LIVERPOOL CITY REGION COMBINED AUTHORITY

To:	The Chair and Members of the Transport Committee
Meeting:	10 March 2022
Authority/Authorities Affected:	All
EXEMPT/CONFIDENTIAL ITEM:	No

REPORT OF MERSEYTRAVEL

FINANCIAL PERFORMANCE REPORT

1. PURPOSE OF REPORT

This report provides the Members of the Transport Committee with details of Merseytravel's financial performance for the period April 2021 through to 31 January 2022.

2. RECOMMENDATIONS

It is recommended that the Transport Committee note the contents of this report.

3. BACKGROUND

3.1 A budget of £121.766m was approved by Merseytravel on 10 March 2021 with a grant provided from the Combined Authority of £93.114m for the operation of Transport services and a grant of £23.088m to cover the operational costs associated with the Mersey Tunnels. In addition, a grant of £2.926m was provided from CA Rail specific reserves to support the Rolling Stock project team costs. To balance the overall revenue budget, a contribution of £2.639m was made from reserves.

3.2 A revised budget of £119.8m was approved by the Board at its meeting 4 October 2021. The reduction in expenditure was offset by a reduction of £0.536m in the Merseytravel grant, £0.391m reduction in the Tunnels operating grant and a £1.7m reduction to the application of reserves from the Combined Authority in respect of Rolling Stock costs.

3.3 Revenue Performance

The table below details revenue expenditure for Merseytravel to 31 January 2022, together with projected outturn spend. A detailed breakdown of revenue expenditure by service area is included at Appendix One.

Table 1 Revenue Expenditure to 31 January 2022 and Projected Outturn

Service Area	Annual Budget	Budget to Date	Spend as at January 22	Forecast 2021/22	Full Year Variance
	£'000	£'000	£'000	£'000	£'000
Bus	18,671	14,581	13,727	18,067	604
Rail	7,287	5,733	5,447	6,903	384
Rolling Stock	1,222	738	245	772	450
Concessionary Travel	48,381	40,286	39,111	48,381	0
Ferries	2,428	1,539	724	1,962	466
Mersey Tunnels	16,515	10,256	10,003	16,371	144
Customer Delivery	3,075	3,517	3,550	3,294	-219
IT	4,734	4,073	3,759	4,456	278
Policy & LTP	386	322	226	294	92
People Development	1,728	1,338	1,206	1,629	99
Asset Management	10,044	8,053	7,877	9,949	95
Finance	1,274	1,024	981	1,256	18
Legal, Democratic & Procurement	1,318	1,042	910	1,191	127
Internal Audit	599	487	496	618	-19
Programme Management Office	617	505	492	614	3
Corporate Costs	701	336	199	331	370
Corporate Management	652	466	382	507	145
Total Expenditure	**119,632**	**94,296**	**89,335**	**116,595**	**3,037**
Funded by:					
Merseytravel Grant	-92,589	-77,205	-77,205	-92,589	0
Mersey Tunnels Grant	-22,697	-18,914	-18,914	-22,553	-144
CA Reserves	-1,222	-738	-245	-772	-450
Merseytravel Reserves	-3,124	0	0	-681	-2,443
Total Income	**-119,632**	**-96,856**	**-96,364**	**-116,595**	**-3,037**
Net Budget Requirement	**0**	**-2,560**	**-7,029**	**0**	**0**

3.4 The main projected outturn variances are detailed below:

- Bus – income from supported bus services is higher than budgeted as a result of the recovery in patronage being better than anticipated at the time of budget setting. Higher payments to operators have been offset by additional grant income from the Department for Transport. Staff vacancies have contributed also to a projected outturn underspend of £0.6m.

- Rail – The projected outturn underspend in Rail of £0.38m is predominately due to consultancy savings and rebates for Punctuality Incentive Payments (PIP) to Merseyrail (MEL). The revised budget included an uplift of £500k to capture the potential work in relation to the dispute with MEL, however it is currently forecasted that £300k of this additional consultancy budget will be utilised in this financial year.

- Rolling Stock – The projected outturn underspend of £0.4m has arisen through a combination of savings on maintenance and stabling costs and reduced marketing activity which is linked to the entry into service date.

