

Date: 12 February 2021

Subject: Budget Paper C - GMCA Transport Revenue Budget 2021/22

Report of: Cllr David Molyneux, Portfolio Holder - Resources
Steve Wilson, Treasurer to GMCA

PURPOSE OF REPORT

The report sets out the transport related Greater Manchester Combined Authority (GMCA) budget for 2021/22. The proposed Transport Levy to be approved for 2021/22 is included within the report together with the consequent allocations to the District Councils of Greater Manchester.

RECOMMENDATIONS:

The GMCA is recommended to:

1. Note the issues which are affecting the 2021/22 transport budgets as detailed in the report;
2. Approve the GMCA budget relating to transport functions funded through the levy, as set out in this report for 2021/22;
3. Approve a Transport Levy on the District Councils in 2021/22 of £105.773 million, apportioned on the basis of mid-year population 2019;
4. Approve a Statutory Charge of £86.7 million to District Councils in 2021/22 as set out in Part 4 of the Transport Order, apportioned on the basis of mid-year population 2019;
5. Approve the use of reserves in 2020/21 and 2021/22 as detailed in section 5;
6. Delegate authority to the GMCA Treasurer, in conjunction with the TfGM Finance and Corporate Services Director, to make the necessary adjustments between capital funding and revenue reserves to ensure the correct accounting treatment for the planned revenue spend on the following schemes:
 - GMIP development costs of up to £7 million from the second tranche of the Transforming Cities Fund (TCF2);
 - Mayors Challenge Fund programme costs of up to £1.5 million; and
 - Clean Air Plan Delivery costs of up to £2.2 million

- 7 Note that the funding position on Bus Reform remains as that set out in the report to GMCA on 27 November 2020;
- 8 Endorse the proposal to increase fares by Retail Price Index (RPI) where applicable and the increases proposed to Bus Stop closure charges.

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Equalities Implications: N/A

Climate Change Impact Assessment and Mitigation Measures: N/A

Risk Management – An assessment of major budget risks faced by the authority are carried out quarterly as part of the reporting process – no risks have been identified in this quarter. For risk management in relation to budget setting, please refer to section 6 of the report.

Legal Considerations – There are no specific legal implications with regards to the 2020/21 budget update, however please refer to section 6 of the report for budget setting considerations.

Financial Consequences – Revenue – The report sets out the proposed budget for 2020/21.

Financial Consequences – Capital – There are no specific capital considerations contained within the report, however the revenue budget contains resources to meet the capital costs of the authority. Changes in the capital programme can affect the budget to meet these costs.

BACKGROUND PAPERS:

Report to Greater Manchester Combined Authority: ‘GMCA Revenue Update 2020/21’ 25 September 2020.

Report to Greater Manchester Combined Authority: ‘GMCA Revenue Update 2020/21’ 27 November 2020.

Report to Greater Manchester Combined Authority: ‘Covid-19 Impact on Bus Franchising Report and Consultation 27 November 2020.

Report to Greater Manchester Combined Authority: ‘Mayoral General Budget and Precept’ 14 February 2020.

Report to Greater Manchester Combined Authority: ‘Transport Revenue Budget’ 14 February 2020.

Report to Greater Manchester Combined Authority: 'GMCA Revenue General Budget' 14 February 2020.

| | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|-----|
| TRACKING/PROCESS | | |
| Does this report relate to a major strategic decision, as set out in the GMCA Constitution | | Yes |
| 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? | | N/A |
| GM Transport Committee | Overview & Scrutiny Committee | |
| N/A | 9 th February 2021 | |

1 INTRODUCTION

- 1.1 The report provides details of the proposed budget, including Mayoral funded functions as they relate to Transport for 2021/22.
- 1.2 The allocation to District Councils in relation to the Transport Levy and Transport Statutory Charge is set out in paragraph 3.5 of the report.
- 1.3 Part 4 of the Transport Order laid before Parliament in April 2019 provides that some £86.7m of funding will be provided to the Mayor by way of a 'statutory charge', in respect of costs that were previously met from the levy.
- 1.4 The Authority's legal obligations and the responsibility of the Treasurer to the Combined Authority are also set out in more detail later in the report.

