

# LIVERPOOL CITY REGION COMBINED AUTHORITY

To: The Metro Mayor and Members of the Combined Authority

Meeting: 21 January 2022

Authorities Affected: All

EXEMPT/CONFIDENTIAL ITEM: No

Key Decision Yes

## REPORT OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES AND THE PORTFOLIO HOLDER FOR POLICY, REFORM AND RESOURCES

### MAYORAL COMBINED AUTHORITY BUDGET SETTING REPORT 2022/23

#### 1. PURPOSE OF THE REPORT

- 1.1 This report seeks approval for the Liverpool City Region Mayoral Combined Authority budget for 2022/23. In establishing its budget, the Combined Authority needs to make a series of key decisions regarding its income and how it uses this income.
- 1.2 The Combined Authorities (Finance) Order 2017 established financial arrangements in respect of Mayoral Combined Authorities that need to be reflected in the 2022/23 budget. These include the requirement to specifically determine the costs of the Combined Authority Mayor.
- 1.3 The Order also requires the Combined Authority Mayor to notify the Combined Authority of the Metro Mayor's draft budget before 1<sup>st</sup> February 2022, which was complied with in the issuing of this report and provides a statutory timescale for the Combined Authority to consider and, where appropriate, to recommend amendments to the Metro Mayor before 8<sup>th</sup> February 2022.  
  
This provision only applies to the Mayoral Cost element of the Combined Authority's budget for 2022/23, and specifically those areas where the Mayoral Combined Authority is funded through the Mayoral precept.
- 1.4 The Combined Authority must also set a budget for its other costs in 2022/23. This includes transport activity funded through the Transport Levy mechanism and the operation and maintenance of the Mersey Tunnels estate.
- 1.5 Members will be aware that the Combined Authority has a statutory duty to agree a Transport Levy for 2022/23 before 14th February 2022.
- 1.6 The Combined Authority must also set the schedule of tolls applicable to the Mersey Tunnel for 2022/23. This tolls decision is subject to a separate report that was

considered by the Transport Committee at its meeting of the 13<sup>th</sup> January 2022. Their recommendation is incorporated into the Combined Authority budget for 2022/23.

- 1.7 In funding its transport activities, the Combined Authority also needs to establish a differential levy in respect of the Combined Authority's transport powers in Halton. It is important to note, however that there are no changes to the delivery of transport services in Halton implied within this report.
- 1.8 The purpose of this report is to bring together these key decisions and present detail of the budget requirement for the Authority for 2022/23, together with the operational grants that will be payable to Merseytravel and Halton for the delivery of the Combined Authority's transport activities throughout the City Region.

## **2. RECOMMENDATIONS**

2.1 The Liverpool City Region Combined Authority is recommended to: -

- (a) note this report;
- (b) agree the Mayoral Budget as presented at Table 2 of this report;
- (c) agree to freeze the Mayoral precept at its 2021/22 level equivalent to £19 per year for a Band D property and £12.67 per year for a Band A property;
- (d) approve the composite Combined Authority budget for 2022/23 as presented at Table 3;
- (e) approve a 2% increase in the Transport Levy to £99.352m for 2022/23;
- (f) approve the payment of an operational grant of £95.827m to Merseytravel to cover its operational costs and the revenue project costs associated with the Rolling Stock project as detailed at paragraph 5.1.2;
- (g) approve the delegation to Merseytravel to develop and implement the proposed concession administration charge for certain concessionary passes as detailed at paragraph 5.3.6;
- (h) note the level of 'authorised tolls' for the Mersey Tunnels as determined in the County of Merseyside Act 1980 (as amended by the Mersey Tunnels Act 2004) with details on calculation methods explained in section 5 of this report;
- (i) accept the recommendation of the Transport Committee and implement a schedule of Tunnel Tolls as contained in Table 6 of this report;
- (j) approve the discounts and concessions as detailed at paragraphs 5.4.2 and 5.4.3;
- (k) approve the request for an operational grant of £21.892m in respect of the operation of Mersey Tunnels for 2022/23 as detailed at paragraph 5.1.2;
- (l) approve the capital programme as detailed in Table 7 and Appendix Three;
- (m) approve a grant of £140.04m to Merseytravel to support the delivery of capital schemes;
- (n) recognise the differential levy payable by Halton as £3.235m;
- (o) agree a corresponding grant from the Combined Authority to Halton of £3.235m in order that Halton can continue to provide transport services in Halton on behalf of the Combined Authority in 2022/23;
- (p) approve the Treasury Management Strategy 2022/23 incorporating the Minimum Revenue Provision and associated Treasury Limits and Prudential Indicators as detailed at Appendix Four; and
- (q) approve the Capital Strategy as detailed at Appendix Five.

