TRANSPORT FOR GREATER MANCHESTER COMMITTEE
REPORT FOR RESOLUTION

Date: 16 March 2018
Subject: 2018/19 Transport Levy Budget
Report of: Director of Finance and Corporate Services

PURPOSE OF REPORT

To update the Committee on the Transport Levy Budget following approval of the 2018/19 Transport Levy by GMCA on 26 January 2018.

RECOMMENDATIONS

Members are asked to:

(i) note the Transport Levy and the proposals approved by GMCA on 26 January 2018, which is for an increase in overall funding of £1.25 million compared to 2017/18, after accounting for usage of reserves and the introduction of a Mayoral Precept, which will fund some costs which were previously funded from the Levy;

(ii) approve the proposed increase in Bus Station Departure Charges of two pence (3.2%), with effect from May 2018;

(iii) agree the proposed changes in Local Link; TfGM Schools Weekly Pass fare of increases in line with RPI from April 2018;

(iv) note that the budget approved by GMCA on 26 January 2018 includes a grant of up to £4.3 million for GMATL; and

(v) agree the proposed changes to Ring and Ride fares, after April 2018, as set out in section 4.13 of the report.

BACKGROUND DOCUMENTS

GMCA Transport Revenue Budget 2018/19 – GMCA 26 January 2018

CONTACT OFFICERS

David Daughney 0161 244 1176 david.daughney@tfgm.com
1. **Introduction**

1.1 This report sets out the TfGM budget approved by GMCA on 26 January for 2018/19.

1.2 Prior to approval by GMCA, the transport budget was subject to a scrutiny process which involved the Leaders and Treasurers of Bury and Wigan.

1.3 The Levy budget approved by GMCA represented an increase in overall funding of £1.25 million compared to 2017/18, after accounting for usage of reserves and the introduction of a Mayoral Precept which will fund some costs which were previously funded from the Levy.

1.4 The budget presented in this report relates to the TfGM element of the Transport Levy budget. It includes all the costs of TfGM, including its own allocated financing costs, but excludes the financing and overhead costs of GMCA. The levy funding allocated to TfGM in 2018/19 is £121.17 million.

2. **2017/18 Outturn**

2.1 Regular updates are reported to GMCA on the forecast outturn on the revenue budget. In overall terms, the latest update showed that the forecast outturn remains in line with the budgeted break-even position.

3. **2018/19 Budget**

3.1 As in the previous year there are a number of additional, significant activities that TfGM is delivering on behalf of GMCA. Again, as in 2017/18, due to the scale and nature of these activities it will not be possible to fund all of these costs from the core Levy. The main activities in this regard are set out below along with a forecast of the required reserves and other funding sources utilisation in 2018/19.

3.2 This section also includes the key points and actions agreed from the two meetings that have been held with the GMCA Transport Budget Scrutiny Panel.
Devolution

3.1 The impacts of the GM Devolution deal agreed with Government in November 2014 on GMCA transport budgets will continue to have a number of significant impacts on the activities of TfGM and therefore its future budgets as set out below:

- Additional Activities already implemented: TfGM has already taken on responsibility for the management of the Highways Key Route Network. These costs are being absorbed within the Levy due to the ongoing delivery of efficiency savings in TfGM operational budgets;

- Bus Reform: In accordance with the Bus Services Act 2017, the GMCA has instructed TfGM to carry out an assessment of a proposed franchising scheme. As part of this assessment, some of the planned activities that TfGM will undertake in 2018/19 will include the following:
  - Preparation of a business case detailing its assessment of a proposed franchising scheme alongside other realistic options for improving bus services across Greater Manchester;
  - Obtaining a report from an independent auditor on its assessment of a proposed franchising scheme in advance of carrying out a public consultation;
  - Subject to the approval of the GMCA, carrying out a public consultation process on the GMCA’s behalf on its assessment of a proposed franchising scheme;
  - Publishing a report on the outcome of the consultation, which will then be considered by the GMCA prior to the Mayor deciding whether or not to use the powers available to him under the Bus Services Act 2017 to introduce a bus franchising scheme; and
  - Based on current proposals, the costs of these activities in 2018/19 are forecast to be £11.5 million. The Mayor has agreed to this being met from Earnback monies.

