

GREATER MANCHESTER COMBINED AUTHORITY

Date: 11 February 2022

Subject: Budget Paper C - GMCA Transport Revenue Budget 2022/23

Report of: Cllr David Molyneux, Portfolio Leader for Resources and Steve Wilson,
Treasurer to GMCA

PURPOSE OF REPORT

The report sets out the transport related Greater Manchester Combined Authority (GMCA) budget for 2022/23. The proposed Transport Levy to be approved for 2022/23 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 2022/23 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 2022/23.
3. Approve a Transport Levy on the District Councils in 2022/23 of £105.773 million, apportioned on the basis of mid-year population 2020.

4. Approve a Statutory Charge of £86.7 million to District Councils in 2022/23 as set out in Part 4 of the Transport Order, apportioned on the basis of mid-year population 2020.
5. 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 for following schemes detailed in paragraph 4.36:
 - Mayors Challenge Fund 2022/23 project and programme management costs of up to £1.9 million;
 - Active Travel Fund (Round 2) £0.25 million of revenue funding for associated programme management and assurance costs.
6. Approve the proposal to increase fees and charges where applicable, in line with inflation and to approve the increases proposed to Bus stop closure charges. as set out in paragraphs 4.59 and 4.60.
7. Approve the use of Transport reserves in 2021/22 and 2022/23 as detailed in section 5.
8. Note that the funding for Bus Franchising in 2022/23 is approved as part of the Mayoral Budget 2022-23 also on this agenda.

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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 2022/23.

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 Transport Revenue Budget’ 12 February 2021.

| | |
|-------------------------|--|
| TRACKING/PROCESS | |
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| 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 | 8 th February 2022 |

1 INTRODUCTION

- 1.1 The report provides details of the proposed budget, including Mayoral funded functions as they relate to Transport for 2022/23.
- 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 2022/23

- 2.1 The proposed Transport budget for 2022/23 is £269.353m summarised in the table below:

| Transport Revenue Budget | Approved Budget 2021/22 | Proposed Budget 2022/23 | Change |
|---------------------------------|------------------------------------|------------------------------------|---------------|
| Resources Available: | £000 | £000 | £000 |
| Transport Levy | 105,773 | 105,773 | 0 |
| Statutory Charge | 86,700 | 86,700 | 0 |
| Mayoral General Precept | 17,050 | 21,414 | 4,364 |
| Government Grants | 24,693 | 35,375 | 10,682 |
| External Income | 850 | 850 | 0 |
| Contribution from Reserves | 11,360 | 19,242 | 7,881 |
| Total Resources | 246,426 | 269,353 | 22,927 |
| 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 | 11,785 | 11,785 | 0 |

| | | | |
|--------------------------------|----------------|----------------|---------------|
| Scheme Development Costs | 0 | 15,900 | 15,900 |
| Our Pass Concession | 16,200 | 16,200 | 0 |
| Care Leavers Concession | 550 | 550 | 0 |
| Bus Reform | 4,250 | 15,895 | 11,645 |
| GMCA Traffic Signals | 3,822 | 3,822 | 0 |
| GMCA Corporate | 975 | 1,024 | 49 |
| Capital Financing Costs | | | |
| - Levy Funded | 52,904 | 52,904 | 0 |
| - GMCA Funded from Revs/Res | 11,558 | 12,951 | 1,393 |
| - TfGM Funded from Revs/Res | 19,479 | 13,419 | -6,060 |
| Total Call on Resources | 246,426 | 269,353 | 22,927 |

2.2 The overall Transport budget for 2022/23 is an increase of £22.927m compared to 2021/22, the major changes relate to:

- Earnback revenue grant – increased use of grant to meet a proportion of the implementation costs of Bus Reform;
- Increase in Mayoral Precept to meet implementation cost of Bus Franchising;
- Use of reserves to meet Scheme Development Costs offset by a reduction in capital financing charges

2.3 From the Transport budget of £269.353m, a budget of £190.725m will be allocated to TfGM and the remainder will be retained by GMCA to meet capital financing costs, traffic signal maintenance and corporate overheads. Section 4 below provides detail on the TfGM budget strategy for 2022/23 and a breakdown of the proposed TfGM revenue budget.

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 2022/23 will be set at £105.773m and the Statutory Charge be set at £86.7 million, a total of £192.473m which has been unchanged over the last two years.
- 3.3 The Transport Levy and Statutory Charge is distributed across the Districts based on mid-year 2020 population. An analysis of amounts payable by each District Council in 2022/23 is shown in the table below.
- 3.4 As in previous years 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.
- 3.5 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 2022/23.

