

Report Title	Merseytravel Outturn - Financial Performance
Portfolio Holder	Metro Mayor Steve Rotheram
Summary of decision being sought	The Committee to note the content of the report relating to Merseytravel activity for 2021/22
Is this report exempt?	No
Is this a Key Decision	No
Is the report urgent	No
Is this decision to be exempt from call in	Not applicable
Local Authorities affected	All
Impact and implications of this report	
Financial impact	Yes, see paragraph 4.1
Delegation (s) sought	No
Supporting the Corporate Plan	A Fairer City Region ✓
	A Stronger City Region ✓
<i>Tick as appropriate</i>	A Cleaner City Region ✓
	A Connected City Region ✓
	A Vibrant City Region ✓
Climate Change Implications	No
Equality and Diversity implications	No
Social Value implications	No
Human Resources implications	No
Physical Assets implications	No
Information Technology implications	No
Legal implications	No
Risk and Mitigation	No
Privacy implications	No
Communication and consultation	No

implications

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Appendices Yes

Background Documents No

LIVERPOOL CITY REGION COMBINED AUTHORITY

LCR Transport Committee

7 July 2022

Report of Merseytravel

MERSEYTRAVEL OUTTURN - FINANCIAL PERFORMANCE

1. PURPOSE OF REPORT

- 1.1. The purpose of this report is to provide Members of the Committee with details of the revenue and capital outturn in respect of Merseytravel activity for the financial year 2021/22. The report also details the revised capital programme for 2022/23.

2. RECOMMENDATIONS

- 2.1. It is recommended that the Transport Committee:
 - (a) note the contents of this report.

3. BACKGROUND

Revenue Outturn

- 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 The table below details the outturn by service area against the approved budget. A more granular analysis of spend is included at Appendix One.

Table 1 Outturn Spend Against Budget

	Annual Budget £'000	Outturn £'000	Variance £'000
Bus Services	18,671	17,849	822
Rail Services	7,287	6,889	398
Rolling Stock	772	204	568
Mersey Ferries	2,428	1,604	824
Mersey Tunnels	16,515	13,953	2,562
Customer Delivery	3,075	3,335	(260)
Concessionary Travel	48,381	47,750	631
Corporate Management	710	539	171
Policy & LTP	386	284	102
People Development	1,728	1,524	204
IT	4,734	4,224	510
Asset Management	10,044	9,986	58
Finance	1,274	1,197	77
Legal, Democratic & Procurement	1,318	1,128	190
Internal Audit	599	593	6
PMO	617	594	23
Corporate Costs	701	577	123
Total Expenditure	119,239	112,231	7,008
Funded by:			
Merseytravel Grant	(93,418)	(91,850)	(1,568)
Mersey Tunnels Grant	(22,967)	(20,042)	(2,655)
Merseytravel Reserves	(3,124)	0	(3,124)
Sales, Fees and Charges Grant	0	(1,052)	1,052
Total Income	(119,239)	(112,969)	(6,565)
Net transfer (to)/ from Reserves	0	(713)	713

- 3.4 Since quarter three, forecasts have been projecting that there would be an underspend against budget and this has consistently been reported to management. Based on the February forecasts it was projected that there would be an underspend of £3m however the outturn underspend against budget is £7m. The table below provides an explanation of key variances.

Table 2 Explanation of Variances

Service Area	Variance £'000	Explanation
Bus	822	Higher payments to bus operators offset by additional grant income received. Income from supported bus services exceeded budget forecasts.
Rail Services	398	Consultancy spend lower than budgeted plus rebate from Merseyrail for Punctuality Incentives reducing net spend
Rolling Stock	568	Payments to Merseyrail for project support less than anticipated.

Ferries	824	Overspend on landlord repairs offset by income generation exceeding budget
Mersey Tunnels	2,562	Underspend on capital schemes leading to lower RCCO requirement. Part of underspend related to required reduction in spend to offset Seacombe overspend
Concessionary Travel	613	Actual payments to operators lower than forecast
IT	510	Staff slippage due to Cybersecurity posts not being filled during the year and underspends on supplies and services, specifically around business continuity and digital transformation
Corporate Management & Corporate Costs	294	Lower than forecast pension recharges and salaries underspend against budgets

- 3.5 Based on the outturn revenue expenditure for Merseytravel, it was agreed by the Merseytravel Board that the Merseytravel grant would be reduced by £1m and the Mersey Tunnels by £2.66m. Based on these amendments to funding, there is a £713k transfer to Merseytravel reserves. It is proposed that the surplus is transferred as an earmarked reserve specifically for the purpose of supporting inflationary pressures which would help mitigate the impact of inflation on the budget set in the event that some of the identified inflation risks begin to crystallise.

