



Subsidised bus service contract recommendations: financial implications

Committee Operations

Date of meeting 28 January 2022

Date of report 12 January 2022

Report by Director Of Finance

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

Members have previously been appraised since the start of the current public health emergency of the ongoing challenges the Covid-19 pandemic has had on the organisation and the financial environment and stability. In providing a balanced SPT budget for 2021/22, an assumption of continued Covid income loss grant from Transport Scotland was made. Discussions continue with Transport Scotland on the details of Covid support for the Subway beyond September 2021, to give comfort that if working assumptions in respect of Subway income projections change materially downwards that further financial support would be available if required. This is particularly important at this stage of the financial year given the potential for the negative impact of the Omicron variant on Subway passenger numbers and income to continue in the remaining months of the financial year.

As highlighted to members, it has been necessary to critically review all expenditure areas with a view to reducing the forecast deficit as much as possible. Members have previously been advised that the level of savings needed cannot be achieved without impacts on services either directly or indirectly. The approved budget allowed scope for accommodating foreseen and unforeseen costs arising from tender renewals and also inflationary increases on contracts in line with the Conditions of Contract.

The closing position reported to the November Operations Committee meeting was as follows:

2021/22	Net Approved Budget	Net Projected Outturn	Variance
Subsidised bus services	£12,341,347	£10,751,791	£1,589,556

The net projected outturn has decreased by £65,535 since the last Operations Committee and is based on a detailed review of individual contract costs to date and known future plans at the time of writing.

During the course of the financial year, actual contract costs continue to be monitored and compared to budgeted costs. Actual costs are reflected following receipt of the 4 weekly returns, which provide details of services operated and income generated. The current projected outturn position prior to papers recommended at this Committee is detailed below:

2021/22	Net Approved Budget	Net Projected Outturn	Variance
Subsidised bus services	£12,341,347	£10,686,256	£1,655,091

3. Outline of proposals

Bus contracts are reviewed and retendered having assessed the current need and network. Clearly at this time there remains many challenges in the network and the Scottish Government continue to financially support the commercial network. SPT continues to review the gaps in that network to avoid communities being left without transport. Should the committee accept all the recommendations contained within the following papers, this would result in increased costs of £95,714 against the 2021/22 budget. The net impact to SPT's budget is detailed below:

2021/22	Net Approved Budget	Net Projected Outturn	Variance
Subsidised bus services	£12,341,347	£10,781,970	£1,559,377

While members are being advised of a 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 bus market as Covid restrictions change in line with Scottish Government guidance. However given the stage of the financial year it is unlikely that any further changes made to subsidised services will have a material impact on the underspend position for 2021/22 reported above. In line with 2020/21 it is proposed that the final year end underspend will be transferred to the Strategic Bus Fund (subject to the overall SPT financial outturn) to provide for support of bus services in future financial years.

Clearly consideration must also be given to the impact on future year budgets when awarding contracts. The 24 contracts recommended to be awarded in the proposed awards paper will generate additional costs of £80,488 in the financial year 2022/23. This represents a net increase across these contracts of 4.2% when compared with current contract costs. However, 23 contract awards remain outstanding as detailed in the proposed award paper being considered by the Committee. Operational assessment of initial prices for these contracts were considered as excessive and will be re-tendered with a view to reducing future contract costs. However, there is a risk that there will be increased costs for these contracts which will impact on the 2022/23 budget.

A number of factors may elevate the risk associated with increased costs for the 2022/23 budget:

- the significant risk to the commercial market if and when financial support from the Scottish Government reduces or ceases;
- significant driver shortages (due to the combination of Covid impacts, delays in driver training & testing, retirement rates and driver transferring to the haulage industry) and in many cases operators have had to scale back and/or cancel services;
- inflationary pressures resulting in increased operational costs for operators which may be seen in increased tender prices;

- the potential decrease in passenger numbers for commercial and subsidised services as a result the Omicron variant and any future Covid restrictions. This may result in some commercial services being financial unviable to operate for operators.

All of the issues mentioned above could potentially create increased demand 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 the next financial year.

When preparing the proposed subsidised bus budget for 2022/23 this will be assessed along with acknowledgment of the current 2021/22 subsidised bus underspend position and SPT's overall financial position, including its requirement to create a balanced budget.

4. Committee action

The committee is asked to note:

- (i) the financial implications of the recommendations 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 will be assessed at year end and any underspend will be transferred to the Strategic Bus Fund for use in future years; and
- (iii) key concerns identified which may impact of the subsidised bus budget in the short to medium term, including in the next financial year.

5. Consequences

Policy consequences	<i>None</i>
Legal consequences	<i>None</i>
Financial consequences	<i>As detailed in the report</i>
Personnel consequences	<i>None</i>
Equalities consequences	<i>None</i>
Risk consequences	<i>None</i>

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