Proposed GMCA Transport Levy and Statutory Charge 2022/23 per District

- 3.6 The table below details both the Transport Levy and the Statutory Charge per district.

| District | 2022/23 Transport Levy £000 | 2022/23 Statutory Charge £000 | 2022/23 Total Charge £000 |
|--------------|--------------------------------------|--|------------------------------------|
| Bolton | 10,704 | 8,774 | 19,478 |
| Bury | 7,082 | 5,805 | 12,887 |
| Manchester | 20,638 | 16,916 | 37,554 |
| Oldham | 8,824 | 7,233 | 16,058 |
| Rochdale | 8,306 | 6,808 | 15,114 |
| Salford | 9,755 | 7,996 | 17,752 |
| Stockport | 10,925 | 8,955 | 19,880 |
| Tameside | 8,434 | 6,913 | 15,347 |
| Trafford | 8,823 | 7,232 | 16,054 |
| Wigan | 12,281 | 10,067 | 22,348 |
| Total | 105,773 | 86,700 | 192,473 |

4. TfGM BUDGET STRATEGY 2022/23

4.1 The budget presented relates to the TfGM element of the Transport budgets.

Context and overview

4.2 Recognising, that whilst Greater Manchester has made real progress in recent years, there is still much work to do to 'level Up' (both at a GM and at a national scale), and to tackle climate change. Transport is the foundation not least in supporting GMCA to secure stronger control over bus services, so as to deliver a zero carbon, London-style, affordable, transport network. It will foster a stronger, more efficient and resilient city-region economy, connect people to homes, jobs, learning, leisure and culture, and create opportunities for all of Greater Manchester's communities from urban to rural, city to town and village.

Bee Network

- 4.3 The Bee Network is an integrated 'London-style' transport system which will join together buses, trams, cycling and walking and other shared mobility services by 2024, with commuter rail incorporated by 2030, to transform how people travel in Greater Manchester.
- 4.4 By designing and delivering public transport, active travel and shared mobility services as one system with local accountability and aligned to national and local priorities, the Bee Network will transform the travelling experience and make sustainable, low carbon transport an attractive option for all.
- 4.5 Accessible, affordable, integrated, inclusive and easy to use, with a daily fare cap and Greater Manchester-wide multi-modal fares, the Bee Network will support seamless end-to-end journeys within Greater Manchester, irrespective of the destination.

Bus Service Improvement Plan

- 4.6 Greater Manchester is strongly aligned with Government and the National Bus Strategy in terms of understanding the potential for buses to play a central role in supporting sustainable economic growth in Greater Manchester's city and town centres and major development areas, in supporting levelling up across Greater Manchester by enabling the most excluded groups to access opportunities and in driving decarbonisation of the transport system. These shared ambitions were set out, in detail, in our Bus Service Improvement Plan (BSIP) that was submitted to Government last October.
- 4.7 As Government work to conclude the best use of the BSIP / bus revenue funding, we are seeking a firm commitment from Government to provide the financial support needed to stabilise the network and increase service frequencies and make fares

more equitable, so that we are raising standards to London levels across the whole transport system.

City Region Sustainable Transport Fund (CRSTF) and Settlement (CRSTS)

- 4.8 In addition, on 20 July 2021, DfT issued the guidance for the renamed City Region Sustainable Transport Fund (CRSTF) and Settlement (CRSTS) process. At its meeting on 10th September, GMCA approved the submission of the Prospectus based upon the upper bound guideline of £1.19bn for government consideration as part of the 2021 Spending Review process. Subsequently, on 22 November 2021, the Secretary of State wrote to the GM Mayor to say that GMCA had been allocated an indicative allocation of £1.07 billion of capital funding conditional on the submission of a programme business case by the end of January 2022. The programme business case should set out the outcomes that are expected to be achieved and how they meet the objectives of programme.

Pandemic support and recovery funding

- 4.9 Unlike most other UK Light Rail Systems, GMCA / TfGM takes full revenue risk on the Metrolink network. The system has (pre Covid) been almost exclusively reliant on passenger farebox revenues to fund the costs of operation, maintenance and repayment of the £1 billion of locally funded borrowings used (in conjunction with Government grant funding) to fund the Phase 3 expansion programme. The system represents the largest local-central government local transport investment / partnership programme in the UK. The costs to the Greater Manchester Combined Authority of repaying this debt are approximately £55 million per annum.
- 4.10 The investment was prioritised on the basis of Gross Value Added (GVA) returns and, at an overall programme level, was forecast to generate additional GVA of £1.2 billion per annum and 20,000 additional jobs, generating the tax returns and farebox revenues to fund the ongoing and committed costs of debt repayment and interest.