### **3. BACKGROUND**

- 3.1 The Mayoral budget reflects the priorities of the City Region Metro Mayor and is focussed on securing the City Region's economic recovery by prioritising investment in infrastructure, skills and environment.
- 3.2 The Combined Authority has been at the forefront of responding to the challenges of the Covid pandemic while at the same time building the foundations for the City Regions future economic recovery and prosperity. Despite the huge challenges the effects of the pandemic will place on the Authority's budgets in the medium term, the Metro Mayor is determined that the Combined Authority should play a central role in supporting the City Region's future economic recovery; ensuring that it is a green recovery and this budget supports the City Region's net zero carbon ambitions.
- 3.3 The Combined Authority's financial strategy is to ensure that over the medium term it is able to achieve financial sustainability, make sure value for money is at the heart of all its activities. The budget setting process has sought to ensure that there is an alignment of resources with the key priorities as detailed in the Authority's Corporate Plan whilst maintaining a strong focus on developing a sustainable and balanced budget.
- 3.4 The budget as set for 2022/23 covers the operational costs associated with the group position: that is the costs associated with the operation of a Mayoral Combined Authority and those that relate to powers and responsibilities held by the Combined Authority prior to the establishment of the City Region Mayoral powers. These principally relate to transport powers. In respect of transport powers, this budget considers the Transport Levy payable by each of the constituent local authorities within the city region and the schedule of tolls in respect of the Mersey Tunnels for 2022/23.
- 3.5 The Combined Authority has delegated detailed financial monitoring with respect to transport activities to the Transport Committee. However, it is important for the Combined Authority to oversee all aspects of the budget and therefore for full visibility the transport budgets are also detailed as part of this report. The Transport Committee considered the detailed transport budget for Merseytravel at its meeting on 13<sup>th</sup> January 2022 and a verbal update on the outcome of these discussions will be provided.

### **4. MAYORAL COSTS AND BUDGET 2022/23**

- 4.1 The Liverpool City Region Mayoral Combined Authority has been established in law as a major precepting authority in order that the costs associated with exercising its functions can be funded in an appropriate manner.
- 4.2 Having due regard to the principles of value for money the Metro Mayor has sought to minimise the costs associated with these functions and has established a

structure that includes only those functions directly associated with delivering the maximum benefit for the City Region.

- 4.3 The Metro Mayor has sought to provide resources to further priorities in digital connectivity, tidal energy, bus reform and other areas associated with the devolution agreement which will be of significant and long-term benefit to the City Region.
- 4.4 The Metro Mayor recognises the financial challenges facing households across the City Region as a result of the Covid pandemic and does not want to add to this burden unnecessarily.
- 4.5 To help address these pressures it is proposed to freeze the precept for 2022/23 at the levels approved in 2021/22. This means that the precept for a Band D property in 2022/23 will remain at the level of £19.00 and £12.67 for Band A.
- 4.6 The table below confirms the precept that will be payable for each band of property across the City Region.