2 TRANSPORT REVENUE BUDGET 2021/22

- 2.1 The proposed Transport budget for 2021/22 is summarised in the table below:

| Transport Budget | Approved Budget 2020/21 £'000 | Proposed Budget 2021/22 £'000 | Change |
|--------------------------------------|--------------------------------------------------|--------------------------------------------------|---------------|
| Resources Available: | | | |
| Transport Levy | 105,773 | 105,773 | 0 |
| Statutory Charge | 86,700 | 86,700 | 0 |
| Mayoral General Precept | 17,050 | 17,050 | 0 |
| Mayoral Capacity Grant | 550 | 0 | (550) |
| Government Grants | 20,243 | 24,693 | 4,450 |
| External Income | 850 | 850 | 0 |
| Contrib. from Reserves | 10,923 | 11,360 | 437 |
| Total Resources | 242,089 | 246,426 | 4,337 |
| Calls on Resources: | | | |
| Gross Grant to TfGM | 138,322 | 138,322 | 0 |
| TfGM Funded Finance Costs | (13,419) | (13,419) | 0 |
| Grant Paid to TfGM | 124,903 | 124,903 | 0 |
| Other Grants | 12,429 | 11,785 | (644) |
| Scheme Development Costs | 500 | 0 | (500) |
| 16-18 Concessionary | 16,200 | 16,200 | 0 |
| Bus Reform | 4,750 | 4,250 | (500) |
| Care Leavers | 550 | 550 | 0 |
| GMCA Traffic Signals | 3,822 | 3,822 | 0 |
| Capital Financing Costs | | | |
| - Levy Funded | 52,904 | 52,904 | 0 |
| - GMCA Funded from Reserves/Revenues | 7,108 | 11,558 | 4,450 |
| - TfGM Funded from Reserves/Revenues | 15,029 | 16,552 | 1,523 |
| - TfGM Funded from Efficiencies | 2,919 | 2,927 | 7 |
| GMCA Corporate Core Costs | 975 | 975 | 0 |
| Total Call on Resources | 242,089 | 246,426 | 4,337 |

2.2 Within Government Grants in the table above is £11.593m of Earnback funding which is budgeted to be used to fund Trafford Metrolink Capital Financing Costs (£11.558m) and the costs of the Cycling and Walking Commissioner (£35k).

3 PROPOSED GMCA TRANSPORT LEVY AND MAYORAL STATUTORY CHARGE 2021/22

3.1 Following the 'Transport Order' which was laid before Parliament in April 2019, the funding for transport functions has now been split between the Transport Levy and a Statutory Charge.

3.2 It is proposed that the Transport Levy for 2021/22 will be set at £105.773m and the Statutory Charge be set at £86.7 million, a total of £192.473m which is unchanged from 2020/21.

3.3 The Transport Levy and Statutory Charge is distributed across the Districts based on mid-year 2019 population. An analysis of amounts payable by each District Council in 2021/22 is shown in the table below.

3.4 As was the case in 2020/21, in addition to the Transport Levy, it is anticipated that earmarked reserves will be utilised to fund a number of other activities. These additional activities are set out in Section 5.

Proposed GMCA Transport Levy and Statutory Charge 2021/22 per District

3.5 The table below details both the Transport Levy and the Statutory Charge per district;

| District | 2021/22 Transport Levy £000 | 2021/22 Statutory Charge £000 | 2021/22 Total Charge £000 |
|--------------|--------------------------------------|----------------------------------------|------------------------------------|
| Bolton | 10,726 | 8,792 | 19,518 |
| Bury | 7,124 | 5,839 | 12,964 |
| Manchester | 20,622 | 16,903 | 37,525 |
| Oldham | 8,844 | 7,250 | 16,094 |
| Rochdale | 8,296 | 6,800 | 15,096 |
| Salford | 9,655 | 7,914 | 17,568 |
| Stockport | 10,945 | 8,971 | 19,916 |
| Tameside | 8,448 | 6,925 | 15,373 |
| Trafford | 8,853 | 7,257 | 16,110 |
| Wigan | 12,259 | 10,049 | 22,308 |
| Total | 105,773 | 86,700 | 192,473 |

3.6 In addition to the Transport Levy and Statutory Charge, it is anticipated that earmarked reserves and Earnback grant will be utilised to fund certain capital financing costs and other devolution and scheme development related costs for 2021/22.

4 TfGM BUDGET STRATEGY 2020/21

- 4.1 The budget presented relates to the TfGM element of the Transport budgets.
- 4.2 As in previous years there are a number of additional activities that TfGM is delivering on behalf of GMCA and the Mayor. The main activities in this regard along with a forecast of the proposed funding in 2021/22 are set out below.

