

Date: 22nd January 2021
Subject: Assessment of Going Concern Statement
Report of: Steve Wilson, GMCA Treasurer

PURPOSE OF REPORT

Further to the report to Audit Committee in November this is an updated report which informs members of an assessment of the Greater Manchester Combined Authority (GMCA) as a going concern with a forward look at the position for the next 12-18 months.

RECOMMENDATIONS:

Audit Committee is requested to:

1. Note the outcome of the assessment made of the GMCA's going concern position and the conclusion that there is no material risk to going concern

CONTACT OFFICERS:

Name: Steve Wilson
Position: Treasurer, GMCA
Tel: 07725 481067
E-mail: steve.wilson@greatermanchester-ca.gov.uk

Name: Rachel Rosewell
Position: Deputy Treasurer, GMCA
Tel: 07725 482865
E-mail: Rachel.rosewell@greatermanchester-ca.gov.uk

BACKGROUND PAPERS:

- Greater Manchester Combined Authority 14th February 2020 - GMCA Revenue and Capital Budgets 2020/21 Overview (Budget Paper A)
- Greater Manchester Combined Authority – Covid-19 update reports:
 - 29th May 2020 - Financial Update
 - 24th June 2020 - Financial Implications of Covid 19 Across Greater Manchester Authorities
 - 31st July 2020 - GMCA Covid Finances and Reserves
 - 25th Sept 2020 – GMCA Covid Finances Update
- Audit Committee, 8th September 2020 - GMCA Assessment of Going Concern 2019/20
- Audit Committee, 27th November 2020 – GMCA Assessment of Going Concern Statement

TRACKING/PROCESS		[All sections to be completed]
Does this report relate to a major strategic decision, as set out in the GMCA Constitution		No
EXEMPTION FROM CALL IN		
Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?		No
GM Transport Committee	Overview & Scrutiny Committee	

1. INTRODUCTION

- 1.1 Further to the report to Audit Committee in November this is an updated report which informs members of an assessment of the Greater Manchester Combined Authority (GMCA) as a going concern with a forward look at the position for the next 12-18 months.
- 1.1 Greater Manchester Combined Authority (GMCA) is required to demonstrate that it is a going concern and remains financially sound. The concept of a 'going concern' assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. This assumption underpins the accounts drawn up under the Local Authority Code of Accounting Practice and is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.
- 1.2 As with all principal local authorities, the GMCA is required to compile its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting for 2019/20 (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance with the Code the GMCA's Statement of Accounts is prepared assuming that the GMCA will continue to operate in the foreseeable future and that it is able to do so within the current and anticipated resources available. By this, it is meant that the GMCA will realise its assets and settle its obligations in the normal course of business.

2 GOING CONCERN ASSESSMENT

- 2.1 The main factors which underpin the assessment of GMCA as a going concern are outlined below and include:
- GMCA's financial performance
 - GMCA's strategic planning and budget framework
 - The regulatory and control environment applicable to the GMCA as a local authority.
 - Economic climate including impact of Covid-19

3. GMCA FINANCIAL POSITION

- 3.1 The revenue outturn for the year ending 31 March 2020 is categorised across defined areas of the Combined Authority. All areas underspent against approved budget in 2019/20, with the exception of Transport which overspent due to a shortfall on Metrolink revenues from the impact of the Covid-19 pandemic in March 2020. It was agreed to transfer the final balance to Earmarked Reserves and General Fund.

3.2 The position is shown in the table below:

Function / Service	Approved Budget 2019/20 £000	Provisional Outturn 2019/20 £000	Outturn Variation 2019/20 £000	Transfer to/(from) Earmarked Reserves £000	Transfer to General Funds £000
Mayoral General	29,111	27,755	(1,356)	1,356	0
Mayoral General - GM Fire & Rescue	113,866	111,202	(2,664)	0	2,664
Economic Development and Regeneration	157,906	156,789	(1,117)	0	1,117
Highways and Transport	247,065	248,159	1,094	(1,094)	0
Waste Disposal	174,634	174,634	-	-	-
Mayoral Police Fund	589,049	579,773	(9,276)	6,951	2,325

3.3 GMCA's capital programme includes Greater Manchester Fire and Rescue Services, Economic Development and Regeneration programmes and the continuation of the programme of activity currently being delivered by Transport for Greater Manchester (TfGM) and Local Authorities. The GMCA approves the Capital Programme at its meeting to approve the budget for the following year in February and updated forecast outturns are provided on a quarterly basis. The actual capital expenditure for 2019/20 was £370.7m compared to forecast for 2019/20 presented to GMCA on 14 February 2020 of £406.3m.

