

MERSEYTRAVEL

To: The Chair and Members of the Transport Committee

Meeting: 16 January 2020

Authority/Authorities Affected: All

EXEMPT/CONFIDENTIAL ITEM: No

REPORT OF MERSEYTRAVEL

MERSEYTRAVEL QUARTER TWO FINANCIAL MONITORING REPORT

1. PURPOSE OF REPORT

The purpose of this report is to provide Members of the Transport Committee with an overview of the financial performance of the organisation to the end of Quarter two for the financial year 2019/20.

2. RECOMMENDATIONS

It is recommended that the Transport Committee:

- (a) Note Merseytravel's revenue position and performance at the end of quarter two; and
- (b) Note Merseytravel's capital position at the end of quarter two.

3. BACKGROUND

Revenue Budget 2019/20

- 3.1 A budget of £134.532m was approved by Merseytravel in February 2019 with a grant provided from the Combined Authority of £93.9m for the operation of Transport services, a grant of £23.74m to cover the operational costs associated with the Mersey Tunnels and a £16.88m contribution from reserves. Of the budgeted contribution from reserves, £4.48m was required to balance the budget and £12.40m to support the Rolling Stock project team costs. The revised budget of £131.232m takes account of changes that have occurred to Service Areas since the approved budget was set. Explanations for the budget reduction of £3.300m are detailed in the table in 3.7.
- 3.2 The table below details the revenue position for Merseytravel for the period to the end of September 2019 showing the variances against phased budgets for each service area:

	Approved Budget	Revised Budget	Budget to Date	Spend to Date	Favourable/ (Unfavourable) Variance
	£'000	£'000	£'000	£'000	£'000
Bus Services	20,063	20,564	10,619	10,343	276
Rail Services	4,300	3,959	2,224	2,264	(40)
Rolling Stock	12,401	12,401	6,188	2,366	3,822
Customer Delivery	8,015	7,276	4,204	3,948	256
Concessionary Travel	53,139	53,126	26,434	26,434	0
Corporate Management	1,979	2,425	2,187	2,184	3
Policy & LTP	1,671	692	466	413	53
People & Customer Development	2,547	0	(642)	(666)	24
Mersey Ferries	2,466	2,661	1,830	1,269	561
The Beatles Story	(973)	(973)	(750)	(1,032)	282
Corporate Costs	5,190	5,443	1,790	1,182	607
IT	0	0	(1,441)	(1,501)	60
Resources	0	0	(1,221)	(1,281)	60
PMO	0	0	(217)	(244)	27
Asset Management	0	0	(4,138)	(4,683)	545
Mersey Tunnels	23,734	23,658	9,930	9,964	(34)
Total Expenditure incl. Tunnels	134,532	131,232	57,463	50,960	6,502
Funded by:					
Merseytravel Grant from the CA	(93,916)	(90,692)	(45,384)	(45,384)	0
Mersey Tunnels Grant	(23,734)	(23,658)	(11,867)	(11,867)	0
CA Contribution to Rolling Stock	(8,620)	(8,620)	(4,310)	(2,366)	(1,944)
Application of Reserves	(8,262)	(8,262)	(4,131)	0	(4,131)
Total Income	(134,532)	(131,232)	(65,692)	(59,617)	(6,075)
Net Budget	0	0	(8,229)	(8,657)	427

3.3 The financial performance at the end of quarter two is showing a positive variance of £427k against budget. The key variances are detailed below.

- Bus – whilst there are some small true underspends within Bus in respect of salaries and consultancy, a significant proportion of the underspend at the end of quarter two relates to timing differences on bus payments and underspends on supplies and services which are expected to reduce during the next quarter;
- Rolling Stock – underspend arises from three main areas: firstly reduced spend against projected>NNLNG lines on the budget as a result of less industrial action to date than anticipated, secondly prudent assumptions regarding pension top up payments and finally avoiding incurring interest payments as a consequence of external interest having not yet been incurred;
- Customer Delivery – underspend relates predominantly to staff slippage, savings on premises costs such as insurance and responsive repairs and savings relating to the purchase of concessionary travel cards. As the

financial year progresses this favourable variance is anticipated to reduce as vacant posts are filled;

- Mersey Ferries – favourable variance is largely explained by income being ahead of budget;
- The Beatles Story - underspend predominantly relates to income exceeding budget at this point in the year and staff slippage however the net impact of these is partly tempered by an overspend on cost of sales.
- Corporate costs – year to date savings on pensions charges and Mann Island costs.
- Asset Management – underspend largely relates to staff slippage, and Mann Island rental income over and above budget.