Bus Reform

- 4.3 A report was presented to GMCA in November 2020 which considered the Covid-19 Impact on the Bus Franchising Assessment which was prepared by TfGM on behalf of the GMCA. That report considered the potential impact and effects of Covid-19 on the bus market in Greater Manchester and how they may affect the key conclusions of the assessment of the proposed bus franchising scheme and the recommendations made that franchising is the best option for reforming the bus market in Greater Manchester.
- 4.4 This report made several recommendations, including that the GMCA agree to undertake a public consultation in respect of the Covid-19 Impact on Bus Franchising Report, between 2 December 2020 and 29 January 2021. The position in relation to the funding for Bus Reform is unchanged from that presented in the November 2020 report.
- 4.5 The Mayoral General Budget includes an estimated sum of £4.250m for the costs of Bus Reform in 2021/22. However, if a decision is taken by the Mayor to introduce bus franchising a further report will be brought to GMCA for approval of the proposed expenditure and funding arrangements to support the implementation of that decision.

Greater Manchester Infrastructure Programme (GMIP)

- 4.6 At its meeting on 29 January 2021, GMCA approved, for adoption and publication, the revised Greater Manchester Transport Strategy 2040 and the final version of the Five-Year Transport Delivery Plan (2021-2026) as a statement of what GM plans to achieve in the next five years through transport investment and reforms, in support of Our Network and the 2040 Transport Vision.
- 4.7 TfGM and the 10 Local Authorities are working to use the interventions identified within the Delivery Plan to continue to develop a pipeline of transport infrastructure to support GM's priorities of sustainable growth as part of the wider GMIP. The programme will cover reviews of prioritisation, approvals and delivery models to ensure that the scheme development activity is focused on effective, value for money delivery of interventions that support GM's placed-based and decarbonisation priorities. In 2021/22, specific transport scheme development activity will focus on responding to the funding opportunities announced in Spending Review 2020, particularly the Intra-City Transport Fund for which government have indicative development funding will be available in 2021/22 and preparing for the multi-year Spending Review expected later this year.

- 4.8 The Budget report presented to GMCA in February 2020 noted a potential investment of £10m in 2020/21 to support the development of GMIP. The priorities for 2020/21 included scheme development for early delivery of infrastructure to support fiscal stimulus objectives; developing solutions that assist in the viability of the Existing Land Surplus element of the GMSF; in formulating GM's response to the Integrated Rail Plan, including HS2 and supporting the delivery of Our Network.
- 4.9 Recognising the pressures on Local Authority funding, it was agreed to progress the work, but rather than funding from retained business rates, it was proposed and agreed to fund the costs from a 'top slice' of up to 10%, which would equate to c. £7 million, from the previously announced £69.7 million of 'Transforming Cities Fund 2' ('TCF2').
- 4.10 The forecast spend for 2020/21 is estimated to outturn at c. £6.3 million. In order to fund the continuation of this work into 2021/22 it is proposed that a further £7 million will be top sliced from the same funding source in 2021/22.
- 4.11 Subject to approval of the proposal above, it is proposed to delegate authority to the GMCA Treasurer, in conjunction with the TfGM Finance and Corporate Services Director, to make the necessary adjustments between capital and revenue reserves to ensure the correct accounting treatment for this planned spend.

Our Pass

- 4.12 The costs of the concession for 16-18s for free travel on bus are funded from the Mayoral budget. The Mayoral General Budget has allowed for extension of the scheme in 2021/22 beyond its initial 2 year pilot period.

TfGM Budget Strategy

- 4.13 The development of the budget strategy for 2021/22 has been subject to discussions with GM local authority Leaders during November and December 2020. It was recognised that the TfGM's budget has been 'managed' within the same funding envelope in recent years by making year on year savings from various incremental ongoing activities. This has been very challenging in the context of the additional activities that TfGM has been requested to deliver, however the 'cash flat' funding position also needs to be considered in the context of the significant funding pressures on the Greater Manchester Authorities, who fund the majority of TfGM's operating budget through the Levy and Statutory Charge.
- 4.14 It was also recognised that the ability for TfGM to continue to make year on year 'incremental' savings to fund ongoing cost pressures over the medium to longer term is limited, in particular in view of the widening range of activities that TfGM has been, and continues to be, requested to deliver.
- 4.15 The development of budget proposals by TfGM with Leaders has included a review of various elements of its service provision and its cost base, including in the context of School Bus services; the provision of Accessible Transport, including the Ring and Ride services; the

delivery of Special Educational Needs transport and reviews of its cost base in the delivery of the services it provides. This work will continue through 2021/22.

