of Strategic Development Corridor (SDC) studies which will inform one or more strategic outline business cases (SOBC). This activity is ongoing at the start of 2018/19 and work on all 7 Strategic Development Corridors, sufficient to inform the first published version of the long-term Investment Programme, will be complete by Autumn 2018. This work is being delivered by teams within TfN, supported by external resources where necessary to complete the work within the required timescales.

9.2 The Highways programme budget stands at £2.3m for financial year 2018/19:

Designation	Team	Value (£m)
Highways	Strategic Development Corridors and SOBC	1.86
	TfN – Highways Team	0.44
Total Highways		2.30

The Highways activity does not attract discreet development funding at this time, and so serves as a good example of TfN's need to maintain the ability to draw upon its core grant funding to resource material development costs.

9.3 For 2018/19, it is proposed that the Highways activity is resourced from a mix of in-year core grant and brought forward reserve that has arisen from prior year underspends on core grant funded activity:

Resourcing	Value (£m)	%
Reserves brought forward	0.67	29%
Core grant	1.63	71%
	2.30	

9.4 It is noted that an opportunity remains to provide greater external support to the SDCs studies than currently planned for 2018/19 should resource become available in-year. Officers will review core grant funded expenditure performance in-year, and propose budget virements and/or variations if the opportunity arises.

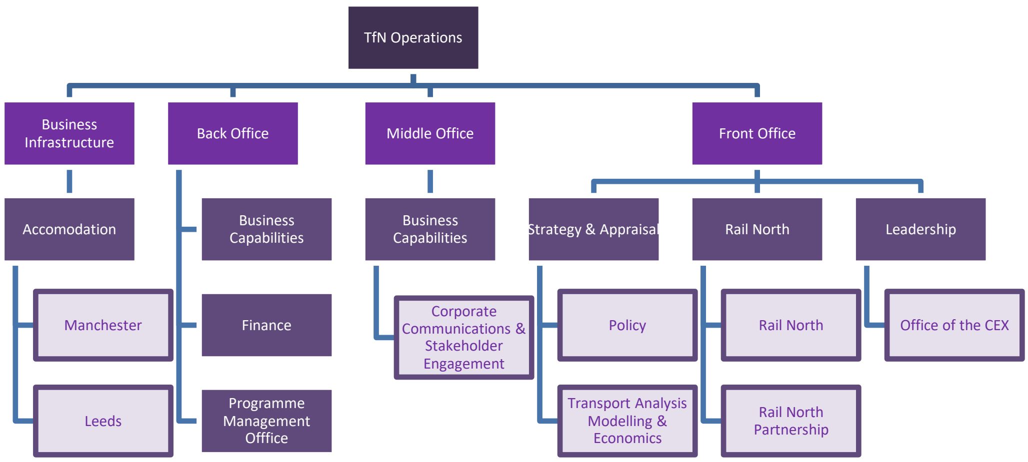
10. Operational Budget:

10.1 The operational budget covers the functions of the back, middle, and front office of the organisation along with the business infrastructure.

10.2 TfN is subject to the same regulatory environment as local and combined authorities, and must discharge its responsibilities as an autonomous body. It must also act in accordance with the Partnership document that will be agreed DfT, which contributes to the parameters that shape TfN's obligations.

10.3 Accordingly, the activity carried out within these areas represents the required enabling-functions familiar to all public-sector organisations, but also the teams that develop and deliver upon much of TfN's aspirations. This includes the Policy team that defines TfN's strategic vision; the Corporate Communications and Stakeholder Engagement team that supports the North's ability to speak with one voice; and the Transport Analysis, Modelling and Economics (TAME) team that underpins TfN's commitment to evidenced-based decision-making.

