

Date: 31st July 2020
Subject: GMCA COVID Finances and Reserves Position
Report of: Steve Wilson, GMCA Treasurer

PURPOSE OF REPORT

The purpose of this paper is to update the Combined Authority on the financial implications of COVID 19 for GMCA and TFGM.

It includes a detailed analysis of the position in a number of key areas including the GM waste disposal budgets, the retained business rates pilot, Metrolink and the overall position on the combined authority's reserves.

RECOMMENDATIONS:

The GMCA is asked to:

1. To note and comment on the contents of the report.
2. To note the estimated financial impacts of COVID 19 on GMCA and TFGM budgets
3. To note the detailed analysis of the position for
 - GM Waste Disposal Budgets
 - Retained Business Rates pilot
 - Metrolink
 - Other GMCA Reserves
4. To note the proposal to manage the impact of waste LAMA charges to districts within the overall waste budget and waste reserves
5. To approve the return of £15m of GMCA reserves to the nine GM waste districts
6. To approve additional funding from GMCA core Budgets of £215k for Marketing Manchester

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

Risk Management

Legal Considerations

Financial Consequences – Revenue – these are set out within the report

Financial Consequences – Capital - n o n e

BACKGROUND PAPERS: COVID 19 Finance update June
GMCA

GMCA COVID Finances and Reserves Position

1. Introduction

- 1.1 The purpose of this paper is to update the Combined Authority on the financial implications of COVID 19 for GMCA and TFGM.
- 1.2 It includes a detailed analysis of the position in a number of key areas including the GM waste disposal budgets, the retained business rates pilot, Metrolink and the overall position on the combined authority's reserves.

2. Background

- 2.1 On the 24th June 2020 GMCA convened a special meeting of the combined authority to review the financial impact of the COVID 19 Pandemic across the ten GM authorities and GMCA (including TfGM) itself.
- 2.2 The combined authority received a paper which analysed the scale of the financial challenge facing local authorities, GMCA and TfGM as well as highlighting the importance of local public services in responding to the crisis and supporting the recovery work.
- 2.3 The overall impact was summarised in the table below which showed the net impact of the pandemic, in 2020/21 only, and after support from local reserves was forecast to be a financial pressure of £368m:

Table 1: Financial Impact of COVID 19 across GM authorities (as assessed June 2020)

Description	Additional Costs (£m's)	Lost Income (£m's)	Total (£m's)	Funding to date (£m's)	Net Costs (£m's)	Potential Reserves (£m's)	Gap after Reserves (£m's)
GM Local Authorities	225	409	634	244	390	92	298
GMCA (Exc Metrolink)	10	31	41	3	38	-	38
Metrolink	-	57	57	25	32	-	32
Total	236	496	732	272	460	92	368

- 2.4 Since the June CA meeting Government have confirmed that a further £500m of funding will be made available to councils as well as a package of funding to support a proportion (75% of losses after the first 5% which will not be funded) of the loss of income from fees and charges for services. The additional allocation represents further funding of £29.1m for GM authorities. GMCA will not receive any additional funding in this allocation, however the contribution to the losses from fees and charges will apply to GMCA services.
- 2.5 GM authorities and the combined authority are currently assessing the impact of the funding for fees and charges but it is unlikely that this will cover the majority of the income reductions seen across Greater Manchester.

- 2.6 The latest position for the ten GM local authorities will be submitted to Government on the 31st July.
- 2.7 At the meeting on the 24th June, members of the combined authority asked for an analysis to be presented at the July meeting showing further detail on the impact on the GMCA Budgets and the position against GMCA reserves.
- 2.8 Following discussion with local authority treasurers the following areas of GMCA budgets have been prioritised for further review and sub-groups have been established with representation from district treasurers to review the detailed financial position of the budgets.
- GM Waste Disposal Budgets
 - Retained Business Rates
 - Transport budgets
- 2.9 In addition to these three areas further work has been undertaken to review the overall reserves position for the combined authority and the Chief Executive has begun a detailed examination of all GMCA and TfGM budgets with a view to identifying deliverable savings.