Concessionary Support

- 4.16 Since the first lockdown TfGM has, as encouraged by the Department for Transport (DfT), continued to reimburse operators for concessionary reimbursement on the basis of pre-pandemic levels of patronage. The position beyond the current lockdown is currently uncertain as to how long, and to what level, this will need to continue.
- 4.17 For the purposes of the 2021/22 budget therefore it has been assumed that this basis will continue, however discussions will continue with DfT and operators on the ongoing appropriateness of this policy. If any changes to the budget result from this, it will be reported back to GMCA.
- 4.18 A new concessionary travel scheme providing free bus travel for young people aged 16-18 was introduced in 2019/20. The funding for this scheme is part of the Mayoral General Budget as set out at section 4.12 above. It was previously agreed by GMCA that the existing balance on the Concessionary Fares Reserve, which is forecast to remain at c. £7.9 million at 31 March 2021, is retained to fund any risks connected with the 16-18 free bus concession.
- 4.19 'Fixed rate' reimbursement arrangements with the major bus operators are currently in place, all of which expire at 31 March 2021. Discussions are to take place with operators regarding the rates from 1 April 2021, however it is not expected that these will change significantly, if at all, from 1 April given the current circumstances.

Supported Bus Services

- 4.20 In recent years the Supported Services budget has reduced by over 20%. In the main these savings have been delivered from efficiency savings and service reductions rather than service removals. However there have been cuts to some services which have no longer been deemed to represent value for money, in particular in respect to patronage and cost.
- 4.21 Throughout 2020/21 supported services have remained at similar levels to support travel, including for key workers, during the pandemic. However the cost of providing the services is expected to outturn c.£2 million above budget, due to a combination of higher contract costs and lower fares income. These additional net costs have been funded from the delivery of savings in TfGM's wider budget. It is expected that the Supported Services Budget will continue to be under significant pressure during 2021/22 due to a combination of inflationary pressures, lower income and the risk of further commercial de-registrations. Cost pressures have already materialised in procuring contract renewals for April 2021. In addition, currently it has not yet been confirmed whether funding from DfT for lost income, on services where TfGM takes the revenue risk, will continue into 2021/22. Some allowances for these risks have been made in the 2021/22 budget.

- 4.22 During 2020/21 DfT has been providing grant funding to bus operators through its COVID-19 Bus Service Support Grant (CBSSG). This, together with the 'overpayments' on concessionary travel referred at 4.16 above, have offset the substantial reduction in farebox incomes by the bus operators in order for key services to continue. CBSSG funding is currently confirmed by DfT on an ongoing basis subject to an 8 week 'notice period' for its withdrawal, depending on the continuation of social distancing. Supported by this funding bus operators have continued to operate the vast majority of the previously timetabled services. The funding position beyond the current 8 week notice period is currently very uncertain and this represents a significant risk in TfGM's budget for 2021/22.
- 4.23 As noted at 4.15 above, and due to the ongoing wider pressures on TfGM's budgets, during 2021/22 reviews will continue of the delivery of School Bus services; the provision of Accessible Transport, including the Ring and Ride services; and the delivery of Special Educational Needs transport. Where applicable, these reviews will be factored into budget setting for future years.
- 4.24 In February 2020, a £10 annual charge for concessionary pass holders to buy a 'product' to access off peak tram and rail services, was introduced. This was forecast to generate c. £1.25 million of income in a full year and experience to date has been in line with that. Due to the impact of the pandemic, renewal charges for existing product holders are to be deferred for a period, currently until 31 March 2021. To the extent this extends beyond the end of March this will start to impact the 2021/22 budget and, to the extent that there is no external funding available to offset any losses, will mean that additional savings will need to be delivered to compensate for this loss of income.
- 4.25 In 2019/20 the grant to Greater Manchester Accessible Transport Ltd (GMATL) to fund Ring and Ride services increased by £0.3 million to part fund the replacement of up to 31 fleet vehicles which will reach the end of their 'useful economic' life over the next two years. Despite this, significant pressures still existed within the GMATL budget and further efficiency savings have been delivered. In 2020/21, due to the impacts of the pandemic, service reductions have been implemented which have generated a saving in TfGM's budget of c. £0.9 million, due to savings in staff costs and vehicle costs. Due to the ongoing impact of this; and the implementation of a number of efficiency measures, including for example a senior management restructure, it is budgeted that this saving will continue into 2021/22.
- 4.26 In line with recent years, the fares and charges on certain products or services that TfGM sells, including fares on schools' services and Local Link, and Departure Charges, will all be subject to increases in line with inflation, which will be implemented at various dates between April 2021 and January 2022.

Metrolink

- 4.27 As has been reported regularly to GMCA during the year, due to the impact of the pandemic, farebox revenues on Metrolink have been significantly below budget. During the first lockdown in spring 2020 revenues reduced to c. 5% of budgeted levels. After the easing of some restrictions volumes recovered to c. 50% later in 2020, before reducing again to the

current level of c. 15% following the implementation of the current national lockdown. To date, this funding gap has been filled from a combination of efficiency savings where possible and, much more substantially, from a grant from DfT. The grant is currently committed until 31 March 2021 with no funding yet agreed beyond that date.

