

<b>Report Title</b>	Financial Performance Report
<b>Portfolio Holder</b>	Portfolio Holder for Policy, Reform and Resources
<b>Summary of report</b>	The report provides details of the revenue and capital performance of the Combined Authority group for the period April through to December 2022.
<b>Is this report exempt?</b>	No
<b>Is this a Key Decision</b>	Yes
<b>Is the report urgent</b>	No
<b>Is this decision to be exempt from call in</b>	No
<b>Local Authorities affected</b>	(All Local Authorities);
<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

**Communication and consultation implications**

No

**Contact Officer(s)**

Sarah Johnston, Assistant Director Finance

**Appendices**

Yes

**Background Documents**

No

# Liverpool City Region Combined Authority

Friday, 3 March 2023

## Report of the Executive Director - Corporate Services and the Portfolio Holder for Policy, Reform and Resources

### FINANCIAL PERFORMANCE REPORT

#### 1. PURPOSE OF REPORT

The purpose of this report is to provide the Members of the Combined Authority with details of the revenue and capital performance of the Combined Authority group for the period April through to December 2022.

#### 2. RECOMMENDATIONS

It is recommended that the Liverpool City Region Combined Authority:

- (a) note the contents of the report;
- (b) approve the proposed revised revenue budget as detailed at 3.5;
- (c) approve the proposed adjustments to the grants provided to Merseytravel to cover its operational activities as detailed at 3.8;and
- (d) approve the proposed revised capital programme as detailed at 3.14.

#### 3. BACKGROUND

- 3.1 At its annual budget setting meeting on 21 January 2022, the Combined Authority approved a revenue budget of £205.569m and a capital programme of £241.431m. The budgets were subsequently revised as a result of the 2021/22 outturn position and on 22 July 2022, the Combined Authority approved a revised revenue budget of £220.386m and a revised capital programme of £406.711m to take account of rephasing of expenditure from 2021/22. Approval was given to an additional £150k revenue expenditure by the Combined Authority at its meeting on 14 October 2022.
- 3.2 At its meeting on 16 December 2022, the Combined Authority approved reductions in expenditure to the revenue budget of £9.2m with a corresponding adjustment to income, reflecting changes to assumptions around the need for borrowing and a need to realign spend on multiyear programmes.

## Revenue Expenditure

3.3 The table below details performance against the revenue budget to the end of December, together with projected outturn spend to the end of the financial year. The analysis below provides results by Directorate. A more detailed breakdown of spend is included at Appendix One.

Table One Revenue Expenditure against Budget

	YEAR TO DATE 2022/23 (£'000)			FULL YEAR 2022/23 (£'000)		
	Budget	Actual	Variance Fav/(Unfav)	Full Year Budget	Forecast Outturn	Variance Fav/(Unfav)
Corporate Development & Delivery	8,252	7,334	918	10,256	9,406	850
Concessionary Travel	33,870	33,147	723	45,350	43,421	1,929
Corporate Costs	1,216	171	1,046	1,683	395	1,289
Corporate Management	273	259	14	365	351	14
Corporate Services	3,814	3,431	382	5,098	4,787	310
Halton Differential Levy	0	0	0	3,235	3,235	0
Investment & Delivery	3,367	3,241	126	11,090	12,021	(932)
Mayoral Priorities	313	13	300	500	25	475
Place	48,460	46,272	2,188	65,551	65,286	265
Policy, Strategy & Government Relations	4,755	3,743	1,012	6,554	5,349	1,205
Revenue Grants	28,387	16,464	11,923	38,666	33,281	5,385
Treasury Management	3,830	3,117	712	8,494	7,285	1,209
<b>TOTAL NET COST OF SERVICES</b>	<b>136,537</b>	<b>117,193</b>	<b>19,344</b>	<b>196,842</b>	<b>184,842</b>	<b>12,000</b>
<b>FUNDED BY:</b>						
Gainshare Revenue Capacity Funding	0	0	0	(4,000)	(4,000)	0
Halton Differential Levy	0	0	0	(3,235)	(3,235)	0
Transport Levy	(89,417)	(89,417)	0	(99,352)	(99,352)	0
Mayoral Precept	(5,569)	(5,569)	(0)	(7,931)	(7,931)	0
Mayoral Capacity Grant	(1,000)	(1,000)	0	(1,000)	(1,000)	0
Revenue Grants	(28,387)	(16,463)	(11,925)	(38,666)	(33,280)	(5,386)
Use of Reserves - LCRCA	7,901	0	7,901	6,554	6,554	0
Revenue Grants	0	0	0	(6,235)	(6,235)	0
Mersey Tunnels Income	(32,232)	(32,000)	(232)	(42,977)	(42,977)	0
<b>TOTAL FUNDING</b>	<b>(148,705)</b>	<b>(144,449)</b>	<b>(4,256)</b>	<b>(196,842)</b>	<b>(191,456)</b>	<b>(5,386)</b>
<b>TOTAL NET (INCOME)/EXPENDITURE</b>	<b>(12,168)</b>	<b>(27,256)</b>	<b>15,089</b>	<b>(0)</b>	<b>(6,614)</b>	<b>6,614</b>