**Table 1 Mayoral Precept by Council Tax Band 2022/23**

<b>Band</b>	<b>Charge £</b>
Band A	12.67
Band B	14.78
Band C	16.89
Band D	19.00
Band E	23.22
Band F	27.44
Band G	31.67
Band H	38.00

- 4.7 Additional responsibilities and commitments arising from the devolution deal continue to increase and wherever possible, the Metro Mayor is using other sources of funding to shield households from corresponding increases in taxation.
- 4.8 The Combined Authority (Finance) Order 2017 requires the Metro Mayor to specifically identify the budget for costs directly related to the exercise of Mayoral function in 2022/23. These are presented in Table 2 below.
- 4.9 It should be noted that Table 2 includes only those costs associated with the Mayoral budget for 2022/23 and is provided for the purposes of transparency. In reality, these costs form only a proportion of overall Combined Authority expenditure which is shown in its general budget in Table 3.

**Table 2 Liverpool City Region Combined Authority Mayoral Budget 2022/23**

	<b>2022/23 Proposed Budget £'000</b>
Bus Reform	2,000
Tidal Power	1,498
Other Mayoral Priorities	150
Digital	286
Mayoral Programme Delivery	746
Mayoral and Corporate Management Costs	679
Investment and Delivery	573
Policy Strategy and Government Relations	944
Corporate Services	591
Corporate Development and Delivery	173
<b>Total Expenditure</b>	<b>7,640</b>
<b>Funded by:</b>	
Mayoral Precept	(7,640)
<b>Net Budget Requirement</b>	<b>0</b>

## 5. LCR COMBINED AUTHORITY REVENUE BUDGET 2022/23

### 5.1 Overview

5.1.1 The table below provides a comprehensive group revenue budget for 2022/23 which includes all the functions of the Combined Authority and not just those associated with the exercise of Mayoral powers. The table details spend by directorate. Appendix One provides a more detailed breakdown of the budget by service areas.

**Table 3 Combined Authority Revenue Budget 2022/23**

	<b>2022/23 Proposed Budget £'000</b>
Place Directorate	110,939
Investment and Delivery Directorate	11,758
Policy, Strategy and Government Relations Directorate	6,050
Corporate Services Directorate	5,911
Corporate Development and Delivery Directorate	10,102
Chief Executive	267
Mayoral Priority Budget	2,150
Corporate Costs	1,599
Halton Differential Levy	3,235
Revenue Grants	40,364
Net Debt Servicing Costs	13,194
<b>Total Expenditure</b>	<b>205,569</b>
Funded by:	
Transport Levy	(99,352)
Tunnel Tolls	(39,700)
Halton Differential Levy	(3,235)
Mayoral Precept	(7,640)
Gain Share Revenue	(17,191)
Mayoral Capacity Grant	(1,000)
European Grants	(21,064)
CRSTS Capacity Top Slice	(8,127)
MHCLG Sustainable Warmth Grants	(5,109)
ITCF Pre Development Funding	(1,000)
Use of Reserves	(2,151)
<b>Total Income</b>	<b>(205,569)</b>
<b>Net Budget Requirement</b>	<b>0</b>

5.1.2 The table above details the overall revenue budget at a group level, which includes the Merseytravel budgets. The budget for Merseytravel service, which has been considered at the Transport Committee on 13 January 2022, includes the Mersey Tunnels and a share of corporate support services is £117.719m; £95.827m for general transport services and Rolling Stock and £21.892m for Tunnels operations grant. As a separate statutory body funded by the Combined Authority, it is recommended that grants totalling £117.719m are paid to Merseytravel. A breakdown of the Merseytravel budget is included at Appendix Two.

## 5.2 External Grant Funded Revenue Programme 2022/23

5.2.1 In addition to the main revenue budget, Combined Authority is supporting an extensive programme of investment across the City Region through its various external grants, which includes the Strategic Investment Fund. As detailed above at table 3, the value of these projected payments for 2022/23 is £40.36m.

5.2.2 This investment brings together funding from a number of sources to allow a more strategic and coherent approach to investment in economic growth. While the

majority of funding is earmarked for capital schemes, a proportion is available to fund revenue priorities.