- 4.11 Therefore, without ongoing central government support, the ‘revenue shock’ that is being experienced currently and into the future is unsustainable and will have a very damaging impact on the ability of GM to recover from Covid.
- 4.12 GM has received c£100 million of funding from Government during the pandemic that has, coupled with the interventions by made by TfGM to reduce costs, enabled the Metrolink network to continue to operate and to serve and support communities and key workers and others during the pandemic.
- 4.13 Whilst work is ongoing to seek to minimise the request for ongoing support, the estimated funding requirement into next year and beyond is predominantly as a result of the impacts of Covid and its impact on travel patterns (particularly commuting to work) which equates to c£40m per annum.
- 4.14 There are therefore a number of key uncertainties in relation to the impact of Covid-19 on future Metrolink and Bus passenger volumes and revenues; and the availability of ‘Covid recovery funding’ beyond the end of March 2022.
- 4.15 In addition, there are other matters which will significantly impact the budget for 2022/23 including in particular:
- Bus Franchising;
 - Expenditure required to develop future infrastructure schemes;
 - Other activities and inflationary cost pressures.

Metrolink

- 4.16 As a result of the various lockdowns, restrictions and guidance due to Covid, during the current financial year passenger volumes on public transport have, continued to be significantly below pre pandemic levels. Farebox revenues on Metrolink have continued to be significantly lower than those assumed in the funding strategy for repayment of the debt raised for the expansion of the system. Prior to the most recent

restrictions, volumes had recovered to c70% of pre-pandemic levels however they are currently around 58%.

- 4.17 To date, this funding gap has been filled from a combination of efficiency savings, where possible, and, much more substantially, from DfT grants. Based on the level of grant currently committed by DfT until 31 March 2022, the forecast shortfall in 2021/22 will be c.£5 million, which would need to be funded from reserves.
- 4.18 Discussions are continuing with DfT regarding funding beyond the end of March 2022, however currently, there is no indication that funding will be available beyond that date. In the event that additional funding is unavailable it is currently estimated that there would be a net shortfall of c. £40 million in 2022/23, in terms of operating deficit and the planned contribution to capital financing costs, with a similar level of net shortfall forecast in future years. This represents a significant risk to sustaining the current levels of Metrolink service provision. Work is ongoing to review how costs can be further reduced including through potential service changes and operating efficiencies, increased income through reducing fare evasion, increasing patronage and farebox revenues and from commercial opportunities.

Bus

- 4.19 Passenger volumes have also been significantly impacted on bus services, with volumes fluctuating between 9% and 82% of pre-pandemic levels during 2020 and 2021, and are currently around 62% of pre-pandemic levels. The impact is expected to be largely mitigated through DfT funding in the current financial year, however there are significant cost pressures going forward, particularly into 2022/23, given the ongoing uncertainty as to the quantum and longevity of ongoing government funding beyond the end of March 2022. This raises the risk of the deregistration of potentially significant volumes of commercial services which would bring further pressure on TfGM budgets to provide subsidy to ensure those services are maintained, to support GM economic growth and to stabilise the network as far as possible in advance of the introduction of franchising.

- 4.20 In October 2021, GMCA/TfGM submitted its 'Bus Services Improvement Plan' (BSIP), which sets out future plans for bus services and included a bid for revenue funding for the stabilisation and future development of the bus network. This included funding to reduce fares and to improve the experience of customers using buses in Greater Manchester; and a bid for capital funding of c£600 million (largely for zero emission fleet and systems in the period until March 2027) which was in addition to the capital ask from the CRSTS to fund bus priority infrastructure and improvements to passenger waiting facilities.
- 4.21 As set out in the *City Region Sustainable Transport Settlement Draft Programme Case* report to GMCA on 28 January 2022, the capital asks within BSIP have been included as part of the reprioritisation and development of the draft CRSTS Programme Business Case that was submitted to Government at the end of January 2022. This is following receipt of a letter from the Secretary of State, supported by other feedback from Government and on the assumption that GM will receive no capital funding via the Bus Service Improvement Plan.
- 4.22 The revenue funding bid, which included £30m per annum to replace the current Government Covid Bus funding and to stabilise the bus network, was between approximately £60 million and £140 million across the three year period 2022/23 to 2024/25 covered by the BSIP funding. This range reflected the incremental and phased introduction of service and fares improvements. Beyond this time period, and in order to maintain the benefits which would be delivered through BSIP, there would be a requirement for an ongoing annual revenue subsidy of approximately £175 million.
- 4.23 The Department for Transport (DfT) wrote to all Local Transport Authority Transport Directors (in England, outside London) on 11 January 2022. The letter stated that *'We (DfT) continue to review and assess the BSIPs covering all 79 LTAs and expect to provide details of indicative funding by February 2022. This will recognise that the budget available for transformation, including for Zero Emission Buses, is around*