Capital Outturn

- 3.6 A capital programme of £140m was approved Merseytravel on 10 March 2021. A revised capital programme of was approved 1 November 2021 which took account of changes to programmes and slippage. The table below details the outturn service level capital spend against the revised capital programme. A more detailed analysis of capital outturn by scheme is included at Appendix Two.

Table 3 Capital Outturn Against Budget

	Budget	Outturn	Variance
	£'000	£'000	£'000
Bus Services	10,069	1,332	8,737
Rail Services	42,463	30,302	12,161
Rolling Stock	94,159	83,916	10,243
IT	1,151	638	513
Policy, LTP & KRN	1,691	203	1,488
Tunnels	7,040	5,487	1,553
Ferries	8,210	7,348	862
Smart Ticketing	1,241	259	982
Corporate Services	20	4	16
Head Office	137	40	97
Customer Delivery	170	186	(16)
Total Capital Spend	166,351	129,715	36,636

- 3.7 The outturn underspend against budget of £36m which represents an increase of £11.2m from the position as reported in quarter 3 (projected outturn at Q3 £141m). The table below highlights the main variances.

Table 4 Capital Outturn - Major Variances

Service Area	Variance £'000	Explanation of Significant Variances
Tunnels	1,553	Kingsway Sump Pump replacement scheme slippage issues with contractor sign off delayed spend (£681k) Kingsway Vauxhall Rd regeneration delays in getting contractor on site have led to spend being behind profile (£100k) Queensway demolition of flyover scheme is subject to a number of external dependencies which is delaying progress (£262k)
Ferries	862	Woodside Regeneration part of Wirral LUF Bid spend behind schedule due to delays in approval to proceed from government (£267k) Seacombe landing stage dry dock underspend against budget (£360k)
Bus	8,737	Delays in progressing HyBus through procurement to order. Delivery of vehicles and spend will now take place in 22/23 (£7,491k) Bus scheduling software project not commenced (£150k) RTI performance analytics project not commenced (£150k) Bus stop improvements & accessibility schemes underspends (£890k)
Rolling Stock	10,243	There has been a change in contractor, specifically in respect of train lengthening work at Liverpool Central which has seen completion of these works pushed back into 22/23.
Rail	12,161	LSP Renewals and Platform works not procured or started in year (£800k) Liverpool Baltic – funding requested as part of budget setting exceeded value of works that could be progressed during the year (£3m). Access for All underspend (£3.3m) largely driven by delays in contracting and progressing works at Broadgreen & St Michaels Headbolt Lane (£1m) billed less than anticipated by Network Rail NPR/ HS2 Commission budget requested (£0.5m) but no spend in year Lea Green park and Ride (£0.9m) delays in contracting works and capacity issues within Network Rail
Policy, LTP & KRN	1,488	Schemes not progressed due to capacity issues within in the team
Smart Ticketing	982	Issues with software development have meant that the provider has not been able to complete Phase 3 works in line with the original timescale with work slipping into 22/23

- 3.8 Requests for the carry forward of capital underspends were discussed by relevant officers and, a proposal was made to Merseytravel for the inclusion of certain items of slippage within a revised 2022/23 capital programme which was approved by Merseytravel at its meeting on 27 June. The table below details the revised capital programme for 2022/23 at a service level.
- 3.9 In addition to requests for carry forward of underspends from 2021/22, since the budget was set, funding in respect of CRSTS has been formally approved and funding allocated against projects pending development and approval of business cases. As part of the CRSTS allocation an element of funding was identified to support pre-development of schemes and a block allocation to support certain works on major transport modes. This funding was approved by the Combined Authority at its meeting 3 March 2022. The table below details the revised capital programme for 2022/23 at a service level, together with funding. A more detailed analysis of the revised capital programme is included at Appendix Three.