10.4 The designation of teams and activity in this manner broadly reflects TfN's organisational structure:



10.5 The total value of this budget areas is £10.23m, with the majority of expenditure falling within the front and middle office functions:

Designation	Value (£m)	%
Total Back Office	3.72	36%
Total Middle Office	1.20	12%
Total Front Office	5.03	49%
Total Business Infrastructure	0.29	3%
Total Operational Costs	10.23	

10.6 It is notable that the cost mix within the operational area materially different to that of the programme area, with a heavier weighting towards resourcing (£5.06m) and supplies and services (£1.99m). This reflects that the operational budgets provide much of the unapportionable business infrastructure for the programmes (such as general ICT provision) but also general business costs such as accommodation, audit fees, insurance, and the back-office systems any business requires.

10.7 It is further notable within the operational area that in 2018/19 there is a material spike of one-off costs (c. £0.8m) associated with organisational development that are not expected to be repeated in future years. These include:

- Activity associated with the managed transition to STB status;
- Activity associated with the initial development and implementation of organisational systems and business infrastructure; and
- Activity associated with the post -transition development of the organisation.

10.8 Partner authorities will have incurred similar costs in their own organisational development, but likely on a more graduated and cyclical basis than TfN which requires an acceleration of its own development to ensure it is immediately capable of delivering upon the large and complex programmes that meet its aspirations.

10.9 These costs can be broken down as follows:

	Net Cost	VAT Cost	Total Cost
	£m	£m	£m
Managed Transition	0.22	0.29	0.51
Organisational Development	0.20	0.04	0.24
System Implementation	0.08	0.02	0.09
	0.49	0.34	0.84

10.10 The costs incurred in ensuring a managed transition from current arrangements to operational autonomy include temporary additional staffing capacity to prevent one-off peaks in demand from impinging on the organisation’s business-as-usual and programme delivery. Costs also include training budgets for those new systems and processes within which TfN officers will operate.

10.11 The significant VAT costs incurred in transition activity reflect that up until TfN officers are TUPE transferred into TfN as its own employing body, officers will effectively be ‘supplied’ from their current employers (TfGM and WYCA) to TfN. This exchange will create a financial transaction and result in VAT costs being incurred that cannot be recovered. This is, unfortunately, unavoidable.

10.12 Removing these cost from the operational budget, and adjusting further for unanticipated VAT costs, gives an underlying structural cost-base of c. £8.7m, of which around £1.8m is available to support development activity such as economic analysis and the Strategic Transport Plan development and consultation process.

11. Reserves Strategy:

11.1 Under statute, all local government bodies – including TfN – are required to operate to a locally defined reserves strategy that ensures that the organisation always holds a prudent level of reserves.

11.2 Such reserves enable the organisation to operate with a degree of flexibility and guard against in-year financial shock.

11.3 A prudent reserve strategy is particularly important to TfN as it has few other levers to mitigate financial risk. As discussed, unlike other northern partners, TfN cannot access credit for short-term cash flow management and long-term investment, nor can it levy or precept upon a local tax-base to underwrite its operations.

11.4 TfN's approach to managing financial risk therefore has to rest on two pillars:

- A prudent risk culture that ensures TfN limits its exposure to financial risk arising from contracting and business operations; and
- A prudent reserve strategy that ensures TfN always holds a level of cash at bank to guard against residual financial shock.

Practically, this means that TfN must work in collaboration with DfT and partners when entering into multi-year and high-risk transactions to ensure that the right balance of risk share is achieved between partners.

11.5 It also means that TfN's reserve strategy must be managed in conjunction with the use of the annual core grant allocations. As core grant is the only discretionary resource TfN holds that can fund any and all expenditure. It follows that financial risk must primarily be managed through this resource.

11.6 Following discussions with the DfT, it has been agreed that TfN will target a core cash balance of no less than £2m to be held as a reserve in any given year.

11.7 This value was considered sufficient to allow for modest draws to be made in-year to meet un-budgeted opportunities that may arise, whilst also ensuring cash remained at bank to meet both unexpected costs and cash flow fluctuations.