5.2.3 The Combined Authority is proposing a significant investment in capacity to maximise the benefit of existing funding streams and to ensure that the City Region is well-placed to benefit from future funding opportunities. This investment includes resources for the management of the current investment portfolio but also includes a provision for the development of a pipeline of schemes in anticipation of future funding opportunities.

5.2.4 Revenue funding is used to support delivery of specific projects and facilitate development of schemes bringing them to a shovel ready state. Schemes are delivered internally and through external delivery partners. The table below provides a breakdown of the schemes currently being delivered.

**Table 4 External Grant Funded Revenue Schemes**

	<b>Projected Spend to 31/03/2022 £'000</b>	<b>Projected Spend 2022/23 £'000</b>	<b>Future Years Spend £'000</b>	<b>Total Scheme Cost £'000</b>
Agent Academy	393	84	108	585
Civic Data Trust	707	2,683	1,889	5,279
Future Innovation Fund	264	207	0	471
Createch Scale Up	2,612	849	0	3,461
Pre Development Fund	3,706	2,434	0	6,140
Growing Businesses	183	1,390	0	1,573
Inward Investment Scheme	492	616	0	1,108
Music Fund	1,122	793	0	1,915
Peopl Network Peloton	87	10	0	97
Port City Liverpool	250	326	100	676
Shakespeare Playhouse	209	295	0	504
Finance Hub	120	120	360	600
Kindred	186	125	250	561
Ways to Work	7,501	9,685	0	17,186
Positive Inclusion Programme	1,030	1,124	0	2,152
ERDF Business Support	997	995	0	1,992
New Markets 2	745	766	0	1,511
Place Marketing	280	230	0	510
SUD	3,696	4,980	0	8,676
High Growth	0	2,113	0	2,113
Community Renewal Fund	1,690	987	0	2,677
Careers and Enterprise	463	156	0	619
Skills and Apprenticeship Brokers	1,886	2,074	0	3,900
Households into Work	698	702	0	1,400
International Festival of Business 2020	2,882	118	0	3,000
Transport Pre Development	0	1,000	0	1,000
North West Energy Hub	833	833	0	1,666
Sustainable Warmth	0	4,276	0	4,276
Community Renewal	0	28	0	28

Race Equality	567	365	0	937
<b>Total Projected Expenditure</b>	<b>33,599</b>	<b>40,364</b>	<b>2,707</b>	<b>76,670</b>

### 5.3 TRANSPORT

5.3.1 The Combined Authority is the transport authority for the Liverpool City Region. Its transport responsibilities are discharged by Merseytravel and by Halton Council within the boundaries of Halton.

5.3.2 Transport responsibilities are funded through the Transport Levy. The Transport Levy has reduced significantly in recent years and this has benefited those local authorities that fund the levy through Council Tax.

5.3.3 A flat cash Levy was approved for 2021/22 however higher inflation and demographic pressures mean that this position is not sustainable going forward and therefore a 2% increase to the Levy, from £97.4m to £99.35m is proposed. Should this proposal be agreed, the distribution of the Levy will be as detailed in the table below.

**Table 5 Transport Levy by Authority**

	<b>Transport Levy 2021/22 £'000</b>	<b>Transport Levy 2022/23 £'000</b>
Knowsley	10,279	10,563
Liverpool	33,924	34,669
Sefton	18,828	19,111
St Helens	12,302	12,545
Wirral	22,071	22,464
<b>Total</b>	<b>97,404</b>	<b>99,352</b>

*Note: Halton Council equivalent transport differential levy is £3.24m for 2022/23*

5.3.4 The Transport Levy is utilised to support the operational transport related activities of the Combined Authority and to support the delivery of key transport priorities within the Corporate Plan including:

