

Transport for the North Board – Item 9

Subject: Financial Outturn 2019/20

Author: Gareth Sutton, Financial Controller

Sponsor: Iain Craven, Finance Director

Meeting Date: Thursday 11 June 2020

1. Purpose of the Report:

- 1.1 This report details the financial position of TfN as at the outturn of financial year 2019/20.
- 1.2 The report details expenditure against the base budget, and the three reforecasts of that budget over the course of the year.
- 1.3 The report shows the use of resource over the course of the year, and the unapplied grants and contributions that can be used in future periods.
- 1.4 Finally, the report presents the unaudited balance sheet position.

2. Executive Summary:

- 2.1 Over the course of financial year 2019/20, TfN incurred expenditure of £46.82m.

Summary

- 2.2 The majority of this expenditure was incurred in TfN's revenue and capital programme areas (£39.26m/84%), with £7.63m (16%) incurred in TfN's operational areas.

Total Net Expenditure	Outturn £m	Outturn %
Revenue Programmes:		
Northern Powerhouse Rail	£27.89	60%
Major Roads	£1.43	3%
Integrated & Smart Ticketing	£5.36	11%
	£34.68	74%
Capital Programmes:		
Integrated & Smart Ticketing	£4.55	10%

Rail Operations	£1.86	4%
Operational Areas	£5.73	12%
	£46.82	

- 2.3 Reflecting TfN's role as a strategy and commissioning organisation, the majority of this expenditure was incurred on professional services (£25.64m) and people related costs (£9.30m). TfN's inability to recover VAT added £5.77m to its costs:

Cost Category	Outturn £m	Outturn %
Professional Services	£25.64	55%
Employee and Agency	£9.30	20%
VAT	£5.77	12%
Grants Awarded	£3.78	8%
Consumables & Supplies	£1.14	2%
Accommodation	£0.56	1%
ICT and Communications	£0.47	1%
Travel	£0.17	0%
	£46.82	

- 2.4 This expenditure was resourced principally from grant and contributions, with some income generated from contracts where TfN provides services for partner bodies.

Funding	£m
Revenue Resource	
Core Grant	£8.72
Transport Development Fund - Rail	£26.94
Transport Development Fund - Road	£0.01
Rail North Grants and Contributions	£1.19
Integrated & Smart Ticketing Grant	£5.36
Contract Income	£0.05
	£42.27
Capital Resource	
Integrated & Smart Ticketing Grant	£4.55
	£46.82

Variance to Budget

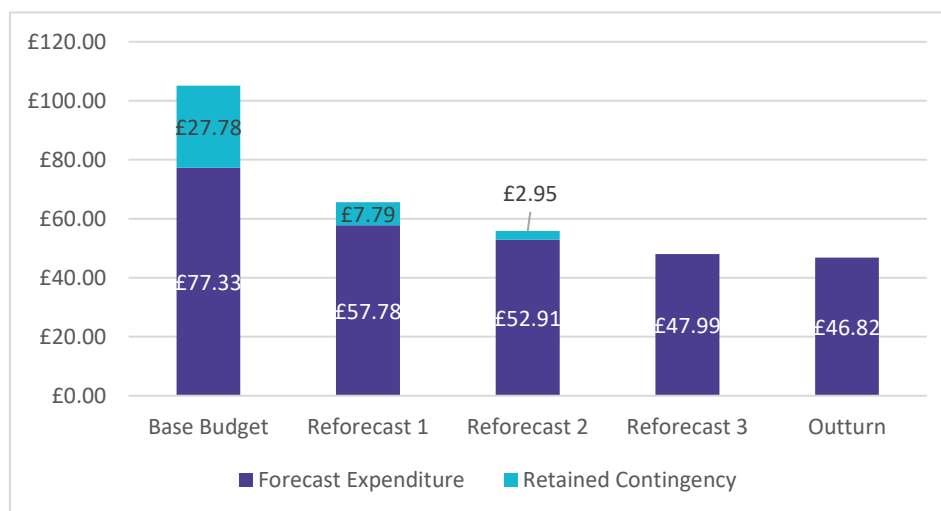
- 2.5 TfN's budget for the year was adopted by the Board in February 2019. This budget had been developed as part of the organisation's business planning exercise and was periodically revised at the end of each

quarter to ensure financial planning remained aligned to the latest delivery profiles.