£1.4bn for the next three years and that prioritisation is inevitable, given the scale of the ambition across the country greatly exceeds this amount. It is understood that of the £1.4 billion, only c£600m is for revenue investment.

- 4.24 To the extent that budgets need to be updated after the BSIP bid outcome is announced, this will be done through the quarterly budget updates to GMCA.
- 4.25 The proposed Supported Bus budget for 2022/23 includes an allowance for both inflationary costs and a risk provision for additional service deregistrations. However, the funding of c£30m included in BSIP to replace the current Government Covid Bus funding and to stabilise the bus network is not confirmed and is therefore a significant further risk.

Bus Franchising

- 4.26 On 30 March 2021 the Mayor made the Greater Manchester Franchising Scheme for Buses 2021 (“the Franchising Scheme”) and the GMCA published its response to the consultation together with the Mayor’s decision, as required by section 123G of the Transport Act 2000 and (on behalf of the Mayor) the Franchising Scheme itself.
- 4.27 Previous reports to GMCA, including in October 2019, set out the preferred funding scenario for the Proposed Franchising Scheme. In brief that consisted of:
- i. £78.0 million, in total, of Mayoral ‘earn back’ funds provided by central government as part of Greater Manchester’s Devolution Agreement;
 - ii. £11.0 million, in total, raised by the existing precept as part of the Mayor’s 2019/20 budget for bus reform purposes (equating to £2.2 million per annum applied each year from 2020/21);
 - iii. £17.8 million, in total, of contributions by Local Authorities as a proposed one-off increase in the statutory contribution. This was originally proposed to be in 2020/21 but has now been re-phased to 2024/25, see below;

- iv. £5 million, in total, of existing and forecast business rates pooling receipts held by the GMCA; and
 - v. £22.7 million, in total, of Mayoral precept required from future years' budgets.
- Under these proposals the increase in funding from the Precept in 2022/23 is proposed to be £3.3 million.

4.28 The current implementation plans for the introduction of Bus Franchising include a budgeted revenue cost of £15.895 million in 2022/23. This will be funded from Precept and Earnback income. The outputs of this planned expenditure for 2022/23 include in particular:

- i. procurement of local service contracts required for the implementation and operation of the franchising scheme;
- ii. procurement of on-bus equipment, other equipment, and systems and associated services which are necessary for the implementation and operation of the franchising scheme;
- iii. depot and land acquisition financing costs aligned to the depot strategy, as set out in the Assessment;
- iv. Work to establish, operate and manage the Residual Value mechanism, as set out in the Assessment; and
- v. A quantified risk allowance, in line with the allowance in the Assessment, and as considered appropriate for this stage of development.

4.29 GMCA/TfGM is currently awaiting the outcome of the Judicial Review into Bus Franchising which took place in May 2021.

Future Infrastructure Scheme Development

4.30 In January 2021 TfGM published a five year Delivery Plan to sit alongside the refreshed Transport Strategy 2040. TfGM and the districts have been 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 Infrastructure development programme. 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.

- 4.31 As referenced above in August 2021 GMCA submitted a bid for funding of £1.19 billion to the government's City Region Sustainable Transport Settlement (CRSTS). This bid was for capital funding for the further development and delivery of the schemes in the development programme and included £170 million of locally committed funding to support the bid. In October 2021 government announced that GM had been successful in its bid and had been allocated £1.07 billion of CRSTS funding. Work is ongoing to agree the final allocations of this funding to proposed schemes.
- 4.32 To date the development work in relation to the above has been funded from a combination of previously approved 'top slices' of £22 million from Transforming Cities Fund 2 (TCF2) over the three year period from 2020/21 to 2022/23 and £8.6 million of Intra-City Transport Fund (ICTF) revenue funding provided by DfT.
- 4.33 The forecast spend for 2021/22 is estimated to outturn at c. £10 million. Combined with spend and drawdowns in 2020/21, this means that £15.9 million of the previously approved funding from TCF2 and ICTF is available for funding the ongoing work in 2022/23.
- 4.34 The letter from the Secretary of State to the Mayor in November 2021 also set out that, additional to the revenue funding provided in 2021/22, Government is committed to providing further funding to support the development and delivery of CRSTS settlements. In 21/22 GMCA received £8.6m from a national funding allocation of £50m, and Government are looking to provide a similar level of grant to the eight participating MCAs in 2022/23; £25m in 2023/24; and £25m in 2024/25. To date, no further information has been received on this funding.

