

Date: 14 February 2020

Subject: GMCA Transport Revenue Budget 2020/21 (Budget Paper C)

Report of: Cllr David Molyneux, Portfolio Lead for Investment & Resources and Steve Wilson,
GMCA Treasurer

PURPOSE OF REPORT

The report sets out the transport related Greater Manchester Combined Authority (GMCA) budget for 2020/21.

The proposed Transport Levy to be approved for 2020/21 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 2020/21 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 2020/21;
3. approve a Transport Levy on the district councils in 2020/21 of £105.773 million, as set on in paragraphs 3.2 – 3.5 of the report, apportioned on the basis of mid year population as at June 2018;
4. approve a Statutory Charge of £86.7 million as set out in Part 4 of the GMCA (Functions and Amendment) Order 2019, apportioned on the basis of mid year population as at June 2018;
5. approve the use of reserves in 2020/21 as detailed in section 5;
6. note and approve the position on reserves as identified in the report;
7. note the proposal to drawdown £10 million of funding from retained Business Rates to fund the ongoing development of schemes / the Greater Manchester Infrastructure Programme

subject to the preparation and approval of a business case;

8. note that the report to GMCA on 7 October 2019 set out and explained the recommendation to the GMCA to approve proceeding to the next stage in the consideration of a proposed franchising scheme, following on from the work undertaken in connection with bus reform; and included a full assessment of how the GMCA could afford to make and operate the proposed scheme;
9. Note that it is anticipated that the £17.8 million of contributions by Local Authorities as a proposed one off increase in the statutory contribution in 2020/21 referred to in section 4.4 will be held (in aggregate) by Local Authorities pending a decision by the Mayor as to whether to introduce bus franchising;
10. Approve the proposal to extend the Women's Concessionary Travel Scheme (WCTS) to a further cohort of women in Greater Manchester from 1 April 2020, noting that the estimated costs of c£300,000 are included in TfGM's 2020/21 budgets; and
11. Approve the delegation of decisions required to ensure the delivery of the extension of the WCTS, including any updates required to the Local Concessionary Travel Scheme, to the GMCA / TfGM Chief Executive and the TfGM Director of Finance and Corporate Services, in consultation with the GMCA Treasurer.

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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 2019/20’ 25 October 2019.

Report to Greater Manchester Combined Authority: ‘GMCA Revenue Update 2019/20’ 26 July 2019.

Report to Greater Manchester Combined Authority: ‘GMCA Revenue Outturn 2018/19’ 28 June 2019.

Report to Greater Manchester Combined Authority: 'Mayoral General Budget and Precept' 15 February 2019.

Report to Greater Manchester Combined Authority: 'Transport Revenue Budget' 15 February 2019.

Report to Greater Manchester Combined Authority: 'GMCA Revenue General Budget' 15 February 2019.

| | | |
|--|-------------------------------|-----|
| 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 | 11 February 2020 | |

1 INTRODUCTION

- 1.1 The report provides details of the proposed budget, including Mayoral funded functions as they relate to Transport for 2020/21.
- 1.2 The allocation to Districts 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 2020/21

- 2.1 The overall position for 2020/21 can be summarised as follows in the table below:

| | 2020/21 |
|--------------------------------------|----------------|
| Resources Available: | £'000 |
| Transport Levy | 105,773 |
| Statutory Charge | 86,700 |
| Mayoral General Precept | 17,050 |
| Mayoral Capacity Grant | 550 |
| Government Grants | 20,243 |
| External Income | 850 |
| Contrib. from Reserves | 10,923 |
| Total Resources | 242,089 |
| Calls on Resources: | |
| Gross Grant to TfGM | 138,322 |
| TfGM Funded Finance Costs | (13,419) |
| Grant Paid to TfGM | 124,903 |
| Other Grants | 12,429 |
| Scheme Development Costs | 500 |
| 16-18 Concessionary | 16,200 |
| Bus Reform | 4,750 |
| Care Leavers | 550 |
| GMCA Traffic Signals | 3,822 |
| <u>Capital Financing Costs</u> | |
| - Levy Funded | 52,904 |
| - GMCA Funded from Reserves/Revenues | 7,108 |
| - TfGM Funded from Reserves/Revenues | 15,029 |
| - TfGM Funded from Efficiencies | 2,919 |
| GMCA Corporate Core Costs | 975 |
| Total Call on Resources | 242,089 |

2.2 Within 'Government Grants' in the table above is £7.1437 million of Earnback funding which is budgeted to be used to fund Trafford Metrolink Capital Financing Costs (£7.108 million) and the costs of the Cycling and Walking Commissioner (£0.035 million).

