



Financial Implications of COVID-19

Date of meeting 26 June 2020

Date of report 15 June 2020

Report by Assistant Chief Executive

1. Object of report

To appraise SPT members of the financial implications arising from the response to the COVID-19 pandemic, update on discussions with Transport Scotland (TS) to address the financial gap arising as a direct result, and outline what measures may be necessary to re-establish financial stability of the organisation.

2. Background

Members have previously been advised via the reports to the Chairs Committee (1 May 2020 and 15 May 2020) of the various impacts on SPT operations, staffing and financial stability.

In summary, the response to the pandemic and the Government decisions of lockdown and restrictions on travel has resulted in all SPT services remaining operating, albeit with many working from home where possible in line with Government guidance, but a significant reduction in income generated via the farebox, bus station departure charges, advertising income, rental income and ancillary fees.

Members are reminded that SPT set a balanced budget for financial year 2020/2021 on 6 March 2020, which agreed local authority requisitions of £35.463m and generated income via the various sources of £28.113m to fund the activities and services of the organisation. Whilst the vast majority of this income is generated via the Subway farebox, most income streams are related to passenger numbers within Subway and bus stations even indirectly, and thus the guidance to avoid public transport has had a significant impact.

By way of background, members are advised that the then potential significant impact on SPT's financial stability was highlighted on 30 March 2020 to Transport Scotland, as effectively over the space of a few days the patronage levels, adhering to Government instructions of avoiding public transport, fell by approximately 97% in both Subway and bus stations. This level of reduction corresponds with other public transport operators.

At that time and in discussion with TS, SPT highlighted the significant implications assuming a 12-week period of reduced activity, seeking financial assistance to make good in full or in part some of the lost income streams. While this 12-week assumption period was discussed with TS, SPT submitted details which included this and a potential gradual return to normality based on the information available at that time. As a result, a potential deficit of between £5.6m and £9m was identified, depending on the how long lockdown restrictions were in place for and based on the information available at that time.

At the time of writing this report, members will be aware that financial support for bus operators and rail operators have been announced, plus support to Cal Mac. Bus operators have continued to receive concession travel payments and bus service operator grants as budgeted for based on 2019/20 passenger details. The rail operator has also continued to receive franchise payments. Since raising the financial risks at the outset, the Chief Executive has

written to TS Chief Executive on 3 separate occasions, and SPT has been in regular discussion with TS on the matter, responding promptly to several requests for information and clarifications. The issue has remained on the agenda of the weekly business resilience calls with TS, and in between frequent requests for feedback and updates have been requested.

The request to Transport Scotland has been to assist SPT financially to take account of the message that recognises that all services have continued at a time when government instruction has been to limit the use of public transport, but recognises the important role that SPT services (subway, tendered bus operations and bus stations) play in the national infrastructure of ensuring that those who need to travel were able to do so. SPT has been and continues to seek financial support similar to the financial support given to rail, ferry and bus operators.

By way of background, at a UK level financial support has been given to all modes (rail, bus, ferry), with the exception of light rail in Scotland (Glasgow Subway and Edinburgh Trams). Support has been given to light rail operators in England.

Assessment of Financial Implications

As members would expect, SPT has considered all Government schemes as a means of accessing additional financial support, including the furlough staff scheme arrangements and whether the non-domestic rates provisions apply.

With regards to the use of the furlough scheme, the scheme does not generally apply to public sector bodies who are funded from Government grant and use public funds to pay staff salaries. While recognising that some local authorities have utilised the scheme in limited instances, and assessment has been made of its suitability for SPT staffing. Whilst it is recognised that the Subway generates a significant level of income, this level of income is insufficient to cover all the costs of the Subway. In addition, an assessment was made as to the numbers of staff available to continue delivering the service over a 7-day operation. The levels of staff affected either by self-isolating or shielding meant that while SPT was able to continue running a reduced service, it was not in a position to furlough staff and have confidence that the reduced numbers would allow SPT to continue the operation should the impact of the pandemic mean greater numbers of staff affected.

In addition, while recognising that a reduced service was operating, to maintain the safety case, all normal maintenance activities required to continue and all normal staffing numbers of Subway stations remained the same – it is normal for most stations to have two station staff, but smaller stations operate with only one station staff on at any one time, and thus reducing this was simply not possible.

SPT's non-domestic rates bill is approximately £1m per annum, however the temporary business rates relief provisions do not extend to SPT. However, 100% relief has been made available to airports in support of the aviation industry. SPT has submitted to the Valuation Office a request for a "material change in circumstances to the rateable value to be considered." At the time of writing no response to this has been received.

