

Strathclyde Concessionary Travel Scheme Joint Committee



Proposed Revenue Budget 2023/2024

Date of meeting 17 March 2023

Date of report 28 February 2023

Report by Treasurer

1. Object of report

To present to the Committee for approval a proposed revenue budget for the financial year 2023/2024, outlining the assumptions made in the preparation of the budget and to advise the Committee of the proposed local authority requisitions to support the Strathclyde Concession Travel Scheme (“the Scheme”). The outline of the 2024/2025 budget is also presented for noting at this stage.

2. Background

Members will be aware from previous reports provided to Committee that the global pandemic has had significant impacts on travel demand across all transport modes, including significantly reduced demand for concessionary travel and as a result the financial position and sustainability of the scheme has, in the short term at least, been improved.

In the current financial year however, as reported in the *‘Revenue Monitoring Report as at 4 February 2023, Period 11’*, there has been positive sign of recovery in terms of scheme patronage averaging around 70% of pre pandemic levels. This increase in patronage and reimbursement in 2022/2023 requires to be built into future budget projections to ensure the Scheme is sustainable in the long term, taking all factors into consideration including future patronage levels, operator fares, local government funding settlements and Scheme reserves balances.

Approval was given at the Committee meeting of 12 March 2021¹ for a new half fare with cap structure to be introduced following the recommendations of the in-depth review carried out in 2020. However, due to reduced operator reimbursement costs over recent financial years as a result of the pandemic, the immediate financial pressures previously being experienced by the Scheme have eased in the short term. The result was that no changes to fares were made in the 2022/2023 financial year.

In addition to the budget for 2023/2024, a draft budget for 2024/2025 has been prepared but due to the one-year funding constraints reflecting the local government budget settlement process the budget is only indicative at this time.

3. Current Position and Outline of Proposals

3.1 Current Position.

The 2023/2024 budget has been prepared on the basis of continuing with the current fare structure with a positive outlook on patronage recovery given demand for travel has been increasing, with this trend considered likely to continue albeit with a number of unknowns

¹ https://www.spt.co.uk/media/xdflr2mw/sctsjc120321_agenda5.pdf

remaining regarding travel demand patterns over different travel modes. At this stage, it is anticipated that passenger numbers using the scheme will increase to an average of 75-80% of pre-Covid levels across all modes with adjustments for seasonality in 2023/2024. At the time of writing, patronage levels are sitting around 70% of pre-Covid demand but this is expected to gradually rise over the coming year. However, there remains a number of unknowns at this stage which may have an impact of the 2023/2024 budget including:

- the difficulty in interpreting baselines around passenger numbers and trends;
- the impact of public behaviours on public transport for the scheme client group, as scheme users adapt to changed circumstances in terms of routines and social related activities;
- the impact of the current cost of living crisis on passenger demand;
- how any fare changes made by operators' or the Scheme will impact on patronage;
- the travel demand for rail related Scheme journeys has not recovered as quickly as ferry and Subway and are currently 60% of pre-Covid levels with future growth unknown or at what speed. This is potentially dependent on service availability in 2023/2024; and
- how government plans for easing financial support to commercial bus operators may impact bus service provision, which is free for National Entitlement Card holders.

3.2 Revised Fare Structure Proposal

The implementation of the new fare structure was scheduled to be implemented at the beginning of the 2022/2023 financial year. The Committee's decision to approve the introduction of the new fare structure was considered necessary in light of ongoing budget pressures, and a risk to the short to medium term sustainability of the Scheme. In doing so, this Committee decision was taken to help safeguard longer term sustainability of the Scheme which, in part, takes account of funding reserves held.

However, the significant reduction in concessionary travel demand since March 2020 has resulted in a corresponding reduced reimbursement to Scheme operators. This has enabled the Scheme to build up its reserves, with the reserve balance by 31 March 2023 projected to be £5.017m. Ongoing assessment of the Scheme's financial position during 2022/2023, including taking into account the projected reserves balance has allowed the Scheme to pause the implementation of the new fares structure.

It is hoped that this decision, at least in part, has encouraged the patronage recovery that has been seen during 2022/2023, giving card holders more opportunity to increase social interactions and leisure journeys post pandemic without the fear of increased costs especially during the current cost of living crisis.

Looking to the future and given the projected increase in reserves balances at the end of 2022/2023 and the anticipated costs of the Scheme in 2023/2024 it is recommended that the Scheme defer the introduction of the half fares structure until April 2024 at the earliest. This will allow the Scheme to establish a new baseline for travel demand, operator reimbursement and Scheme reserves. Furthermore, it will allow a revised forecast of the necessary timing of the implementation of the revised fare structure. This position will be reviewed on an ongoing basis with any significant change in demand and the cost base being factored into the decision making.