- 2.6 Financial reporting throughout the year has been dominated by the cancellation of the Phase 3 ABBOT scheme within Integrated and Smart Travel programme.
- 2.7 Principally, the cancellation of the planned capital development led to a major reduction in the capital programme whilst, conversely, the switch to the development of alternative options led to higher than originally forecast revenue costs:

Total Net Expenditure	Outturn £m	Opening Budget £m	Variance £m
Revenue Programmes:			
Northern Powerhouse Rail	£27.89	£29.75	£1.86
Major Roads	£1.43	£2.57	£1.14
Integrated & Smart Ticketing	£5.36	£3.28	-£2.08
	£34.68	£35.60	£0.92
Capital Programmes:			
Integrated & Smart Ticketing	£4.55	£33.00	£28.45
Rail Operations	£1.86	£1.92	£0.06
Operational Areas	£5.73	£7.19	£1.46
	£46.82	£77.71	£30.89

- 2.8 As the year progressed, better delivery planning information became available which, along with completed procurement exercises, gave better cost and timing information. This allowed the budget to be revised and ensured that at outturn TfN's actual expenditure was better aligned to its forecasts:



Carry-forwards

- 2.9 Throughout the year, underspends have arisen from savings generated from vacancy management, activity being reduced, and efficient procurement of goods and services.
- 2.10 Slippage of activity has also pushed costs associated with that activity out of the financial year and into future periods.
- 2.11 Known activity slippage and cost-savings were fed into the business planning process for 2019/20 to enable resource to be deployed to support future activity.
- 2.12 Over the final quarter of the year, further slippage and cost savings were identified which changes the profile of expenditure in 2019/20 and the resource available in grants unapplied and reserves.
- 2.13 As at the financial year-end, slippage of c. £4.47m was identified in the programme areas, principally within the IST programme (£3.10m) and the NPR programme (£1.37m). IST programme slippage can be resourced from existing funding envelopes, whilst approval has been gained from the DfT to use 2020/21 funding envelopes to resource slipped NPR activity.
- 2.14 Should it be forecast that the budget ceiling will require adjustment to accommodate the expenditure, a request will be made to the TfN Board to approve the carry forward of this expenditure and associated resource. The requirement for such carry forwards will be considered as part of the Revision 1 budget reforecast exercise.
- 2.15 As at the financial year-end, slippage in the Operational Areas totalled £0.35m against the Revision 3 budget.
- 2.16 Requirements for carry forwards will be considered as part of the Revision 1 budget reforecast exercise, which will be provided to the Board in July.

3. Programme Area Analysis

- 3.1 TfN's programme areas account for the majority of its expenditure and consist of both capital and revenue activity.
- 3.2 Over the course of the year there were major developments in TfN's programme areas:
- The Phase 1 ITSO on Rail scheme fell behind schedule as train operator company procurement exercises were delayed and then affected by the COVID-19 restrictions.

- The Phase 2 Customer Information scheme saw its Disruption Messaging Tool go-live in March 2020, with a number of LTAs amongst the first adopters.
- The Phase 3 ABBOT Integrated and Smart Travel procurement was paused in July 2019 and then cancelled in January 2020.
- Over Quarter 4 of the year the scheme was split into two new but aligned spheres of activity, assessing how a 'Smart on Rail' scheme and support for local schemes could deliver on the former scheme's original objectives.
- The NPR programme advanced towards the delivery of its Strategic Outline Case (SOC) with significant sifting work undertaken.
- The Strategic Development Corridor programme saw the completion of the qualitative workstreams, though the quantitative element was deferred to 2020/21.

3.3 Programme area activity is inherently more sensitive to delivery hurdles, such as gateway approval processes and partner performance, than the operational areas which have more stable activity and expenditure profiles.

3.4 As at the financial outturn TfN's programme areas had incurred expenditure of £39.23m, significantly below the opening base budget forecast of £68.60m.

Integrated & Smart Travel Programme (IST)

3.5 The opening budget reflected a programme consisting of three phases of activity and encompassed both revenue and capital activity.

3.6 The opening base budget for the IST programme stood at £62.46m across its three phases. However, of this value £26.18m (42%) was contingency, consisting of optimism bias, qualified risk assessment and inflation adjustments. This contingency would only be called upon if required. This gave a net best estimate of cost for the programme of £36.28m that has been used for reporting purposes throughout the year.