3.4 The Police Fund capital programme is recorded separately in accordance with legislation and was a further £32m of spend in 2019/20 compared to budget of £56.7m. At the time the 2020/21 budget was set, any known slippage was built into the funded programme. Further slippage from that point has resulted in a request to carry forward £7.7m to 2020/21.

Budget 2020/21

3.5 The GMCA revenue and capital budgets were presented to the GMCA board on the 14 February 2020 and are set out below:

Budget	19/20 budget	20/21 budget	Notes
Mayoral General Budget	£29.1 million	£127.1 million	Increase of £86.7m for Transport Statutory Charge. Increase on Precept of £6.1m for continuation of "Our Pass" pilot, A Bed Every Night and other priorities. Increase of £5m due

			to planned use of reserves
GMCA General Budget	£157.9 million	£209.1 million	The increase in budget relates to government grants, in particular Adult Education which transferred to GMCA part way through 2019/20.
GM Fire and Rescue Service (net as per budget report)	£113.9 million	£112.1 million	Overall decrease in budget due to reduced trf to capital funding reserve. Increase in budget for inflation and reduce savings requirements.
GMCA Transport Revenue Budget	£247.1 million	£242.1 million	Additional grant funding in 2019/20
Police and Crime Commissioner	£589.1 million	£628.9 million	Increase of £30.7m in Police Grant and £10.1m from precept and £1m reduction in collection fund surplus
Capital Budget	£402.8 million	£351.9 million	The capital programme over the three-year period (2020-2023) will require a long-term borrowing of £307.7 million.

GMCA Balances and Reserves

- 3.6 GMCA General Reserves were £45.8m as at 31/03/19 and were at £44.5m as at 31/03/20. Given the current scale of activities falling on the General Budget, the level of General Reserves held is felt to be appropriate. In total the Authority held £500.3m of Usable Reserves as at 31/03/19 which increased to £555.5m as at 31/03/20.

GMCA Cash flow Model

- 3.7 The constitution states that the GMCA must have in place an approved treasury management strategy, investment strategy and the borrowing limits. This includes a scheme of delegation and responsibilities of member groups and officers in relation to treasury management and the role of the Treasurer in relation to treasury management.
- 3.8 Currently the GMCA's Treasury Management functions are operated under a service level agreement by Manchester City Council Treasury Management which reports directly to the GMCA Treasurer. The GMCA uses Link Asset Services as its external treasury management advisors. The GMCA recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.
- 3.9 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The GMCA will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.
- 3.10 The treasury portfolio position for the GMCA is managed at a Group level, including Transport for Greater Manchester (TfGM), which means that the combined cash flows of all the consolidated organisations will be taken into account when investing temporary surplus funds or making arrangements to meet borrowing needs. Each financial year an annual cash flow model is set up that establishes the significant items of income and expense, together with dates of these items. This gives an overview of the potential borrowing or short and long-term investment decisions that may be required. This is then updated on a daily basis and reported to the Treasurer.

4. GMCA STRATEGIC PLANNING AND BUDGET FRAMEWORK

- 4.1 The GMCA budgets form part of the Authority's overall strategic planning framework. They focus on delivery of the priorities of the Greater Manchester Strategy and its implementation plan in partnership with the Districts, businesses, the voluntary and community sector and other stakeholders.

Budget Process

- 4.2 GMCA has in place an annual budget setting process that culminates in the approval of the Budget by the GMCA Board at its meeting in March. The reports during the budget process provide an overview of the proposed GMCA budgets for the following year and subsequent years where appropriate. The reports bring together the position on the Mayoral General Budget and Precept Proposals, the GMCA General Budget, GMCA Transport budgets including Transport Levy and Statutory Charge and the GM Waste Services Levy. The reports set out the implications of the proposed budgets and the resultant charges on districts and the Mayoral Precept.

- 4.3 The GMCA is required to operate a balanced budget which broadly means that income received during the year will meet expenditure. Quarterly budget progress update reports are provided on a quarterly basis to GMCA during the year. The latest 2020/21 position reported to GMCA on 27th November 2020 was an overall underspend of £4.003m relates to the position on GMFRS.
- 4.4 Work on the GMFRS Programme for Change (which is reviewing the Fire Service ways of working to ensure that they are efficient and sufficiently future proofed) is ongoing with a number of changes made to the Outline Business Case during 2019/20. While these changes resulted in the level of savings that had originally been identified, particularly retaining current crewing levels and maintaining firefighter numbers, this has been offset by an increase in the Mayoral Precept to ensure a balanced and sustainable financial position.