3 PROPOSED GMCA TRANSPORT LEVY AND MAYORAL STATUTORY CHARGE 2020/21

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 2020/21 will be set at £105.773 million and the Statutory Charge be set at £86.7 million. These total £192.473 million which, in total, is unchanged from the Levy for 2019/20.

3.3 The Transport Levy and Statutory Charge is distributed across the Districts based on mid-year population as at June 2018. An analysis of amounts payable by each District in 2020/21 is shown in the table below.

3.4 As was the case in 2019/20, 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 2020/21 per District

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

| District | 2019/20 | 2020/21 | 2020/21 | 2020/21 | Levy Change | |
|--------------|---------------------------|---------------------------|-----------------------------|-------------------------|-------------|--------------|
| | Transport levy £000 | Transport Levy £000 | Statutory Charge £000 | Total Charge £000 | £000 | % |
| Bolton | 19,587 | 10,732 | 8,797 | 19,529 | (58) | (0.03%) |
| Bury | 13,041 | 7,149 | 5,860 | 13,010 | (31) | (0.02%) |
| Manchester | 37,514 | 20,595 | 16,881 | 37,476 | (38) | (0.02%) |
| Oldham | 16,076 | 8,861 | 7,263 | 16,124 | 49 | 0.03% |
| Rochdale | 15,023 | 8,274 | 6,782 | 15,055 | 32 | 0.02% |
| Salford | 17,284 | 9,568 | 7,842 | 17,410 | 126 | 0.07% |
| Stockport | 20,015 | 10,973 | 8,994 | 19,967 | (48) | (0.02%) |
| Tameside | 15,413 | 8,469 | 6,942 | 15,411 | (2) | (0.00%) |
| Trafford | 16,195 | 8,889 | 7,286 | 16,176 | (19) | (0.01%) |
| Wigan | 22,326 | 12,263 | 10,052 | 22,315 | (11) | (0.01%) |
| Total | 192,473 | 105,773 | 86,700 | 192,473 | 0 | 0.00% |

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 2020/21.

4 TfGM BUDGET STRATEGY 2020/21

- 4.1 The budget presented relates to the TfGM element of the Transport budgets.
- 4.2 As in the previous year there are a number of additional activities that TfGM is delivering on behalf of GMCA and the Mayor. Also, as in 2019/20, due to the scale and nature of these activities it will not be possible to fund all these costs from the core funding which includes the Levy and part of the Precept. The main activities in this regard are set out below along with a forecast of the proposed funding in 2020/21 is set out below.

Bus Reform

- 4.3 The financial case for the bus reform proposals that were included in the Assessment that was presented to GMCA in October 2019, included a full assessment of how the GMCA could afford to make and operate the proposed scheme. The Assessment set out the indicative profile of the costs and funding requirements; and a range of credible funding sources which exceeded the net modelled costs to operate the scheme over the proposed transition period. The Assessment also concluded that the proposed franchising scheme was affordable and would represent value for money. Following the audit of the Assessment, the GMCA agreed, at its meeting on 7 October, to instruct TfGM to commence consultation on the proposed franchising scheme which included a proposed funding package and proposed sources of funding.
- 4.4 In the event that the Mayor decides to introduce bus franchising, the forecast capital and revenue (including capital financing) costs over the transition period up to 2024/25 would be approximately £134.5 million. The proposed sources of funding include £78 million of mayoral 'earn back' funds (provided by central government as part of Greater Manchester's Devolution Agreement), £11 million raised by the existing precept as part of the Mayor's 2019/20 budget for bus reform purposes and £22.7 million from the mayoral precept in future years' budgets, £5 million of existing and forecast business rates receipts held by GMCA and £17.8 million of contributions by Local Authorities as a proposed one off increase in the Statutory Charge in 2020/21. Any differences between the spend and profiled funding requirement will be covered through prudential borrowing rather than being an additional funding requirement. Discussions are also ongoing with Government around their level of support to deliver bus reform which could potentially reduce the local funding required including from the mayoral precept.
- 4.5 In the event that the Mayor decides to introduce bus franchising a further report will be brought to GMCA to increase the Statutory charge in 2020/21 by £17.8 million.

