

# LIVERPOOL CITY REGION COMBINED AUTHORITY

To: The Chair and Members of the Transport Committee

Meeting: 16 January 2020

Authority/Authorities Affected: All

EXEMPT/CONFIDENTIAL ITEM: No

## REPORT OF THE DIRECTOR OF CORPORATE SERVICES

### MERSEYTRAVEL BUDGET SETTING REPORT 2020/21

#### 1. PURPOSE OF REPORT

- 1.1 Members will be aware the Liverpool City Region Combined Authority (LCRCA) has a statutory duty to agree a Levy for 2020/21 before 14 February 2020. To assist the LCRCA in its deliberations, the Transport Committee will consider Merseytravel's financial situation and recommend budget options.
- 1.2 This report details the draft revenue budget and capital programme for Merseytravel for 2020/21.
- 1.3 The budget report also provides details of the price/ fare increases proposed for 2020/21 to which approval is sought.
- 1.4 To allow Members to determine the revenue grants payable to Merseytravel in respect of general operations and Mersey Tunnels for 2020/21 and to recommend these to the LCRCA.

#### 2. RECOMMENDATIONS

- 2.1 It is recommended that the Transport Committee:
  - (a) request LCRCA to approve 2020/21 operating grants for both public transport and Mersey Tunnels operating activities as detailed in section 4 of this report;
  - (b) consider and approve the fare/ price increases included within this report and, subject to approval, seek that the financial implications of these fare increases are included within the draft budget for 2020/21; and
  - (c) request LCRCA to approve the capital programme as detailed in section 4.

### **3. BACKGROUND**

- 3.1 The Merseytravel Committee approved the budget for 2019/20 at its meeting on 31 January 2019. This budget was subsequently approved by the LCRCA at its meeting on 1 February 2019 and the Merseytravel levy was set at £95.4m. The Merseytravel operating grant was agreed at £93.9m and the Mersey Tunnels operating grant at £23.7m. The approved budget for 2019/20 has been used as the starting point from which to develop the 2020/21 estimates. No allowance has been made for growth within the budget.
- 3.2 In accordance with the medium term financial strategy approved by Merseytravel at its meeting on 28 February 2018, increases to the base budget have been limited to contractual inflation, the impact of pay award and the reduction in Special Rail Grant from Government. .
- 3.3 Whilst Merseytravel is funded predominantly through grant there are a number of areas in which services have the ability to generate income. As part of the budget setting process, services with the ability to generate fees and charges review the levels at which these should be set for the forthcoming year.

### **4. MERSEYTRAVEL REVENUE BUDGETS 2020/21**

#### **MERSEY TUNNELS**

- 4.1 Whilst the Mersey Tunnels are assets of the Combined Authority, day to day operation of the tunnels has been formally delegated to Merseytravel. Gross income from the tunnels for 2020/21 is forecast to be £40m, subject to the LCRCA approving the recommendation made by the Transport Committee on 26 January 2020 in respect of the schedule of tolls applicable in 2020/21.
- 4.2 From this revenue, an operating grant will be made to Merseytravel to fund the day to day operation of the tunnels alongside necessary capital investment. The estimated grant for the operation of the Mersey Tunnels for 2020/21 is £23.88m.
- 4.3 As the Tunnels are the assets of the LCRCA, any income generated over that required to meet the operational costs of the Tunnels is passed back to the LCRCA. Tunnels revenues are also used by the LCRCA to fund its other transport priorities, such as the Mersey Ferries in accordance with the County of Merseyside Act 1980 (the 1980 Act) as amended by the Mersey Tunnels Act 2004.
- 4.4 Although Merseytravel has delegated authority for the day to day operation of the Tunnels, it is not a Merseytravel service and consequently responsibility for determining the level of tolls payable for the use of Mersey Tunnels rests with LCRCA. Consequently this report does not cover the setting of tolls for 2020/21 as this is subject to a separate report to the LCRCA.

#### **MERSEYTRAVEL TRANSPORT ACTIVITIES**

- 4.5 The table below details the proposed revenue budget for Merseytravel for 2020/21. A detailed breakdown of the revenue budget is included at Appendix A.