- i. the delivery of a London style transport plan that integrates the walking, cycling, buss, train and ferry network;
- ii. progress the programme for bus reform publishing a Bus Services Improvement Plan and identifying the preferred option for bus;
- iii. developing a local transport plan that sets out how transport planning will deliver the vision for the City Region and address long term strategic challenges;
- iv. delivering a Merseyrail for All programme, with the completion of a minimum of one new station development;
- v. an upgrade to the smart ticketing system implementing a transition to a tap in tap out, contactless system with a daily cap;
- vi. investigating options to transition towards further devolution of transport infrastructure, working with DfT, Merseyrail and Network Rail, including

commissioning a full review of options for the future operation of the network post 2028; and

- vii. deliver an ambitious programme of investment in transport infrastructure through the City Region Sustainable Transport Settlement.

5.3.5 As the transport delivery arm of the Combined Authority, grants will be paid by the Combined Authority to Merseytravel to support the delivery of these priorities, which are detailed in section 6.

5.3.6 In addition to the mandatory English National Concessionary Scheme, Merseytravel also operates a discretionary concessions scheme which allows all Merseyside local authority residents to access concessionary travel, both on bus and on rail from the age of 60. Historically no charge has been levied for providing concession passes however with effect from 2022/23 it is proposed that an administration fee will be applied. Merseytravel will be responsible for working through the mechanisms of this and ensuring that this is done in an equitable manner that protects financially vulnerable users in receipt of Universal Credit. It is therefore proposed that responsibility for developing and implementing the proposed charging mechanism is delegated to Merseytravel Board.

5.3.7 Increases in contract costs are likely to be a significant risk to transport budget in 2022/23 and potentially beyond. The Combined Authority will require these to be managed within the resources available for transport in 2022/23. Managing cost pressures within budgets will require service modernisation and streamlining of back office processes across the transport division in 2022/23 and beyond.

5.3.8 Arrangements for Halton will continue to recognise the historical differences in transport funding and delivery, with Halton subject to a differential transport levy of £3.24m which will be paid back to Halton for transport delivery within its boundaries on behalf of the Combined Authority.

## 5.4 TUNNEL TOLLS

5.4.1 Setting the tunnels tolls is a key requirement of the Combined Authority's budget. The Transport Committee considered a detailed report on the schedule of tolls at its meeting of the 13<sup>th</sup> January 2022 and which proposed an increase on all tolls of 20p is applied. Proposed tolls are detailed in the schedule below.

**Table 6 Agreed Tunnel Tolls 2022/23**

<b>Vehicle Class</b>	<b>Authorised Toll 22/23 (November RPI)</b>	<b>2022/23 Cash Toll</b>	<b>2022/23 Fast Tag Toll – LCR Resident*</b>	<b>2022/23 Fast Tag Toll – Non LCR Resident</b>
1	£2.30	£2.00	£1.20	£2.00
2	£4.50	£4.00	£2.80	£2.80
3	£6.80	£6.00	£4.20	£4.20
4	£9.10	£8.00	£5.60	£5.60

\*Liverpool City Region (LCR) resident defined as living within the electoral boundaries of Halton, Knowsley, Liverpool, St Helens, Sefton and Wirral

5.4.2 As part of the ongoing tunnels tolls review and tolls setting process, a number of discounts were during 2021/22. These were:

- All emergency service liveried vehicles to be allowed free travel through the Mersey Tunnels;
- Travel through the Mersey Tunnels between 10pm on 24<sup>th</sup> December and 6.00am on 26<sup>th</sup> December each year be allowed free in recognition that public transport services are not available during these times.
- A reduced Fast Tag charge for Fast Tag account holders who are resident within the Liverpool City Region. This discount will be available for class 1 vehicles and applicable to just private Fast Tag accounts, not business account Tag holders.
- The existing Tunnels disabled concessionary travel scheme.
- That taxi and private hire vehicles that are class 2 vehicles are discounted to class 1 rates.
- As well as the above, officers will make operational decisions on occasions for the safe and efficient operation of the Mersey Tunnels and collection of tolls.