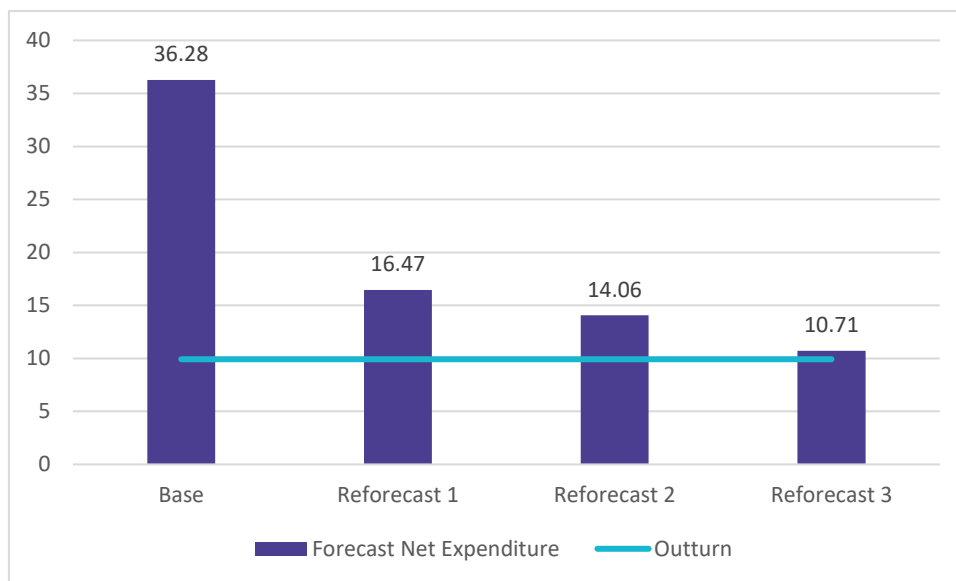
3.7 The IST programme was particularly sensitive to change in both the cost and pace of activity as there were significant technological, stakeholder, supply-chain, and approval challenges to overcome in the year.

3.8 As at the year-end the programme has incurred total expenditure of £9.91m. This placed the programme £26.37m below the opening net budget:

Budget Cycles >	Base £m	R1 £m	R2 £m	R3 £m
Net Budget	£36.28	£16.47	£14.06	£10.71

Outturn	£9.91	£9.91	£9.91	£9.91
Variance	£26.37	£6.56	£4.15	£0.80

- 3.9 The above table highlights that as the year progressed, forecasts of programme expenditure were revised down to realign to the latest delivery profiles developed by the project teams:



- 3.10 Underspends were incurred across all of the phases. Phase 1 (ITSO on Rail) underspent against the opening net base budget by £1.66m, and against the net Revision 3 budget adopted in Quarter 4 by £0.61m:

Budget Cycles >	Base £m	R1 £m	R2 £m	R3 £m
Phase 1				
Net Budget	£5.68	£6.59	£6.00	£4.63
Outturn	£4.02	£4.02	£4.02	£4.02
Variance	£1.66	£2.57	£1.98	£0.61

- 3.11 Underspends in the Phase 1 area principally reflect slippage in the implementation of field ticketing components, such as mobile ticketing devices and platform validators. Purchasing of these items is managed through the northern train operating companies (TOCs) as part of their franchise obligations, with TfN providing grant support. Over the course of the year it has been reported that this activity had fallen behind schedule, with delays exacerbated by COVID-19 restrictions in Quarter 4.
- 3.12 The project remains ahead of the national ITSO on Rail scheme, and work is underway with the TOCs to determine how field equipment can

be implemented in a safe way given ongoing restrictions around station concourses and sites. The project remains on course to deliver within budget.