4.35 The current budget for revenue expenditure on revenue Scheme development activities in 2022/23 is £15.9 million. This funding will support the further development of Strategic Outline Cases (SOC) for the schemes within the agreed CRSTS programme once the Programme Case is approved. At this stage there are around 10 programme business case and approximately 70 scheme business cases to develop with this revenue funding. At this point the proposed budget for 2022/23 does not include the additional grant funding referred to above, which is essential to support the completion of the business case work set out above. When the final quantum of this grant is confirmed the budget will be updated in future quarterly updates.

Other activities and cost pressures

4.36 In line with previous years, TfGM will be delivering a number of additional or expanded activities. Although a number of these are funded, at least in part, they are all exerting additional pressures on core budgets in terms of the overall organisational overhead required to deliver them. In 2022/23 the following activities will be new or expanded on previous years:

- Rail Reform: In 2022/23 additional costs, estimated at £0.5 million, will be required to support activities in relation to Rail Reform including consideration of, and planning for the impact of, the Shapps/Williams Report. No external funding is available to support this work;
- Cycling and Walking: TfGM is supporting the delivery of the programme of cycling and walking schemes which have been funded from TCF and other specific Active Travel grants from DfT. In recent years these programme costs have outturned at c.£2 million per annum. These activities will need to continue into 2022/23 in order to deliver the Pipeline of schemes within the programme. Due to the expansion of the programme it is estimated that the costs will be c £2.3 million in 2022/23. It is proposed that these costs will continue to be largely funded, as in previous years, through a top slice of capital funding from the Mayors Challenge Fund (£1.9 million)

along with other funding available through the Active Travel revenue grants (£0.4 million);

- Inflationary cost pressures: In recent months TfGM has, in line with other organisations, been impacted by a number of inflationary cost pressures, including for example energy costs, which are forecast to increase significantly in 2022/23 due to the recent significant volatility in energy markets. Also, and in addition to pay inflation, TfGM will also need to absorb the planned increase in employer national insurance contributions of 1.25% from April 2022; and there is also a significant risk of cost inflation on bus supported services as referred to above. All of these costs will need to be absorbed by making savings through procurement and other efficiencies.

4.37 TfGM has been appointed by Greater Manchester councils to deliver the Clean Air Service. Delivery of GM's Clean Air Plan, in compliance with the Ministerial Direction to reduce NO₂ to within legal levels, is a statutory responsibility of the ten GM districts, but its delivery has been delegated to GMCA, acting by its officer TfGM. The direct costs to implement the scheme and the associated measures, including grant support, are being funded from grants from the Joint Air Quality Unit. On an ongoing basis the financial position of the Clean Air Service will be accounted for on an 'agency' basis by TfGM.

2022/23 Budget Strategy

4.38 TfGM's budget has been managed within the same funding envelope in recent years by making year on year savings from various sources, including a voluntary severance process which was run in the last financial year. This has been very challenging in the context of the additional activities that TfGM has been requested to deliver, the continuing inflationary pressures on budgets, the amount of expenditure which is unavoidable due to it being related to statutory obligations, including for example the English National Concessionary Travel Scheme and other fixed and financing costs.

4.39 The ability of TfGM to continue to make year on year incremental savings to fund ongoing cost pressures over the medium to longer term is therefore relatively limited and is increasingly challenging in the context of the inflationary pressures and funding uncertainties set out within this report.

