

Date: 27th July 2022

Subject: Assessment of Going Concern Statement

Report of: Steve Wilson, GMCA Treasurer

PURPOSE OF REPORT

This report informs members of an assessment of the Greater Manchester Combined Authority (GMCA) as a going concern with a forward look at the position for the next 12-18 months.

RECOMMENDATIONS:

Audit Committee is requested to:

1. Note the outcome of the assessment made of the GMCA's going concern position and the conclusion that there is no material risk to going concern

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BACKGROUND PAPERS:

- Audit Committee, 27th August 2021 – GMCA Assessment of Going Concern Statement
- Greater Manchester Combined Authority 11th February 2022 - GMCA Revenue and Capital Budgets 2022/23

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?

N/A

GM Transport Committee

N/A

Overview and Scrutiny Committee

N/A

1. INTRODUCTION

- 1.1 The report which informs members of an assessment of the Greater Manchester Combined Authority (GMCA) as a going concern with a forward look at the position for the next 12-18 months.
- 1.2 GMCA is required to demonstrate that it is a going concern and remains financially sound. The concept of a 'going concern' assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. This assumption underpins the accounts drawn up under the Local Authority Code of Accounting Practice and is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.
- 1.3 As with all principal local authorities, the GMCA is required to compile its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance with the Code the GMCA's Statement of Accounts is prepared assuming that the GMCA will continue to operate in the foreseeable future and that it is able to do so within the current and anticipated resources available. By this, it is meant that the GMCA will realise its assets and settle its obligations in the normal course of business.

2. GOING CONCERN ASSESSMENT

- 2.1 The main factors which underpin the assessment of GMCA as a going concern are outlined below and include:
 - GMCA's financial position
 - GMCA's strategic planning and budget framework

- The regulatory and control environment applicable to the GMCA as a local authority.
- Economic climate reflecting impact of COVID-19

3. GMCA FINANCIAL POSITION

3.1 The revenue outturn for the year ending 31 March 2022 is categorised across defined areas of the authority. The position is shown in the table below:

2021/22 Summary	Original/Approved Budget			Provisional Outturn			Variance*		
	Exp	Income	Total	Exp	Income	Total	Exp	Income	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
GMCA General	259,765	-259,765	0	259,765	-259,765	0	0	0	0
Mayoral General	126,749	-126,749	0	126,427	-126,427	0	-322	322	0
GM Fire & Rescue	112,173	-112,173	0	113,176	-115,146	-1,970	1,003	-2,973	-1,970
Waste & Res	162,402	-162,402	0	162,402	-162,402	0	0	0	0
Transport	246,426	-246,426	0	234,503	-246,426	-11,923	-11,923	0	-11,923
TfGM	173,680	-173,680	0	176,930	-176,930	0	3,250	-3,250	0
Police Fund	646,654	-646,654	0	646,654	-646,654	0	0	0	0

3.2 GMCA's capital programme includes Greater Manchester Fire and Rescue Services, Economic Development and Regeneration programmes and the continuation of the programme of activity currently being delivered by Transport for Greater Manchester (TfGM) and Local Authorities. The GMCA approves the Capital Programme at its meeting to approve the budget for the following year in February and updated forecast outturns are provided on a quarterly basis. The actual capital expenditure for 2021/22 was £499.3m compared to forecast for 2020/21 presented to GMCA on 12 February 2022 of £479.9m. The Police Fund capital programme is recorded separately in accordance with legislation and was a further £40.2m of spend in 2021/22.

2022/23 Budget and Medium Term Financial Planning

3.3 The GMCA budget focus on the delivery of the priorities set out in the Greater Manchester Strategy (GMS). Delivery of the GMS priorities require the GMCA, local authorities, businesses and the voluntary and community sector and other stakeholders to work in partnership. The Mayoral precept and GMCA budgets support key areas of delivery for the strategy and its implementation plan, particularly in areas where the local investment can be supported by the GMCA.

3.4 The 2021 Spending Review was for the three year period 2022/23 – 2024/25 which provides some clarity for planning purposes. However the settlement for GMCA functions was for 2022/23 only, there are significant government policy changes which will impact the authority over the next three years and there is uncertainty on pay and price inflation which needs to be reflected in the medium term financial plan.