- 3.13 Phase 2 of the programme is the smallest of the three phases and seeks to improve passenger access to journey time and disruption information. Over the year, Phase 2 workstreams have advanced towards completion with the Disruption Messaging Tool going live to users in March 2020.
- 3.14 By the end of the financial year, Phase 2 had underspent against the base budget by £0.20m:

Budget Cycles > Phase 2	Base £m	R1 £m	R2 £m	R3 £m
Net Budget	£2.28	£2.65	£2.21	£2.20
Outturn	£2.08	£2.08	£2.08	£2.08
Variance	£0.20	£0.57	£0.13	£0.12

- 3.15 It is forecast that the residual Phase 2 work streams will complete in 2020/21, with systems and tools being passed to LTAs and the DfT for ownership. The project remains on course to deliver within budget.
- 3.16 The major forecast development for the programme in 2019/20 was the expected move into procurement for the Phase 3 ABBOT contracts. These contracts would allow for the major capital delivery element of the scheme: designing and implementing the back-office infrastructure that would facilitate the multi-modal, multi-operator ticketing system that would give the Northern public-transport user a similar ticketing experience to that enjoyed in London's integrated transport system.
- 3.17 As has been reported extensively over the course of the year, in order to move into the procurement phase at significant expense to the public-purse, TfN required greater confidence around major bus-operator support beyond that which it had already received. However, during Spring 2019 it became apparent that the major bus-operators were no-longer willing to commit to support the scheme in its proposed form.
- 3.18 In July 2019 the TfN Board took the decision to implement an 'active-pause'. This halted all development activity whilst efforts were made to identify a route forward with the operators. However, by January 2020, with no resolution forthcoming, the TfN Board took the decision to cancel the current scheme and instead concentrate on two new but aligned workstreams. These would develop proposals to support a 'Smartcard on Rail' system for the North whilst bringing forward local schemes that could deliver the original objectives of the Phase 3 scheme.

- 3.19 The pause and then cancellation of the scheme significantly impacted upon the capital programme, with no capital expenditure incurred in-year. However, conversely, the work undertaken throughout the year fell to be resourced from revenue grant, which led to higher than originally forecast revenue expenditure.
- 3.20 TfN has worked closely with the DfT during the year to manage these issues. Principally, the DfT has supported TfN through the award of new revenue grant to meet those higher costs and new revenue grant to resource the development of 'Smartcard on Rail' and local scheme proposals, whilst collaborative work has reviewed how the existing IST programme envelope could be used to support capital development activity associated with those new proposals into the future.
- 3.21 TfN reflected the major movement on the capital programme after Quarter 1 when the first reforecast of the budget was performed. This removed over £21m from the Phase 3 budget. Over the course of the year the budget has been adjusted, reflecting the deeper than forecast expenditure reductions caused by a halt on all contractual expenditure beyond urgent requirements over the summer, and lower than forecast development costs for the two new schemes:

Budget Cycles > Phase 3	Base £m	R1 £m	R2 £m	R3 £m
Net Budget	£25.69	£4.49	£3.23	£2.39
Outturn	£2.37	£2.37	£2.37	£2.37
Variance	£23.32	£2.12	£0.86	£0.02

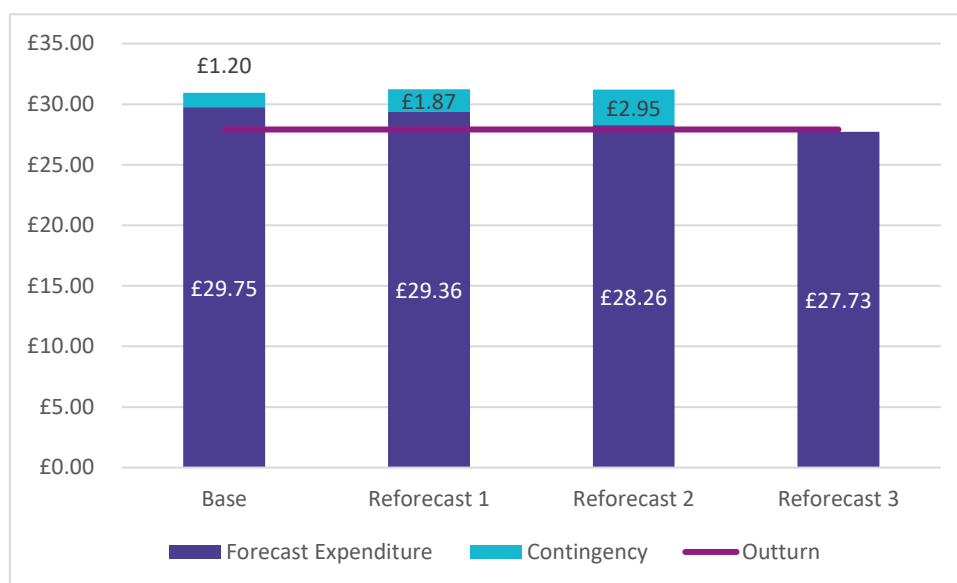
- 3.22 The DfT has advanced TfN sufficient resource to develop the 'Smartcard on Rail' and local scheme proposals to initial gateway review with the DfT's investment committee, scheduled for May/June 2020. Should the schemes proceed through those gateways new resource will be made available to TfN.
- 3.23 Reflecting wider uncertainty and sensitivity to timescales, the DfT has also advanced TfN a general revenue grant to allow it to manage its fixed and employee costs.