- Rail Station ‘Case for Change’: In March 2017 TfGM submitted its ‘Case for Change’ to Government which included its proposals for the Devolution of Rail Stations. In light of feedback received from industry stakeholders, TfGM is 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. The full scope and costs of further developing this work is currently uncertain, however an initial drawdown of £0.5 million from Transport Reserves was requested from, and approved, by GMCA, to progress this work. A further report will be presented to the GMCA and TfGMC once there is more clarity on the proposed scope and costs of the work.
Transport Scheme Development

3.2 It was noted during discussions with Scrutiny that TfGM is continuing to incur significant revenue costs to support scheme 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 a second Transport Fund; and to support the development of the Greater Manchester Spatial Framework. In the 2017 autumn budget GM made a submission to HM Treasury for funding of up to £56 million for the continuation of this work and the development of a second Transport Fund, however, no revenue funding was received.

3.3 In previous reports to GMCA (March 2016 and January 2017) a total of £10.5 million of funding was requested to fund Scheme Development work. To date this has been funded from a combination of Transport Reserves and Earnback funding. A further release of £5.5 million was requested from, and approved, by GMCA, to be funded from Transport Reserves in 2018/19 to allow for this work to be continued in order to support the Greater Manchester Spatial Framework and the broader GM growth agenda.

Transport Fund

3.4 Following further work on the projections and discussions with Scrutiny it was agreed that the remaining planned increases (of around 1.8% and 1.6%) for the Greater Manchester Transport Fund (GMTF) will again be deferred to future years.

Concessionary Support

3.5 Following the expiry of the previous three year fixed cost arrangements with the major operators, which expired at March 2017, agreements have been made for reimbursement for 2017/18 and 2018/19. The expected impact of these agreements has been reflected in the budget.

3.6 In October 2017 GMCA approved the introduction of an extension to Local Concessionary Scheme to allow women in Greater Manchester born between October 1953 and November 1954 to participate in the Local Concessionary Scheme. This will be introduced in April 2018 and the cost in 2018/19, which will be funded from Earnback Revenue, is estimated to be up to c£2.0 million, with overall estimated costs of £2.8 million.

3.7 Due to the cost pressures of operating the Scheme within the TfGM budget, The GMCA Transport Budget Scrutiny Panel agreed to consider the introduction of a charge for access to the existing Local Concessionary Scheme. However this recommendation was not approved by GMCA.

3.8 £1.5 million of the existing Concessionary Travel Reserve is budgeted to be used in 2018/19 to part fund concessionary support costs.
Supported Bus Services

3.9 In recent years the Supported Services budget has been 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.

3.10 During the Scrutiny discussions the current funding for the Manchester Metroshuttle; and the Ring and Ride services were also considered and the savings targets detailed below were agreed, as part of achieving an overall standstill Levy position.

3.11 It was agreed that the funding for the Manchester Metroshuttle service be reduced by £0.2 million on an annualised basis (£0.1 million in 2018/19) from targeted savings in the delivery of the service. It was also agreed that the grant to GMATL to fund Ring and Ride services be reduced by £0.3 million, with savings to be delivered from a combination of efficiency savings and increases in certain fares. The Scrutiny Panel also requested that the provision of accessible transport services by different organisations across GM be further reviewed in order to ensure that the services are being delivered as effectively and efficiently as possible.

3.12 Scrutiny also agreed that the fares, and charges for certain products or services that TfGM sells, including fares on schools services and Local Link, and Departure Charges, all be subject to increases in line with inflation.

Other costs and Budget pressures

3.13 It was noted in the Scrutiny process that the amount of funding available to continue the active travel and travel choices activities that have been supported by the ‘Local Sustainable Transport Fund’; ‘Sustainable Travel Transition Year’ funding; and, in 2017/18 ‘Cycling and Walking Fund’ monies of c£2.5 million per annum is expected to reduce in future years. This DfT funding is currently limited to £640,000 in 2018/19. This funding supports assistance to support access to work, including for job seekers, travel planning and cycling and walking. Should the level of funding from DfT not be increased beyond that which has currently been made available for 2018/19, further work will be required to assess alternative funding sources, and / or savings will need to be made in other costs to enable these activities.

3.14 A number of other budget pressures were noted as follows:

- Costs of supporting the new and enhanced facilities provided in recent years, including the transport interchange delivered as part of the Bolton Town centre development;
- Costs of extending services in a number of areas including extending the operating hours of the TfGM Control Room to operate 24/7; operating
and managing an enlarged asset base; operating and maintaining an increased traffic signal network; and increasing the provision of safety and security for passengers (including e.g. CCTV); and

- Costs of inflation on both staff, and other operating, costs.