3. GM Waste Disposal Budgets

- 3.1 Nine of the ten GM local authorities collaborate in the GM waste disposal service with Wigan having their own separate arrangements.
- 3.2 The service is funded through a levy to the nine districts and an agreed approach to dealing with any variance in costs due to higher or lower levels of waste being collected by the districts for disposal through the GM service. This adjustment is known as the Levy allocation methodology agreement or LAMA.
- 3.3 There have been a number of financial impacts of COVID 19 on the GM waste service and the service management, together with the waste leadership from the nine districts have been working closely together to forecast the overall impact for the year based on their experiences so far.
- 3.4 This work is subject to a number of caveats and is using a limited amount of information gained through the first few months of the year and the initial impact of COVID 19 on the waste services to forecast the impact for the full year. This analysis will be reviewed and updated every month.
- 3.5 The impact of COVID 19 in the first two months of the 2020/21 financial year has led to increased tonnages of waste being collected by the districts both in terms of residual waste and co-mingled recyclables. The cost of the higher levels of residual waste is forecast to be £3.5m for 2020/21 with the higher levels of recyclable and commingled waste estimated at £2m. The additional costs are, however, offset by a number of savings including the increased

rebate on recyclables and a forecast saving against the budgets set aside for the costs of Brexit of £5m.

- 3.6 The overall forecast impact on the waste budget for 2020/21 is shown in the table below and is currently estimated to be a £1.25m underspend for the year. As stated above though this is an estimate and is likely to change over the course of the year with collection tonnage level being particularly volatile.

Description	Budget £m	Actual £m	Variance £m
Operational Costs	109.667	110.981	1.314
Operational Financing	49.118	46.464	(2.654)
Office Costs	5.755	5.755	(0.000)
Non Operational Financing	2.702	2.791	0.089
Total Budget - Pre LAMA recharge	167.242	165.991	(1.251)

Application of LAMA

- 3.7 At the February meeting of the combined authority the LAMA process was agreed for 2020/21.
- 3.8 If this is applied based on the current estimates of waste levels for the financial year there would be a recharge to the nine districts of £4.33m. This would increase the current forecast underspend against the budget to £5.58m for the year.
- 3.9 In discussions with the treasurers of the GM authorities it has been agreed that where possible the increased cost of the LAMA charges to districts will be offset by a return of levy funding to at least cover the costs of the excess charge.
- 3.10 Based on the current forecast for waste tonnages a return of levy funding of £6.4m would ensure no districts had a net cost of waste over their budgeted figure for 2020/21. The potential return of levy funding would be based on the waste contribution and not on the LAMA figures in order to protect the integrity of the LAMA.
- 3.11 This refund would be funded from the overall underspend post the levy contribution and a net contribution to or from reserves. Based on the latest analysis this would mean the underspend of £5.58m and an additional allocation from waste reserves of £844k.
- 3.12 This proposal will need to be monitored each month to ensure it is affordable and any final drawdown of reserves if required will need to be approved in due course.
- 3.13 In addition to the work on forecasting there has been a further review of the overall reserves held in relation to waste budgets. This review has determined that a sum of £15m can be released from the waste reserves and returned to the nine GM waste districts.

3.14 The reserves will be returned to districts based on contributions over the period of operation of the services.

3.15 The combined authority is asked to approve the return of £15m to waste districts with the methodology to be confirmed by the GMCA treasurer and the nine district treasurers.

4. Retained Business Rates

4.1 From April 2017 the ten Greater Manchester authorities, along with five other areas, entered into the 100% business rates retention pilot, whereby all business rates growth could be retained within GM.

4.2 50% of this growth is retained by the individual authorities with 50% transferred to GMCA. Since the introduction of the scheme an element of the 50% transferred to GMCA has, in turn, been returned to the districts including £20m returned in 2019/20.

4.3 The impact of COVID 19 has had a significant effect on council budgets across the country and in GM. GM councils have asked for a review of the use of retained business rates to understand if additional funding can be allocated to districts from the funding currently held by GMCA.

4.4 The level of funding held in the retained business rates reserve by GMCA at the start of 2020/21 was c£63.5m. A number of commitments had been made against this funding and had been approved by the combined authority at previous meetings. These commitments totaled c£32m which, if funded as originally expected, would have meant there was a further c£31.5m available from funding accumulated so far through the scheme.

4.5 When the combined authority approved the 2020/21 budgets in February 2020 they included an expected level of income from the final year of the 100% retained business rates scheme (2020/21) of £35m. In addition, they identified a number of additional schemes totaling £44m which would be brought forward for approval by the CA during the year.

4.6 The position for councils in GM and for the combined authority is clearly very different from that envisioned in February 2020. Previous schemes, both agreed and proposed may no longer be appropriate or affordable in a post COVID environment.