3.5 The GMCA budgets were approved by GMCA on the 11 February 2022 and Police and Crime Commissioner precept agreed by Police and Crime Panel on 31st January 2022 with revenue budgets summarised below:

Budget	2021/22 budget	2022/23 budget
Mayoral General Budget	£126.8 million	£139.0 million
GMCA General Budget	£224.0 million	£242.6 million
GM Fire and Rescue Service (net as per budget report)	£110.6 million	£119.5 million
GMCA Transport Revenue Budget	£246.4 million	£269.4 million
Waste	£162.4 million	£164.8 million
Police and Crime Commissioner	£674.4 million	£718.5 million

3.6 The 2022/23 Mayoral General revenue budget of £139m includes funding from the transport statutory charge on GM local authorities and the council tax precept. The precept was frozen for 2021/22 and for 2022/23 has been increased by £7 (for a Band D property). The 2022/23 budget included the continuation of priorities such as ‘A Bed Every Night’ scheme, the ‘Our Pass’ scheme and a contribution towards the cost of Bus Franchising.

3.7 The GM Fire and Rescue Service budget for 2022/23 of £119.5m reflects government funding and the council tax precept has been increased by £5 for a Band D property following a freeze in 2021/22. The medium-term financial plan to 2024/25 has been updated for pay and price inflation, known cost pressures and agreed savings. The funding supporting the 2022/23 budget represented a one-year settlement from DHLUC, with allocations based on the Spending Review 2021.

- 3.8 The GMCA revenue budget 2022/23 of £242.6m includes the core costs of the authority and its central programmes funded from the following sources:
- GM local authority contributions of £8.6m GMCA which was unchanged from the previous year, this includes funding of £3.3m for the GM Cultural and Social Impact Fund and £1.4m for MIDAS and Marketing Manchester.
 - Central government grants of £180.1m the majority of which relates to Work and Skills in particular funding for the Adult Education Budget.
 - The 2022/23 budget reflects the decisions made by the GMCA at the meeting on 27th November 2020 on use of planned investment of the remaining Business Rates reserve held by GMCA of £16.3m
 - Funding from reserves, other income sources and recharges of £37.6m.
- 3.8 Since the GMCA General revenue budget was approved in February 2022 the Government has announced local allocations for the UK Shared Prosperity Fund (UKSPF) as part of delivering the mission to 'Level Up' the UK by 2030. The GM allocation for the three-year period 2022/23 – 2024/25 is £98m which will support the delivery of UKSPF priorities which align with priorities in the Greater Manchester Strategy.
- 3.9 GMCA has been assigned by government as lead authority for the fund in Greater Manchester and will receive the area's allocation to manage. GMCA will have overall accountability for the funding and how it operates, working closely with our LAs and key stakeholders in this role. This includes the development of an investment plan which will set out a series of interventions and outcomes that reflect local needs and opportunities. GMCA is developing this investment plan in conjunction with Local Authorities and other key stakeholders to be submitted by August 2022.
- 3.10 The GM Transport budget for 2022/23 of £269.4m is an increase of £22.9m (9.3%) compared to 2021/22 and provides the funding Transport for Greater Manchester (TfGM) and capital financing charges for transport infrastructure investment. The increase in funding is met from government grants for transport scheme development and planned funding for Bus Franchising. The levy and statutory charge made to GM local authorities remained at the same overall cash level as in previous years.
- 3.11 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. There are also a number of key uncertainties in relation to the impact of the pandemic on future Metrolink and Bus passenger volumes and revenues once recovery funding from Government ends part way through 2022/23.

- 3.13 The 2022/23 Police and Crime Commissioner total revenue budget is £718.5m which is an increase of £44.1m (6.5%) compared to 2021/22. The focus for policing in over the next 12-18 months is continued implementation of key improvement priorities, centred on the basics of preventing and reducing crime to keep people safe and care for victims. For 2022/23 the Government grant for police included an additional £29.9 million for Greater Manchester Police.
- 3.14 The grant funding increase was expected to deliver the third and final year of the national expansion programme of 20,000 police officers over three years, which equates to 438 in 2022/23 across Greater Manchester. Following consultation, the maximum precept increase of £10 to the current band D precept was supported by the Police and Crime Panel which increased the overall funding from precept and related funding sources by £14.2m.
- 3.15 A revision of the MTFP for police has been undertaken to identify resource to support priority improvement projects over the three years. The resource to support these priorities has been identified from a review of the whole of the GMP budget and the previous version of the MTFP as set out below. There are financial risks associated with these changes which are highlighted and will need to be kept under close review during the financial year.
- 3.16 The waste budget for 2021/22 is funded from a levy on for the nine GM local authorities that are part of the GM waste contract. The waste budget for 2022/23 is £164.8m, which represents a 1.5% average increase over 2021/22. The MTFP estimated levy charges of £170.5m in 2023/24 and £174.7m in 2024/25. A number of assumptions have been made which take a balanced view of the risks facing the service in 2022/23 and beyond.
- 3.17 GMCA capital programme for the four year period 2021-2025 includes Economic Development and Regeneration programmes, Waste and the continuation of the programme of activity currently being delivered by GMCA, Transport for Greater Manchester and Local Authorities. The capital programme over the three-year period 2022/23 – 2024/25 is £984.4m of £421.5m is planned for 2022/23 to be funded mainly from