5.4.3. It is proposed that these discounts/ concessions remain in place for 2022/23.

5.4.4 A proposal was also approved to explore opportunities for further tolls discounts, as a trial, with the aim of encouraging cross river public transport use with final approval of any discounts delegated to the Executive Director Place in conjunction with both the Combined Authority Treasurer and Monitoring Officer.

## **5.5 ADULT EDUCATION**

5.5.1 The expenditure and associated grant in respect of Adult Education is contained within the Investment and Delivery Directorate line of the budget tables above. As the service is funded in its entirety through the grant, the net impact on the net spend is nil. As funding in respect of Adult Education Budget (AEB) is received in relation to academic years, the funding for the financial year comprises funding in respect of the remainder of the third years devolved funding and the start of the fourth year which commences August 2022. Contracts are in place with providers until July 2022 with funding allocation for the period from August 2022 yet to be confirmed. This will be subject to a separate report to the Combined Authority in due course.

5.5.2 The annual funding allocation for AEB is announced in January for the academic year commencing August 2022 and therefore at the time of writing this report the actual settlement is unknown. The Combined Authority's share of the national pot remains fixed at 3.99% and therefore for the purpose of setting a budget, the 2021/22 allocation is being used for planning purposes. Any variations will increase or decrease the amount available for dispersal and will not impact on the Combined Authority's overall financial position.

5.5.3 Of this allocation, 2% of the grant value will be top sliced to cover management and administration costs with the remainder available for delivery. In line with previous years, around £2.5m will be retained as a contingency to respond to in year demands, the remainder will be disbursed as grant funded allocations and contracted services on an approximate 2:1 ratio.

5.5.4 The priority areas for AEB in 2022/23 will be:

- On boarding new contract for service providers as a result of re-procurement
- Continuing to grant fund Colleges and Local Authorities to underpin the AEB offer to local residents
- maintaining the allocation given to Adult and Community Learning;
- funding the required statutory entitlements for learning including the digital entitlement;
- supporting the local flexibilities introduced as a result of devolution including the extension of the low wage pilot;
- continuing to explore new and innovative ways of delivering learning;
- continue to fully fund all Level 2 to support residents seeking to retrain, and;
- to consider the impact on devolved AEB of the Skills and Post 16 Education Bill as it proceeds through Parliament.

5.5.5 During 2021/22, the Combined Authority had delegated to it the National Skills Fund Level 3 Adult Offer in response to the Government's 'Plan for Jobs', to be contracted alongside the existing devolved AEB. This fully funds a first level 3 qualification for adults aged 24plus from a national list. Delivery went live on 1 April 2021 for the initial period to 31 July 2021.

5.5.6 The Level 3 offer is being extended in April 2022 to allow more adults to access the funding, and it has been confirmed that this will continue to be delegated to the Combined Authority for the next academic year 2022/23, the allocation is expected to be announced alongside mainstream AEB in January 2022.

## 6. **CAPITAL PROGRAMME**

6.1 The Combined Authority has an ambitious plan of capital investment aimed at supporting the key priorities outlined in the Corporate Plan to achieve the vision of a fairer, cleaner city region where no one is left behind.

6.2 The table below details the proposed capital programme and funding for 2022/23, incorporating all the transport schemes that will be delivered by Merseytravel on behalf of the Combined Authority. A detailed breakdown of the capital programme is included at Appendix Three.

**Table 7 Proposed Group Capital Programme 2022/23**

	<b>Capital Programme £'000</b>
Strategic Investment Fund – externally delivered	22,512
Strategic Investment Fund – external loans	30,000
Strategic Investment Fund – internally delivered	4,753
Housing - Brownfield Fund	8,000
Housing - Sustainable Warmth	24,229
Transport – internally delivered	140,439
Transport – externally delivered	11,498
<b>Total Capital Expenditure</b>	<b>241,431</b>
Funded by:	
Government Grant	(143,449)
Borrowing	(87,631)
Revenue Contribution to Capital Outlay	(7,451)
Application of Reserves	(2,900)
<b>Total Funding</b>	<b>(241,431)</b>
<b>Net Capital Requirement</b>	<b>0</b>