- 4.28 TfGM has produced a 'Recovery Plan' which sets out the future strategy for the network and the likely requirement for ongoing funding to support its ongoing recovery. The Recovery Plan is currently being considered by DfT and HM Treasury.

Other costs and budget pressures

- 4.29 A number of other budget pressures exist, as follows:
- Costs of supporting the wide and increasing range of additional activities that TfGM has been requested to undertake in recent years;
 - Work to consider the options and potential for future rail reform. No specific allowances have been made for this work in the budget. Any work required, which has been funded by additional budget allowances of up to £0.5 million in previous years, will need to be absorbed into base budgets;
 - Continuing loss of income in a number of areas due to the ongoing impact of the pandemic;
 - Additional COVID-19 related cost pressures, including unfunded project support for GM wide initiatives;
 - Other unfunded project support, including for example Housing Investment Fund and Growth Deal Programme support; and Regional Centre co-ordination;
 - Costs of operating and maintaining an expanding network of traffic signals, with no additional funding for operational costs;
 - Continuing costs required to support the ongoing development of ticketing initiatives. £1.5m is being drawn down from the TfGM Ticketing Reserve to support these costs in 2020/21 and a further drawdown of £1.8 million is proposed in 2021/22 so that the levy is 'protected' from increased required costs in this area; and
 - Impact of inflation on operating costs.
- 4.30 The additional costs and funding pressures on the TfGM budget in 2021/22, including from the matters referred to above, and from increasing pressures on the Supported Bus Services budgets, have added additional cost pressures of c£7.7 million into the base budget for 2021/22. It is proposed that these will need to be offset through the generation of additional savings and efficiencies in operating costs and the generation of additional commercial income. The delivery of savings has been assisted by a voluntary severance programme launched by TfGM late in 2020 and through the launch of the 'Future Ready' programme, which is a programme of work to ensure that TfGM can deliver its outcomes and outputs as effectively and efficiently as possible.
- 4.31 In addition to the key risks referred to in earlier paragraphs above, including in particular the potential withdrawal of DfT funding for Bus and Metrolink services, there are a number of additional risks in a number of other areas impacting the budget including:

- Currently unknown costs for the work connected with completing the development and implementation of plans to address Air Quality. The budget assumption is that these costs will continue to be funded by grants to GMCA from the Joint Air Quality Unit (JAQU); and
- The levels of scheme development funding, in the context of the development aspirations of the Greater Manchester Infrastructure. Despite the £7million of additional funding requested from TCF2 for scheme / pipeline development requested in this report; and the c£50m (to be, but not as yet, allocated across all of the Mayoral Combined Authorities) Intra City Transport Fund (revenue) development funding that was announced in the 2020 Spending Review, there is a risk that this may not be sufficient to develop the pipeline of schemes as quickly as required. This could limit the scale and pace at which these schemes can be developed and place additional cost pressures on TfGM 'core' budgets.

4.32 Considering the above, the proposal is that:

- The Levy will again be subject to a cash 'standstill' for 2021/22, with all cost increases being 'managed' by savings within TfGM's core budgets;
- A proposed release, following approval by GMCA of the prioritisation of TCF2 at its meeting on 29 January 2021 of £7million of funding from TCF2 to fund ongoing Scheme Development costs as part of the development of the Greater Manchester Infrastructure Programme;
- A drawdown of £1.8 million from the Integrated Ticketing Reserve to continue to develop the work around Ticketing initiatives to support recovery
- TfGM fares and departure charges to increase in line with inflation at varying points in 2021/22 as set out in this report; and
- Bus Stop Closure Charges to increase as set out in paragraph 4.42 below.

TfGM Proposed Budget 2021/22

4.33 Based on the proposals above the TfGM budget for 2021/22 would be as follows:

| | 2020/21 Revised Budget £000 | 2021/22 Proposed Budget £000 | Variance £000 |
|--------------------------------------|------------------------------------------------|-------------------------------------------------|--------------------------|
| Resources | | | |
| Levy allocated to TfGM | 36,380 | 36,380 | - |
| Statutory Charge | 86,700 | 86,700 | - |
| Mayoral General budget | 10,250 | 18,650 | 8,400 |
| Rail Grant | 1,900 | 1,900 | - |
| Metrolink funding from revenues | 10,800 | 10,800 | - |
| Clean Air Plan JAQU Grants | 14,700 | 6,500 | (8,200) |
| TCF2 funding for GMIP | 6,300 | 7,000 | 700 |
| Utilisation of other Reserves/Grants | 2,100 | 5,750 | 3,650 |
| Total Revenue | 169,130 | 173,680 | 4,550 |
| Call on Resources | | | |
| Concessionary Support | 70,900 | 77,900 | (7,000) |
| Supported Services | 30,000 | 32,000 | (2,000) |
| Accessible Transport | 3,900 | 3,900 | - |
| Operational Costs | 37,020 | 40,070 | (3,050) |
| Clean air Plan costs | 14,700 | 6,500 | 8,200 |
| GMIP development costs | 6,300 | 7,000 | (700) |
| Financing | 6,310 | 6,310 | - |
| Total Expenditure | 169,130 | 173,680 | (4,550) |
| Surplus/Deficit | - | - | - |