3.4 The projected outturn position is showing a £6.6m underspend against budget. A detailed assessment of key variances is attached to this report at Appendix Two. A number of the projected underspends had been highlighted in the previous report to the Combined Authority and at the three quarter point there is a reasonable degree of certainty around these positions such that it is proposed that a number of budget adjustments are made. These underspends however mask significant underlying pressures specifically in the Place Directorate arising as a result of cost, pay and utilities inflation. These pressures are likely to persist in the next financial year so will require careful monitoring and management.

3.5 The proposed budget amendments are detailed below.

- Corporate costs – reduce budget by £1m. An underspend was identified against this budget line earlier in the year however this was being held in the event that there was insufficient funding within the employees' lines to cover the pay award. As a result of vacancies and uneven impact of the agreed pay award across the organisation this budget line is not required.
- Treasury management – reduce budget by £1m. Whilst the budget was adjusted downwards at the mid-year point to reflect the revised borrowing forecasts, lower capital spend forecasts together with higher returns on investment have contributed to further additional income thus reducing the net cost of debt management further.
- Policy, Strategy and Government Relations – reduce budget by £0.6m. This budget included significant consultancy budget in respect of the Spatial Development Strategy which is now unlikely to spend in the current year with timescales pushed out to the next financial year, so it is proposed that the budget is realigned accordingly.
- Mayoral Priorities – reduce the budget by £450k to reflect amended timescale for delivery.
- Rolling Stock – reduce budget by £1.099m to reflect amended scheduled activity for the current financial year.
- Concessionary travel – temporary in year virement of £1m to Place directorate to cover in year pressures on the Rail services budget.

3.6 Taking account of the above it is proposed that the following adjustments are made to the revenue budget:

Table Two Proposed Revised Budget

	2022/23 (£'000)		
	Budget	Proposed Revised Budget	Variance
Corporate Development & Delivery	10,256	10,256	0
Concessionary Travel	45,350	44,350	(1,000)
Corporate Costs	1,683	683	(1,000)
Corporate Management	365	365	0
Corporate Services	5,098	5,098	0
Halton Differential Levy	3,235	3,235	0
Investment & Delivery	11,090	11,090	0
Mayoral Priorities	500	50	(450)
Place	65,551	65,452	(99)
Policy, Strategy & Government Relations	6,554	5,954	(600)
Revenue Grants	38,666	38,666	0
Treasury Management	8,494	7,494	(1,000)
<b>TOTAL NET COST OF SERVICES</b>	<b>196,842</b>	<b>192,693</b>	<b>(4,149)</b>
<b>FUNDED BY:</b>			
Gainshare Revenue Capacity Funding	(4,000)	(4,000)	0
Halton Differential Levy	(3,235)	(3,235)	0
Transport Levy	(99,352)	(99,352)	0
Mayoral Precept	(7,931)	(7,931)	0
Mayoral Capacity Grant	(1,000)	(1,000)	0
Revenue Grants	(38,666)	(38,666)	0
Use of Reserves - LCRCA	6,554	10,703	4,149
Revenue Grants	(6,235)	(6,235)	0
Mersey Tunnels Income	(42,977)	(42,977)	0
<b>TOTAL FUNDING</b>	<b>(196,842)</b>	<b>(192,693)</b>	<b>4,149</b>
<b>TOTAL NET (INCOME)/EXPENDITURE</b>	<b>0</b>	<b>0</b>	<b>0</b>

