

Date: 27<sup>th</sup> August 2021  
Subject: Assessment of Going Concern Statement  
Report of: Steve Wilson, GMCA Treasurer

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## **PURPOSE OF REPORT**

Further to the report to Audit Committee in January 2021 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

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## **BACKGROUND PAPERS:**

- Greater Manchester Combined Authority – COVID-19 update reports:
  - 29<sup>th</sup> May 2020 - Financial Update
  - 24<sup>th</sup> June 2020 - Financial Implications of COVID-19 Across Greater Manchester Authorities
  - 31<sup>st</sup> July 2020 - GMCA COVID-19 Finances and Reserves
  - 25<sup>th</sup> Sept 2020 – GMCA COVID-19 Finances Update

- 27<sup>th</sup> Nov 2020 – GMCA COVID-19 Finances Update 2020/21
- Audit Committee, 22<sup>nd</sup> January 2021 – GMCA Assessment of Going Concern Statement
- Greater Manchester Combined Authority 12<sup>th</sup> February 2021 - GMCA Revenue and Capital Budgets 2021/22

<b>TRACKING/PROCESS</b>		[All sections to be completed]
Does this report relate to a major strategic decision, as set out in the GMCA Constitution		No
<b>EXEMPTION FROM CALL IN</b>		
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 January 2021 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.
- 1.2 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.
- 1.3 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 (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 position
  - GMCA's strategic planning and budget framework
  - The regulatory and control environment applicable to the GMCA as a local authority.
  - Economic climate reflecting impact of COVID-19

## 3. GMCA FINANCIAL POSITION

- 3.1 The revenue outturn for the year ending 31 March 2021 is categorised across defined areas of the authority. All areas remained within the approved budget in 2020/21, supported by government grants for the COVID-19 pandemic. The position is shown in the table below:

Summary 2020/21	Approved Budget			Outturn			Variance		
	Exp	Income	Total	Exp	Income	Total	Exp	Income	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Mayoral Budget	127,072	-127,072	0	123,774	-123,774	0	-3,298	3,298	0
GMCA General	209,115	-209,115	0	209,115	-209,115	0	0	0	0
GMFRS	109,245	-109,245	0	109,054	-109,531	-477	-191	-286	-477
Waste	167,242	-167,242	0	167,242	-167,242	0	0	0	0
Transport	242,089	-242,089	0	236,842	-236,842	0	-5,247	5,247	0
Police Fund	645,106	-645,106	0	665,899	-666,106	-207	-20,793	21,000	-207
<u>Memorandum</u>									
TfGM	170,430	-170,430	0	168,367	-168,367	0	-2,063	2,063	0

- 3.2 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 2020/21 was £420.3m compared to forecast for 2020/21 presented to GMCA on 12 February 2021 of £427.6m. The Police Fund capital programme is recorded separately in accordance with legislation and was a further £16.8m of spend in 2020/21 compared to forecast in February 2021 of £17.9m.

### **Budget 2021/22**

- 3.3 The 2020 Spending Review provided a one year settlement for the GMCA functions in 2021/22. The GMCA budgets were approved by GMCA on the 12 February 2021 and Police and Crime Commissioner precept agreed by Police and Crime Panel on 29<sup>th</sup> January 2021 with revenue budgets summarised below:

<b>Budget</b>	<b>20/21 budget</b>	<b>21/22 budget</b>
Mayoral General Budget	£127.1 million	£126.8 million
GMCA General Budget	£209.1 million	£224 million
GM Fire and Rescue Service (net as per budget report)	£109.2 million	£110.6 million
GMCA Transport Revenue Budget	£242.1 million	£246.4 million
Waste	£167.2 million	£162.4 million
Police and Crime Commissioner	£645.1 million	£674.4 million

- 3.4 The 2021/22 Mayoral General revenue budget of £126.8m includes funding from the transport statutory charge on GM local authorities and the council tax precept which was unchanged from 2020/21. The 2021/22 budget included the continuation of priorities such as 'A Bed Every Night' scheme, the 'Opportunity Pass' scheme and preparation for a decision on Bus Reform.
- 3.5 The 2021/22 GMCA revenue budget 2021/22 of £224m includes the core costs of the authority and its central programmes funded from the following sources:
- GM local authority contributions of £8.6m to the core running costs of GMCA, this reflects a reduction of £437k compared to contribution for 2020/21. Included in this is £3.3m cultural funding and £1.4m for MIDAS and Marketing Manchester.
  - Central government grants of £153m including £94m funding for Adult Education;
  - The 2021/22 budget reflects the decisions made by the GMCA at the meeting on 27<sup>th</sup> November 2020 on use of planned investment of the remaining Business Rates reserve held by GMCA of £25m;
  - Funding from reserves, other income sources and recharges of £39m.