4.34 There are a number of risks to the proposed budget as noted above, including ongoing impact on costs and revenues from COVID-19; increases in supported bus services costs resulting from price increases and bus service deregistrations; the ability to deliver the expanding range of activities within the same budget envelope; and the ability to deliver the remainder of the savings required to balance the budget.

4.35 The main elements of the proposed budget are considered further below.

Resources

4.36 Following Transport Orders being laid in April 2019, the Mayor was given further powers for transport functions, which in relation to TfGM's activities relates to activities associated with

delivery of Bus related activities. As noted in the Mayoral Budget report an assessment has been made in relation to the cost of those functions and it is proposed that £86.7 million is raised via a statutory charge to District Councils, with a corresponding reduction in the Transport Levy. The total level of funding from the Levy/Statutory Charge is budgeted to be the same in 2021/22 compared to 2020/21.

- 4.37 The Mayoral General budget is also funding other costs in 2021/22 which relate to Mayoral functions and which therefore need to be funded from the Mayoral General budget. This includes the costs associated with updating and delivering the Local Transport Plan (LTP) and the costs of the 16-18 Concessionary Travel Scheme. The LTP costs are budgeted to be £3.55 million which is unchanged from 2020/21.
- 4.38 The funding from the DfT Rail grant in 2021/22 is budgeted to remain at the same level and this has recently been confirmed by DfT.
- 4.39 The funding from Metrolink Revenue/Reserves represents the contribution from Metrolink net revenues which are ring fenced to fund the financing costs which are incurred in GMCA. These net revenues are subject to the ongoing funding position as set out at section 4.27 above.
- 4.40 Utilisation of other reserves/funding relates to the proposed drawdown of funding from TCF2 to fund ongoing GMIP development costs and funding from reserves to fund the costs of Bus Reform in 2021/22. The funding included in the budget for Bus Reform will be further updated following a Mayoral decision on Bus Reform.
- 4.41 The funding from other grants is budgeted to reduce which reflects the profile of expenditure on other grant funded activity, including in particular the costs of activities to develop the Clean Air Plan Full Business Case, which are fully funded by grants from the Joint Air Quality Unit. Of the total costs budgeted to be incurred and funded by JAQU in 2021 of £6.5 million, £2.2 million will be funded from capital grants for JAQU and therefore will need to be subject to a capital revenue 'switch'.

Calls on Resources

- 4.42 The concessionary reimbursement budget includes the cost of the English National Concessionary Travel Scheme (ENCTS) and the local Concessionary scheme, including the pilot 16-18 concessionary travel scheme. The ENCTS is a statutory scheme and TfGM cannot mitigate these costs other than seeking to manage its risk by agreeing multi-year 'fixed price' arrangements where appropriate.
- 4.43 The budget for Supported Services for 2020/21 includes some allowance for inflationary cost increases; further de-registrations and loss of income not supported by additional grant income.
- 4.44 The grant payable to GMATL in the proposed budget will be at the same level as the 2020/21 outturn of c. £3.6 million. The Accessible Transport budget also includes the costs of taxi vouchers which is c. £0.3 million.
- 4.45 Operational costs include the costs of operating and maintaining the TfGM owned bus stations, travel shops and other infrastructure, and the costs of support functions.

- 4.46 The budget includes an assumption that Bus Station Departure Charges will increase in line with RPI, by 1p, from April 2021, which represents an increase of c[1.3% and additional income of up to c£40,000. The additional income will be used to partly offset the increasing costs of operating bus stations.
- 4.47 The budget also assumes that the fees applied to utility companies, commercial contractors and developers when temporarily opening and closing bus stops / shelters are increased from £250 to £270 for the first four stops and that the costs thereafter are increased from £70 to £90 per stop. The costs for 'revisiting' a stop are also assumed to increase from £100 to £120.
- 4.48 As in previous years the budget includes very challenging targets for savings in operational and support costs, including from reducing costs. Efficiencies from collaboration with GMCA and the generation of additional commercial income. These are required in order that TfGM can deliver the additional activities requested by GMCA within a standstill budget. As discussed with the Scrutiny Panel, c. £7.7 million of cost savings will need to be delivered in 2021/22 to manage within the standstill budget proposed.