3.7 With the exception of the amendment to the Rolling Stock budget which leads to a reduction in the planned use of Rail Service, the reductions to the expenditure budget detailed at 3.5 are offset by corresponding transfer to reserves. It is proposed that the £3.05m is transferred to the following reserves:

- £1m transfer to a new specific Modernisation Reserve
- £1m transfer to Infrastructure Reserve
- £1.05m transfer to Combined Authority General Fund; and
- £1.09m reduction in assumed application of Rail Reserve.

3.8 Taking account of the proposed amendments and the spend position, there is a need to amend the grants to Merseytravel to reflect the impact of these on the Merseytravel budget. It is therefore proposed that the following amendments are made to the grants to Merseytravel:

- Reduce the operational grant by £2.1m; and
- Increase the tunnels grant by £0.56m.

3.9 In accordance with the Combined Authorities (Finance) Order 2017, the Authority is required to maintain a separate General Fund in respect of the Mayoral Precept. The table below details expenditure against the Mayoral Budget.

Table Three Revenue Expenditure against Mayoral General Fund

	2022/23 (£'000)			
	Budget	Budget to Date	Projected Outturn	Variance
Mayoral & Corporate Management	679	509	679	0
Tidal	1,698	1,274	1,690	8
Mayoral Priorities & Bus Reform	2,000	1,500	1,525	475
Policy, Strategy & Government Relations	944	708	944	0
Investment & Delivery	841	631	841	0
Corporate Development & Delivery	173	130	173	0
Corporate Services	591	443	591	0
<b>TOTAL EXPENDITURE</b>	<b>6,926</b>	<b>5,195</b>	<b>6,443</b>	<b>483</b>

3.10 The main variance on the Mayoral General Fund relates to underspends on general Mayoral priorities. As detailed at 3.5, the proposal is to amend this budget and transfer this funding through into reserves to support enhanced spend on priority areas in 2023/24.

3.11 In addition to the direct Combined Authority running costs incurred, the Combined Authority supports a number of different revenue grant streams, including European Grants and the Strategic Investment Fund (SIF). As at the end of December spend against these schemes was £16.43m. A high level breakdown of spend at a scheme level is included in the table below and a more detailed analysis at Appendix Three.

Table Four Revenue Grant Expenditure to 31 December 2022

	Annual Budget 2022/23 £'000	Spend to Date £'000	Forecast January to March 2023	Full Year Forecast £'000	Full Year Variance £'000
Business Ecosystem Delivery Board	10,694	7,341	2,696	10,037	657
Housing Delivery Board	2,578	468	2,008	2,476	102
Low Carbon Delivery Board	1,627	1,126	501	1,627	0
People Delivery Board	16,808	4,562	9,429	13,991	2,817
Place and Infrastructure Delivery Board	6,951	2,958	2,182	5,140	1,811
Transport Delivery Board	8	8	0	8	0
<b>TOTAL EXTERNAL REVENUE</b>	<b>38,666</b>	<b>16,463</b>	<b>16,817</b>	<b>33,280</b>	<b>5,386</b>

3.12 The major variances against spend relate to ESF Ways to Work schemes (£2.5m) due to walking and cycling schemes in Wirral and Liverpool not progressing to original programme and delays in the Liverpool Music Fund (£1.2m) which has been delayed as a consequence of protracted internal governance processes at Liverpool. These have now been resolved and a change control is currently being drawn up to extend the project completion deadline. Progress on Civic Data Trust is behind scheduled and projecting slippage of £569k. A change control is to be submitted to seek to reprofile the expenditure into future years.

## Capital Expenditure

3.13 The table below details capital expenditure against budget to 31 December 2022, together with projected outturn figures. The programme approved for the year incorporated all planned expenditure on schemes funded through the Strategic Investment Fund and comprises schemes delivered by constituent local authorities, Merseytravel and third parties. A more detailed breakdown of spend by scheme is included at Appendix Four.