Rail Station Partnership working

- 4.6 TfGM is continuing to work on developing proposals for working in partnership with operators and other industry stakeholders at a number of GM rail stations, including those stations in Town Centre Challenge Fund locations. A drawdown of £0.5 million of funding from Reserves was approved by GMCA in January 2019 for this purpose and an update on the work performed to date was reported to GMCA on 25 October 2019. A drawdown of an additional £0.5 million

is requested from Transport Reserves, to further progress this work in 2020/21. This will fund further work including in particular:

- Working in partnership, to develop business cases for the investment in, for example, redundant station buildings;
- Continued partnership with the Greater Manchester Health and Social Partnership to deliver the identified community use facilities at Stalybridge and further roll-out at other GM stations;
- Progress further Access for All (AfA) design work at Walkden and Swinton which will support any future bid if additional AfA funding becomes available from the Department of Transport.
- Continue to work with Alliance Partners and Local Authorities to deliver cases for housing and station improvement activities;
- To deliver installation of defibrillators at the remaining 47 Greater Manchester stations without a defibrillator.

4.7 A further report will be presented to the GMCA towards the end of 2020 to provide a further update on progress on this work.

Transport Scheme / Pipeline Development

4.8 There is a requirement to continue to incur significant revenue costs to support scheme / pipeline development/feasibility work on known GMCA priorities, including the development of potential public transport solutions that will support the city region's growth agenda; the development of the Greater Manchester Infrastructure Programme; and to support the development of the Greater Manchester Spatial Framework and the 2040 Delivery Plan.

4.9 To date the costs of this work have been funded from a combination of Transport Reserves and Earnback funding. An allowance of £10 million is included within the budget (from retained business rates) to enable the ongoing pipeline development work to be continued. The release of this is subject to approval of a business case that is currently proposed to be presented to GMCA in March. Regular updates will be presented to GMCA during 2020/21 on the progress on this work and on the priority projects and programmes which are being developed.

Budget Strategy

4.10 It is recognised that the TfGM's budget has been 'managed' within largely 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 largely 'standstill' budget 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.

- 4.11 It is 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. As a result, and over the longer term, a more strategic approach to setting budgets and managing funding is required than has been the case to date.
- 4.12 In this context, TfGM will bring forward proposals, ahead of the next budget setting process, for how a more strategic approach could be adopted. This will include reviews of, and proposals for:
- Accessible Transport: including both the current Ring and Ride service delivered by GMATL and the wider provision of accessible transport by various bodies across GM;
 - A review of the policy and approach to delivering School transport; and
 - A fuller review of TfGM’s overall budgets to ensure that it remains focused on the key priorities within the Greater Manchester Strategy and the 2040 Transport Strategy; and that all efficiency options, including further collaboration with the CA and other public bodies are considered and taken forward where appropriate
- 4.13 Completion of these reviews will be targeted for spring/early summer 2020, ahead of the commencement of next year’s budget setting process.

Concessionary Support

- 4.14 ‘Fixed rate’ reimbursement arrangements with the major bus operators are currently in place or are in the process of being negotiated. These will succeed the previous agreements which expired on 31 March 2019.
- 4.15 A new concessionary travel scheme providing free bus travel for young people aged 16-18 was introduced in 2019/20. This commenced on 1 September 2019. The costs of this scheme are being funded from the Mayoral budget, primarily through the Precept; third party income (including from colleges) and other Mayoral funding. The budget for 2020/21 reflects a full year of this cost, compared to 7 months in 2019/20. This increase in cost of c. £6 million will largely be funded by an increase in the Mayoral Precept.
- 4.16 It was previously agreed by GMCA that the existing balance on the Concessionary Fares Reserve, which was c. £9.3 million at 31 March 2019, is retained to fund the risks connected with the 16-18 free bus Concession.
- 4.17 In 2019/20 it is forecast that the costs for the 16-18 free bus Concession will outturn £1.7 million above the budget previously released for this year. This is largely due to a phasing difference which is expected to reverse during 2021/22. As previously agreed, it is proposed to drawdown £1.7 million from the Concessionary Reserve in 2019/20 on the expectation that approximately the same amount will be transferred back into the Reserve in 2021/22.