- 3.6 The GM Fire and Rescue Service budget for 2021/22 of £110.6m reflects government funding and the council tax precept unchanged from 2020/21. GMFRS Programme for Change (PfC) which commenced in April 2018 to design and implement a new target operating model to refocus on core functions and improve frontline service delivery. PfC was formally closed from the end of March 2021 with transition to a new improvement programme from April 2021. Efficiencies savings from PfC of £5.8m were delivered to end of March 2021 with further savings of £1.4m to be delivered in 2021/22.
- 3.7 The funding for core Transport Revenue Budget remained unchanged for 2021/22 with the levy and statutory charge on GM Councils remaining at the same overall cash level as 2020/21. The financial impact of COVID-19 has been reflected TfGM's 2021/22 budget including loss of farebox revenue, higher operational costs and support for pandemic. The 2021/22 budget maximises income from available grants and makes savings in the TfGM cost base, whilst ensuring capacity to deliver on priority programmes of work.
- 3.8 The 2021/22 Police and Crime Commissioner total revenue budget is £674.4m. For 2021/22 the Government grant for police included an additional £23.9 million for Greater Manchester Police. The grant funding increase was expected to deliver the second year of the national expansion programme of 20,000 police officers over three years, which equates to 325 in 2021/22 across Greater Manchester, plus 16 to support the Regional Organised Crime Unit (ROCU). Following consultation, a precept increase of £10 to the current band D precept was supported by the Police and Crime Panel. This was a reduced precept compared to the maximum of £15 included as part of the 2020 Spending Review.
- 3.9 The waste budget for 2021/22 is funded from a levy on for the nine GM local authorities who are part of the GM waste contract. The levy requirement for 2021/22 of £162.4m represents an average 2.9% decrease over 2020/21.
- 3.10 GMCA capital programme for 2020-2024 includes Economic Development and Regeneration programmes, Waste and the continuation of the programme of activity currently being delivered by GMCA, Transport for Greater Manchester and Local Authorities. The capital programme over the three year period (2021-2024) requires long term borrowing requirement of £342.5m. Provision has been made in the revenue budgets for the associated financing costs.

### **GMCA Balances and Reserves**

- 3.11 GMCA General Reserves were £44.5m as at 31/03/20 and were at £45.1m as at 31/03/21. 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 £519.1m of Usable Reserves as at 31/03/21 compared to £555.5m at 31/03/20. The major change in earmarked reserves relates to use of Business Rates Retention where reserves of £55m have been applied to meet priorities agreed with GMCA in 2020/21.

### **GMCA Cash flow Model**

- 3.12 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.
- 3.13 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, the treasury advisers.

- 3.14 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.
- 3.15 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 GM local authorities, 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 at its meeting in February. 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 GM local authorities 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.

##### **Treasury Management**

- 4.4 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.
- 4.5 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.

## **5. REGULATORY AND CONTROL**

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

### **Governance Arrangements**

5.2 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.

5.3 An overview of this governance framework is provided within the GMCA Annual Governance Statement and Code of Corporate Governance 2020/21. 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.

5.4 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.

## **6. ECONOMIC CLIMATE**

6.1 The COVID-19 pandemic continues to have a significant economic impact on GM residents, businesses and public services. Regular financial update reports to GMCA have been provided throughout 2020/21 with a detailed analysis of areas affected, an analysis of government financial support and a review of the local impact on resources with agreement for managing financial risk across GMCA and GM Councils. Where appropriate this has been reflected in the approved budgets for 2021/22 as set out in section 3 above.

6.2 The pandemic has had a significant impact on the finances of TfGM. In particular this includes passenger revenue from Metrolink. Patronage fell to circa 5% of pre pandemic levels in the first lockdown before recovering back to circa 50% and then reducing again in subsequent lockdowns. Current Metrolink patronage is circa 45%. Funding has been provided during 2020/21 by Department for Transport (DfT) to support the loss in farebox revenues and to enable the continued operation of these essential services which, along with the other modes, have been key to providing transport to key workers.

6.3 Although patronage and revenues have started to recover, farebox income is still well below pre pandemic levels. The Government has recently confirmed funding up to 5<sup>th</sup> April 2022 and it is estimated by TfGM that this would leave a shortfall compared to estimated farebox income in 2021/22 of c£5m. There are ongoing discussions with DfT on options to meet the shortfall in 2021/22 and the position beyond April 2022 for ongoing revenue and capital funding. TfGM has been developing a recovery plan for Metrolink, as part of supporting the

development of the future funding strategy and to support the discussions with government on ongoing funding for Metrolink.

- 6.4 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. DfT has been providing grant funding to bus operators throughout the pandemic through its COVID-19 Bus Service Support Grant (CBSSG) which will come to an end in August 2021. Funding for the period September 2021 to March 2022 will be through the Bus Recovery and Maintenance Grant, with Bus Service Improvement Plan funding being in place from April 2022.
- 6.5 TfGM performed a review of the cashflow projections and reserves to support the preparation of the accounts on the 'Going Concern' basis. 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 2020/21 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.