5 RESERVES

- 5.1 An analysis of the forecast and budgeted movements in transport related reserves for 2019/20 and 2021/22 is set out below:

| GMCA Transport Reserves | Actual Balance as at 31-Mar-20 | Transfer (in)/out 2020/21 | Projected Balance as at 31-Mar-21 | Transfer (in)/out 2021/22 | Projected Balance as at 31-Mar-22 |
|------------------------------------------|---------------------------------------|----------------------------------|------------------------------------------|----------------------------------|------------------------------------------|
| <u>Earmarked Revenue Reserves</u> | | | | | |
| Capital Programme Reserve - GMCA | (91,700) | 3,100 | (88,600) | (6,060) | (94,660) |
| Earnback Revenue - GMCA | (10,000) | - | (10,000) | - | (10,000) |
| Integrated Ticketing Reserve - GMCA | (12,500) | 1,500 | (11,000) | 1,800 | (9,200) |
| Revenue Grants Unapplied Reserve - GMCA | (14,800) | 891 | (13,909) | - | (13,909) |
| Concessionary Fares Reserve - TfGM | (7,900) | - | (7,900) | - | (7,900) |
| Property Reserve - TfGM | (11,600) | 1,500 | (10,100) | - | (10,100) |
| Metrolink Reserve - TfGM | (2,100) | - | (2,100) | - | (2,100) |
| Joint Road Safety Group Reserve - TfGM | (4,300) | (200) | (4,500) | - | (4,500) |
| <u>General Revenue Reserves</u> | | | | | |
| General Reserve - TfGM | (5,100) | 2,100 | (3,000) | - | (3,000) |
| General Reserve - GMCA | (1,100) | - | (1,100) | - | (1,100) |
| | (161,100) | 8,891 | (152,209) | (4,260) | (156,469) |

General Reserves

- 5.2 Current good practice states that reserves should be maintained at an appropriate level as determined by a detailed business risk review. The forecast balance on the General Reserve at 31 March 2021 is £4.1 million, which reflects a drawdown of £2.1 million in 2020/21 to fund the costs of voluntary severance.

Capital Programme Reserve

- 5.3 GMCA and TfGM hold certain reserves which are primarily ring-fenced to pay for and manage the risks of delivering their ongoing capital programme. These reserves are revenue reserves and can be used for capital and revenue purposes, including repaying capital and interest on borrowings. TfGM is responsible for delivering a capital programme of public transport investment and infrastructure, which during the period up to 2021 has totalled over £3 billion. The programme includes trebling the size of the Metrolink network, including the Trafford Line extension; the construction of new transport interchanges; the bus priority schemes; rail schemes and the introduction of a smart card to operate across all transport modes. The forecast annual capital expenditure in 2021/22 forecast to be circa £203m.
- 5.4 The current forecast balance on the Capital Programme Reserve at 31 March 2021 is approximately £88.5m. The forecast balance on the Capital Programme Reserve is consistent with the work undertaken in relation to financing costs. There is projected to be significant utilisation of reserves in the next 5-10 years due to combined demands of financing the Capital Programme and costs of future capital scheme development. Specifically for 2021/22 it is anticipated that a net £6m will transfer into the Capital Programme Reserve, to meet future capital financing commitments. The optimum mix of reserves utilisation and borrowings will be determined by the GMCA Treasurer, prior to the closure of the relevant years' accounts.
- 5.5 The long term balance on the Capital Programme Reserve is very sensitive to the ongoing delivery of the planned net revenues from Metrolink and will be under very significant short term pressure if DfT funding for revenues losses during the pandemic is not extended beyond 31 March 2021.

Earnback Revenue Reserve

- 5.8 Earnback reserves are fully ringfenced for the costs of Bus Reform, as referenced in recent presentations on Bus Reform financing.

Integrated Ticketing Reserve

- 5.9 The Integrated Ticketing Reserve had a balance of £12.5m on 31 March 2020. The reserve will be used over a period of time to contribute towards the development and delivery of integrated, including smart, ticketing schemes. Planned use of the reserve is £1.5m in 2020/21 and £1.8m in 2021/22 which would reduce the balance at 31st March 2022 to £9.2m

Revenue Grants Unapplied Reserve

- 5.6 This relates to grants received ahead of expenditure, with the largest grant of £14.2m being in relation to Clean Air plan funding.