4.18 On 27 October 2017 the Mayor presented a report to GMCA which approved the introduction of the Women's Concessionary Travel Scheme, which provided a local travel concession for c. 14,000 women in Greater Manchester born between October 1953 and November 1954. There is a recommendation included within this report for an extension of this concession to a further 'cohort' of c. 5,700 women, specifically those born between 6 November 1954 and 5 April 1955. The costs of this extension, which are estimated to be c. £0.3 million in 2020/21, have been included in this budget.

Supported Bus Services

4.19 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. It is expected that the Supported Services Budget will continue to be under significant pressure during 2020/21 due to a combination of inflationary pressures and commercial deregistrations. A limited additional allowance of £0.3 million has been included in the budget in this regard.

4.20 The funding which will be raised from the introduction of the £10 annual charge for concessionary pass holders to access off peak tram and rail services, which is estimated to be c. £1.25 million per annum, will be ring-fenced for investment in bus and bus services.

4.21 In 2019/20 the grant to GMATL to fund Ring and Ride services was 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 exist within the GMATL budget and further efficiency savings and income generation options, including increases in fares, will need to be considered on an ongoing basis to retain the service at current levels.

4.22 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 2020 and January 2021.

Other costs and budget pressures

4.21 A number of other budget pressures or risks exist, as follows:

- Costs of supporting the wide and increasing range of additional activities that TfGM has been requested to undertake in recent years;
- Costs of extending services in a number of areas, including TfGM's Contact Centre to meet increased demands for customer information;
- Work to consider the options and potential for future Rail Reform. No allowances have been made in the budget for this other than the £0.5 million, referenced in section 4.6, to continue work to develop partnership opportunities for rail stations;
- Costs of delivering, as yet unspecified and uncommitted, additional night time services;

- Other unfunded project support, including for example HIF and Growth Deal Programme support; and Regional Centre co-ordination; and
- Costs of inflation on both staff and other operating costs, and increased cost of employer pension contributions.

4.22 The additional costs and funding pressures on the TfGM budget in 2020/21, including from the matters referred to above, and from increasing pressures on the Concessionary and Supported Bus Services budgets, have added additional cost pressures of c£4 million into the base budget for 2020/21 which will need to be met through additional savings and efficiencies in operating costs and the generation of additional commercial income.

4.23 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 developing and implementing 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 Programme; the Greater Manchester Spatial Framework and the 2040 Delivery Plan. To the extent that the £10 million for scheme / pipeline development referred to above is approved, 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.

4.24 Considering the above the proposal is that:

- The Levy will be subject to a cash 'standstill', after taking account of 'one off' items in 2019 and 2020;
- There will be an increase in the funding from the Precept in relation to the costs of the 16-18 travel concession;
- A proposed release, subject to further approval by GMCA, of up to £10 million of funding from Retained Business Rates to fund ongoing Scheme Development costs as part of the development of the Greater Manchester Infrastructure Programme;
- A drawdown of £1.5 million from the Integrated Ticketing Reserve to continue the development of ticketing solutions, following the implementation of contactless, smart ticketing in the current year;
- a further £0.5 million of funding from Transport Reserves to continue to develop the work on the Rail Stations Partnerships;
- TfGM fares and departure charges to increase in line with inflation at varying points in 2020/21 as set out in this report; and
- Bus Stop Closure Charges to increase as set out in paragraph 4.41 below.

