

GREATER MANCHESTER INTEGRATED TRANSPORT AUTHORITY**REPORT FOR INFORMATION**

COMMITTEE: Policy and Resources

DATE: 19th March 2010

SUBJECT: Aggregated ITA/PTE Revenue Budget Monitoring 2009/10.

REPORT OF: Finance and Corporate Services Director, GMPTE and the Treasurer to the Authority

PURPOSE OF REPORT

To inform Members of the latest position in respect of the 2009/10 revenue budget.

RECOMMENDATIONS

Members are recommended to:-

1. Note that the latest revenue forecast for 2009/10 is currently projecting a surplus of £1.35 million, predominantly due primarily to lower than budgeted levels of expenditure on subsidised bus policy priorities and on general bus services.

BACKGROUND DOCUMENTS

Report to Policy Committee	ITA/PTE Revenue Budget Monitoring 2009/10	20 November 2009
Report to Authority	Revenue Budget 2009/10	20 March 2009

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1. 2009/10 Forecast Outturn

1.1 The latest position on the 2009/10 budget is summarised below:-

	Period to Jan 2010			Latest Approved		
	Actual	Budget	Variance	Forecast	Budget	Variance
	£m	£m	£m	£m	£m	£m
Concessionary Support	58.67	58.67	-	66.81	70.41	3.60
Supported Bus Services	25.84	27.18	1.34	31.50	32.98	1.48
Rail	65.25	32.57	(32.68)	78.29	39.09	(39.21)
Metrolink	1.48	1.49	0.01	1.78	1.79	0.01
Accessible Transport	5.67	5.74	0.07	6.81	6.89	0.08
Passenger Services, Facilities & Support	25.00	25.52	0.52	30.76	30.53	(0.23)
Financing	31.20	31.18	(0.02)	37.14	37.78	0.64
Total Expenditure	213.11	182.35	(30.76)	253.09	219.47	(33.62)
Revenue						
Lewy	137.28	137.28	-	164.73	164.73	-
National Concessionary Travel Scheme	8.97	8.97	-	10.77	10.77	-
Special Rail Grant	66.55	33.92	32.63	79.92	40.71	39.21
Metrolink Funding from Reserves	2.07	2.07	-	2.48	2.48	-
Use of Financing Reserve	-	-	-	0.03	0.67	(0.64)
Transfer to specific reserve	-	-	-	(3.90)	(0.30)	(3.60)
Other Grants	0.36	0.36	-	0.41	0.41	-
Total revenue	215.23	182.60	32.63	254.44	219.47	34.97
Surplus/(Deficit)	2.12	0.25	1.87	1.35	-	1.35

1.2 The remaining sections of this report give Members details of the latest forecast position compared to the 2009/10 budget, as approved on 20 March 2009.

2. Concessionary Support

	Period to January 2010			Latest Approved		
	Actual	Budget	Variance	Forecast	Budget	Variance
	£m	£m	£m	£m	£m	£m
Bus	54.40	54.70	0.29	61.69	65.64	3.95
Metrolink	3.31	3.02	(0.29)	3.97	3.62	(0.35)
Rail	0.96	0.96	-	1.15	1.15	-
	58.67	58.67	-	66.81	70.41	3.60

2.1 Concessionary support costs to date and the latest forecast for the full year are currently in line with budget, after taking into account proposed transfers to reserves to mitigate the risk of future higher costs of concessionary travel as set out below.

2.2 Concessionary support costs are forecast to increase over the period to 2010/11 due to the introduction of the National Concessionary Travel Scheme and as a result of increases in operator fares. GMPTE has mitigated these risks by agreeing semi-fixed (capped) payments with operators for the three year period of the special grant funding (2008/09 to 2010/11).