Table 1 Merseytravel Summary Budget 2020/21

	<b>Forward Estimate 2020/21</b>
	<b>£'000</b>
Corporate Management	703
Transport Services	122,673
<b>Total Expenditure</b>	<b>123,376</b>
Funded by	
Merseytravel Operating Grant	(94,114)
Mersey Tunnels Operating Grant	(23,883)
Rolling Stock Project Costs Grant from the LCRCA	(4,545)
Use of Reserves –Merseytravel	(834)
<b>Total Income</b>	<b>(123,376)</b>
<b>Net Requirement</b>	<b>0</b>

- 4.6 The proposed Transport levy for 2020/21 is £97.4m, an increase of 2.1% when compared to 2019/20. To reflect some of the financial challenges faced by Merseytravel, primarily arising from pay and contract inflation and reductions in Special Rail Grant, it is proposed that the grant to Merseytravel to support service provision for 2020/21 is £94.1m. A more detailed breakdown of the revenue budget is included at Appendix 1.
- 4.7 To reflect the increased demands and cost pressures placed on Merseytravel arising from the requirements to deliver on Combined Authority and Mayoral priorities, an additional £1.4m has been allocated to Merseytravel from the Combined Authority to support delivery. These costs are recharged from the services impacted to the Combined Authority.
- 4.8 To support the project costs associated with the delivery of the replacement Rolling Stock, a grant of £4.54m has been made by the Combined Authority to Merseytravel. Both organisations had earmarked reserves to support the costs associated with the project and, having extinguished those held by Merseytravel, the funding to support the project is now flowing down from the Combined Authority.
- 4.9 The Tunnels Operating grants for 2020/21 is £23.88m, which is largely static when compared with the budgeted grant for 2019/20, having been adjusted solely for the impact of pay and where appropriate, contract inflation. In keeping with the treatment adopted in 2019/20 the debt servicing element of Tunnels expenditure are budgeted and accounted for within the Combined Authority budget.
- 4.9 The table below details the distribution of the Levy over the constituent districts. Note that any changes in distribution between 2019/20 and 2020/21 are solely as a result of population changes. Note also that arrangements in respect of Halton recognise that Halton is responsible for delivering transport services within its own boundaries and therefore sits outside of the main transport levy mechanism.

Table 2 Distribution of Merseytravel Levy

	2019/20 £'000	2020/21 £'000
Knowlsey	10,006	10,240
Liverpool	33,095	33,869
Sefton	18,490	18,851
St Helens	12,073	12,321
Wirral	21,736	22,123
<b>Total</b>	<b>95,400</b>	<b>97,404</b>

- 4.10 The proposed increase in levy of 2.1% represents the first increase in the Levy since 2013/14. Between 2013/14 and 2017/18, the Merseytravel Levy reduced by £31.6m, an overall reduction that exceeded the corresponding reduction in Revenue Support Grant over the same period. In real terms the Levy has remained flat since. Reducing the Merseytravel Transport Levy has had significant benefits to constituent districts, allowing a greater share of scarce resources to be made available to fund other services. The reduction is the equivalent of £100 per Band D Council Tax on average across the constituent districts.
- 4.11 The reduction in Levy has been managed by Merseytravel through a combination of efficiencies, alternative funding options and use of reserves, however non earmarked reserves have now reached a position whereby it is not prudent to seek recourse to these to fund the ongoing revenue budget of the organisation.
- 4.12 As a consequence of this position and in light of increasing cost pressures, the decision has been taken that the Levy can no longer be held at the level it was in 2017/18 and an increase of 2.1% is being recommended to the Combined Authority for approval at its budget setting meeting on 26 January 2020.
- 4.13 The increase in Levy and subsequent grant to Merseytravel means that with the exception of the application of specific reserves to mitigate the reduction in SRG, Merseytravel is able to set a balanced budget without recourse to general application of reserves.
- 4.14 Whilst the budget position for the they year is more positive than it has been in previous years, this is due to the application of additional resources (as detailed above) and a reduction in pension costs arising from negotiations with the pension fund and actuary to mitigate the implications of the triennial valuation on the budget position. It is likely that over the medium term there will continue to be upward cost pressures on the budget and an element of uncertainty around future pensions costs. In light of the above, Merseytravel's financial strategy will continue to be to reduce its costs of operation while protecting front line services wherever possible.

## **5.0 MERSEYTRAVEL CAPITAL PROGRAMME**

- 5.1. The revised 2018/19 and draft 2020/21 capital programme are summarised below. The total revised capital programme for 2018/19 is £171.18m and for 2020/21 is £129.30m including tunnels. A detailed breakdown of the capital programme is included at Appendix B.

Table 3 Merseytravel Summary Capital Programme

<b>Service Area</b>	<b>2019/2020 £'000</b>	<b>2020/2021 £'000</b>
Bus	3,079	1,718
Rail	7,421	16,512
Rolling Stock	99,355	124,434
Ferries	863	8,500
Tunnels	8,869	7,965
Hubs	200	-
IT	558	1,220
Smart Ticketing	1,071	1,140
Corporate Strategy/Policy	4,654	200
Corporate Services	151	70
<b>Total</b>	<b>126,221</b>	<b>161,759</b>

5.1.2 Direct grant funding for the Merseytravel capital programme has reduced significantly over a number of years as substantially all capital funding flows through the Combined Authority. Notwithstanding this Merseytravel has a significant capital programme for the next twelve months arising from the rolling stock replacement project and commissions from the Caombined Authority for Mersytravel to develop projects in support of the Transforming Cited funding.

