

GREATER MANCHESTER INTEGRATED TRANSPORT AUTHORITY

REPORT FOR RESOLUTION

DATE: 12th February 2010

SUBJECT: GMITA/PTE Budget and Levy 2010/11

REPORT OF: The Clerk and the Treasurer to the Authority, the Chief Executive and Finance and Corporate Services Director, GMPTE

PURPOSE OF THE REPORT

To inform Members of proposals in respect of the Budget and Levy for 2010/11.

RECOMMENDATIONS

Members are recommended to:-

1. Note the contents of this report, setting out the budget proposals for 2010/11.
2. Note that on 29th January 2010, the AGMA Executive approved the recommended increase in the levy of 5.6%, following a process of scrutiny carried out by the Leaders, and Treasurers, of Bury, Trafford and Wigan Councils, resulting in an increase in the levy from £164.742 million in 2009/10 to £173.883 million in 2010/11. £4.94 million of the increase is 'ring fenced' to fund the financing costs of the Greater Manchester Transport Fund ('GMTF'). This equates to 3% of the 2009/10 levy, as agreed by the AGMA Executive on 12th May 2009
3. To make a levy on the district councils in 2009/10 of £173.883 million, which represents an increase of 5.6%.
4. Agree to a 2% increase in Bus Station Departure Charges with effect from 29th March 2010.
5. Request officers to submit a report to the 19th March meeting of the Authority, setting out the detailed 2010/11 budget for each expenditure heading, within the expenditure ceiling.

BACKGROUND DOCUMENTS

Reports to AGMA on 27th November 2009 and 29th January 2010 and other information held on file in GMPTE offices.

CONTACT OFFICER(S)

David Leather	0161 244 1020	david.leather@gmpte.gov.uk
Richard Paver	0161 234 1444	r.paver@manchester.gov.uk
Steve Warrener	0161 244 1025	steve.warrener@gmpte.gov.uk

GMITA/PTE BUDGET 2010/11

1. INTRODUCTION

- 1.1 This report sets out the draft Budget for 2010/11 for GMITA/PTE.
- 1.2 The budget proposal presented by GMITA to AGMA on 27th November 2009 included a levy proposal of £173.883 million, which represented an increase of 5.6% compared to the 2009/10 levy. The 2010/11 budget includes £4.94 million to fund the financing costs of the public transport schemes funded through the Greater Manchester Transport Fund ('GMTF'). This equates to 3% of the 2009/10 levy as agreed by the AGMA Executive at its meeting on 12 May 2009. The initial budget proposals are summarised below and section 2 includes a summary of the main factors influencing the budget:

	£m	£m	% Increase/ (decrease)
2009/10 Levy		164.74	
Additional Costs/(Savings)			
Concessionary Support Costs	4.73		2.9%
Supported Bus Services Costs	0.54		0.3%
Additional Rail Support Costs	0.25		0.2%
Passenger Services, Facilities and Support Costs	(0.81)		(0.5%)
Accessible Transport Costs	(0.30)		(0.2%)
Other Costs/income	(0.22)		(0.1%)
		4.19	2.6%
GMTF financing costs		4.94	3.0%
Overall increase		9.13	5.6%
Proposed 2010/11 Levy		173.88	

- 1.3 Subsequent to the AGMA meeting on 27th November 2009, a scrutiny meeting was held on 2 December 2009 with the Leaders and Treasurers of Wigan, Trafford and Bury. The issues discussed at this meeting are set out at section 3. The scrutiny committee endorsed the 5.6% levy increase proposed by GMITA, including the 3% increase relating to the financing costs for the GMTF, and agreed that this increase be put forward for approval at the AGMA Executive meeting on 29th January 2010.
- 1.4 An analysis of the proposed levy by District is shown at Appendix 1.

2. 2010/11 BUDGET

- 2.1 A summary of the main factors impacting the year on year change in the budget is set out below:

£4.73 million (6.7%) increase in concessionary payments

- 2.2 Concessionary support costs are budgeted to increase in 2010/11 in line with the three year capped payments agreed with operators for the period of the special grant funding (2008/09 to 2010/11).

Due to the significant uncertainty over the future funding of concessionary support costs and the predicted increase in the costs of operating the scheme, a ring-fenced reserve was created in 2008/09 to be used when, as anticipated, the costs of operating the scheme exceed the available funding.

As the funding for costs in 2011/12 has not yet been determined by the DfT, and the existing fixed price agreements agreed with operators cover the period to March 2011, there remains a significant risk that funding for 2011/12 and subsequent years may not be in line with forecast costs. Central government provides funding for elderly and disabled concessionary travel; however, there is no central government funding provided for concessionary youth travel.

Recent research for the LGA and PTEG suggests that the costs of operating the national scheme will increase substantially as a result of increases in costs, fares and demographic changes.

