

<b>Report Title</b>	Merseytravel Financial Performance Report	
<b>Portfolio Holder</b>	Metro Mayor S Rotheram Policy, Reform and Resources	
<b>Summary of report</b>	Financial performance to the end of Quarter Three	
<b>Is this report exempt?</b>	No	
<b>Local Authorities affected</b>	All	
<b>Impact and implications of this report</b>		
<b>Financial impact</b>	Yes	
<b>Delegation (s) sought</b>	None	
<b>Supporting the Corporate Plan</b>	A Fairer City Region	√
	A Stronger City Region	√
	A Cleaner City Region	√
	A Connected City Region	√
	A Vibrant City Region	√
<b>Climate Change Implications</b>	No	
<b>Equality and Diversity implications</b>	No	
<b>Social Value implications</b>	No	
<b>Human Resources implications</b>	No	
<b>Physical Assets implications</b>	No	
<b>Information Technology implications</b>	No	
<b>Legal implications</b>	No	
<b>Risk and Mitigation</b>	No	
<b>Privacy implications</b>	No	
<b>Communication and consultation implications</b>	No	
<b>Contact Officer(s)</b>	Sarah Johnston, Assistant Director Finance	
<b>Appendices</b>	Yes	
<b>Background Documents</b>	No	

# LCR Transport Committee

Thursday, 9 March 2023

Report of Merseytravel

## MERSEYTRAVEL FINANCIAL PERFORMANCE REPORT

### 1. PURPOSE OF REPORT

- 1.1. The purpose of this report is to provide Members of the Committee with details of Merseytravel's revenue and capital performance for the period April to December 2022, together with projected outturn figures.

### 2. RECOMMENDATIONS

- 2.1. It is recommended that the Transport Committee note the content of this report.

### 3. BACKGROUND

- 3.1. A revenue budget of £117.719m was approved by Merseytravel on 7 February 2022, with a grant provided from the Combined Authority of £91.494m for the operation of transport services and a grant of £21.892m to cover the operational costs associated with the Mersey Tunnels. In addition, a grant of £4.333m was provided from the Combined Authority rail specific reserve to support the Rolling Stock revenue project team costs.
- 3.2. At the Merseytravel meeting on 27 June 2022 a revised capital programme budget of £173.471m was approved. This reflected an increase of £33m which was predominately slippage on existing schemes but also reflected an element of Highways Maintenance and predevelopment funding allocation from within CRSTS.
- 3.3. Revisions to the revenue budget were approved by the Board at its meeting on 31 October reducing revenue expenditure to £113.028m and a corresponding reduction in the funding provided from the Combined Authority via the Merseytravel Operating Grant.
- 3.4. Revenue Performance

The table below details revenue expenditure for Merseytravel to 31 December 2022 together with forecast outturn expenditure to 31 March 2023. A detailed breakdown of revenue expenditure by service area is included at Appendix One.

Table One Expenditure against Budget and Projected Outturn as at 31 December 2022

	YEAR TO DATE 2022/23 (£'000)			FULL YEAR 2022/23 £000		
	Budget	Total Spend to date	Variance Fav/(Unfav)	Full Year Budget	Forecast Outturn	Variance
Asset Management	5,463	5,645	(182)	7,285	7,380	(96)
Bus	16,080	15,826	254	19,397	17,643	1,754
Concessionary Travel	33,870	33,147	723	45,350	43,421	1,929
Customer Delivery	1,276	1,139	137	1,695	1,594	101
Ferries	786	973	(187)	1,061	1,538	(476)
Hubs	1,648	1,515	134	2,237	2,324	(87)
Corporate Costs	218	95	123	360	212	148
Policy	347	319	27	469	474	(5)
LCRCA Recharges to Merseytravel	3,735	0	3,735	7,469	7,275	194
Rail	5,281	5,792	(511)	7,203	8,930	(1,727)
Rolling Stock	1,609	(274)	1,882	2,193	1,094	1,099
Tunnels	11,348	11,505	(157)	17,320	17,875	(555)
<b>TOTAL NET COST OF SERVICES</b>	<b>81,660</b>	<b>75,683</b>	<b>5,977</b>	<b>112,039</b>	<b>109,760</b>	<b>2,279</b>
<b>FUNDED BY:</b>						
MT Operational Grant from CA	(44,595)	0	(44,595)	(89,150)	(89,150)	0
Mersey Tunnels Operating Grant	(10,946)	0	(10,946)	(22,889)	(22,889)	0
<b>TOTAL FUNDING</b>	<b>(55,541)</b>	<b>0</b>	<b>(56,566)</b>	<b>(112,039)</b>	<b>(112,039)</b>	<b>0</b>
<b>TOTAL NET (INCOME)/EXPENDITURE</b>	<b>26,119</b>	<b>75,683</b>	<b>(50,589)</b>	<b>(0)</b>	<b>(2,279)</b>	<b>2,279</b>