TfGM Proposed Budget 2020/21

4.25 Based on the proposals above the TfGM budget for 2019/20 would be as follows:

| | 2019/20 | 2020/21 | |
|---|----------------|----------------|-----------------|
| | Outturn | Budget | Variance |
| | £000 | £000 | £000 |
| Resources | | | |
| Levy allocated to TfGM | 131,540 | 36,380 | (95,160) |
| Statutory Charge | - | 86,700 | 86,700 |
| Mayoral General budget | 3,950 | 18,650 | 14,700 |
| Rail Grant | 1,860 | 1,900 | 40 |
| Utilisation of other reserves | 9,700 | - | (9,700) |
| Retained Business Rates | - | 10,000 | 10,000 |
| Metrolink funding from Revenue / Reserves | 10,300 | 10,800 | 500 |
| Earnback Revenue Grant / Reserves | 5,750 | - | (5,750) |
| Other Grants | 12,600 | 6,000 | (6,600) |
| Total Revenue | 175,700 | 170,430 | (5,270) |
| Call on Resources | | | |
| Concessionary Support | 75,080 | 79,300 | (4,220) |
| Supported Services | 27,610 | 27,900 | (290) |
| Accessible Transport | 4,910 | 4,910 | - |
| Operational Costs | 61,790 | 52,010 | 9,780 |
| Financing | 6,310 | 6,310 | - |
| Total Expenditure | 175,700 | 170,430 | 5,270 |
| Surplus/(Deficit) | - | - | - |

4.26 There are a number of risks to the proposed budget as noted above, including 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. It should be noted that the potential costs and funding sources for Bus Reform in 2020/21 are not included in the table above, pending a decision by the Mayor on the future options for Bus Reform.

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

Resources

- 4.28 Following the GMCA Amendment Order 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.
- 4.29 The total level of funding from the Levy/Statutory Charge is budgeted to reduce in 2020/21 compared to 2019/20 mainly due to funding having been included for Bus Reform in 2019/20, including the 16-18 travel concession, in advance of the Order being introduced in May 2019.
- 4.30 The Mayoral General budget is also funding other costs in 2019/20 and 2020/21, which prior to 2018/19 had been funded from the Transport Levy but are now a Mayoral function and need to be funded from the Mayoral General budget. This includes the costs associated with updating and delivering the Local Transport Plan (LTP). Following the further Order in April 2019, the Mayoral budget also includes the costs of the 16-18 Concessionary Travel Scheme. The LTP costs are budgeted to be £3.55 million in 2020/21 and the costs of Concessionary scheme for 16-18 travel are budgeted to be £15.9 million.
- 4.31 The funding from the DfT Rail grant in 2020/21 is budgeted to increase with inflation.
- 4.32 Funding from the Utilisation of other reserves is budgeted to reduce, which is offset by an increase in funding from Retained Business Rates. This largely reflects a shift in the funding for Scheme Development costs from Reserves to Business Rates between 2019/20 and 2020/21.
- 4.33 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.
- 4.34 In 2019/20 Earnback funding was used to fund Bus Reform. As noted above costs and funding for further future Bus Reform activities have not been included in this budget pending a decision by the Mayor as to whether to introduce bus franchising.
- 4.35 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.

Calls on Resources

- 4.36 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. 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.
- 4.37 The budget for Supported Services for 2020/21 has been increased by £0.3 million to include a limited allowance for inflationary cost increases and for further deregistrations, however this still means that further efficiency savings will be required in order to fund the full extent of cost inflation and the incremental cost of any further commercial deregistrations.

- 4.38 The grant payable to GMATL in the proposed budget will be at the same level as 2019/20 at up to £4.91 million. As noted above, the £4.91 million includes an allowance to part fund the costs of renewing vehicles which will reach the end of their 'economic lives' over the next two years, with the remaining funding being delivered from a combination of efficiency savings and fares increases.
- 4.39 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.
- 4.40 The budget includes an assumption that Bus Station Departure Charges will increase in line with RPI, by 2p, from April 2020, which represents an increase of 2.6% and additional income of up to c£80,000. The additional income will be used to partly offset the increasing costs of operating bus stations.
- 4.41 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 £200 to £250 for the first four stops and that the costs thereafter are increased from £35 to £70 per stop. The costs for 'revisiting' a stop are also assumed to increase from £50 to £100.
- 4.42 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.