3.15 In total the matters referred to above add additional costs pressures of c£5.9 million into the base budget which, in the absence of additional funding, will need to be met through additional savings and efficiencies in operating costs, including the generation of additional commercial income.

3.16 The Scrutiny Panel also noted risks in a number of other areas including:

- Currently unknown costs for the work connected with developing and implementing plans to address Air Quality. It was noted that the Budget assumption is that these costs will be funded by grants, outside of the Transport Levy, including from the Joint Air Quality Unit (JAQU);
- Ongoing development of Congestion Plan interventions. Following the consultation on Congestion in late 2017 (the ‘Congestion Conversation’), TfGM is currently reviewing responses and developing plans for managing Congestion. Whilst some of these plans would be able to be accommodated within existing TfGM and Local Authority Budgets, any incremental costs, which are forecast to be c£1.5 million in 2018/19 will need to be funded through alternative sources;
- As noted above, the limited scheme development funding, in the context of development aspirations for the Greater Manchester Spatial Framework and a further Transport Fund. This will limit the scale and the pace at which these schemes can be developed;
- Programme and cost risk associated with Bus Reform; and
- The lack of revenue funding to support the development of new capital schemes.

3.17 Taking into account the above the Scrutiny Panel proposed that:

- Additional efficiency savings of £4.2 million be included in the TfGM budget for 2018/19;
- The actions noted above in relation to the consideration of a charge for the access to the local concessionary scheme; increases to TfGM fares for Local Link and Schools services; the reduction in funding for the Manchester Metroshuttle service and for Ring and Ride services all be agreed subject to, where applicable, consultation;
- A proposal to commence charging for use of Electric Vehicle charging points was agreed. To date the costs of this service, including electricity
supplied, which are c. £0.2 million per annum, have been fully funded from TfGM’s budget;

- the Transport Levy for 2017/18 will be £196.373 million, plus a one-off adjustment of £87.98 million in relation to a refund from districts of transport reserves which were refunded to them in 2017/18, less a reduction of £3.9 million in relation to costs met from the Mayoral General budget, taking the levy to be charged to £280.453; million and

- the remaining previously agreed increases for the Greater Manchester Transport Fund would be deferred again and would be reviewed in future years.

4. TfGM Budget 2018/19

4.1 Based on the proposals above the TfGM budget for 2018/19 would be as follows:

<table>
<thead>
<tr>
<th>Resources</th>
<th>2018/19</th>
<th>2017/18</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Levy</td>
<td>121.17</td>
<td>126.22</td>
<td>(5.05)</td>
</tr>
<tr>
<td>Rail Grant</td>
<td>1.86</td>
<td>1.86</td>
<td>-</td>
</tr>
<tr>
<td>Utilisation of surplus/other reserves</td>
<td>7.50</td>
<td>9.90</td>
<td>(2.40)</td>
</tr>
<tr>
<td>Metrolink funding from Revenue / Reserves</td>
<td>9.88</td>
<td>8.73</td>
<td>1.15</td>
</tr>
<tr>
<td>Mayoral General budget</td>
<td>3.95</td>
<td>-</td>
<td>3.95</td>
</tr>
<tr>
<td>Earnback Revenue Grant / Reserves</td>
<td>13.50</td>
<td>9.00</td>
<td>4.50</td>
</tr>
<tr>
<td>Other Grants</td>
<td>1.06</td>
<td>1.15</td>
<td>(0.09)</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td><strong>158.92</strong></td>
<td><strong>156.86</strong></td>
<td><strong>2.06</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Call on Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concessionary Support</td>
</tr>
<tr>
<td>Supported Services</td>
</tr>
<tr>
<td>Accessible Transport</td>
</tr>
<tr>
<td>Operational Costs</td>
</tr>
<tr>
<td>Financing</td>
</tr>
<tr>
<td><strong>Total Expenditure</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Surplus/(Deficit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>-</td>
</tr>
</tbody>
</table>

4.2 There are a number of risks to the proposed budget, including increases in supported bus services costs resulting from price increases and bus service deregistrations; the ability to deliver the continuing challenging efficiency savings targets; and the ability to manage the additional costs of the activities referred to above within agreed budgets and reserves.
4.3 The main elements of the proposed budget are considered further below.