3.5 The net forecast position of £2.279m underspend includes £1.099m underspend on Rolling Stock which will need to be addressed by a reduction in the budget and grant received from the Combined Authority to realign use of reserves to support this. Adjusting for this transfer back to the Combined Authority there is still a £1.180m underspend across services however this masks a number of significant variances at the individual service levels. Further detail on these variances is provided below.

Service Area	Key Variances (Projected to Year End)
Bus	Increased bus rounds costs causing overspend of £4.4m to December and £7.7m projected to year end offset by additional grant income received of £7.4m as at December and £9.7m projected to year end.
Concessionary Travel	Underspend against budget driven by impact of Arriva strikes and reductions to payments to operators from 100% pre pandemic levels
Ferries	£106k overspend on employees as a consequence of the pay award being greater than the amount budgeted for. £178k overspend on premises costs predominantly driven by increases in the costs of gas, electricity and marine oil above budgeted costs. £427k increase in cost of vessels maintenance (Royal Iris January dry dock projected to cost £190k) Additional income from patronage of £246k partially offsetting the impact of the overspends
Corporate Costs	Reductions to pension recharges (£141k) driving the underspend against budget.
Rail	Overspend of £47k on premises driven by increases in gas and electricity costs. £993k overspend on consultancy driven by costs arising

	from a contractual dispute. £982k overspend against budgeted concession payments to MEL.
Rolling Stock	Reductions in costs of stabling and a £1m contribution from MEL towards additional driver costs have contributed to an overall underspend of £1.09m. The grant to Merseytravel will accordingly be adjusted to allow this money to flow back to Combined Authority Rail Reserve.
Tunnels	£235k overspend on employees as a consequence of the pay award being greater than the amount budgeted for. £515k overspend on premises cost is driven primarily by the impact of higher than forecast electricity rate which account for £398k of the overspend. Underspend of supplies and services of £117k are partially offsetting some of the overall overspend. The overall overspend of £555k is predicated on a RCCO of £7.5m. Currently the capital spend projections for Tunnels are showing a £230k overspend. If this is not managed downwards there is a risk that this will increase the overspend on tunnels to £785k.

- 3.6 Whilst at an organisational level the impact of the pay award can be contained within the overall funding received, the structure of the award is such that as a % pay it has had a greater impact on front line services with a higher proportion of staff paid at the lower grades. This can be seen quite clearly in Appendix Two where the budget and projected expenditure and income outturn is analysed by spend type across all service areas.
- 3.7 Within the overall underspend there is a projected underspend on Bus services of £1.7m. this is a consequence of a decision made with the responsible Assistant Director to release grant balances sat on the balance sheet totalling £2.979m into the revenue account. This, together with the underspend of £1.9m on Concessionary Travel, helps mitigate the overspends in areas such as Rail and Ferries.
- 3.8 Based on the projected outturn for Rolling Stock and Tunnels a recommendation has been made by Merseytravel to the Combined Authority to reduce the Merseytravel operational grant by £2.1m: £1.1m for Rolling stock underspends, and a further £1m to reduce resources more in line with projected outturn. It is also proposed that an increase the Mersey Tunnels grant of £0.555m is approved to align proposed spend and grant.
- 3.9 Capital Expenditure

The table below details the capital programme and expenditure against budget to 31 December 2022, together with projected outturn figures. A detailed breakdown of capital expenditure is included at Appendix Three.