Based on current projected forecast income from the special concessionary travel grant from Government and the levy contribution, the positive cash balance generated in the early periods of the scheme will reverse by 2013 based on current projected costs of operating the scheme. This assumes that costs resulting from new operators and additional cross boundary services can be accommodated within existing budgets.

£0.54 million (1.6%) increase in supported bus services

- 2.3 Significant pressures on supported bus service costs have continued in the current year as a result of both contract renewal costs running at more than twice the level of inflation; and the high level of deregistrations of commercial services which are being subsidised.

The General Services budget for 2010/11 provides for an overall increase of 7.0%. This is based on projecting forward current contract costs to provide the current level of services, allowing for an average price increase of 5%, which is in line with recent experience, and also includes £0.75 million for new deregistrations. This is lower than the forecast of deregistrations seen in the current year of up to £1

million. Any increase in excess of £0.75 million will be managed within the overall budget provision.

Provision was made in the 2009/10 budget to provide additional regional town centre Metroshuttle services. The budget assumed that incremental costs of £0.5 million would be incurred in 2009/10. Services have been established in Bolton and Stockport; however no specific proposals are being progressed with any of the other seven Local Authorities at this time. The budget for 2010/11 has been prepared on the basis that Manchester, Bolton and Stockport will be the only services to be funded.

The 2009/10 budget included an amount of £1.0 million for the provision of orbital bus services. Several orbital services commenced in October 2009 for a six month trial period. Although it is too early to determine how successful they will be, the 2010/11 budget assumes that the services can subsequently be run commercially or, if funding is required for a further, short, trial period, it will be accommodated by targeting additional savings in the remainder of the current financial year.

The underlying assumption for schools' services costs is that they will increase by 7%, in line with the rest of the General Services budget, however the proposed budget for 2010/11 assumes that savings can be achieved in 2010/2011 from procurement and other initiatives to reduce the budget increase to 3.8%.

£0.25 million of additional rail support costs

- 2.4 The ITA has provided funding to strengthen rail services on the Rochdale and Huddersfield lines in 2009/10. The 2010/11 budget assumes a limited amount of financial support in 2010/11.

The provision of further rolling stock is the subject of continuing discussions with the Department for Transport.

£0.81 million (0.5%) reduction in passenger services, facilities and support including additional efficiency savings of £1.4 million

- 2.5 In line with AGMA Budget Guidelines provision has been made for salary increases of 1.0%, which is also intended to cover any incremental payments. An additional 0.5% has been provided for the unavoidable increase in pension funding costs as a result of the 2007 actuarial valuation.

Other costs have been inflated by 0.75% in line with AGMA Budget Guidelines.

However, these increases are more than offset by the 2010/11 impact of current year forecast saving in other costs of £0.15 million; a forecast increase in cost recharges; and the full year impact of a number of unbudgeted procurement

savings delivered in 2009/10, leading to a net saving on support costs of £0.16 million, or 0.5% compared to 2009/10 budgeted costs.

In addition, a number of additional initiatives, as set out below, have been identified to deliver incremental efficiency savings of £1.4 million in 2010/11.

- Ongoing delivery of the procurement strategy is currently budgeted to deliver incremental savings in 2010/11 of £0.5 million.
- Ongoing, incremental review of processes, and of their overall effectiveness and efficiency, is targeted to generate further savings of £0.5 million in 2010/11.
- In addition, other initiatives including those set out below are currently budgeted to generate further efficiency savings of £0.4 million in 2010/11.
 - bringing certain data analysis work, currently undertaken by an external agency, in house; and
 - further efficiencies in relation to facilities management costs, accommodation, utilities and advertising.

These savings are in addition to the £0.75 million that was budgeted, and is on course to be delivered, during 2009/10; such that the total amount of efficiencies in 2010/11, compared to the 2008/09 base position is £2.15 million.

£0.30 million (4.4 %) reduction in Accessible Transport Costs

- 2.6 The grant payable to GMATL was held at 2008/09 levels in 2009/10. GMATL has identified that it will save £0.1 million against its budget in 2009/10 and further efficiency savings of £0.2 million will be targeted for 2010/11. As a result, a targeted cost reduction of £0.3 million has been included in the 2010/11 budget.

Longer term savings resulting from rationalisation of different DRT providers in Greater Manchester may potentially identify longer term savings for all operators. The target saving for 2010/11 does not include the potential benefits of any such rationalisation, although future savings targets will be developed and appraised during 2010/11, as part of the Flexible Transport Review being undertaken by the ITA.

The costs of Travel vouchers and Accessible Travel grants will be held at the 2009/10 level.