- Ferries – projected underspend of £0.46m is largely a consequence of income being ahead of budget. A very conservative approach to income forecasting was taken during budget setting due to the uncertainty over the ongoing impact of Covid however income has recovered better than anticipated. This combined with an unanticipated insurance pay out for Pierhead Landing Stage and damage to Royal Iris have contributed to the outturn position.

- Customer Delivery – There is a projected outturn overspend of £0.2m arising as a result of overstated income, however the impact of this is partially mitigated by underspends on repairs and maintenance.

- Corporate Costs – The outturn variance of £0.37m arises as a consequence of the reductions in the pension fund recharges which have been previously reported during the year.

3.5 Capital Expenditure

The table below provides details of the spend on capital up to 31 January 2022, together with projected outturn spend. A more detailed scheme-based analysis is included at Appendix Two.

Table 2 Capital Expenditure to 31 January 2022

	Annual Budget 2021/22	**(£'000)**		
		Spend as at Jan 22	**Forecast 2021/22**	**Forecast Variance**
Bus	10,069	1,245	2,952	7,117
Ferries	8,210	6,770	8,008	202
Rail	42,589	22,074	32,702	9,887
Customer Delivery	170	159	159	11
Corporate Strategy	1,691	72	296	1,395
IT	1,151	319	408	742
Head Office	93	40	40	53
Corporate Services	20	0	5	15
Smart Ticketing	1,241	394	394	847
Rolling Stock	94,159	78,323	89,385	4,774
Tunnels	7,040	3,718	6,518	523
Total	**166,433**	**113,114**	**140,867**	**25,566**

3.6 Expenditure to the end of January 2022 represents 68% of the budgeted spend for the year but projected outturn represents 85% of the annual budgeted spend. Whilst spend to date is low, capital spend in the first two quarters tends to be suppressed with spend picking up into the third and fourth quarter. The key projected outturn variances are detailed below.

- Bus - Hydrogen Bus is by far the largest capital project with a budget of £7.65m which is funded through Transforming Cities Fund (TCF). Whilst the project has progressed well with spend of £1.4m in the year, the first new busses will only be delivered in the second half of the next financial year and consequently much of the spend will flow from meeting these milestones. It is projected that £6.25m will need to be rephased into the next financial year.

- Rail – Access for All is projecting an underspend of £3.4m due to delays in progressing the schemes which will see this expenditure slipped into 2022/23. Lea Green park and ride intervention is forecasting a £0.9m underspend in the year due to delays in scheme progression. As this scheme is contractually committed this expenditure will need to be slipped into the next financial year. St James station is projecting an underspend of £2.8m. The scheme has only recently received approval to commence Governance for Railway Investment Projects (GRIP) stage 4 and whilst the design service agreement has been signed, it is currently anticipated that work will only commence late January. Consequently, progress and therefore spend on this will be limited before the end of the financial year.

- Rolling Stock – An overspend on the manufacture & supply agreement (MSA) contract of circa £10m has arisen due to changes in production schedule and payment profile however this offset by underspends in other areas. The current projected net underspend of £4.8m could move before year end as final accounts in respect of the platform train interface (PTI) and power supply upgrade (PSU) are still outstanding. Any year end underspend will need to be slipped into the next financial year.

- Tunnels –The largest aspect of the Tunnels underspend relates the scheme to demolish the flyover and tolls plaza redesign. It is currently forecast that this scheme will underspend by £0.2m as Wirral have requested a pause to the demolition of the flyover whilst highways solutions are considered which impacts on the schedule of works. There are a number of smaller scale, less material underspends on a number of other schemes which are also currently forecast to require slipping into the next financial year.

- IT – Current underspend at year end are projected to be around £742k, a significant proportion of which will require slipping into next financial year. This is as a consequence of delays on a number of key projects, however there are plans being developed to try to mitigate some of this underspend. A number of projects including Cisco Unified Computing System (UCS), Cortex Keyboard, Video, Mouse (KWM) Replacement and Performance Management System are highly unlikely to progress in the current financial year and account for £0.4m of the overall projected underspend. The Tolls Xento project has had its spend impacted by the delays on another Tolls scheme which will necessitate £70k to be slipped.