Treasury Management

- 4.5 In 2018 CIPFA published both an updated Prudential Code and Treasury Management Code, the key change of which came into force for 2019-20 with the introduction of a formally reported capital strategy to provide full council (or equivalent) with a concise, accessible view of the authority's approach to borrowing, investment and treasury management, with a focus on risk management, this underpins the Authority's position in regards to the level of risk it is willing to take in the management of its Funds and is therefore key to GMCA's strategic planning process.
- 4.6 The GMCA has a Capital Strategy which provides the medium to long term context in which capital investment decisions are made and the governance for those decisions. It also gives a summary of the GMCA approach to investments and the Treasury Management Strategy and the Treasury Management Strategy Statement for 2020/21

4. REGULATORY AND CONTROL

- 4.1 The Annual Governance Statement sets out the detailed arrangements within GMCA.

Governance Arrangements

- 4.2 The GMCA's corporate governance structures and scrutiny arrangements ensure that they are sufficient to meet the expanding role of GMCA and the delivery of its core functions and services. GMCA has established a number of boards, panels and committees including three Corporate Overview and Scrutiny Committees which receive regular reports on transport, housing, economy and investment matters. The Authority has the statutory posts of Head of Paid Service, Monitoring Officer and the Treasurer (Chief Financial Officer) who form part of the Senior Management Team in addition to the current political arrangements.
- 4.3 An overview of this governance framework is provided within the GMCA Annual Governance Statement and Code of Corporate Governance 2019/20. This includes a detailed review of

the effectiveness of the council's governance arrangements which concludes that the existing arrangements remain fit for purposes and provides assurance of their effectiveness. The Authority is required to operate within a highly legislated and controlled environment and particular emphasis of this can be exemplified and demonstrated with the financial controls in place. Examples of controls include the requirement of Full Authority to approve a balanced annual budget, but within that to consider and have regard via assurance from the Treasurer as to the robustness of the budget, its estimates and the adequacy of reserves held.

- 4.4 The control environment is supported by the role of External Audit in auditing of the financial statements, the review of value for money and financial resilience and Internal Audit in reviewing controls and processes across the Authority.

5. ECONOMIC CLIMATE

- 5.1 The Covid-19 Pandemic continues to have a significant economic impact on GM residents, businesses and public services. A detailed review of the impact of the pandemic on Greater Manchester has been led by GMCA with the latest assessment of the estimated financial impact reported to GMCA on a regular basis since May 2020. Within GMCA the response to the pandemic is led by the Strategic Coordinating Group (SCG) chaired by the Chief Executive and Chief Constable and Covid-19 Committee chaired by the Mayor.

- 5.2 Work has been ongoing since the start of the pandemic with a sub group of Treasurers looking at ways to mitigate financial impact through joint work across GM which includes:

- Maintenance of accurate record of Covid-19 related expenditure incurred and forecast including recovery costs
- Lobbying of central government for funding of all Covid-19 costs
- Ensuring all recovery activities are appropriately costed and financed
- Developing opportunities for financial recovery working across GM and within districts
- Reviewing existing pre-Covid-19 investment priorities to determine whether these are still applicable in the short to medium term world but also identifying new priorities which may have emerged
- Support other recovery activities where appropriate

- 5.3 Financial update reports to GMCA have provided a detailed analysis of areas affected by the pandemic with an analysis of the most significant direct financial implications for the GMCA, this includes GM Waste Disposal, Retained Business Rates and Transport, particularly TfGM. These reports have provided an analysis of government financial support throughout the pandemic and a review of the local impact on resources to agree measures for managing financial risk across GMCA and GM districts.

- 5.4 In order to maintain continuity and stability with key providers and contractors GMCA has put in place measures which align to the principles of the Government's emergency policy advice set out in the Procurement Policy Note (PPN) – Supplier Relief due to Covid-19. It applies to goods, services and works contracts being delivered in the UK and was effective until 30th June 2020 and applicable to all contracting authorities. GMCA is reviewing the

interim arrangements every quarter with the view to returning to the original contracting arrangements as soon as deemed reasonable.