A more detailed analysis of service budgets and spend is provided at Appendix One.

3.4 The table below details the forecasted outturn position for Merseytravel showing the variance against full year budget for each Service Area.

	Revised Budget	Forecasted Outturn	Favourable/ (Unfavourable) Variance
	£'000	£'000	£'000
Bus Services	20,564	20,409	155
Rail Services	3,959	3,938	21
Rolling Stock	12,401	9,605	2,796
Customer Delivery	7,276	7,014	262
Concessionary Travel	53,126	53,126	0
Corporate Management	2,425	2,425	0
Policy & LTP	692	689	3
People & Customer Development	0	(20)	20
Mersey Ferries	2,661	2,626	35
The Beatles Story	(973)	(1,251)	278
Corporate Costs	5,443	5,143	300
IT	0	(27)	27
Resources	0	(9)	9
PMO	0	(44)	44
Asset Management	0	(639)	639
Mersey Tunnels	23,658	23,658	0
Total Expenditure incl. Tunnels	131,232	126,643	4,589
Funded by:			
Merseytravel Grant from the CA	(90,692)	(90,692)	0
Mersey Tunnels Grant	(23,658)	(23,658)	0
CA Contribution to Rolling Stock	(8,620)	(8,620)	0
Application of Reserves	(8,262)	(3,673)	(4,589)
Total Income	(131,232)	(126,643)	(4,589)
Net Budget	0	0	0

3.5 The key year end forecasted variances are detailed below.

- Bus – the forecasted underspend is largely explained by savings on payments to bus operators;
- Rolling Stock – the forecasted underspend arises from a reduced spend on NNLNNG, prudent assumptions regarding pension to up payments and savings on external interest payments;
- Customer Delivery – slippage on staffing costs, savings on premises costs and the impact of the change in the concessionary travel cards renewal from 3 to 5 years explain the favourable forecasted position;
- Corporate Costs – savings are anticipated on consultancy fees and Mann Island costs;
- The Beatles Story – profit is currently forecasted to outturn higher than budgeted due to increased sales;
- Asset management – savings are being achieved on vacant posts and additional unbudgeted rental income from tenants.

3.6 The approved budget represents the position approved by Merseytravel at its meeting 12 June 2019. The table below details the major movements in the Service Areas from the approved budget.

3.7 Rechargeable service area costs have been reapportioned in line with user department activity and this explains a significant number of the budget movements. In addition, the budgets for Corporate Communications, Corporate Engagement, Marketing, Policy and Directorate Support have transferred from Merseytravel to the LCRCA. This transfer has resulted in a reduction in budgeted costs of £3.224m and a corresponding reduction in the grant from the LCRCA.

	Approved Budget £'000	Revised Budget £'000	Movement £'000
Expenditure:			
Bus Services	20,063	20,564	501
Rail Services	4,300	3,959	(341)
Customer Delivery	8,015	7,276	(739)
Concessionary Travel	53,139	53,126	(13)
Corporate Management	1,979	2,425	446
Policy & LTP	1,671	692	(979)
People & Customer Development	2,547	0	(2,547)
Mersey Ferries	2,466	2,661	195
Corporate Costs	5,190	5,443	253
Mersey Tunnels	23,734	23,658	(76)
(3,300)			
Income:			

	Approved Budget £'000	Revised Budget £'000	Movement £'000
Merseytravel Grant from the CA	(93,916)	(90,692)	3,224
Mersey Tunnels Grant	(23,734)	(23,658)	76
3,300			

Capital Programme

3.8 The table below summarises Merseytravel's capital programme for 2019/20. A detailed capital programme is included at Appendix Two.

	Approved Budget £'000	Revised Budget £'000	Expenditure to Date £'000	Variance £'000	Full Year Forecast £'000
Bus	2,849	3,164	502	2,662	3,079
Smart Ticketing	1,071	1,071	854	217	1,071
Ferries	1,545	1,515	183	1,332	863
Hubs	200	200	8	192	200
Corporate Strategy	4,073	4,454	367	4,087	4,654
ICT	559	559	73	486	558
Support Services	311	311	69	242	151
Rail	10,570	17,920	941	16,979	7,421
Tunnels	8,670	8,710	2,318	6,392	8,869
Rolling Stock	110,000	131,087	40,428	90,659	99,355
Total Capital Spend	139,848	168,991	45,743	123,248	126,221

3.9 The approved budget represents the position approved by Merseytravel at its meeting 12 June 2019 which takes account of slippage from 2018/19. The revised budget takes account of changes that have occurred to the programme since then. The table below details the movement in the capital programme from quarter one reporting.