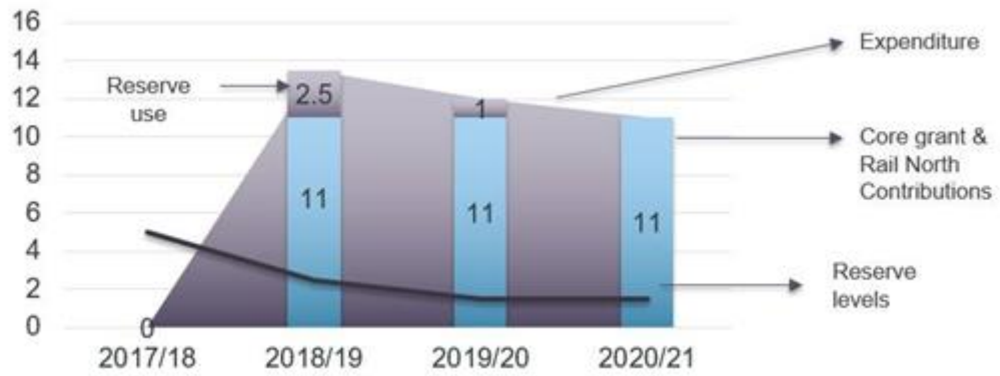
11.8 From year to year this reserve may be drawn upon in-year, with adjustments being made in following years to replenish it.

11.9 TfN's financial strategy, and 2018/19 budget, is predicated on a forecast 2017/18 year-end cash balance of £5.5m. DfT have agreed to a 2017/18 funding package that will allow this value to accrue.

11.10 It is proposed that £2.5m of this balance be drawn upon in 2018/19 to help meet the spike in the cost-base that arises from transition and year-1 costs. This would reduce the reserve levels to £3.0m by the end of 2018/19, with a further draw to be made in 2019/20 of £1m. This will allow TfN to deliver the level of activity currently anticipated whilst still allowing it to maintain a reserve of at least £2.0m at the end of 2019/20.

11.11 Use of reserve at this level cannot be sustained into the future without taking TfN below its target reserve balance. However, as the underlying cost-base reduces the need for similar draws upon the reserve will reduce. It is anticipated that in the medium-term the core grant will be sufficient to meet the costs of the organisation.

11.12 The following graphic represents the proposed draw upon reserves between 2018/19 and 2020/21:



This strategy will be updated on an annual basis relative to TfN's body of activity and the level of resource it receives.

12. Financial Framework:

12.1 TfN's financial framework sets out how TfN will make financial decisions, and how it will report on them.

12.2 The framework is underpinned by two constitutional documents: The Financial Regulations; and The Scheme of Delegations.

12.3 The Financial Regulations will be familiar to northern partners, and reflect a public body acting with due regard to fiduciary responsibilities around the sound stewardship of public resources.

12.4 The Scheme of Delegations reflects TfN's approach to managing the key risk around insolvency by assigning accountability and enabling oversight. The Scheme of Delegation allocates responsibilities to key officers across the organisation, and importantly places a dual-lock on all financial decisions.

12.5 This dual-lock requires decision approval from both the responsible activity lead and the statutory finance officer and his deputy on a hierarchy that escalates with the value of the transaction. This dual-lock ensures that the principles of value-for-money are aligned to basic cash-management.

12.6 Organisational financial culture is influenced through Financial Protocols which set out the roles and responsibilities for officers. These are reinforced through operational policies and procedures and the enforcement of them.

12.7 Finally, TfN invites oversight through cyclical financial reporting. TfN will comply with regulatory financial transparency reporting, and report to its oversight boards on a regular basis:

- TfN Executive Board will receive flash monthly operating reports and a schedule of the exercise of officer delegations;
- TfN Board will receive quarterly monitoring reports, including requests for budget variations, commissioning and contract approval as appropriate under the Scheme of Delegation, and the schedule of the exercise of officer delegations;
- TfN Board will also be presented with the annual budget for adoption; and
- TfN's Audit Committee will be presented with the statutory Statement of Accounts for review, before they are recommended to the TfN Board for approval.