Concessionary Support

- 4.40 Since the first lockdown TfGM has, as encouraged by DfT, continued to reimburse operators for concessionary reimbursement on the basis of pre-pandemic levels of patronage. DfT has issued guidance for reimbursement beyond March 2022 which includes a phased return to reimbursement based on actual volumes of concessionary journeys. Therefore there are still significant uncertainties in relation to the costs of reimbursement after that date including what the final DfT guidance will be, the ongoing recovery of patronage, the impact of any fare increases and the impact on reimbursement rates of future travel patterns.
- 4.41 The 2022/23 budget has been prepared based on the most recent DfT guidance and a current forecast of future travel. If any changes to the budget result from the factors referred to above this will be reported to GMCA as part of the quarterly revenue monitoring reports.
- 4.42 The Our Pass scheme provides free bus travel within Greater Manchester for 16-18 year olds and direct access to other opportunities in the region. The scheme was proposed to run for a pilot period of two years from August 2019, which subsequently became impacted by the Covid pandemic. The scheme was extended in September 2021 and since then the engagement from young people has increased significantly. In order to benefit from a full two year evaluation it is proposed to extend the pilot to August 2023. The Our Pass scheme is funded from a combination of Mayoral precept, reserves and other income. A budget of £16.2m is proposed for 2022/23 with a risk reserve held by TfGM if costs increase during the pilot, in line with the original funding strategy for the scheme agreed by the GMCA.

Supported Bus Services

- 4.43 Since 1986 bus services in Greater Manchester have been deregulated. That means the buses are run by commercial bus companies who decide the routes, timetables, fares and standards. The bus companies receive the revenue from fares and retain the profits. Some services which cannot be operated for sufficient commercial return have continued to be supported financially by TfGM via the Supported Bus Services Budget. The supported bus network amounts to approximately a fifth of the overall bus network mileage in Greater Manchester, at an annual cost in excess of £30 million, including provision for schools' services.
- 4.44 Due to ongoing underlying pressures, costs have increased in the last year. In previous years significant efficiency savings have been made in the Supported Bus Services budget. The majority of these savings have been delivered from efficiency savings and service reductions rather than service removals. However, there have been reductions in some services which are no longer deemed to represent value for money, particularly in respect to patronage and cost.
- 4.45 Through the pandemic, supported services have remained at similar levels to support travel, including for key workers. The net costs for 2021/22 are forecast to outturn largely in line with budget, but there is expected to be significant additional pressure on budgets for 2022/23 when the current government financial support for bus services is currently scheduled to end.
- 4.46 The proposed budget for 2022/23 of £36 million includes allowances for inflationary costs and a risk provision for additional service de-registrations. However, the funding of c£30m included in BSIP to replace the current Government Covid Bus funding is still not confirmed and is therefore a significant further risk.
- 4.47 It is budgeted that the grant that TfGM provides to GMATL to fund Ring and Ride services, will remain at the 2021/22 outturn level of £3.7 million.

4.48 In line with recent years, it is proposed that the fares and charges on certain products or services that TfGM provide, including certain bus fares (on schools, DRT and Ring Ride services) and Departure Charges, will be subject to increases in line with inflation, at various dates between April 2022 and September 2022.

Other costs and budget pressures

4.49 A number of other budget pressures and risks exist, as follows:

- Funding will be required to support the work to consider the options and potential for future Rail Reform as noted above. No external funding is available for these costs;
- Continuing loss of income in a number of areas due to the ongoing impact of the pandemic, including income generated from property rental and commercial income from advertising and other sources, both of which have been key to TfGM continuing to manage within 'cash flat' levy settlements in recent years;
- Ongoing Covid related cost pressures, including project and programme management support for GM wide initiatives;
- Costs of operating and maintaining an expanding network of traffic signals, largely with no additional funding for operational costs;
- Continuing costs required to support the ongoing development of ticketing initiatives. £1.8m is being drawn down from the Integrated Ticketing Reserve to support these costs in 2021/22 and a further drawdown of £1.8 million is proposed in 2022/23; and
- Cost inflation on both staff and other operating costs, and the increase in national insurance contributions of 1.25% from 1 April 2022.

4.50 The additional costs and funding pressures on the TfGM budget in 2022/23, including from the matters referred to above, and from increasing pressures on the Supported Bus Services budgets, have resulted in additional cost pressures of c£6 million onto the base budget for 2022/23 (assuming sufficient funding, estimated at c£30m per annum, is available from TfGM's BSIP bid to support the stabilisation of the bus network from April 2022). These additional cost pressures of c£6 million will need to

be offset through the generation of additional savings and efficiencies in operating costs and the generation of additional commercial income; and work is ongoing, as part of the preparation of the detailed budgets, to identify where these savings will be generated.