## **6. FEES AND CHARGES**

### **MERSEY FERRIES**

- 6.1 The 2019/20 allowed budget for Mersey Ferries (excluding The Beatles Story) showed a deficit of £0.25m excluding recharges. As Mersey Ferries is a company limited by guarantee, this means that a grant is required from Merseytravel to allow the company to break even. This grant is met through the Merseytravel operational grant, which in turn is funded by the Levy.
- 6.2 Mersey Ferries prices were referred to in the Mersey Ferries Long Term Strategy, endorsed by Merseytravel Committee in January 2016, indicating that prices should increase annually by RPI plus 1%. However in setting prices for what is primarily a leisure attraction, it does not present a clear pricing arrangement unless increased in multiples of 50p or more. For 2020/21 the RPI plus 1% increase does not trigger an increase so it is proposed that prices are held at the level approved in 2019/20.
- 6.3 In the commuter market tickets, prices are proposed to be increased from the 2019/20 level. Commuter child fares are 50% of the adult fare.
- 6.4 A full schedule of Mersey Ferries fares are attached at Appendix C. These changes result in additional income of £20k for 2020/21.

### **SUPPORTED BUS SERVICES FARES**

- 6.5 Currently Merseytravel operates its own fares policy on the supported bus service network. The adult single cash fare is £2.10 whereas the average commercial fare

is circa £2.34. Similarly Merseytravel charges £1.00 for a single child fare (age 5-18) whereas commercial fares are usually half of the adult price.

- 6.6 Merseytravel has consistently expressed a desire to maintain fares at an affordable level for passengers. At the same time commercial operators have applied higher than inflationary increases on their services. This has led to the current differential between commercial and supported bus fares. To address this fares have been subject to annual increase over the last couple of years.
- 6.7 For 2020/21 it is proposed to freeze fares at their 2019/20 level. This approach is felt appropriate for the year as it aligns with the organisation’s vision for Bus which reflects the importance of simple and affordable bus fares.

### **BUS STATION DEPARTURE CHARGES**

- 6.8 Bus station departure charges relate to commercial bus operators’ use of Merseytravel bus station facilities. The current bus station agreements allow for charges to be increased by a maximum of RPI plus 2%. This is a maximum and there is flexibility to propose increases below this level. For 2020/21 it is proposed that an increase of RPI only is adopted. The table below details the charges to be applied across all staffed and unstaffed locations.

Table 4 Bus Station Departure Charges

	<b>2020/21 Rate £</b>	<b>Period Applicable</b>
<b>Staffed bus station departure rates</b>		
Standard rate	0.493	Per departure
Rate 1	0.247	Per departure
Rate 2	0.296	Per departure
Rate 3	0.321	Per departure
Rate 4	0.395	Per departure
Rate 5	0.987	Per departure
<b>Unstaffed bus station departure rates</b>		
Standard rate	0.175	Per departure
Rate 1	0.087	Per departure
Rate 2	0.105	Per departure
Rate 3	0.114	Per departure
Rate 4	0.140	Per departure
Rate 5	0.350	Per departure

## **7. RESOURCE IMPLICATIONS**

### **Finance**

As detailed in the report above

### **Human Resources**

None as a direct result of this report.

## **Physical Assets**

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

### **8. Information Technology**

None as a direct result of this report.

### **9. RISKS AND MITIGATION**

None as a direct result of this report.

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

Members are reminded that under Public Sector Equality Duty, Merseytravel 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. Therefore whilst there are no issues with the budget itself, any actions undertaken as part of the management of any savings, the equalities consequences will be fully appraised and any negative implications for any of the protected characteristics will be mitigated, where possible, subject to available resources.

### **11. COMMUNICATION ISSUES**

Any fare changes will be communicated to users through appropriate channels ahead of their introduction.

### **12. CONCLUSION**

- 12.1 The proposed budget for Merseytravel for 2020/21 presents a balanced and robust budget which has limited recourse to reserves. Additional resources have been allocated from the Combined Authority on the back of the proposed Levy increase and to reflect additional resource requirements to support the delivery of key priorities, both for revenue and capital.

JOHN FOGARTY  
Director of Corporate Services

Contact Officer(s):

Sarah Johnston, Assistant Director of Finance (0151 330 1015)

Joanna Sawyer, Corporate Communications Manager (0151 330 1129)

Appendices:

Appendix One – Detailed Service Revenue Budgets 2020/21

Appendix Two – Detailed Capital Programme 2020/21

Background Documents:

None