Northern Powerhouse Rail (NPR) Programme

- 3.24 Over the course of the year the NPR programme has continued to advance towards submission of its Strategic Outline Case, with significant amounts of resource and effort deployed to route and station sifting exercises.
- 3.25 During 2019/20 the programme incurred expenditure of £27.89m. This consisted of its Core Grant funded staffing and related costs, and

professional services – principally through contracting with Network Rail – funded from DfT awarded Transport Development Fund (TDF) grant.

- 3.26 As the year has progressed the NPR budget has fluctuated. Mid-year expenditure forecasts provided by Network Rail fluctuated materially, precipitating the need to hold higher than planned amounts of contingency reserve to mitigate potential adverse variances. Conversely, planned activity to be undertaken by TfN's analysis and modelling teams has been delayed across a number of commissions leading to contract underspend.



- 3.27 At the financial year-end the NPR programme had underspent against the opening net base budget by £1.86m but overspent by £0.16m against the Revision 3 budget:

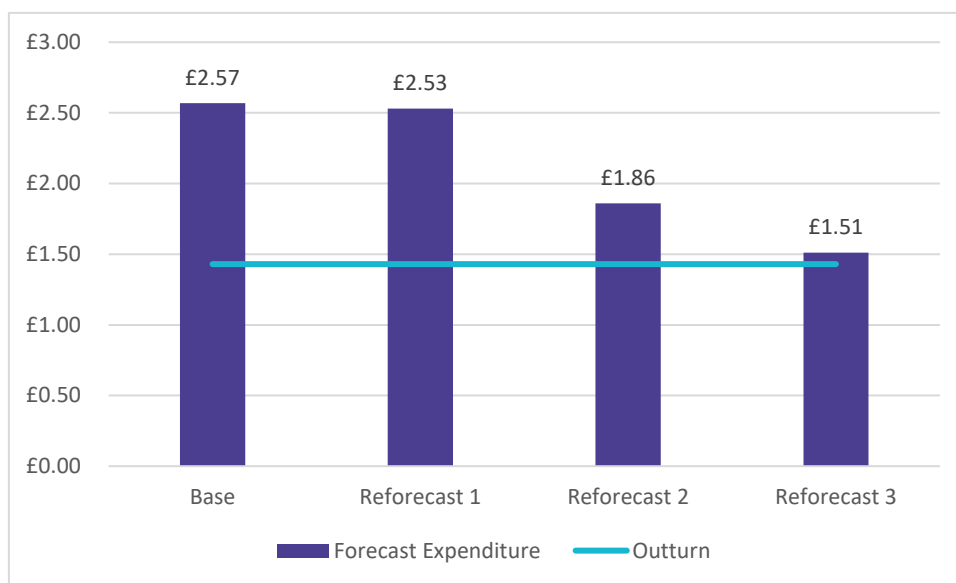
Budget Cycles >	Base	R1	R2	R3
Northern Powerhouse Rail	£m	£m	£m	£m
Net Budget	£29.75	£29.36	£28.26	£27.73
Outturn	£27.89	£27.89	£27.89	£27.89
Variance	£1.86	£1.47	£0.37	-£0.16

- 3.28 Overspend against the Revision 3 forecast reflects a net position. Network Rail contract costs were significantly over forecasts provided in March 2020, leading to an overspend of £0.38m for Quarter 4. This was partially offset by modelling team underspends. Reflecting the need to manage adverse variance the DfT had advanced sufficient grant resource to TfN to manage the overspend.

- 3.29 TfN has secured approval for slipped modelling activity to be rolled forward into the new financial year and be resourced from TfN's 2020/21 TDF allocation.