- Corporate Strategy - ITB Transport and Congestion, Traffic Signals and Liverpool City Region (LCR) Cycle network projects are projecting very limited spend before the year end and consequently are projecting an underspend of £1.4m.

3.7 Financial Risks and Reserves Position

Taking account of the proposed application of reserves in support of the revenue and capital proposals for the current financial year, the projected reserves position as at 31 March 2022 is detailed below.

Table 3 Application of Reserves

	Balance at 31 March 2021 £'000	Net In Year Movement £'000	Balance at 1 April 2022 £'000
Capital Reserves	5,746	(3,000)	2,746
Earmarked Reserves	48,332	(681)	47,651
Revenue/ Working Balances	4,619	0	4,619
Total	**58,697**	**(3,681)**	**55,016**

3.8 A number of key financial risks still face Merseytravel which could necessitate application of reserves. Key financial risks are detailed below:

- The Beatles Story – whilst current projections for 2021/22 are aimed at achieving a break-even position, there is a risk that visitor numbers remain subdued and trading is lower than anticipated. Whilst there is some confidence that the budgeted position for the current financial year can be achieved, patronage still remains subdued and there is a risk that visitor numbers fail to recover to pre pandemic levels which would impact on longer term profitability. Historically the Beatles Story has generated a net profit which has flowed through to Mersey Ferries to reduce the operating grant required from Merseytravel to support its operations. Failure to return to this position would have direct impact on the longer-term finances for Ferries.

- Mersey Ferries Limited – as with the Beatles Story, whilst there is some confidence that the budgeted position for the year can be achieved, there remains uncertainty around recovery of patronage. Across all modes of public transport patronage is supressed and there is a risk that levels will not return to those seen pre pandemic. There is also a concern as to whether the level of tourist trade will return as leisure income is a significant element of Ferries revenue. The impact on Ferries is two-fold: firstly, income generated from services may fail to recover thus requiring a continued increase in the financial support required from Merseytravel which would secondly be exacerbated should dividends fail to flow through from the Beatles Story.

- Bus – whilst there is more certainty around the quantum of bus recovery funding and its sufficiency, there remain a number of inflationary factors within the bus market that are likely to place upward pressure on operator's costs. There are two risks arising from this: firstly, that this leads to services being deregistered or contracts handed back which would leave gaps in the network that may require Merseytravel to add new supported services, and secondly that the cost of new contracts exceeds the values of previous tenders. Both situations would place upwards pressure on the bus budget.

- Rail services – the MEL network has operated throughout the Covid19 pandemic without any form of government support and at this juncture it is highly unlikely that any support will be provided. The Concession's No Net Loss No Net Gain clause continues to be a challenge to both the Operator and Merseytravel. In the event that Merseytravel is required to provide recompense to MEL this would represent a potentially significant liability which is not currently included in the current budget.

- Rolling Stock – the delivery of the project has been negatively impacted by Covid19 with delivery being delayed, which has placed upwards pressure on the overall costs of the project. The overall business case was predicated on achieving higher levels of passenger revenue however patronage on the network has also been impacted by Covid and there is uncertainty around the timing and quantum of patronage recovery. To the extent that the original business case assumptions are unachievable there will be additional costs to Merseytravel stemming from the project over the medium term that are currently outside the budget.

4. RESOURCE IMPLICATIONS

4.1 Financial

Detailed above in this report.

4.2 Human Resources

None arising directly as a consequence of this report.

4.3 Physical Assets

None arising directly as a consequence of this report.

4.4 Information Technology

None arising directly as a consequence of this report.

5. RISKS AND MITIGATION

None arising directly as a consequence of this report.

6. EQUALITY AND DIVERSITY IMPLICATIONS

None arising directly as a consequence of this report.

7. COMMUNICATION ISSUES

None arising directly as a consequence of this report.

8. PRIVACY IMPLICATIONS

None arising directly as a consequence of this report.

9. CONCLUSION

Financial performance for Merseytravel to the end of January remains within budget and based on current projections, outturn revenue spend will remain within the budget set.

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Appendices:

Appendix One – Detailed Revenue Expenditure
Appendix Two Detail Capital Expenditure

Background Documents:

None