	Revised Budget Quarter One £'000	Revised Budget Quarter Two £'000	Explanation of Movements
Bus	3,064	3,164	£100k match funding for Transforming Cities Bus Routes

3.10 Spend in the first six months of 2019/20 represents 27% of the overall capital programme for Merseytravel. Whilst spend levels are low, this is perhaps slightly artificially reduced by the increase of the Rail budget by £6m for Transforming Cities predevelopment works. Notwithstanding this, the profile of capital spend is such that this tends to build gradually throughout the year with a greater proportion of spend occurring in the last quarter of the year. The forecasted position results in a variance of £42.770m, with the most significant variances detailed below.

- Rolling Stock – slippage of £31.732m. This is due to a Force Majeure event with one of Stadler’s suppliers, which means that some payment milestones have slipped and will now occur in 2020/21 rather than 2019/20.
- Ferries variance is due mainly to the Landing Stage at Seacombe. This is now scheduled to come out of the water in October 2020 and the majority of the expenditure will slip into 2020/21.
- Rail underspends are due to Central Station progress being slower than planned, Knowsley MBC making changes to the design and specification at Prescott Station and the Station Validators original programme of works has evolved and grown since the original inception.

Reserves Position

3.11 The table below details the anticipated position in respect of Merseytravel’s balances as at the 31 March 2020, based on the assumed utilisation of reserves for the purpose of supporting the revenue and capital budgets for 2019/20.

	Balance as at 1 April 2019 £'000	Utilisation in Year £'000	Balance at 31 March 2020 £'000
Capital Reserves	0	0	0
Earmarked Reserves	52,949	(8,111)	44,838
Revenue/ Working Balances	1,739	0	1,739
Total	54,688	(8,111)	46,577

3.12 Of the total balance of reserves carried forward to 2020/21, working balances represent less than 3% of total reserves held by Merseytravel. Whilst earmarked reserves are still forecast to be around £47m by the end of the year, the absolute quantum held has dropped significantly over a number of years as result of support for the Rolling Stock programme and support for specific capital schemes.

Financial Risks and Impact on Future Reserves

3.13 Merseytravel is still subject to a number of quite significant financial risks, any of which could have the potential to negatively impact upon the organisation’s financial position. The most significant financial risks are detailed below:

- Reduction to SRG and the inability to pass through the reduction to MEL;
- Uncertainty around future levels of concessionary travel reimbursement;
- The impact of an aging population and the impact of concessionary travel reimbursement adding pressure to the budget;
- Challenges arising from the infrastructure works, power and platform lengthening aspects of the Rolling Stock programme which are placing upward pressure on the approved business case position;
- Uncertainty over future pay negotiations; and

- Increased requirement for support and demands made on the organisation by the Combined Authority.

3.14 Any consideration of the reserve position has to recognise the significance of these potential risks to the financial stability of the organisation. To the extent that Merseytravel is unable to obtain additional funding through the Combined Authority through the Transport Levy or additional income from Tunnel Tolls or make savings to compensate for any costs arising from the above, then there will need to be recourse to reserves to provide support for the budget position going forward.

4. RESOURCE IMPLICATIONS

4.1 Financial

Financial implications are detailed in the previous section of the report.

4.2 Human Resources

None arising directly from this report.

4.3 Physical Assets

None arising directly from this report.

4.4 Information Technology

None arising directly from this report.

4.5 Programme Management Office (PMO)

None arising directly from this report.

5. RISKS AND MITIGATION

None arising directly from this report.

6. EQUALITY AND DIVERSITY IMPLICATIONS

None arising directly from this report.

7. PRIVACY IMPLICATIONS

None arising directly from this report.

8. COMMUNICATION ISSUES

None arising directly from this report.

9. CONCLUSION

As at the end of quarter two, Merseytravel is operating within the budget available to it. Whilst some pressures exist, these do not cause concern to the overall budget position at this juncture however these will be monitored throughout the year and reported back to the board at regular intervals

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Appendices:

Appendix One - Merseytravel Revenue Budget and Spend to Quarter 2

Appendix Two – Merseytravel Capital Programme as at Quarter 2