- 6.4 The internally delivered transport schemes are those that will be delivered by Merseytravel on behalf of the Combined Authority. As Merseytravel receives most of its capital funding through the Combined Authority, either through grant, revenues generated from tunnel tolls or its borrowing powers, it is proposed that a capital grant of £140.04m is paid to Merseytravel to provide funding toward the programme. The balance of funding for the Merseytravel programme of £0.4m will be funded through Merseytravel's own reserves.
- 6.5 The most significant of the internally delivered capital schemes in 2022/23 will be the completion of the procurement and the subsequent operation and implementation of the new fleet of Rolling Stock. Changes to the original operating model for the new fleet will require changes to be made to the original business case in 2022/23 and there is a financial risk associated with this. Whilst transitional funding arrangements will apply until the new fleet becomes operational, managing the financial risk associated with changes to the operating model remains a priority to ensure that the rail funding model remains sustainable within the context of the Authority's overall financial strategy.
- 6.6 The Combined Authority has been successful in securing an indicative allocation of £710m from the City Region Sustainable Transport Settlement (CRSTS). Whilst the indicative five-year allocation has been awarded to the Combined Authority from 2022/23, confirmation of funding and schemes is contingent on successful submission of business cases through to the DfT. The deadline for submission is the end of January 2022 and therefore the timescales are not coterminous with budget setting. Consequently, a revised capital programme incorporating new schemes to be funded through CRSTS in 2022/23 will be laid before the Combined Authority for consideration and approval later in the year when there is more certainty around schemes and funding.
- 6.7 The Treasury Management Strategy appended to this report at Appendix Four reflects this overall borrowing requirement.

## 7.0 FINANCIAL RISKS AND RESERVES

7.1 The table below details the reserves position for Combined Authority taking account of the projected use of reserves in 2021/22 and 2022/23 to support both revenue and capital activity.

**Table 8 Projected Reserves Position**

	<b>Balance as at 1 April 2022 £'000</b>	<b>Utilisation in Year £'000</b>	<b>Balance at 31 March 2023 £'000</b>
Capital Receipts	9,434	0	9,434
General Fund Balances	4,020	0	4,020
Infrastructure Reserve	56,042	(2,500)	53,542
Tunnels Reserve	5,411	0	5,411
Rail Reserve	36,924	(2,151)	34,773
Chrysalis Reserve	34,972	0	34,972
Merseytravel Reserves	51,821	(400)	51,421
Other Reserves	14,273	0	14,273
<b>Total</b>	<b>212,897</b>	<b>(5,051)</b>	<b>207,846</b>

7.2 Whilst the quantum of reserves remains healthy, a number of the reserves (including the Tunnels, Chrysalis and Rails reserves) are earmarked for specific purposes and therefore cannot be used to support general Combined Authority activity.

7.3 In accordance with the Authority's financial strategy of achieving an ongoing financially sustainable position, the revenue and capital budgets have been set on the basis of reserves only being applied where there is a clear link through to supporting expenditure for which specific funds have been set aside. Practically, this has meant that application of reserves has been limited to supporting the Rolling Stock's revenue costs and a contribution towards small scale capital investment in asset maintenance/ health and safety works.

7.4 Whilst public transport does not face the extreme challenges it did at the time of 2021/22 budget setting, a number of risks remain, most notably around patronage and cost pressures. The uncertainty around the recovery in income, allied to inflationary pressures means that there is a risk that if the assumptions used for setting key transport budgets are not achieved, there could be unmet financial pressures. Specific reserves have been set aside on the Merseytravel balance sheet for this purpose which could be applied to mitigate any financial pressures in the short term while the organisation introduces longer term efficiency measures to balance its budget over the next five years.