Strategic Development Corridors

- 3.30 The SDC programme budget was set at £2.57m with sufficient resource to complete the 'qualitative' and 'quantitative' elements of the programme. The qualitative elements reflect the seven initial corridor studies, whilst the quantitative element covered the means and method of analysing how interventions could be sequenced in the most efficient manner.
- 3.31 This activity does not attract discrete grant funding, so is resourced from TfN's general Core Grant resource.
- 3.32 Over the course of the Strategic Programme Outline Cases were completed for each corridor, but the major piece of work around sequencing the proposals was first delayed and then deferred out of the year in its entirety.
- 3.33 Despite the absorption of some slippage from the prior year, the delays to the quantitative element of the programme have meant that programme expenditure has continuously been revised down:



- 3.34 At the end of the financial year the programme had incurred expenditure of £1.43m, placing it behind the opening budget by £1.14m:

Budget Cycles >	Base	R1	R2	R3
Strategic Development Corridors	£m	£m	£m	£m
Net Budget	£2.57	£2.53	£1.86	£1.51

Outturn	£1.43	£1.43	£1.43	£1.43
Variance	£1.14	£1.10	£0.43	£0.08

- 3.35 Underspends almost entirely reflect the deferment of the sequencing work, with some staffing underspend. Resource has been made available within the 2020/21 budget to complete this activity.

Rail Operations

- 3.36 The Rail Operations budget resources the work Rail North Partnership Team and the Strategic Rail Team. Both these teams support TfN in discharging its statutory responsibilities for overseeing the northern rail franchises.
- 3.37 Budgets for both teams largely resource staffing and operational overhead costs, so are relatively stable. Some professional services resource is also afforded to the Strategic Rail Team.
- 3.38 The expenditure of the Rail North Partnership Team and the Strategic Rail team is resourced from a direct grant from the DfT to meet some of the costs of the RNP team; contributions provided from the Rail North authorities; Rail Grant passported through from the northern combined authorities; and c. £1m of contribution from TfN's Core Grant. TfN also provides services to a number of TfN partners on a 'cost' basis.
- 3.39 At outturn the two teams had incurred expenditure of £1.86m, leading to an immaterial underspend for the year of £0.06m.

Operational Areas

- 3.40 TfN's core operations areas cover the back, front, and middle office teams familiar to any public body. They include the teams that allow TfN to discharge its statutory obligations towards good governance and the sound-stewardship of public funds, along with the policy and strategy teams that help shape TfN's activity and its commitment to evidenced-based decision making, and the communications and engagement teams that allow TfN to speak with one voice on behalf of the North.
- 3.41 The Operational Areas are generally funded from TfN's un-restricted Core Grant, though where permissible TfN recharges the costs of support functions into programme grant streams.
- 3.42 The opening base budget for these teams stood at a net £7.19m for the year after forecast recharges into programmes of £2.00m.

3.43 Over the course of the year savings have been generated due to staffing vacancies and the removal of activity that was deemed unnecessary as the year progressed. Savings were also generated from procurement efficiencies and the deferment of some significant pieces of activity within the Economic Appraisal function as other priorities displaced capacity. Conversely, these underspends will be offset, in part, by a lower than forecast recharge into the IST programme (£1m) reflecting the significantly reduced activity in that area.

3.44 By the financial year-end, the Operational Areas had incurred expenditure of £5.73m, placing them behind the base budget by £1.46m and the Revision 3 budget by £0.29m.

Operational Areas	Base Budget £m	Outturn £m	Var. £m	Revision 3 £m	Outturn £m	Var. £m
Leadership	£0.27	£0.31	-£0.04	£0.33	£0.31	£0.02
Finance	£1.23	£1.01	£0.22	£1.01	£1.01	£0.00
Business Capabilities	£3.72	£3.24	£0.48	£3.33	£3.24	£0.09
Programme Management Office	£0.39	£0.20	£0.19	£0.26	£0.20	£0.06
Strategy & Policy	£3.58	£1.91	£1.67	£2.21	£1.91	£0.30
	£9.19	£6.67	£2.52	£7.14	£6.67	£0.47
Recharges	-£2.00	-£0.94	-£1.06	-£1.12	-£0.94	-£0.18
	£7.19	£5.73	£1.46	£6.02	£5.73	£0.29

Reserves & Grants Unapplied

3.46 At the year-end TfN had not applied all the grants that had been received over the course of the year to expenditure. Dependent on the conditions placed on those grants, TfN holds unused allocations as either:

- Grants received in advance
 - Noting that there are restrictions on these grants that mean they may have to be returned to the Department for Transport if not used
- Grants Unapplied
 - This is a reserve for capital grants where conditions of use have been met but the resource has not yet been applied to meet expenditure
- Earmarked Revenue Reserves
 - This is a reserve for revenue grants that may only be applied to specific expenditure where conditions of use have been met but the resource has not yet been applied to meet expenditure
- General Fund Reserves

- This our general reserve where revenue grant without restrictions on usage is held - in practice, this is where we hold unused allocations of our Core Grant.