4.7 For this reason, urgent work is now underway to review the likely position against the business rates pilot for 2020/21. This includes

- i) A review of the latest forecasts from districts of potential income for 2020/21 in light of the impact of COVID 19. It is still too early to predict these levels with any accuracy but there is clearly a risk that there is no additional funding from business rates growth in 2020/21

- ii) A review of the £32m existing commitments against the brought forward business rates reserve to confirm if these are contractually committed and/or still considered priorities for the CA
- iii) A review of the potential additional commitments identified during the 2020/21 budgets setting process to consider which of these are still relevant in a post COVID environment, whether they could be delivered for less cost and how they might be prioritised if funding is constrained.

4.8 The outcomes from the review work described above will be brought back to the next meeting of the combined authority to consider the overall position on retained business rates for 2020/21.

5. Transport Budgets and TFGM

5.1 As reported to the 24th June special CA meeting, transport budgets are under significant pressure from COVID 19.

5.2 Excluding the impact of the loss of Metrolink fares revenue, TFGM is currently forecasting a potential deficit in 2020/21 of c£4.9m which is made up of a number of items including lost income from tendered services; lower commercial revenues; and increased costs in a number of areas. This lost revenue and the additional costs are currently not being offset by savings on expenditure budgets as even where services are not being provided, such as supported bus services or concessionary bus journeys, payment is still being made to support the sector, in accordance with Cabinet Office guidance and requests from DfT. TFGM officers are currently working on ways to mitigate the impact of the losses. The outturn costs of supported bus services and concessionary reimbursement will also depend on the level of ongoing financial support to the bus industry from central government. The c£4.9m forecast deficit for 2020/21 referred to above assumes that financial support from central government continues on the same, or a very similar basis, as has been the case since mid-March 2020.

5.3 In terms of Metrolink, the June paper detailed significant pressures arising from the reduced patronage on the service. A package of support from central government has been agreed up to 3rd August 2020 which is currently forecast to limit the impact of lost revenues to circa £2m. However, without further funding from government, this pressure will increase by between £30m - £40m over the remainder of the 2020/21 financial year.

5.4 The impact of ongoing farebox revenue shortages on the network will present a significant financial challenge far beyond 2020/21, in particular in the context that these are a key element in funding the repayment of the borrowings taken out to fund the Greater Manchester Transport Fund capital programme, including the Metrolink extensions.

5.5 A review of TFGM finances including the position on transport reserves and the model for financing capital investment on the network is being undertaken in conjunction with GM treasurers but clearly the work with government to confirm the future funding package for light rail is absolutely critical in this review.

6. Other GMCA Budgets and Reserves

- 6.1 Given the overall pressures on council and GMCA budgets as a result of COVID 19 it is important that spending commitments across the combined authority budgets are reviewed to ensure they are appropriate in light of the impact of COVID 19 and the changing environment within which the combined authority is now operating.
- 6.2 This paper has outlined some of that work within waste, business rates and transport budgets but the CA will also work with districts to other budgets and reserves over the coming weeks.
- 6.3 In the meantime we have received a request to fund some additional costs of Marketing Manchester in 2020/21. Marketing Manchester has lost a significant proportion (c.70%) of its income from the private sector, mainly from the tourism and development/construction sectors, which have particularly hard hit by the Covid 19 crisis. This has resulted in the need to put the majority of staff on furlough, delete 18 posts (from a total of 47) and the imposition of substantial pay reductions for all remaining post holders. Even after these measures there remains a need for additional, interim, financial support of £215k in 2020-21 to enable Marketing Manchester to remain a going concern and avoid the crystallisation of pension liabilities. This support would enable the vital work of Marketing Manchester for the City Region to continue at this difficult time, supporting essential recovery activity as well as driving forward the work of LIS implementation.
- 6.4 The outcomes of this activity would include maintaining Marketing Manchester's sector leadership; the promotion of GM's priority messages, sectors and themes; leveraging partner investment and enhanced consumer confidence; continuing city region branding; and boosting commercial engagement.
- 6.5 The request is for £215k of additional funding and would be sourced within slippage on existing GMCA budgets
- 6.6 We are therefore seeking approval to fund £215k to Marketing Manchester through the virement of existing GMCA budgets

7. Recommendations

- 8.1 The GMCA is asked to:
7. To note and comment on the contents of the report.
 8. To note the estimated financial impacts of COVID 19 on GMCA and TFGM budgets
 9. To note the detailed analysis of the position for
 - GM Waste Disposal Budgets
 - Retained Business Rates pilot
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10. To note the proposal to manage the impact of waste LAMA charges to districts within the overall waste budget and waste reserves
11. To approve the return of £15m of GMCA reserves to the nine GM waste districts
12. To approve additional funding from GMCA core Budgets of £215k for Marketing Manchester