Concessionary Fares Reserve

- 5.7 A reserve is held to cover specific costs and manage various risks including:
- costs of fixed deal arrangements with the larger bus operators;
 - forecast costs of reimbursing other operators;
 - costs of renewing existing National Concessionary Travel Passes (cards only valid for five years); these costs were funded by central government when introduced in April 2008; and
 - other costs including concessionary travel data collection and 'smart' related costs, which would otherwise be funded from the Levy;
 - the costs of new, or extensions to, existing concessions, to the extent that they can't be managed within the 'core' budget, including in particular the 16-18 travel concession and Women's Concessionary Travel Scheme.

Property Reserve

- 5.8 The Property Reserve has been generated from the disposal of a number of historic surplus assets and is being used to fund the depreciation costs of the TfGM Head Office. The remaining balance will be applied to match the depreciation charges.

Metrolink Reserves

- 5.9 TfGM Metrolink reserves relates largely to historic reserves which have been retained for specific purposes. The balance will be used, to fund the capital financing costs for the capital programme, in line with the approved financial strategy.

Joint Road Safety Group Reserve

- 5.10 The Greater Manchester Joint Road Safety Group operates as part of TfGM. The forecast and budgeted movements represent the net income generated from the delivery of driver improvement training offset by the cost of investments in road safety schemes.

6. LEGAL ISSUES

- 6.1 In coming to decisions in relation to the revenue budget the Authority has various legal and fiduciary duties. The amount of the transport levy and statutory charge must be sufficient to meet the Authority's legal and financial commitments, ensure the proper discharge of its statutory duties and lead to a balanced budget.
- 6.2 In exercising its fiduciary duty the Authority should be satisfied that the proposals put forward are a prudent use of the Authority's resources in both the short and long term and that they

are acting in good faith for the benefit of the community whilst complying with all statutory duties.

Duties of the Treasurer (Chief Finance Officer)

- 6.3 The Local Government Finance Act 2003 requires the Chief Finance Officer to report to the Authority on the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. The Authority has a statutory duty to have regard to the CFOs report when making decisions about the calculations.
- 6.4 Section 28 of the Local Government Act 2003 imposes a statutory duty on the Authority to monitor during the financial year its expenditure and income against the budget calculations. If the monitoring establishes that the budgetary situation has deteriorated, the Authority must take such action as it considers necessary to deal with the situation. This might include, for instance, action to reduce spending in the rest of the year, or to increase income, or to finance the shortfall from reserves.
- 6.5 Under Section 114 of the Local Government Finance Act 1988, where it appears to the Chief Finance Officer that the expenditure of the GMCA incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure, the Chief Finance Officer has a duty to make a report to the Authority.
- 6.6 The report must be sent to the Authority's External Auditor and every member of the Authority and the Authority must consider the report within 21 days at a meeting where it must decide whether it agrees or disagrees with the views contained in the report and what action (if any) it proposes to take in consequence of it. In the intervening period between the sending of the report and the meeting which considers it, the authority is prohibited from entering into any new agreement which may involve the incurring of expenditure (at any time) by the authority, except in certain limited circumstances where expenditure can be authorised by the Chief Finance Officer. Failure to take appropriate action in response to such a report may lead to the intervention of the Authority's Auditor.

Reasonableness

- 6.7 The Authority has a duty to act reasonably taking into account all relevant considerations and not considering anything which is irrelevant. This Report sets out the proposals from which members can consider the risks and the arrangements for mitigation set out below.

Risks and Mitigation

- 6.8 The Treasurer has examined the major assumptions used within the budget calculations and considers that they are prudent, based on the best information currently available. A risk assessment of the main budget headings for which the GMCA will be responsible has been undertaken and the key risk identified are as follows;

- 6.9 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.
- 6.10 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, and whilst there was a commitment in the Spending Review to continue funding in 2021/22 for bus services, the position beyond 31 March 2021 remains uncertain.
- 6.11 A downside 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.
- 6.12 For anticipated borrowings current market interest rate forecasts have been used. While these costs have been budgeted, there remains a risk that until the costs are fixed actual costs may exceed budget. This risk is mitigated by the specific Capital Programme Reserve.
- 6.13 The budgets for 2021/22 include potential pressure areas, particularly within the TfGM controlled budgets. The budgets are however considered achievable and will be monitored against budget on a regular basis.
- 6.14 The complex nature of the significant capital developments being undertaken to enhance and extend the transport network is another key risk area. Whilst these projects and programmes are subject to rigorous management and governance arrangements and each contains an appropriate level of risk allowance and contingency, there remains an inherent financial risk with any project or programme of this size.

7. **RECOMMENDATIONS**

- 7.1 Detailed recommendations appear at the front of this report.