4.51 Considering the above the budget proposal is that:

- The Levy will again be subject to a cash 'standstill' for 2022/23, with all cost increases being absorbed by savings within TfGM's core budgets;
- A drawdown of £1.8 million from the Integrated Ticketing Reserve to continue the development of ticketing solutions;
- TfGM fares and departure charges to increase in line with rates up to inflation at varying points in 2022/23 as set out in this report;
- Bus Stop Closure Charges to increase as set out in paragraph 4.60 below; and
- To the extent that DfT funding is insufficient to fund the net operating and financing costs for Metrolink, any shortfalls not covered by further DfT grant funding (currently estimated to be c£5m in 2021/22 and c£40m pa in each of the next 2 years) could be borrowed in the short term from the Capital Programme Reserve. However, this reserve is earmarked to support the long term repayment of capital financing costs and to fund future tram renewals to ensure system integrity

TfGM Proposed Budget 2022/23

4.52 Based on the proposals above the TfGM budget for 2022/23 would be as follows:

| Transport for Greater Manchester | 2021/22 | 2022/23 |
|---|-----------------------|------------------------|
| Revenue Budget | Revised Budget | Proposed Budget |
| | £000 | £000 |
| Concessionary Support | 77,900 | 75,600 |
| Supported Services | 32,000 | 36,000 |
| Accessible Transport | 3,900 | 3,700 |
| Operational Costs | 35,820 | 36,920 |
| Clean Air Plan costs | 6,500 | 400 |
| Capital scheme development costs | 7,000 | 15,900 |
| Bus Franchising costs | 4,250 | 15,895 |
| Financing | 6,310 | 6,310 |
| Total Expenditure | 173,680 | 190,725 |
| Levy allocated to TfGM | -36,380 | -28,380 |
| Statutory Charge | -86,700 | -86,700 |
| Mayoral General budget | -18,650 | -19,750 |
| Rail Grant | -1,900 | -1,900 |
| Metrolink funding from Revenue / Reserves | -10,800 | -18,800 |
| Clean Air grants | -6,500 | -400 |
| Capital / revenue switch | -7,000 | -15,900 |
| Bus franchising funding | -4,250 | -15,895 |
| Other Grants | -1,500 | -3,000 |
| Gross Income | -173,680 | -190,725 |

- 4.53 There are a number of risks to the proposed budget as set out above including:
- The ending or reduction of government Covid funding from April 2022
 - Increases in supported bus services costs resulting from price increases and bus service de-registrations
 - Cost and pay inflation and their impacts on the ability to deliver the expanding range of activities within the same budget envelope
 - The ability to deliver the savings required to balance the budget.
- 4.54 The main elements of the proposed budget are considered further below.

Expenditure

- 4.55 The concessionary reimbursement budget includes the cost of the English National Concessionary Travel Scheme (ENCTS) and the local Concessionary scheme, including the recently introduced 16-18 concessionary travel scheme.
- 4.56 The budget for Supported Services for 2022/23 includes an allowance for the risks, referred to earlier in this report, for inflationary cost increases and risk of further de-registrations, but also assumes funding of c£30 million is available from the BSIP bid to meet the ongoing pressures on costs of Supported Bus Services, due to uncertainty around ongoing Government funding.
- 4.57 The budgeted grant payable to GMATL of £3.7 million is in line with the 2021/22 outturn.
- 4.58 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.
- 4.59 The budget includes an assumption that Bus Station Departure Charges will increase in line with inflation from April 2022. These would be the first increases in two years.

The additional income will be used to partly offset the increasing costs of operating bus stations.

- 4.60 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 £270 to £290 for the first four stops and that the costs thereafter are increased from £90 to £100 per stop. The costs for 'revisiting' a stop are also assumed to increase from £120 to £130.

Income

- 4.61 Following Transport Orders being laid in April 2019, the Mayor was given further powers for transport functions, which in relation to TfGM's activities supports activities associated with delivery of Bus related activities. An amount of £86.7 million was agreed as the cost of delivering these functions and this funding is raised via a statutory charge to District Councils. This was offset by a corresponding reduction in the Transport Levy, so overall funding was unchanged. As overall funding has been on a 'cash flat' basis over this period (and before), the total level of funding from the Levy/Statutory Charge is budgeted to be the same in 2022/23 as it was in 2021/22. The Levy allocated to TfGM is budgeted to reduce due to a higher budgeted contribution from Metrolink reserves, however this assumes DfT funding continues beyond March 2022.
- 4.62 The Mayoral General budget is also funding other costs in 2022/23 which relate to Mayoral functions, including 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 2021/22, and the costs of Concessionary scheme for 16-18 travel are, as stated above, budgeted to be £16.2 million.
- 4.63 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.

