

**MANCHESTER CITY COUNCIL
REPORT FOR INFORMATION**

COMMITTEE: Resources and Governance
DATE: 15 November 2007
SUBJECT: GMPTA/E Budget
REPORT OF: Greater Manchester Passenger Transport Authority

PURPOSE OF REPORT

To provide the Committee with an overview of the GMPTA/E budget process and the issues GMPTA/E is facing in drawing up its budget for 2008/09.

RECOMMENDATIONS

The Committee is asked to note the report

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1. Background

- 1.1** The purpose of this report is to provide the Committee with an understanding of the process which GMPTA/E has put in place to produce its budget for 2008/09 and of the challenges and uncertainties which it faces in so doing.
- 1.2** GMPTA/E is currently undergoing a major change process. It has recently taken on the responsibility for managing the operating contract for the Metrolink tram service in Greater Manchester, in addition to the development of the next phase of the Metrolink system (new tram links to Rochdale, Oldham, Droylsden and Chorlton). It has also submitted a bid to Government for some £3 billion of funding from its Transport Innovation Fund ("TIF") which, if successful, will be used to implement major improvements to transport provision in the Greater Manchester area.
- 1.3** At the same time GMPTA/E is continuing to develop and improve the level of services it provides for transport users in the Greater Manchester area. A major task which it is currently addressing is the issue of passes to all over sixties who, from April 2008, will be able to use local bus services throughout the country free of charge as part of the English National Concessionary Travel Scheme.
- 1.4** The significant increase in the level of activity within GMPTA/E generated by these major projects has led to a review of the current management structures and will result in a revised structure being in place by the start of the new financial year.
- 1.5** GMPTA/E is funded primarily through a levy made on the ten members of AGMA. Once AGMA has agreed GMPTA/E's budget, the levy is apportioned between its members based on their respective populations. In 2007/08 the levy is £151.8m. Funding for rail services that run through the Greater Manchester area is provided to GMPTA/E directly by DfT, which also makes a contribution to the costs incurred by GMPTA/E in monitoring and promoting rail services. The levy is used to finance all the other services provided by GMPTA/E including subsidised bus services, concessionary scheme payments to operators and bus stations.

2 Business Planning and Budget Process

- 2.1** GMPTA/E has historically produced an annual budget for consideration by its Policy Committee in March each year. A programme has been adopted by the Board that will ensure that this timescale is met. At each key stage in the process the budget proposals are subjected to rigorous examination by the GMPTA Board and PTA officers before final submission to the GMPTA Policy Committee. Moreover, as explained below, there is an external scrutiny process involving the Leaders and Treasurers of three representative AGMA authorities. A summary of the key dates is attached at Appendix A.
- 2.2** The GMPTA/E budget preparation is linked to the Business Planning process with the aim of ensuring that business objectives are agreed in good time for the financial consequences to be fully reflected into the budget. GMPTA/E is producing a zero based budget for 2008/09 with the aim of ensuring that all costs are subject to challenge and justified.

- 2.3 The Business Planning Process involves the setting of targets and objectives at strategic and operational levels, to ensure that GMPTA's Policy Priorities inform GMPTE's objectives.
- 2.4 GMPTA/E has six Strategic Objectives which underpin its vision to 'Make public transport the preferred choice in Greater Manchester', and is currently developing Key Business Priorities (KBPs) for 2008/09. These will develop from the Key Business Priorities set for 2007/08, with the addition of new KBPs to address any additional strategic issues.
- 2.5 Each KBP will have a Director as its 'owner', with responsibility for ensuring that actions are taken to achieve the objectives. In turn, the KBPs will be supported by Business Priority Actions (BPAs), allocated to appropriate Departmental Managers, with Departmental Business Plans developed to work towards implementing the Actions. These departmental actions will be cascaded into individual performance objectives as part of the development of an organisation wide performance management framework.
- 2.6 The Capital Programme will also reflect the KBPs, and the development of projects through the Project Management Process is dependent upon satisfactory 'Policy Fit' with GMPTA and GMPTE objectives.
- 2.7 Directorate and Departmental budgets are developed in parallel with business plan KBPs and form the basis of GMPTA/E's organisation wide budgets for the forthcoming financial year.
- 2.8 Revenue and capital budgets are then the subject of extensive iterative discussions, validations by Directors, and approval by the Executive Group and GMPTE Board.
- 2.9 The PTE's initial budget proposals are also the subject of a review by a delegated scrutiny committee of AGMA members (Trafford, Bury and Wigan). Meetings are held with the Treasurers of these districts and subsequently with the Leaders prior to the proposals being formally submitted to AGMA for review.
- 2.10 Discussions are then held with AGMA to agree the level of the levy for the coming year. The timing of these discussions means that the figures used are prepared on a "top down" basis and the detailed budgets are therefore finalised after the levy has been agreed.