Table Five Capital Expenditure against Budget

	Annual Budget 2022/23 £'000	Spend to date £'000	Forecast January to March 2023	Full Year Forecast £'000	Full Year Variance £'000
Business Ecosystem Delivery Board	14,253	6,840	6,282	13,122	1,131
Housing Delivery Board	34,494	15,003	18,676	33,679	815
Low Carbon Delivery Board	39,725	15,874	23,862	39,725	0
People Delivery Board	292	245	24	269	22
Place and Infrastructure Delivery Board	30,609	17,379	9,702	27,080	3,529
Transport Delivery Board	92,984	16,089	73,204	89,293	3,690
<b>TOTAL EXTERNAL CAPITAL</b>	<b>212,356</b>	<b>71,430</b>	<b>131,750</b>	<b>203,169</b>	<b>9,187</b>
Bus	17,784	1,256	11,144	12,400	5,384
Smart Ticketing	242	6	44	50	192
Ferries	2,585	981	1,425	2,406	179
Hubs	1,264	20	1,198	1,219	45
Policy	471	159	311	470	1
Executive Director Place	2,212	0	0	0	2,212
IT	514	354	106	461	53
Rail	73,902	32,015	25,334	57,349	16,554
Tunnels	12,272	6,676	5,826	12,502	(230)
Rolling Stock	67,874	32,353	19,414	51,766	16,108
<b>TOTAL INTERNAL CAPITAL</b>	<b>179,120</b>	<b>73,820</b>	<b>64,802</b>	<b>138,622</b>	<b>40,499</b>
<b>GRAND TOTAL</b>	<b>391,477</b>	<b>145,250</b>	<b>196,552</b>	<b>341,791</b>	<b>49,686</b>

3.14 At the end of December, projected outturn expenditure is £341.79m representing 87% spend of full year budget. The projected outturn variance on internally delivered schemes is showing a £40.5m underspend, however as flagged in previous reports, a number of internal schemes have faced challenges which have impacted on the level of spend achievable during the current financial year. It is therefore proposed to slip an element of the budgets for these schemes into 2023/24, as detailed below:

- Hydrogen Bus (£5.000m)
- Woodside Electrical Works (£226k)



- Smart Ticketing (£192k)
- Headbolt Lane (£5.000m)
- Liverpool Baltic (£2.200m)
- Lea Green (£6.000m)
- Rolling Stock (£16.100m)

3.15 The projected outturn variance on externally delivered schemes of £18.4m is primarily driven by variances on spend against profile on the following projects:

- Kirkby Town Centre (£2.8m) - as reported in the Q2 report, due to cost escalation as a result of inflation, this project is paused and therefore will not spend further in the current financial year.
- Kindred (£0.9m) – scheme payment profile is for payments in advance and the current spend profile indicates that no further draw down of funds will be required until quarter one 23/24.
- East Runcorn Connectivity (£1.8m) – whilst groundworks are progressing on this scheme, procurement issues led to delays which have put spend behind approved profile.
- Halsnead Garden Village (£1.9m) – the scheme has faced delays due to dependencies with work that needs to be carried out by Highways England however progress appears to have been made on addressing these issues and work started on Tarbock Island in the New Year. A change request is to be submitted to extend the project and reprofile expenditure.

3.16 The current capital programme assumes a proportion of the costs associated with major transport schemes funded through CRSTS will be funded through pre development grant or reserves. To the extent that it is possible to apply capital grant to these costs, a funding switch will be undertaken as part of closure based on the ability to properly capitalise these costs in accordance with statutory and regulatory guidance.

3.17 A proposed revised capital programme for 2022/23 through to 2024/25 is detailed below.

Table Six Proposed Revised Capital Programme 2022/23 to 2024/25

	Original Budget 22/23 £'000	Revised Budget 22/23 £'000	Variance 22/23 £'000	Original Budget 23/24 £'000	Revised Budget 23/24 £'000	Variance 23/24 £'000	Budget 24/25 £'000
Bus	17,784	12,784	(5,000)	10,119	15,119	5,000	23,590
Smart Ticketing	242	50	(192)	0	192	192	0
Ferries	2,585	2,359	(226)	20,025	20,251	226	11,040
Hubs	1,264	1,264	0	430	430	0	0
Policy	471	471	0	0	0	0	0
Executive Director Place	2,212	2,212	0	0	0	0	951
Corporate Buildings	0	0	0	320	320	0	0
IT	514	514	0	725	725	0	440
Rail	73,902	60,702	(13,200)	29,480	42,680	13,200	41,500
Tunnels	12,272	12,272	0	20,982	20,982	0	26,307
Rolling Stock	67,874	51,774	(16,100)	28,319	44,419	16,100	2,480
<b>TOTAL INTERNAL DELIVERY</b>	<b>179,120</b>	<b>144,402</b>	<b>(34,718)</b>	<b>110,400</b>	<b>145,118</b>	<b>34,718</b>	<b>106,308</b>