Additional costs have also been incurred by SPT during this time - supporting the increased cleaning regimes necessary to continue operations, increased levels of PPE and additional contract costs arising from the supported bus network. Tendered costs are based on assumed income levels generated from passengers and, as a result of the reduced number of passengers, bus operators sought additional contract payments.

SPT assessed all subsidised routes, making decisions to maintain key routes that were linking strategic sites and aiming to ensure that communities were not isolated as a result of significant registered bus service network reductions. While the MyBus service was also suspended, in line with Government guidance operators contracted retained some elements

of their contracted tender payments and in return some were allocated to alternative duties. All councils in the SPT area were also advised that a small limited service was available should it be required to assist with their own local response arrangements. These payments and working with suppliers remains key to ensuring that a market is retained and remains competitive once services recommence. All SPT decisions have been in line with the Scottish Public Procurement Notices issued during this time.

In summary however, the importance of SPT services cannot be underestimated as a key element in the regional network, and of course the response to the current disruptions. Not only has SPT maintained essential services at a time of vastly reduced commercial operations, but have reallocated resources around to ensure that strategic gaps are filled.

Looking ahead is difficult to assess the level of income, given the unknown situation faced by all public bodies. However, it has been necessary to make assumptions which reflect the Government's roadmap out of current restrictions, the current social distancing measures and the continued messaging of only use public transport where necessary. Assuming virtually no income for the initial 12-week period in 2020/21, 20% capacity for Quarter 2, 30% for Quarter 3, and 40% for Quarter 4, it is anticipated that SPT could be forecasting a deficit at the end of 2020/2021 of £12.5m. However, members should be aware that the level of deficit forecast under the government's current social distancing measures, limiting the number of passengers able to travel could result in the deficit being between £12.5m and £20m for the current financial year.

Clearly a deficit of this level is unacceptable and would reduce SPTs general reserves (circa £7m) to nil, whilst patronage and hence income levels are likely to remain negatively impacted. Members are advised that without financial support it will be necessary to bring forward a range of options to address such a significant financial deficit. Initial assessment has highlighted that the scale of the deficit can only be addressed by introducing significant service reductions to the very services that have played a key role in the response to COVID-19, and are relied upon by many communities.

Without financial support from government to offset the lost income, maintaining services is simply not viable.

The final stage of reassessing the financial stability will also include a review of SPT earmarked reserves to determine whether any of these can be released for more general provisions, and to fully understand the impact of these. Given that the last review was done in early 2020, a release of earmarked reserves is considered to have significant implications for key projects, including funding of the subway modernisation and the associated infrastructure works, and the future financial health of the organisation.

In discussion with Transport Scotland a question arose of whether local authorities, who fund the local authority requisition, should be considered as a means of making good the shortfall. The local authorities in the SPT area are continuing to maintain the level of budgeted requisition, which is very much welcomed at this time. The reality is that it is recognised that strategically and practically, a request for additional funding at a time when their own resources are under significant strain, and importantly, they do not have the statutory responsibility to deliver transport services, is unlikely to be positively received.

3. Conclusions

The current pandemic has had a significant impact on all parts of SPT, and undoubtedly will continue to do so for some time to come. However, the financial implications cannot be underestimated with a forecast deficit between £12.5m and £20m. Similar to other modes who have received financial support, SPT has sought and continues to seek financial assistance from Transport Scotland that recognises the impact of the government decisions on SPTs

income and funding base. Glasgow Subway, together with Edinburgh Trams, Scotland's only lightrail operations are the only modes not to receive some kind of financial support.

4. Partnership action

The Partnership is recommended to:

- Note the actions taken to date, including the continued dialogue with Transport Scotland to press the issue of the need for financial support;
- Consider what further actions may be necessary to raise the need for support with local and constituent MSPs; and
- Note that should financial support not be forthcoming to SPT to offset the loss of income, that future reports will be provided to Committees with options to reduce the level of deficit forecast, highlighting the service withdrawals necessary.

5. Consequences

Policy consequences	<i>Significant policy decisions may be necessary to accommodate the reduced resource.</i>
Legal consequences	<i>None directly from this report although specific actions will be assessed.</i>
Financial consequences	<i>Financial stability of SPT at significant risk.</i>
Personnel consequences	<i>None directly from this report although specific actions will be assessed.</i>
Equalities consequences	<i>Significant impact depending on funding availability.</i>
Risk consequences	<i>Significant impacts arising as a direct result – all issues to be assessed individually.</i>

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