£9.18 million (24.5%) increase in Finance Costs

- 2.7 Finance costs reflect both the increased financing costs of Metrolink 3A and the financing costs for the GMTF. The additional costs for Metrolink 3A in 2010/11 are funded from contributions from Metrolink net revenues and reserves.

2.8 The increase in financing costs therefore relates to the £4.94 million to fund the financing costs of the public transport schemes funded through the GMTF, as agreed by AGMA in May 2009.

3. SCRUTINY MEETING

3.1 The scrutiny meeting was held with the Leaders and Treasurers of Trafford, Wigan and Bury on 2 December 2009. Two main areas were discussed at the meeting:

- ***The level of targeted efficiencies:*** The 2010/11 levy proposal includes targeted efficiency savings of £1.4 million to be delivered in 2010/11; in addition to budgeted savings of £0.75 million for 2009/10 which are on course to be delivered. 86% of the ITA/PTE's budgeted costs relate to costs of concessionary travel; costs of subsidising bus services; financing costs; and the payment of the rail grant, and therefore the total efficiencies in 2010/11 represent 6.9% of 'discretionary' spend. As a result, the level of efficiencies included in the 2010/11 levy proposal was considered by the scrutiny committee to be appropriate. Given the relatively small proportion of discretionary expenditure; this reinforces the requirement to continue to work with the DfT to secure greater levels of influence and control over expenditure, in particular in relation to concessionary fares and bus related expenditure. The scrutiny committee also requested the ITA/PTE to review potential further efficiency savings in 2011/12 and 2012/13.
- ***Implementing an increase in concessionary fares:*** The concessionary fare was last increased in April 2009 from 70p to 80p. This was the first increase for two years. A 10p increase in the concessionary fare would reduce concessionary support costs by approximately £2.3 million per annum. Despite increases in operators' fares and costs, it was determined by the scrutiny committee that an increase in the concessionary fare in 2010/11 would not be appropriate.

3.2 At the AGMA Executive meeting held on 29th January 2010, an overall increase in the levy of 5.6% was proposed, resulting in an increase in the levy from £164.742 million in 2009/10 to £173.883 million in 2010/11.

3.3 It is also recommended that the departure charges to bus operators for the use of GMPTE bus stations be increased by 2% with effect from 29th March 2010, and this assumption has been built into the budget figures. The increase reflects the PTE's reasonable costs of operating the bus stations.

3.4 The resultant summary draft revenue account is shown below. A detailed analysis of the budget proposal will be submitted to the ITA in March 2010.

	2009/10	2010/11
	Budget	Budget
	£m	£m
Concessionary Support	70.41	75.14
General Services	21.94	23.48
Orbitals	1.00	0.00
Shuttles	0.50	0.14
Schools Services	9.54	9.91
Supported Bus Services	32.98	33.52
Supported Rail services	0.00	0.25
Rail	39.09	78.30
Metrolink	1.80	1.82
Accessible Transport	6.89	6.59
Passenger Services, Facilities & Support	31.29	31.12
Financing	37.41	46.60
Less : Incremental Efficiency Savings	(0.75)	(1.40)
Total Expenditure	219.11	271.94
Revenue		
Levy	164.74	173.88
National Concessionary Travel Scheme	10.77	11.07
Special Rail Grant	40.71	79.94
Metrolink Finance costs funded from reserves	2.48	6.71
Other Grants	0.41	0.33
Total revenue	219.11	271.94
Movement in General Reserves	£m	£m
General Reserves as reported at 1 April	8.72	8.02
Transfer from Financing Cost Reserve	1.30	-
Surplus for year	1.00	-
IFRS adjustments (2009/10 only)	(3.00)	-
General Reserves at 31 March	8.02	8.02

4. FORECAST 2011/12 AND 2012/13

4.1 The 2011/12 and 2012/13 projections are based on the same cost increases as have been used for 2010/11, with the following exceptions.

- although concessionary costs are budgeted to increase by 6.9% per annum, the government support for the National scheme is only forecast to increase by 1% per annum;
- subsidised bus services costs assume that the level of existing and proposed services budgeted in 2009/10 will be maintained. The cost of contract renewals and deregistrations is assumed to increase at 7% per annum;
- costs of Accessible Transport remain frozen at 2009/10 levels; and
- based upon the above assumptions, levy increases of between 2.3% and 4%, in addition to the 3% increase relating to the GMTF financing costs, would be required in 2011/12 and 2012/2013.

4.2 The scrutiny committee requested the ITA/PTE to review potential further efficiency savings in 2011/12 and 2012/13 to reduce the levy increases below the levels forecast. This will be kept under constant review during 2010/11 in setting procurement and efficiency targets.

5. RESERVES

5.1 Current good practice and Audit Commission guidance states that reserves should be maintained at an appropriate level as determined by a detailed business risk review. The reserves position is summarised below.