3 2008/09 Budget Issues

- 3.1 The preparation of the 2008/09 budget and GMPTA/E's levy proposals to AGMA are impacted by the issues referred In Section 4.
- 3.2 **Key Assumptions** - In preparing the budget a number of key assumptions are being used. These are:
 - A target efficiency saving of 5.0 % of GMPTA/E direct costs which includes the implementation of a new approach to procurement that is expected to produce additional savings on both revenue and capital expenditure.

- General inflation of 4% on payroll and other overhead costs (reflecting the current level of RPI)
- 5% increase in the cost of subsidised bus services contracts (but see issues below)
- 6% increase in the costs of current concessionary scheme (before impact of free national off-peak travel scheme— see below) reflecting forecast increase in bus fares
- The main Rail Grant will be maintained and increased in line with the increase in the Retail Price Index.
- Any new borrowings are assumed to be made at an interest cost of 5.75%

4 Current Pressures and Challenges

4.1 In preparing the budget GMPTA/E has to take account of a number of uncertainties, the principal issues being set out below

4.2 Impact of TIF bid – The outcome of the bid is unlikely to be known until after the completion of the budget process. As a result there are considerable uncertainties surrounding the level of activity resourcing that will be required and the consequential impact that this will have on funding. This is still the subject of continuing discussions with DfT.

4.3 Introduction of English National Concessionary Travel Scheme from 1 April 2008 – Consultation is continuing with DfT over the level of funding that will be available to cover the additional costs of the new national arrangements for off peak travel for the over sixties. There are two issues surrounding this:

1. While there is a known amount available nationally, the basis of allocation between Concessionary Travel Authorities is dependent on the outcome of these consultations. The period for consultation does not close until 23 November. A final determination is therefore unlikely before December at the earliest.
2. The impact of the changes on the costs of reimbursement to operators can not be determined with certainty until the new scheme has been in place for some time as the operators' behaviour (eg they may introduce new services, have to provide additional vehicles) and public reaction (in terms of the level of take up and generation of extra journeys) will drive the costs of the scheme. There is therefore a risk that the funding receivable will be less than is payable to the operators.

4.4 Annual Concessionary Fares Scheme - The basis of GMPTA/E's reimbursement to operators for 2008/09 has still not been agreed. The methodology has been reviewed in the light of successful appeals by operators against that used following the introduction of free local concessionary travel in 2006. In 2006/07 and 2007/08 additional costs of £3.4 million per annum were incurred as a result of the ruling made by the DfT's independent Decision Maker. Until consultation with operators is complete in respect of 2008/09, however, the risk remains that further appeals could be made and result in additional costs to GMPTA/E. In order to minimise this risk GMPTA/E will engage in a consultation process with the bus operators to develop the methodology for reimbursement of concessionary fares in 2008/09. To inform this consultation GMPTA/E has been working with the other five PTEs over the past

six months to achieve a greater level of consistency between the schemes operating in the Greater Manchester and other PTE areas.

- 4.5 Supported Bus Services** – While the assumption is being made that cost increases can be contained at 5% per annum, recent experience has been that increases are running nearer to 8%. It has been possible to mitigate this to date by a number of measures, including replacing scheduled services with Demand Responsive Transport services in some areas and revising timetables and grouping of contracts to achieve more effective use of available vehicles. If costs cannot be contained within budgeted levels then there is likely to be an impact on the level of bus services that can continue to be supported.
- 4.6 Rail Rolling stock** – The 2007/08 budget originally included provision for the costs of providing additional rolling stock to ease overcrowding on the network but this was removed in order to balance the budget. The pressure to take some action still exists, however, and discussions with Northern Rail have continued. The Government recently announced that some 1,300 additional units would be made available to address this issue nationally, of which 400 would be deployed outside the south-east. It is unlikely to be clear before January, however, how this will affect the GMPTA/E area and how it is to be financed. No allowance is currently included in the 2008/09 budget to fund additional rail rolling stock.

Appendix A

Date	
15 November 2007	Manchester City Council Scrutiny Committee meeting
TBC	AGMA scrutiny meeting
30 November 2007	AGMA Exec meeting to consider initial Levy Bid report
21 December 2007	First draft detailed budget document completed
25 January 2008	AGMA Exec meeting to consider final Levy Bid report
25 January 2008	Second draft detailed budget document completed
31 January 2008	GMPTE Executive Board review budget
01 February 2008	GMPTA Levy meeting to consider proposed Levy and AGMA Exec recommendation
28 February 2008	Final budget to GMPTE Board Meeting
7 March 2008	Final budget to PTA Policy Committee