Discussions have been held with Scheme operators previously to ensure they are operationally ready for the introduction of the new fares structure and in order that they

understand the potential impact on reimbursement payments. Therefore, any decision to implement the new half fares structure later than originally planned, should be relatively smooth.

Members should, however, be aware that any deferment of the planned increases would only be a temporary pause in implementing the new fares structure and it is still required in the medium to longer term to ensure sustainability of the Scheme.

3.3 Long Term Financial Forecast

A long term financial forecast of the Scheme was undertaken to assist with the decision making process and timing of the implementation of the new fare structure. This further supports the view that the introduction of the new fare structure will be necessary in the immediate future. This forecast, which can be found in Appendix 1, projects financial costs and funding for the next 10 years and is based on a number of assumptions. These include annual year on year increases in operator fares, patronage and administrative costs of supporting the scheme, including employee costs, supplies and third party payments.

It is clear from this forecast that the Scheme is not sustainable in its current format in the long term and the implementation of the new half fare structure should be considered as part of the 2024/2025 budget process, which is the first financial year since 2019/2020 where the Scheme is projected to have an in year deficit.

3.4 Proposal

As a consequence of a forecasted further increase in reserves in 2022/2023, the budget has been prepared on the basis of no change to the fare structure in 2023/2024. The Local Authority funding settlement for 2023/2024 has been agreed as an increase of 1.95% compared to 2022/2023, in line with the local government budget settlement and consequently the proposed Scheme requisition level of £4.138m for 2023/2024 mirrors that estimate.

Taking the above into account, including the level of funding available from member local authorities and expected forecasts for patronage, it is recommended to agree a budget of £4.138m for 2023/2024 funded by £4.138m local authority requisition based on the best estimate of patronage recovery and consequential operator reimbursement. If the proposed budget is approved, the revised reserve balance will remain at £5.017m at the end of the financial year 2023/2024. The proposed revenue budget can be found at Appendix 2 and the proposed requisition levels can be found at Appendix 3.

As can be seen with the indicative budget for 2024/25, it is anticipated that the Scheme will return to a deficit during the financial year and will therefore require a draw on reserves to support the Scheme at that point assuming no changes to the fare structure during 2024/2025.

4. Conclusion

The reduction in concessionary travel demand since March 2020 has resulted in reduced costs to the Scheme especially in 2020/2021 and 2021/2022. Patronage has begun to recover in 2022/2023 however at a level which is still 30% less than pre-Covid levels. Subsequently, the Scheme has built up a level of reserves which allows the Scheme to continue sustainably in its current format until at least April 2024, when clearer passenger travel demand patterns may be more established.

The current cost of living crisis is impacting on both Scheme operators and card holders alike. Operator's running costs have increased substantially in the last financial year and as a result, operators may require to increase fares to balance off additional costs. This, along with a

further increase in patronage, particularly in rail related journeys could result in increased costs to the Scheme. Under this scenario, the draw-down on existing reserves could accelerate.

It is therefore important that the deferral of fare increases until April 2024 at the earliest is recognised as a short-term position, arising only as a result of the pandemic. The committee decision to implement the new fares structure will require to be put into effect at a later date in order to safeguard the longer term future of the Scheme taking cognisance on the long term financial forecast.

5. Committee action

The Committee is asked to approve:

- (i) the proposed budget of £4.138m for financial year 2023/2024;
- (ii) requisitions totalling £4.138m, a 1.95% increase compared to 2022/2023; and
- (iii) a pause in the implementation of the new fares structure until April 2024 at the earliest.

6. Consequences

Policy consequences	<i>None directly.</i>
Legal consequences	<i>Required to set a balanced budget.</i>
Financial consequences	<i>As outlined in the report.</i>
Personnel consequences	<i>None directly.</i>
Equalities consequences	<i>None directly.</i>
Climate Change, Adaptation & Carbon consequences	<i>None directly.</i>

Name Neil Wylie

Title **Treasurer**
Strathclyde Concessionary Travel Scheme Joint Committee

For further information, please contact *Stuart Paul, Chief Accountant* on 0141 333 3382.

