



Subsidised bus service contract recommendations: financial implications

Committee Operations

Date of meeting 28 April 2023

Date of report 18 April 2023

Report by Director of Finance & Corporate Support

1. Object of report

To advise the Committee of the financial implications of the subsidised bus contract recommendations being considered at the meeting.

2. Background

The 2023/2024 approved budget for support to local tendered services and MyBus contracts increased by £1,441,688 (11.7%) to £13,703,485 when the budget was approved in March 2023. The budget was increased in recognition of the financial challenges that SPT faced in relation to costs associated with providing supported services in the SPT area given the scale of contract cost increases experienced over the previous 12 months.

Whilst taking cognisance of the overall SPT budget, the importance of the subsidised bus budget was recognised when preparing the budget for 2023/2024 and it was agreed that the subsidised budget would be increased. To achieve this, it was necessary to critically review all other expenditure areas with a view to reducing costs and commitments where possible that had the least impact on the services SPT provides. The approved subsidised budget allows some scope for accommodating expected and unforeseen costs arising from tender renewals and also inflationary increases in contract prices in line with the Conditions of Contract.

3. Outline of proposals

Bus contracts are reviewed and retendered having assessed the current need and existing network provision. At this time there remains many challenges in the network. SPT continues to review the gaps in the bus network arising from commercial operators' decisions to vary or cancel services and provides direct support in the form of subsidised services in accordance with the SPT Framework for Supporting Local Bus Services, where budgetary constraints allow. The recent changes to commercial services operated by McGill's as detailed in the amendments paper and contracts awarded under delegated powers paper at this Committee is an example of this. Should the Committee accept all the recommendations contained within the following papers, this will result in increased costs to SPT in 2023/2024 of £295,599 against the 2023/2024 budget. The net impact to SPT's budget is detailed below:

2023/2024	Net Approved Budget	Net Projected Outturn	Variance
Subsidised bus services	£13,703,485	£13,327,216	£376,269

Please note the net projected outturn of £13.327m for 2023/2024 represents a cost increase of approximately £2.6m when compared to 2021/2022 actual costs. This demonstrates the significant financial challenges that SPT have experienced in the bus market over the last 12 months.

While members are being advised of a small positive variance at this stage, given the importance of SPT services as a key element in the regional network SPT needs flexibility to react to changes in passenger flows, demand for My Bus and the commercial bus market.

Experience from recent tendering exercises has indicated that tender prices being received for the provision of subsidised services have increased materially. For example, in the Proposed Award of Subsidised Local Bus Service Contracts paper being tabled at this Committee, a net increase of 23% can be seen across the 12 SPT contracts recommended for award. If contract cost increases are sustained at this high level over the short to medium term then this will have a significant impact on future subsidised bus budgets with the potential for reduced network provision or frequency of services especially if the overall funding envelope stays the same or is reduced.

The increases in contract costs are due to a number of factors including:

- the removal of Network Support Grant Plus for bus operators in March 2023 - the impact of the conclusion in this support is likely to be seen in future tender exercises;
- significant driver shortages (due to the combination of Covid impacts, delays in driver training and testing, retirement rates and drivers transferring to the haulage industry) and in many cases operators have reduced and/or cancelled services;
- inflationary pressures resulting in increased operational costs for operators which are reflected in increased tender prices; and
- the sustained increased cost of fuel due to volatility of the market.

All of the issues above could potentially create increased demand at material cost for SPT to provide further support with significant network gaps in the bus market potentially arising as commercial operators withdraw services. SPT will continue to monitor this risk, however, any significant increased demand may not be affordable within the anticipated resource availability in current and future financial years.

Indeed, recently citing lack of driver availability, First Glasgow, a key operator, elected not to operate a significant number of SPT supported services. This resulted in the termination of these contracts. Replacement contracts have been found on a like for like basis for the remaining duration of the contracts. Additional costs in relation to replacement contracts in line with SPT's conditions of contract are the responsibility of First Glasgow. Discussions are ongoing to agree a repayment plan which ensures additional costs are covered in full from First Glasgow.

4. Committee action

The Committee is asked to note:

- (i) the financial implications of the recommendations relating to the subsidised bus services budget in the following papers and give due consideration to this in the course

of the decision making - the impact of individual decisions is reported in each paper for consideration;

- (ii) the projected positive variance reported which may require to be utilised later in the financial year to support the regional and local network;
- (iii) key concerns identified which may impact of the subsidised bus budget in the short to medium term, including in the current and future financial years; and
- (iv) discussions are ongoing with First Glasgow to agree a repayment plan which covers the additional costs of replacement contracts for contracts terminated in February 2023.

5. Consequences

Policy consequences	<i>None directly.</i>
Legal consequences	<i>None directly.</i>
Financial consequences	<i>As detailed in the report.</i>
Personnel consequences	<i>None directly.</i>
Equalities consequences	<i>Reduced financial flexibility may impact on SPT's ability to support social necessary services.</i>
Risk consequences	<i>None directly.</i>
Climate Change, Adaptation & Carbon consequences	<i>None directly.</i>

Name Neil Wylie
Title **Director of Finance
& Corporate Support**

Name Valerie Davidson
Title **Chief Executive**

For further information, please contact *Neil Wylie, Director of Finance & Corporate Support* on 0141 333 3380.