- 4.64 The funding from Metrolink Revenue/Reserves represents the budgeted contribution from Metrolink net revenues which are ring fenced to fund the financing costs which are incurred in GMCA as per the original funding plan. These budgeted net revenues assume that DfT funding continues beyond April, which is currently uncertain.
- 4.65 Utilisation of other reserves/funding relates to the proposed drawdown of funding from TCF2 to fund ongoing Infrastructure scheme development costs (£15.9 million) and funding from the Mayoral budget from the Precept and Earnback to fund the costs of Bus Reform (£15.895 million).
- 4.66 The funding from other grants and reserves includes specific ringfenced grants and funding from reserves earmarked for capital, to fund revenue expenditure on capital schemes.

5 RESERVES

5.1 An analysis of the forecast and budgeted movements in transport related reserves for 2021/22 and 2022/23 is set out below:

| Transport Reserves and Balances | Final Closing Balances 31st March 2021 | 2021/22 Planned Use | Projected Closing Balance 31st March 2022 | 2022/23 Planned Use | Projected Closing Balance 31st March 2023 |
|--|---|----------------------------|--|----------------------------|--|
| | £000 | £000 | £000 | £000 | £000 |
| Capital Programme Reserve | -88,891 | 6,060 | -82,831 | 0 | -82,831 |
| Business Rates Top-Up - Highways/LTP | -35,483 | 9,072 | -26,411 | 15,900 | -10,511 |
| Integrated Ticketing Reserve | -11,703 | 1,800 | -9,903 | 1,800 | -8,103 |
| Revenue Grants Unapplied Reserve | -6,239 | 0 | -6,239 | 0 | -6,239 |
| Concessionary Fares Reserve | -7,900 | -3,300 | -11,200 | 0 | -11,200 |
| Property Reserve | -10,100 | 500 | -9,600 | 500 | -9,100 |
| Metrolink Reserve | -2,100 | 0 | -2,100 | 0 | -2,100 |
| Joint Road Safety Group Reserve | -4,500 | -1,100 | -5,600 | 500 | -5,100 |
| <u>General Revenue Reserves</u> | | | | | |
| General Reserve - TfGM | -1,100 | 0 | -1,100 | 0 | -1,100 |
| General Reserve - General | -1,085 | 0 | -1,085 | 0 | -1,085 |
| Total | -169,101 | 13,032 | -156,069 | 18,700 | -137,369 |

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 2022 is £1.085 million for GMCA and £1.100m for TfGM and there is no planned use for 2022/23.

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 included 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.

- 5.4 The current forecast balance on the Capital Programme Reserve at 31 March 2022 is approximately £82.8m. 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.
- 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 early April 2022.

Business Rates Pilot Top-Up – Highways/Local Transport Plan

- 5.6 As the GMCA is part of the 100% Business Rates Pilot, the previous receipt of some grants has been replaced by funding through a Business Rates ‘top up’. GMCA currently receives funding to support spend in GM Local Authorities for highways maintenance and the Local Transport Plan through a Business Rates ‘top-up’ grant of c£43m annually. As this is revenue funding it enables flexibility to support the revenue element of capital schemes. When necessary, approval is sought through GMCA to approve delegated authority to the GMCA Treasurer to make adjustments between capital funding and this reserve to ensure the correct accounting treatment for planned revenue spend.

Integrated Ticketing Reserve

- 5.7 The Integrated Ticketing Reserve had a balance of £11.7m on 31 March 2021. 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 £1.8m in 2021/22 with a planned further drawdown of £1.8m in 2022/23, which would reduce the balance at 31st March 2023 to £8.1m

Revenue Grants Unapplied Reserve

5.8 This relates to grants received ahead of expenditure, with the largest grants being in relation to Clean Air plan funding and the Active Travel Fund.

Concessionary Fares Reserve

5.9 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;
- 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.

Property Reserve

5.10 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

5.10 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 and to fund future renewals to ensure system integrity, in line with the approved financial strategy.

Joint Road Safety Group Reserve

- 5.12 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. In particular, this includes passenger revenue from Metrolink, which has been significantly adversely impacted over the last two years. 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. As Government support reduces risk continues into 2022/23 for Metrolink and bus services for which the impact and mitigation is referenced in Section 4 above (paragraphs 4.9 – 4.25).
- 6.10 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.
- 6.12 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.