Table Two Expenditure against Budget and Projected Outturn as at 31 December 2022

	2022-23 YEAR TO DATE (£'000)			FULL YEAR 2022/23 £000		
	Budget	Spend to date	Variance Fav/(Unfav)	Full Year Budget	Full Year Forecast	Variance
Bus	17,784	1,256	16,528	17,784	12,400	5,384
Ferries	2,335	981	1,354	2,585	2,406	179
Hubs	1,264	20	1,244	1,264	1,219	45
Smart Ticketing	242	6	236	242	50	192
IT	356	354	2	514	461	53
Executive Director Place	2,212	0	2,212	2,212	0	2,212
Policy	471	159	312	471	470	1
Rail	73,902	32,015	41,888	73,902	57,349	16,554
Rolling Stock	49,709	32,353	17,356	67,874	51,766	16,108
Tunnels	12,017	6,676	5,341	12,272	12,502	(230)
<b>TOTAL MERSEYTRAVEL CAPITAL PROGRAMME</b>	<b>160,292</b>	<b>73,820</b>	<b>86,472</b>	<b>179,120</b>	<b>138,622</b>	<b>40,499</b>

3.10 Expenditure to the end of December 2022 represents 41% of the budgeted spend for the year however based on forecasts of estimated spend until the year end it is projected that 77% of the programme will be delivered by year end, a reduction from the projections of 90% spend made at the half year point.

3.11 Key projected outturn variances are detailed below.

Service Area	Key Variances (Projected to Year End)
Bus	The underspend on this programme is driven predominantly by slippage on the HyBus scheme. Initially projected to spend in full in the current financial year, £5m of scheme costs will now slip into 23/24. Subject to no requirements for further approval under the GFA, this spend will be slipped into the 23/24 programme.
Executive Director Place	An allocation of £2.5m was set aside for emergence and unplanned works for transport. As at the end of December £2.2m remains unallocated.
Ferries	The underspend on Ferries is primarily driven by the postponement of Woodside electrical works scheme (£226k) which was to be funded from the 22/23 CRSTS allocation. In slipping this scheme, there is a net overspend on other schemes totalling £51k for which there is currently no identified funding.
Smart Ticketing	Initial proposals were for full spend in 22/23 however it is understood that current spend profile is from June to October 2023.
Rail	£5m projected underspend on Headbolt Lane arises as a result of slippage within the programme. This has been projected on this scheme since the last report and it is therefore proposed to slip this expenditure into the 23/24 capital programme. Liverpool Baltic forecast slippage remains at £2.2m as disclosed in the last report. It is therefore proposed to slip this expenditure into the 23/24 capital programme. Lea Green Park & Ride amendments to the scheme, redesign and a cable strike have impacted on progress on this scheme. It is now anticipated that £6m of the planned expenditure will now take place in 23/24
Rolling Stock	Delays on the MSA and train lengthening packages of work

	are causing expected spend profiles to be pushed out into the next financial year.
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3.12 Based on the above Merseytravel proposed a series of amendments totalling £34.7m to its capital programme to realign spend from 2022/23 into 2023/24. Subject to approval by the Combined Authority these will be reflected in the capital programme.

### 3.13 Financial Risks and Reserves

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 2023 is detailed below.

Table Three Application of Reserves

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

3.14 There are still a number of key financial risks that face Merseytravel specifically around cost inflation and risks within the bus network that could impact on the financial position of the organisation. At the three quarter point in the year, it is likely that the impact on the 2022/23 budget is perhaps lessened and known risks have been factored into outturn projections. Notwithstanding that these risks will still persist into 2023/24 and beyond. To help mitigate this, a central inflationary provision has been established within the Combined Authority's revenue budget for 2023/24. These pressures will be monitored throughout the year and action taken as necessary to manage the risk.

## 4. IMPACT AND IMPLICATIONS

### 4.1 Supporting the Corporate Plan

The budget has been set to provide both revenue and capital funding to support all the priority areas set out in the Combined Authority's Corporate Plan.

## 5. CONCLUSION

5.1. As at the three-quarter point in the financial year, Merseytravel continues to operate within the revenue and capital budgets as set. Whilst inflationary pressures have impacted on areas on the revenue budget, specifically in respect of pay, utilities and contact prices in front facing services, these pressures have been contained within the overall funding allocated and based on the projected outturn spend it is

proposed that the grants received from the Combined Authority are adjusted to realign with overall spend.

- 5.2 Progress on capital schemes has improved as the year has progressed however it is still forecast that there will be a significant backloading of spend in the final quarter. Slippage on a number of large schemes has been confirmed and to ensure budgets are aligned with spend, it is proposed to slip expenditure on these schemes into 2023/24.

John Fogarty  
Executive Director of Corporate Services

Metro Mayor Steve Rotheram  
Portfolio Holder for Policy, Resources and  
Reform

### **Appendices:**

- 1 Detailed Service Revenue Spend and Forecasts 22/23
- 2 Revenue Expenditure and Income Forecasts by Spend Type 22/23
- 3 Detailed Service Capital Spend and Forecasts 22/23