Resources

4.4 The amount of Transport Levy which is allocated to TfGM reduces mainly due to the introduction of a Mayoral Precept and a higher budgeted utilisation of TfGM Metrolink reserves in 2018/19. This is in line with the forecast increase in Metrolink net revenues and the strategy for the GMTF whereby all Metrolink net revenues are ‘ring fenced’ to meet the financing costs of the GMTF including the repayment of borrowings.

4.5 The Rail grant is used to contribute towards the costs that TfGM incurs on rail related activities.

4.6 The level of funding from reserves is budgeted to reduce slightly primarily due to the use of Earnback revenues to fund the costs for Bus Reform in 2018/19. This is offset slightly by a higher contribution from Metrolink reserves in 2018/19.

4.7 The decrease in funding from other grants reflects the forecast timing of the drawdown of the remaining grant funding, including in particular, the reduced amount of external funding for ‘Active Travel and Travel Choices work in 2018/19.

Concessionary support costs

4.8 The concessionary reimbursement budget includes the cost of the English National Concessionary Travel Scheme (ENCTS) and the local Concessionary 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 deals where appropriate.

4.9 The budget includes an allowance for the forecast cost of the introduction of an extension to Local Concessionary Scheme to allow women in Greater Manchester born between October 1953 and November 1954 to participate in the Local Concessionary Scheme. This is planned to be introduced in April 2018. The cost in 2018/19, which will be funded from Earnback Revenue in 2018/19, is estimated to be up to c. £2.0 million.

Supported Services costs

4.10 The budgets for the two years prior to 2016/17 included savings of £7.1 million (c. 20% of previous budget) from procurement and other efficiencies in the delivery of Subsidised Services. As previously reported these have been delivered from the following areas:

- Efficiency savings including in the procurement of contracts;
- Commercialising existing subsidised services;
- Reducing service frequencies, whilst maintaining the network; and
- Additional efficiencies in service delivery and service reduction, including night services.

4.11 The budget for 2018/19 has been retained at the same overall level, however this means that further efficiency savings will be required in order to fund any cost inflation and any incremental cost of commercial deregistrations, which have been increasing in particular in the second half of the current financial year.

**Accessible Transport Costs**

4.12 The grant payable to GMATL in the proposed budget will be up to £4.3 million in 2018/19. As noted above, it was agreed that a saving of £0.3 million be made in the grant for 2018/19 which was be delivered from a combination of efficiency savings and fares increases.

4.13 Following a consultation process with users of the Ring and Ride service the following fares changes are proposed after April 2018 as part of delivering the savings identified above:

- An increase in the concessionary fare from £1.20 to £1.50; and
- The introduction a fare of £1 for concessionary plus passengers.

**Operational costs**

4.14 Operational costs include the costs of operating and maintaining the TfGM owned bus stations, travel shops and other infrastructure, and the costs of the support functions.

4.15 The budget includes an assumption that Bus Station Departure Charges will increase by 2p from May 2018. This represents an increase of 3.0% (which is in line with December CPI) and will be used to offset the increasing costs of operating bus stations. This is forecast to generate additional income of up to c£100,000.

4.16 The budget also includes the assumption, which was agreed by the Scrutiny Panel, that fares set by TfGM for Local Link services and TfGM Schools fares will increase in line with inflation.

4.17 As in previous years, the budget includes very challenging targets for savings in operational and support costs 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. Also, as noted above, it is proposed that the costs of further additional activities, including in relation to Devolution and future scheme development, will be funded from sources other than the Levy, including Transport Reserves and Earnback Revenues.
5. Recommendations

5.1 Members are asked to:

(i) note the Transport Levy and the proposals approved by GMCA on 26 January 2018, which is for an increase in overall funding of £1.25 million compared to 2017/18, after accounting for usage of reserves and the introduction of a Mayoral Precept, which will fund some costs which were previously funded from the Levy;

(ii) approve the proposed increase in Bus Station Departure Charges of two pence (3.2%), with effect from May 2018;

(iii) agree the proposed changes in Local Link; TfGM Schools Weekly Pass fare of increases in line with RPI from April 2018;

(iv) note that the budget approved by GMCA on 26 January 2018 includes a grant of up to £4.3 million for GMATL; and

(v) agree the proposed changes to Ring and Ride fares, after April 2018, as set out in section 4.13 of the report.

Steve Warrener
Director of Finance & Corporate Services