Table 5 Revised Capital Programme 2022/23

Service Area	Original Budget £'000	Revised Budget £'000	Variance £'000
Bus Services	0	8,715	8,715
Rail Services	64,664	72,637	7,973
Rolling Stock	57,631	67,994	10,363
IT	400	514	114
Policy, LTP & KRN	0	303	303
Tunnels	15,244	17,347	2,103
Hubs	0	1,200	1,200
Ferries	0	2,019	2,019
Smart Ticketing	0	242	242
Central Retained Pot	2,500	2,500	0
Total	140,439	173,471	33,032

- 3.10 Merseytravel will be responsible for delivering a significant proportion of the transport schemes under CRSTS. Whilst overall approval has been given to a programme and programme values by the Combined Authority, individual schemes will be approved as business cases are developed for each scheme and funding will be released based on progressing through a gateway process.

Reserves Position

- 3.11 As a consequence of the outturn revenue and capital position for the financial year 2021/22, Merseytravel's reserves as at 31 March 2022 are detailed in the table below.

Table 6 Reserves as at 31 March 2022

	Balance at 31 March 2021 £'000	Net In Year Movement £'000	Balance at 1 April 2022 £'000
Capital Reserves	5,763	0	5,763
Earmarked Reserves	48,323	713	49,036
Revenue Balances	4,629	0	4,629
Total	58,715	713	59,428

- 3.12 Of the total balance of earmarked reserves carried forward to 2022/22, 53% of these are Rail related. Working balances represent less than 8% of total reserves held by Merseytravel.

Financial Risks and Impact on Future Reserves

- 3.13 The approved budgets for 2022/23 assumed £2.6m application of reserves to fund revenue and capital activities. Building on the revised capital programme detailed at Table 5, the projected reserves position at the end of 2022/23 is £55.7m. The breakdown of this position is detailed in the table below.

Table 7 Projected Reserves Position as at 31 March 2023

	Balance at 31 March 2022 £'000	Net In Year Movement £'000	Balance at 1 April 2023 £'000
Capital Reserves	5,763	(1,064)	4,699
Earmarked Reserves	49,036	(2,639)	46,397
Revenue Balances	4,629	0	4,629
Total	59,428	(3,703)	55,725

- 3.14 In balancing the budget for Merseytravel for 2022/23 savings and efficiencies amounting to £5m were taken and no provision was made for general inflation. There are a number of risks and uncertainties facing Merseytravel that will impact on its operations and financial position over the coming financial year:

- The phasing out of recovery funding to support public transport operators – over the last two years, the local commercial bus network has maintained its shape through significant public investment; both nationally through Bus Recovery Grant and locally through the continuation of pre Covid concessionary travel reimbursements. Uncertainty remains as to what impact the removal of this funding

will have on the viability of the network and whether this will lead to services being deregistered.

- Cost inflation – whilst certain cost pressures, such as bus contract inflation, were starting to become apparent at the time of setting the budget, inflationary pressures have accelerated with the war in Ukraine placing upward pressure on food and utility prices. The impact of inflation is likely to permeate most areas of transport delivery, pushing up the costs of goods and services and potentially placing pressure on the budget as set.
- Patronage rebound – viability of services across a range of Merseytravel services is predicated on sustained patronage, be that through customers paying for services (such as The Beatles Story, Ferries and supported bus) or through a return to using public transport. If the rebound in patronage is lower than anticipated or fails to recover to pre Covid levels then there is a risk that this will translate into pressure on Merseytravel’s budget: either through lower income or through additional costs arising from the need to fill gaps in the public transport network.

3.15 To assist in mitigating against these eventualities impacting negatively on Merseytravel’s budget or ability to deliver, specific earmarked reserves have been set aside. These pressures will be monitored throughout the year and action taken as necessary to manage the risk.

4. IMPACT AND IMPLICATIONS

4.1. Financial

The financial implications are detailed in full in paragraph 3 of the report.

5. CONCLUSION

5.1 At the end of the financial year 2021/22 Merseytravel has managed to operate both its capital and revenue budgets within the parameters set. Allowing for a reduced Merseytravel and Mersey Tunnels grant to take account of lower than anticipated spend, Merseytravel has set aside £713k in a reserve earmarked to deal specifically with emerging inflationary risks.

5.2 Capital outturn was £36.6m below budget and this has led to proposals to slip £26m into a revised capital programme for 2022/23.

Sarah Johnston
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Metro Mayor Steve Rotheram
PORTFOLIO HOLDER FOR POLICY,
REFORM AND RESOURCES

Appendices:Appendices:

Appendix One – Detailed Revenue Outturn

Appendix Two – Detail Capital Outturn

Appendix Three – Revised Capital Programme 2022/23

Background Documents:

None