## Reserves and Financial Risks

3.18 Taking account of the approved budget for revenue and capital for 2022/23, the projected group reserves position for the Combined Authority as of 31 March 2023 is detailed below

Table Seven Projected Group Reserves as of 31 March 2023

	Balance as of 1 April 2022 £'000	Movement in Year £'000	Projected Balance on 31 March 2023 £'000
Capital Reserves	(10,997)	0	(10,997)
Earmarked Reserves	(212,588)	6,428	(206,160)
General Fund Reserves	(11,665)	0	(11,665)
<b>Total</b>	<b>(235,250)</b>	<b>6,428</b>	<b>(228,822)</b>

3.19 The Combined Authority's reserves are at a level whereby there is sufficient cover for them to be used to provide support to the revenue budget as directed. However, as the Combined Authority's aim is to move towards financial sustainability and a move from general reliance on reserves, it is imperative that general expenditure plans are affordable within core resources and that reserves are used in a targeted and judicious manner.

3.20 At this point in the financial year, it is unlikely that there will be any significant unplanned pressures on the budget: the impacts of pay and cost pressures on the year have been factored in as part of the forecasting exercise and as such it is unlikely that there will be recourse to an unplanned use of reserves in the current financial year. Based on outturn projections, it is forecast that the Combined Authority will be able to make planned contributions to reserves which will be used to support expenditure in the next financial year.

- 3.21 Notwithstanding the position for the current financial year, there are a number of financial risks that the Combined Authority will face over the next twelve months and potentially beyond which may place pressure on the budget and necessitate application of reserves to ensure a balanced budget.
- 3.22 The Combined Authority is currently involved in a contractual dispute which is incurring significant costs. Whilst provision has been made within the current year's budget for these costs, if this dispute becomes protracted, this could place pressure on the budget in the next financial year. In the first instance the Authority would look to reprioritise funding however to the extent that this wasn't feasible there may be a requirement to contribute from reserves.
- 3.23 The impact of pay and general inflation has been a significant risk, particularly for front facing transport services. This has been quite evident at an individual service area level where key services have overspent against budget as a result of the impact of the pay award and increased utilities costs. Due to underspends elsewhere in the budget the Combined Authority has been able to manage these pressures within the overall quantum of the budget. Notwithstanding this, the impact of heightened pay claims, utilities, general cost and bus contract inflation will continue to persist over the next couple of years and place pressure on the budgets. Whilst specific inflationary provision has been made in the 2023/24 budget to mitigate the impact of this, there still remains a risk that inflationary pressures continue to grow, and that funding set aside is insufficient. This will be carefully monitored throughout the year and as far as practicable, action taken to address and mitigate the impact.

#### **4. IMPACT AND IMPLICATIONS**

##### 4.1 Financial

As detailed above

##### 4.2 Supporting the Corporate Plan

The budget for 2022/23 has been set to ensure funding is provided to support the achievement of all Corporate Priorities as detailed in the Corporate Plan.

#### **5. CONCLUSION**

The Combined Authority continues to manage its revenue and capital activities within the budgets set. Despite inflationary pressures impacting during the year, these have been managed within available resources however it is acknowledged that these pressures are likely to persist and will require careful management during the next financial year, both in terms of their impact on the revenue and capital budgets.

JOHN FOGARTY  
Executive Director – Corporate Services

STEVE ROTHERAM  
Portfolio Holder for Policy, Reform and  
Resources

**Appendices:**

- 1 Revenue Spend by Directorate and Service Area
- 2 Detailed Assessment of Key Variances
- 3 LCRCA External Revenue Grants
- 4 LCRCA Group Capital (External & Internal Delivery)