- 2.3 In the period since the introduction of the National Concessionary Travel Scheme, the risks relating to central Government and Local Funding for the Concessionary Schemes have increased. DfT has recently carried out a consultation in respect of the distribution of funding in 2010/11. Although no changes were made in relation to Greater Manchester for 2010/11, the position for 2011/12 and the years after that remains unclear. In addition, recent research for the LGA and PTEG suggests that the costs of operating the national scheme will increase substantially in future years as a result of increases in operators' costs, fares and demographic changes.
- 2.4 Due to the 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.
- 2.5 Based on projected forecast income from the National 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.

3. Supported Bus Services

	Period to January 2010			Latest Forecast	Approved	
	Actual	Budget	Variance		Budget	Variance
	£m	£m	£m	£m	£m	£m
General Services	17.43	17.92	0.48	21.15	21.55	0.40
Policy priorities	0.44	1.25	0.81	0.67	1.50	0.83
Schools Services	7.70	7.74	0.04	9.29	9.54	0.25
	<u>25.57</u>	<u>26.90</u>	<u>1.34</u>	<u>31.11</u>	<u>32.59</u>	<u>1.48</u>
Grant Funded Services	0.28	0.28	0.00	0.39	0.39	-
	<u>25.84</u>	<u>27.18</u>	<u>1.34</u>	<u>31.50</u>	<u>32.98</u>	<u>1.48</u>

- 3.1 General Network Services costs are currently £0.48 million below budget in the year to January 2010. While part of this is attributable to timing differences, most of it is expected to be maintained until the year end. This saving has been achieved as a result of ongoing close financial management and further focus on the contract tendering process, which has resulted in savings against budget on a number of recent contract renewals. The benefit of these savings has been factored into the 2010/11 budget.
- 3.2 £0.81 million of the year to date variance is attributable to expenditure in relation to orbital and town centre shuttle services. Pilot orbital services commenced in October and a favourable variance for the year of £0.58 million is forecast for the full year. The costs of town centre shuttles budget are expected to outturn £0.25 million below budget by the year end, as no additional services have been commissioned.

3.3 Schools contract costs are currently £40,000 lower than budget but on bus revenues are some £350,000 lower than budgeted. This has been offset by revenues from scholars' passes and unbudgeted income from GMTL following the receipt of updated passenger data. A further favourable variance is expected to arise in the remaining two months of the year on the basis of this revised income allocation, resulting in a forecast favourable variance for the year of approximately £250,000. The impact of these variances has also been factored into the 2010/11 budget.

4. Rail

	Period to January 2010			Latest Forecast	Approved Budget	Variance
	Actual	Budget	Variance			
	£m	£m	£m	£m	£m	£m
Rail Grant	65.25	32.57	32.68	78.29	39.09	39.21
Rail Administration Grant	1.30	1.35	(0.05)	1.62	1.62	-
	<u>66.55</u>	<u>33.92</u>	<u>32.63</u>	<u>79.92</u>	<u>40.71</u>	<u>39.21</u>
Payments to Franchisee	(65.25)	(32.57)	(32.68)	(78.29)	(39.09)	(39.21)
Grant available to offset support costs	<u>1.30</u>	<u>1.35</u>	<u>(0.05)</u>	<u>1.62</u>	<u>1.62</u>	<u>-</u>

4.1 The rail grant received from DfT and paid to Northern Rail in the period to 31 January 2010 is £32.68 million higher than budget. The budget reflected the expected outcome of the regulatory review of track access charges. DfT are however still in discussions with Northern Rail to agree the final amounts payable for 2009/10 and subsequent years. The forecast currently assumes that grant receipts and payments will continue at the current level for the full year, with no impact on the net ITA/PTE result for the year.

5. Metrolink

5.1 The Metrolink charge represents the element of the levy that is allocated to Metrolink operations. The forecast is in line with budget.