- 5.5 There is potential slippage on capital programmes which could lead to risks where time limited grants are a funding source. Whilst GMCA is seeking maximum flexibility from Government, work is ongoing to review the position on this and determine mitigating action where necessary.
- 5.6 Housing and Business loans funds are being reviewed for risk of default. No new business investment applications are being progressed in the immediate term whilst the impact of Covid-19 is being determined and businesses are being directed to the government interventions. The criteria for housing investments is in the process of being reassessed in order to decrease the risk of losses to the fund. Most housing developments are back on site but delays in planned completion are expected.
- 5.7 The GMCA general budget will be impacted by a detrimental impact on Business Rates growth for 2020/21 which will potentially remove the 50% element subsequently retained by the CA. In addition there is likely to be a deficit on Local Authority collection funds and a reduction in the overall Council Tax base which will reduce income from GMFRS, Mayoral and PCC precepts in cash terms from 2021/22. Police and Fire and Rescue have incurred additional costs for overtime and personal protective equipment which has largely been met from additional funding.
- 5.8 As part of the Government's 'Build, Build, Build' series of announcements and Covid-19 recovery plan, the GMCA has received allocations from Government for the Brownfield Land Fund (BLF) with an initial allocation of £81m over a five year period and Getting Building Fund of £54m.
- 5.9 The outcome of the 2020 Spending Review for GMCA will be reflected in budget process for 2021/22. Whilst the delay in the Comprehensive Spending Review removes the benefit of certainty of funding for 2022/23 and beyond, at this stage there are no significant new risks that have become apparent. The GMCA are leading on submissions to government for Greater Manchester to influence the outcome of the March 2021 Budget and the 2021 Spending Review.

6. TRANSPORT

- 6.1 The pandemic has had a significant impact on the finances of TfGM. This includes, in particular, on passenger revenue from Metrolink, which was significantly adversely impacted during the first national lockdown and continues to be materially below budgeted levels. As a consequence, and alongside exploring all opportunities to minimise its expenditure, TfGM has worked with the Department for Transport (DfT) to secure financial support to alleviate the financial impact of Covid-19 on TfGM. TfGM has received support through 'Covid-19 Light Rail Revenue Grant' which, to date, is providing funding for the period to 31 March 2021 and which has largely mitigated the shortfalls in net revenues

over this period. Discussions are ongoing in relation to further funding beyond the end of this period however, to date, no firm commitment has been made.

- 6.2 TfGM has also suffered reduced levels of income and additional costs in other areas of activity, including loss of bus service related incomes and loss of commercial revenues. Government support has been received to alleviate the loss of revenues for the period to 31 March 2021, with commitment in the Spending Review to continue funding to in 2021/22 for bus services.
- 6.3 In the case of Metrolink, despite the funding received to date and agreed through to 31 March 2021, the uncertainties over funding for future periods cast significant doubt over TfGM's ability both to continue operating the level of services currently provided and to continue to contribute to GMCA's financing costs in line with the required funding profile.
- 6.4 TfGM performed a review of the cashflow projections for a period of 12 months after the date of the signing of the financial statements, to support the preparation of the Accounts on the 'Going Concern' basis. The conclusion of this review was that there is a material uncertainty regarding the ongoing level of Metrolink revenues and the level of funding that will be received. Notwithstanding this, on the basis of the cashflow forecasts prepared and the current levels of available cash and reserves, the TfGM Executive Board considered that it remains appropriate to prepare the Accounts on the 'Going Concern' basis.
- 6.5 Following the implementation of the national lockdown in January 2021 Metrolink revenues have reduced to c15% of pre-pandemic levels. For the period through to 31 March 2021 this does not impact the financial position as there is sufficient DfT funding available to absorb the additional shortfall in income. However for the period from 1st April 2021 there is an impact due to the longer period with lower revenues, which are not mitigated in full by a confirmed DfT grant.
- 6.6 A worst case scenario would be no DfT grant from 1st April 2021 and 25% of pre-pandemic revenues for the period April 2021 to January 2022 and 50% from February 2022 to July 2022. This would lead to a TfGM negative reserve position of £55m, which could be met from the GMCA Capital Financing Reserve. The reserves would need to be replenished from revenue funding in future years or a re-financing of the debt for Metrolink to manage the long term impact. It is concluded that the risk for the next 12-18 months is manageable in the context of the mitigations which would be possible and the reserves balance held.

7. CONCLUSION

- 7.1 The assessment of the GMCA's status as a "going concern" for the purposes of the Statement of Accounts 2019/20 demonstrates that the Authority is performing effectively and is in a strong position to respond to the current and emerging challenges and risks and there is no material risk to going concern for the next 12-18 months.