	2008/09	2009/10	2010/11
Movement in General Reserves	£m	£m	£m
General Reserves as reported at 1 April	8.31	8.72	8.02
Transfer from Financing Cost Reserve	-	1.30	-
Surplus for year	0.41	1.00	-
IFRS adjustments (2009/10 only)	-	(3.00)	-
General Reserves at 31 March	8.72	8.02	8.02

5.2 A risk analysis has been undertaken which demonstrates that the risks facing the organisation (which have increased as a result of the establishment of the GMTF, and the related capital programme of approximately £1 billion) require a General Reserve balance of at least £8 million.

- 5.3 The introduction of International Financial Reporting Standards (IFRS) from 1 April 2010 for Local Authorities (including ITAs/PTEs) will impact on the presentation of the accounts and will also impact on reserves.

Based on the detailed work undertaken to date, the impact of the introduction of IFRS on the PTE, based on the financial position at 31 March 2009 will be to reduce opening reserves at 1 April 2010 by approximately £3.0 million.

As a result £1.3 million will be transferred from the existing Financing Cost Reserve to General Reserves; which, together with the currently forecast surplus for 2009/10 of £1.0 million, will maintain the General Reserve balance at the minimum level required of £8 million.

- 5.4 The following risks have not been included in the levy proposal.

Supported Bus Services

- 5.5 In the current year officers have continued to mitigate cost increases in relation to supported bus services by implementing a number of measures, including replacing scheduled services with Demand Responsive Transport services in some areas; revising timetables; and grouping contracts to achieve more effective use of available vehicles. The effect of this has been that, although costs have been contained within budget; between September 2008 and September 2009, the annualised mileage subsidised by GMPTE has reduced by 119,000 miles (1%). Whilst every effort to achieve efficiencies in this way will continue in 2010/11, there remains the risk that costs will not be contained within budget if services are to be maintained at current levels. If costs cannot be contained within budgeted levels then the future funding of a number of services may not be affordable or support for services may need to be reduced.

Concessionary support

- 5.6 As the funding for concessionary support costs from 2011/12 has not yet been determined by the DfT, and the existing fixed price agreements agreed with operators cover the period to March 2011, there remains a significant risk that funding for 2011/12 and subsequent years may not be in line with forecast costs. Central government provides funding for elderly and disabled concessionary travel; however, there is no central government funding provided for concessionary youth travel.

Recent research for the LGA and PTEG suggests that the costs of operating the national scheme will increase substantially as a result of increases in costs, fares and demographic changes.

Due to the significant uncertainty over the future funding of concessionary support costs and the predicted increase in the costs of operating the scheme, a ring-

fenced reserve has been created to be used when, as anticipated, the costs of operating the scheme exceed the available funding.

Based on current projected forecast income from the special concessionary travel grant from Government and the levy contribution, the positive cash balance generated in the early periods of the scheme will reverse by 2013, based on current projected costs of operating the scheme. This assumes that costs resulting from new operators and additional cross boundary services can be accommodated within existing budgets.

6. RECOMMENDATION

6.1 The recommendations appear at the front of the report.

Sir Howard Bernstein
Clerk

Richard Paver
Treasurer

David Leather
Chief Executive, GMPTE

Steve Warrener
Finance & Corporate Services Director, GMPTE

APPENDIX 1

Analysis of Proposed levy by District

	2009-10			Annual Change %	Annual Change £000's	2010-11			Annual Change %	Annual Change £000's
	Population mid yr 2007	%	Levy £000's			Population mid yr 2008	%	Levy £000's		
Bolton	262,300	10.2%	16,865	3.9%	634	262,800	10.2%	17,757	5.29%	892
Bury	183,300	7.2%	11,786	4.2%	473	183,100	7.1%	12,371	4.96%	585
Manchester	458,100	17.9%	29,455	5.4%	1,503	464,200	18.0%	31,365	6.48%	1,910
Oldham	219,500	8.6%	14,113	3.9%	532	219,700	8.5%	14,844	5.18%	731
Rochdale	206,100	8.0%	13,252	3.8%	479	206,300	8.0%	13,939	5.18%	687
Salford	219,200	8.6%	14,094	4.5%	609	221,300	8.6%	14,953	6.09%	859
Stockport	280,900	11.0%	18,061	4.1%	705	281,000	10.9%	18,986	5.12%	925
Tameside	214,400	8.4%	13,785	4.0%	524	215,500	8.4%	14,561	5.63%	776
Trafford	212,800	8.3%	13,682	4.4%	579	212,800	8.3%	14,378	5.09%	696
Wigan	305,600	11.9%	19,649	4.0%	754	306,800	11.9%	20,729	5.50%	1,080
Total	2,562,200	100.0%	£164,742	4.3%	£6,792	2,573,500	100.0%	£173,883	5.55%	£9,141