5 RESERVES

- 5.1 An analysis of the forecast and budgeted movements in transport related reserves for 2019/20 and 2020/21 is set out below:

Transport Related Reserves

| GMCA Transport Reserves | Actual Balance as at 01-Apr-19 | Transfer in/(out) 2019/20 | Projected Balance as at 31-Mar-20 | Transfer in/(out) 2020/21 | Projected Balance as at 31-Mar-21 |
|---|---------------------------------------|----------------------------------|--|----------------------------------|--|
| Earmarked Revenue Reserves | | | | | |
| Capital Programme Reserve - GMCA | 99,997 | (7,093) | 92,904 | (3,163) | 89,741 |
| Integrated Ticketing Reserve - GMCA | 12,500 | - | 12,500 | (1,500) | 11,000 |
| Revenue Grants Unapplied Reserve - GMCA | 5,502 | (4,611) | 891 | (891) | - |
| Concessionary Fares Reserve - TfGM | 9,282 | (1,700) | 7,582 | - | 7,582 |
| Property Reserve - TfGM | 12,157 | (1,500) | 10,657 | (1,500) | 9,157 |
| Metrolink Reserve - TfGM | 2,093 | - | 2,093 | - | 2,093 |
| Joint Road Safety Group Reserve - TfGM | 3,792 | (276) | 3,516 | (367) | 3,149 |
| General Revenue Reserves | | | | | |
| General Reserve - TfGM | 5,454 | - | 5,454 | - | 5,454 |
| General Reserve - GMCA | 4,882 | (3,800) | 1,082 | - | 1,082 |
| | 155,659 | (18,980) | 136,679 | (7,421) | 129,258 |

General Reserve

- 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 2020 is £6.5 million, with no current calls expected within 2020/21.
- 5.3 A risk analysis has been undertaken which demonstrates that based on the risks facing the organisation, the current and proposed level of reserves have been assessed as appropriate.
- 5.4 The key risks and issues impacting on the revenue budget are summarised below:
- capital programme costs and delivery;
 - ability to continue to deliver the additional responsibilities and activities set out within the report, within current resources;
 - additional cost pressures on the subsidised bus network and on operating costs; and
 - the ability to deliver the further, incremental efficiency savings.
- 5.5 TfGM and GMCA hold other reserves as set out in the following paragraphs.

Capital Programme Reserve

- 5.6 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 2020/21 is budgeted to be circa £202 million.

- 5.7 The current forecast balance on the Capital Programme Reserve at 31 March 2020 is approximately £92.9 million. The forecast balance on the Capital Programme Reserve is consistent with the work undertaken in relation to financing costs.
- 5.8 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.
- 5.9 Specifically for 2020/21 it is anticipated that a net £3.2 million will be drawn down from the Capital Programme Reserve, which is broken down as follows;
- £0.5 million – to meet the costs of Scheme Development costs and work on rail stations devolution; and
 - £2.7 million – to meet capital financing commitments.
- 5.10 The optimum mix of reserves utilisation and borrowings will be determined by the GMCA Treasurer, prior to the closure of the relevant years' accounts.

Integrated Ticketing Reserve

- 5.11 The Integrated Ticketing Reserve funded from a third party contribution will be used over a period of time to contribute towards the development and delivery of integrated, including smart, ticketing schemes. It is anticipated that £1.5 million will be required within 2020/21 for the ongoing development and delivery of ticketing products and initiatives.

Revenue Grants Unapplied Reserve

- 5.12 This relates to grants received ahead of expenditure, with the largest grant of £4.2 million being in relation to Clean Air plan funding. It is forecast that £4.6 million will be utilised within 2019/20 and the remaining £0.9 million used within 2020/21.

Concessionary Fares Reserve

- 5.13 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 18-18 travel concession and WCTS.

5.14 The forecast balance of the reserve at 31 March 2020 is c. £7.6 million following a call of £1.7 million in 2019/20 when it is forecast that the costs for the 16-18 free bus Concession will outturn £1.7 million above the budget previously released for this year. This is largely due to a phasing difference which is expected to reverse during 2021/22. As previously agreed, it is proposed to drawdown £1.7 million from the Concessionary Reserve in 2019/20 on the expectation that approximately the same amount will be transferred back into the Reserve in 2021/22.

Property Reserve

5.15 The Property Reserve is held for financing the historic costs for the TfGM building at 2 Piccadilly Place. The budgeted movements in 2019/20 and 2020/21 relate to amortisation costs.

Metrolink Reserves

5.16 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

5.17 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;
- 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.

- The budgets for 2020/21 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.
- 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.