capital receipts, grants and long-term borrowing. Provision has been made in the revenue budgets for the associated financing costs.

- 3.18 Since the capital programme was approved in February 2022 the Government has announced five year City Region Sustainable Transport Fund grant of £1.07 billion for Greater Manchester for the period 2022/23 – 2026/27 which includes funding for new and legacy programmes.

GMCA Balances and Reserves

- 3.19 GMCA General Reserves were £44.4m as at 31/03/22, given the current scale of activities falling on the General Budget, the level of General Reserves held is felt to be appropriate. The Authority held £480.8m of Earmarked Revenue Reserves as at 31/03/22 compared to £401.7m at 31/03/21, an increase of £79.1m. The majority of the change relates to Waste reserves increasing in relation to surpluses from additional recycle income and third party income. Transport reserves increased in relation to unapplied government grants and increases to the capital programme reserve resulting from a change to the Minimum Revenue Provision policy and lower borrowing costs which have been earmarked to support Metrolink capital financing costs in future years.

GMCA Cash flow Model

- 3.20 The constitution states that the GMCA must have in place an approved treasury management strategy, investment strategy and the borrowing limits. This includes a scheme of delegation and responsibilities of member groups and officers in relation to treasury management and the role of the Treasurer in relation to treasury management.
- 3.21 The treasury portfolio position for the GMCA is managed at a group level, including Transport for Greater Manchester (TfGM), which means that the combined cash flows of all the consolidated organisations will be taken into account when investing temporary surplus funds or making arrangements to meet borrowing needs. Each financial year an annual cash flow model is set up that establishes the significant items of income and expense, together with dates of these items. This gives an overview of the potential borrowing or short and long-term investment decisions that may be required. This is then updated on a daily basis and reported to the Treasurer.
- 3.22 During 2021/22 the GMCA's Treasury Management functions continued to be operated under a service level agreement by Manchester City Council which reported directly to the

GMCA Treasurer. From 1st April 2022 this agreement ended and Treasury Management is now provided within the GMCA Finance Team which provides more effective oversight of the day to day operation.

- 3.23 The GMCA recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority uses Link Asset Services as its external treasury management advisors. The GMCA will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.
- 3.24 It is clear that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, the treasury advisers.

4. GMCA STRATEGIC PLANNING AND BUDGET FRAMEWORK

- 4.1 The GMCA budgets form part of the Authority's overall strategic planning framework. They focus on delivery of the priorities of the Greater Manchester Strategy and its implementation plan in partnership with GM local authorities, businesses, the voluntary and community sector and other stakeholders.

Budget Process

- 4.2 GMCA has in place an annual budget setting process that culminates in the approval of the budget by the GMCA at its meeting in February. The reports during the budget process provide an overview of the proposed GMCA budgets for the following year and subsequent years where appropriate. The reports bring together the position on the Mayoral General Budget and precept proposals, the GMCA General Budget, GMCA Transport budgets including transport levy and statutory charge and the GM Waste Services levy. The reports set out the implications of the proposed budgets and the resultant charges on GM local authorities and the Mayoral precept.
- 4.3 The GMCA is required to operate a balanced budget which broadly means that income received during the year will meet expenditure. Quarterly budget progress update reports are provided on a quarterly basis to GMCA during the year.

Treasury Management

- 4.4 In 2018 CIPFA published both an updated Prudential Code and Treasury Management Code, the key change of which came into force for 2019-20 with the introduction of a formally reported capital strategy to provide full council (or equivalent) with a concise, accessible view of the authority's approach to borrowing, investment and treasury management, with a focus on risk management, this underpins the Authority's position in regards to the level of risk it is willing to take in the management of its Funds and is therefore key to GMCA's strategic planning process.
- 4.5 The GMCA has a Capital Strategy which provides the medium to long term context in which capital investment decisions are made and the governance for those decisions. It also gives a summary of the GMCA approach to investments and the Treasury Management Strategy and the Treasury Management Strategy Statement for 2021/22.