3.47 As at the year-end, unapplied grants held in this manner are as follows:

	2019/20 £m
Revenue Grants Received in Advance	
- Transport Development Fund – Road	£0.01
	£0.01
Usable Reserves	
Capital Grants Unapplied	
- Integrated & Smart Ticketing Phase 1 Grant	£0.30
- Integrated & Smart Ticketing General Grant	£3.69
	£3.99
General Fund Revenue Reserves	
- Core Grant	£6.46
- Devolved Powers (Earmarked)	£0.50
- Integrated & Smart Ticketing Grant (Earmarked)	£0.94
	£7.90
Total Usable Reserves	£11.89
Total Resource	£11.90

- 3.48 These grants will be applied to expenditure in 2020/21 and future accounting periods where possible or be returned to the DfT if the grant conditions require us to do so.
- 3.49 The Core Grant allocations held in our General Fund Reserve provide the basis for our medium-term financial plan, enabling both a gradual draw on that resource to support key development aspirations and underpinning our risk mitigation around our sensitivity to financial shock.
- 3.50 The 2020/21 budget was set with a draw on reserves of £1.39m. Since that budget was set there is c. £0.34m of further slippage. This leaves an adjusted available Core Grant reserve of £4.73m.

Balance Sheet

- 3.51 As at the financial year-end, TfN's un-audited balance sheet recognised these grants and reserves, along with other items such as TfN's capital investment in intangible assets via the IST programme, and working capital.

3.52 The balance sheet also includes several items required to be shown under international accounting standards, including a provision for untaken leave, and specific accounting around pensions liabilities.

3.53 The balance sheet can be summarised as follows:

Balance Sheet 2019/20		£m			£m
Assets			Reserves		
Cash & Equivalents		£19.31	<u>Unusable Reserves</u>		
Intangible Asset		£3.53	Absence Reserve		£0.16
Receivables		£0.60	Capital Adjustment Account		-£3.53
		£23.44	Pension Reserve		£6.08
Liabilities					£2.71
Provisions		-£0.13	<u>Usable Reserves</u>		
Grants Received in Advance		-£0.01	Capital Grants Unapplied		-£3.99
Pension Liability		-£6.08	Earmarked Revenue Grants		-£0.94
Payables		-£8.05	Devolved Powers Reserve		-£0.50
		-£14.27	General Fund Reserve		-£6.46
					-£11.89
Net Assets		£9.17	Reserves		-£9.17

4. Conclusion:

- 4.1 This report details the financial performance of TfN at the outturn of financial 2019/20.
- 4.2 The report notes that budgets have been revised over the course of the financial year to realign financial forecasts with the latest delivery profiles received from project teams.
- 4.3 The report further notes the underspend against these budgets and associated impact on reserves and grants unapplied.
- 4.4 The report notes that where possible grant received but not applied will be held and used to resource expenditure in the new financial year, but some unapplied balances may have to be returned.

5. Recommendation:

- 5.1 Note the potential for carry-forwards of resource to be made at the July Board when the Revision 1 budget reforecast is presented.

List of Background Documents:

There are no background papers to this report.

Required Considerations

Equalities:

Age	Yes	No
Disability	Yes	No
Gender Reassignment	Yes	No
Pregnancy and Maternity	Yes	No
Race	Yes	No
Religion or Belief	Yes	No
Sex	Yes	No
Sexual Orientation	Yes	No

Consideration	Comment	Responsible Officer	Director
Equalities	A full Impact assessment has not been carried out because it is not required for this report.	Gareth Sutton	Iain Craven

Environment and Sustainability

Yes	No
-----	----

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 for this paper.	Gareth Sutton	Iain Craven

Legal

Yes	No
-----	----

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
-----	----

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	TfN HR Team has confirmed there are no resource implications.	Dawn Madin	Dawn Madin

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.	Haddy Njie	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