7.5. Of all the transport operations, the most significant and immediate risk is in the introduction of the new fleet of rolling stock. The delivery of the Rolling Stock project has been negatively impacted by Covid 19 both in terms of delivery costs and ongoing revenue levels. The original business case for new trains was predicated on increased patronage and thus income and reduction to the operating cost base. The impact of Covid is such that there is significant uncertainty around

the achievability of these assumptions and therefore there is an increased risk of cost escalation above those currently factored into the Authority's medium term financial plan.

- 7.6 The Combined Authority has set an ambitious programme of capital delivery for 2022/23 which is predicated on an ability to deliver across most of the year without the Covid restrictions that impacted on delivery over the last couple of years. A number of the grants received by the Authority to support capital delivery are time limited and therefore there is a risk that any significant restrictions or impediments to delivery in 2022/23 arising as a result of Covid 19 or other economic factors could lead to the risk of grant clawback. The Authority will seek to mitigate this by taking a whole programme approach to its capital activity and using the flexibilities available to over programme and utilise funding across the programme to ensure resource maximisation.
- 7.7 Whilst the Authority has set a balanced budget for 2022/23 with limited recourse to reserves, as demonstrated in the table below, the position over the medium term remains challenging with a projected underlying deficit of £14.5m by 2025/26.

**Table 9 Combined Authority Group Medium Term Financial Projections**

	<b>2022/23 £'000</b>	<b>2023/24 £'000</b>	<b>2024/25 £'000</b>	<b>2025/26 £'000</b>	<b>2026/27 £'000</b>
Gross Expenditure	205,569	212,333	213,616	212,596	217,873
Gross Income	(205,569)	(203,409)	(203,409)	(203,409)	(203,409)
Net Budget Requirement	0	8,924	10,207	9,187	14,464

- 7.8 To achieve the Authority's central financial objective of financial sustainability over the medium term, there is clearly a need for some budget realignment. Without further increases to resources, it is likely that service provision will become unsustainable and there will be a need to review service levels and policy decisions to ensure that services remain affordable. Consequently, there will be a process initiated once the 2022/23 budget has been set to identify options for balancing the budgets from 2023/24 onwards. To achieve the level of savings required to balance the budget there will need to be a strong focus on both transformation and invest to save. Whilst reserves exist within the group that can be used to support invest to save initiatives, application will need to be judicious and supported by a robust business case to ensure application achieves the stated purpose.

## **8. RESOURCE IMPLICATIONS**

### **8.1 Human Resources**

None as a direct result of this report.

### **8.2 Physical Assets**

This report will provide resources to Merseytravel to undertake its asset management function in respect of the Mersey Tunnels and other Combined Authority assets.

### **8.3 Information Technology**

None as a direct result of this report.

## **9. RISKS AND MITIGATION**

Both risks and mitigations are contained within the body of the report.

## **10. EQUALITY AND DIVERSITY IMPLICATIONS**

Members are reminded that under Public Sector Equality Duty, the Combined Authority has a duty to eliminate discrimination, advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not. Whilst the level of detail contained within this budget does not lend itself to a full appraisal of the operational implications with respect to equality and diversity, it is possible that there could be resultant implications for people who share a protected characteristic, for example older disabled people.

Full equality impact assessments will be undertaken as part of the transformation and savings programme and any negative implications for any of the protected characteristics will be mitigated, where possible, subject to available resources.

## **11. COMMUNICATION ISSUES**

None as a direct result of this report.

## **12. CONCLUSION**

- 12.1 The Liverpool City Region Mayoral Combined Authority is recommending a series of measures within its overall budget for 2022/23. These measures each recognise the need to deliver the functions of the Mayoral Combined Authority while seeking to protect households in the City Region from additional financial burdens wherever possible.

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### Appendices

Appendix One Detailed Directorate Revenue Budget 2022/23

Appendix Two Merseytravel Budget 2022/23

Appendix Three Detailed Capital Programme 2022/23

Appendix Four LCRCA Treasury Management Strategy 2022/23

Appendix Five LCRCA Capital Strategy