5. REGULATORY AND CONTROL

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

Governance Arrangements

- 5.2 The GMCA's corporate governance structures and scrutiny arrangements ensure that they are sufficient to meet the expanding role of GMCA and the delivery of its core functions and services. GMCA has established a number of boards, panels and committees which receive regular reports on transport, housing, economy and investment matters. The Authority has recently reviewed its scrutiny arrangements with recommendations being implemented to improve effectiveness. The Authority has the statutory posts of Head of Paid Service, Monitoring Officer and the Treasurer (Chief Financial Officer) who form part of the Senior Management Team in addition to the current political arrangements.
- 5.3 An overview of this governance framework is provided within the GMCA Annual Governance Statement and Code of Corporate Governance 2021/22. This includes a detailed review of the effectiveness of the council's governance arrangements which concludes that the existing arrangements remain fit for purposes and provides assurance of their effectiveness. The Authority is required to operate within a highly legislated and controlled environment and particular emphasis of this can be exemplified and demonstrated with the financial controls in place. Examples of controls include the requirement of full authority to approve a balanced annual budget, but within that to consider and have regard via assurance from the Treasurer as to the robustness of the budget, its estimates and the adequacy of reserves held.

5.4 The control environment is supported by the role of External Audit in auditing of the financial statements, the review of value for money and financial resilience and Internal Audit in reviewing controls and processes across the authority.

6. ECONOMIC CLIMATE

6.1 The COVID-19 pandemic, EU-exit, rising costs of living and other factors are affecting the trajectory and resilience of the GM economy. The Authority reports to the GMCA the monthly GM Economic Resilience Dashboard to understand how these factors are impacting. The report summarises the latest responses to insights, as the GMCA, Greater Manchester Local Enterprise Partnership and other partners across the public, private and voluntary, community and social enterprise sectors continue to drive the recovery from COVID-19, as well as the longer term ambitions set out in the Greater Manchester Local Industrial Strategy and Greater Manchester Economic Vision. The rising cost of living has emerged as a key issue for the GM economy and the Authority is working to provide greater intelligence to support the analysis of the impact.

6.2 Pay and price inflation have been included in the GMCA medium-term financial plan at varying rates based on planning assumptions late in 2021 which were reflected in the approved budgets for 2022/23 as set out in section 3 above. An assessment of the latest inflation estimates against GMCA budgets indicate an increased pressure particularly for energy costs and staff pay awards. This will be kept under review as part of the update to MTFP taking place during 2022/23 and the Authority will consider measures available across the organization to manage financial risk from the current economic climate.

6.3 The COVID-19 pandemic continues to have a significant impact on the finances of TfGM, in 2021/22 revenue from Metrolink farebox was £43 million below pre-pandemic budgets, which has been offset by grant received from government, confirmed to continue in 2022/23 up to October 2022. Despite the funding received to date and agreed through in 2022/23, the uncertainties over funding for future periods cast significant doubt over TfGM's ability both to continue operating the level of services currently provided, to continue to contribute to GMCA's financing costs and meet the requirements for funding renewals in line with the overall required funding profile.

6.4 TfGM has also suffered reduced levels of income and additional costs in other areas of activity, including loss of bus service related incomes and loss of commercial revenues. Government support has continued to be received, albeit on a reducing basis,

which alleviated the loss of bus revenues for the period to March 2022. Further recovery funding is available in 2022/23 for the period to October 2022 and TfGM has continued to receive funding support from Ministry of Housing and Local Government (MHCLG) for other lost income and additional costs.

- 6.5 Alongside exploiting all opportunities to maximise its income and minimise its expenditure, TfGM is continuing to work closely with the Government to secure ongoing financial support to alleviate the financial impact of Covid 19 on TfGM. Based on the position set out above, TfGM has performed a review of the cashflow projections for a period of 12 months after the date of the signing of the 2021/22 financial statements, to support the preparation of the Accounts on the 'Going Concern' basis. The conclusion of this review is that whilst there is a material uncertainty regarding the ongoing level of Metrolink revenues and the level of funding that will be received, the cashflow and current levels of earmarked reserves are sufficient for the medium term forecast.

7. CONCLUSION

- 7.1 The assessment of the GMCA's status as a "going concern" for the purposes of the Statement of Accounts 2021/22 demonstrates that the Authority is performing effectively and is in a good position to respond to the current and emerging challenges and risks and there is no material risk to going concern for the next 12-18 months.