6. Accessible Transport

	Period to January 2010			Latest Forecast	Approved Budget	Variance
	Actual	Budget	Variance			
	£m	£m	£m	£m	£m	£m
GMATL Grant Payment	5.29	5.29	-	6.34	6.34	-
Accessible Transport Voluntary Sector	0.02	0.09	0.07	0.03	0.11	0.08
Travel Vouchers	0.36	0.36	-	0.44	0.44	-
	<u>5.67</u>	<u>5.74</u>	<u>0.07</u>	<u>6.81</u>	<u>6.89</u>	<u>0.08</u>

6.1 GMATL are currently forecasting savings against budgeted costs of £0.1 million in the year which, in addition to further targeted savings of £0.2 million have been factored into the 2010/11 budget.

6.2 The cost of Accessible Transport for the period to January and the forecast costs for the full year are £80,000 below budget. This is the result of a decision not to make any major accessibility grant payments in the current year.

7. Passenger Services, Facilities and Corporate Support

	Period to January 2010			Latest	Approved	Variance £m
	Actual	Budget	Variance	Forecast	Budget	
	£m	£m	£m	£m	£m	
Passenger Services and Facilities	7.51	7.88	0.37	9.01	9.07	0.06
Corporate Support	17.49	17.64	0.15	21.75	21.46	(0.29)
	<u>25.00</u>	<u>25.52</u>	<u>0.52</u>	<u>30.76</u>	<u>30.53</u>	<u>(0.23)</u>

7.1 The favourable variance on passenger services and facilities and corporate support costs in the year to date is due to timing differences, in a number of areas, which are largely forecast to reverse by the end of March.

7.2 Following discussions with the Audit Commission, it has been determined that a number of accounting adjustments that result from the introduction of International Financial Reporting Standards (“IFRS”), that would otherwise be required to be made in financial year 2010/11, would be more appropriately made in the year to March 2010. These adjustments include the requirement to make provision for the cost of unutilised holidays at the end of the financial year, based on the maximum number of contractually permitted holidays that can be carried forward from one year to the next. This is forecast to amount to approximately £170,000 as at 31 March 2010 and the cost in future years, after providing for the amount at March 2010, is forecast to be insignificant. A further adjustment relating to the accounting treatment of leased assets under IFRS is forecast to result in an additional “one off” charge of £210,000 in the year.

8. Finance Costs

8.1 Finance costs are currently forecast to be in line with budget although the impact of any interest rate changes is being kept under regular review.

9. General Reserves

9.1 The general reserves position can be summarised as follows:-

	Latest Forecast £m
General Reserves at 1 April 2009	8.72
IFRS adjustments	(3.03)
Surplus for Year	1.35
Transfer from Financing Cost reserve	1.00
Reserves at 31 March 2010	<u>8.04</u>

9.2 Opening reserves reflect the adjustments made in finalising the 2009 accounts.

- 9.3 In addition to the accounting adjustments referred to in 7.2 above, and based on the detailed work undertaken to date, the impact of the introduction of IFRS for the accounting period commencing 1 April 2010, will be to reduce opening reserves at 1 April 2010 by approximately £3.0 million. These adjustments relate to the write off of loan premium costs currently held on the Balance Sheet which are being amortised over 30 years (£2.4 million); and the re-statement of a loan balance to recognise the associated interest cost at the effective rate rather than the contracted rate (£0.6 million). Although these are ultimately 'timing differences' General Reserves at 1 April 2010 will reduce by approximately £3.0 million.
- 9.4 A risk analysis has been undertaken which demonstrates that the risks facing the organisation (which have increased during the year as a result of the agreement by AGMA to establish the Greater Manchester Transport Fund, and undertake a capital programme of public transport schemes of approximately £1 billion) require a General Reserve balance of at least £8 million.
- 9.5 The forecast surplus for 2009/10 is currently £1.35 million. This will contribute towards reinstating the level of General Reserves to £8 million as at 31 March 2010.
- 9.6 In addition, and in order to fully reinstate the General reserve to £8.0 million, it is proposed to transfer £1.0 million of the residual Financing Cost Reserve to General Reserves as at 31 March 2010.

10. Recommendations

See front sheet of report for recommendations.

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