Concessionary Travel Scheme - Long Term Financial Forecast

Cost	Year 1 2022/2023	Year 2 2023/2024	Year 3 2024/2025	Year 4 2025/2026	Year 5 2026/2027	Year 6 2027/2028	Year 7 2028/2029	Year 8 2029/2030	Year 9 2030/2031	Year 10 2031/2032
Administrative costs - Travel Card Unit										
Salaries	£182,656	£233,948	£242,604	£251,580	£260,889	£270,542	£280,552	£290,932	£301,696	£312,859
Other employee costs	£51,090	£63,181	£65,519	£67,943	£70,457	£73,064	£75,768	£78,571	£81,478	£84,493
Supplies and Services	£57,100	£65,100	£66,402	£66,402	£67,066	£68,273	£69,570	£70,962	£72,381	£73,829
Other Third Party Payments	£46,000	£47,000	£47,940	£47,940	£48,419	£49,291	£50,227	£51,232	£52,257	£53,302
Total Administrative costs	£336,847	£409,229	£422,465	£433,866	£446,831	£461,170	£476,117	£491,697	£507,812	£524,482
Interest Received	-£85,000	-£147,806	-£111,503	-£100,868	-£74,865	-£50,388	-£17,780	£0	£0	£0
Payments to Operators										
Rail Passengers Projected	2,279,899	2,393,894	2,513,588	2,639,268	2,771,231	2,909,793	3,055,282	3,208,046	3,368,449	3,536,871
Rail Reimbursement Projected	£2,071,049	£2,439,927	£2,470,575	£2,697,868	£2,946,072	£3,217,111	£3,513,085	£3,836,289	£4,189,227	£4,574,636
Average Cost Per Trip	£0.91	£0.95	£0.98	£1.02	£1.06	£1.11	£1.15	£1.20	£1.24	£1.29
Subway Passengers Projected	705,334	740,601	777,631	816,513	857,338	900,205	945,215	992,476	1,042,100	1,094,205
Subway Reimbursement Projected	£256,539	£280,082	£305,849	£333,987	£364,714	£398,268	£434,908	£474,920	£518,613	£566,325
Average Cost Per Trip	£0.36	£0.38	£0.39	£0.41	£0.43	£0.44	£0.46	£0.48	£0.50	£0.52
Ferries Passengers Projected	571,375	599,943	629,941	661,438	694,509	729,235	765,697	803,982	844,181	886,390
Ferries Reimbursement Projected	£1,059,295	£1,156,443	£1,262,836	£1,379,017	£1,505,886	£1,644,428	£1,795,715	£1,960,921	£2,141,325	£2,338,327
Average Cost Per Trip	£1.85	£1.93	£2.00	£2.08	£2.17	£2.26	£2.35	£2.44	£2.54	£2.64
Total Passengers Projected	3,556,608	3,734,438	3,921,160	4,117,218	4,323,079	4,539,233	4,766,194	5,004,504	5,254,729	5,517,466
Total payments to operators	£3,386,883	£3,876,451	£4,039,260	£4,410,872	£4,816,672	£5,259,806	£5,743,708	£6,272,129	£6,849,165	£7,479,288
Total Concessionary Scheme Costs	£3,638,730	£4,137,875	£4,350,222	£4,743,870	£5,188,639	£5,670,588	£6,202,045	£6,763,826	£7,356,977	£8,003,771
Council requisition	£4,058,730	£4,137,875	£4,137,875	£4,137,875	£4,137,875	£4,137,875	£4,137,875	£4,137,875	£4,137,875	£4,137,875
Draw on Reserves	-£420,000	£0	£212,347	£605,995	£1,050,764	£1,532,713	£2,064,170	£2,625,951	£3,219,103	£3,865,896
Revised Reserves Balance	-£5,016,504	-£5,016,504	-£4,804,157	-£4,198,162	-£3,147,398	-£1,614,685	£449,485	£3,075,436	£6,294,538	£10,160,434

Assumptions

1. Annual increase in employee costs projected at 3.7%.
2. All other administrative costs increased annually in line with CPI projections.
3. Interest received projections based on reserves held, annual cashflow and projected rates.
4. Payment to operators projections assume a 4% increase in fares and a 5% increase in passenger numbers annually.
5. Requisition from Councils to fund Scheme assumed flat from 2023/2024 onwards.
6. Based on the forecast, reserves will be fully extinguished by financial year 2028/2029 if the current fare structure remains in place and the Scheme would be in deficit from that financial year onwards.



Concessionary Travel Scheme

Proposed Revenue Budget 2023/24

	Current Year		Proposed Budget 2023/24	Draft Budget 2024/25
	Budget 2022/23	Projected outturn 2022/23		
Payments to Operators	3,786,883	3,386,883	3,876,451	4,039,260
Administration & Overheads	321,847	336,847	409,229	422,465
Total expenditure	4,108,730	3,723,730	4,285,680	4,461,725
Interest received	(50,000)	(85,000)	(147,806)	(111,503)
Total Expenditure	4,058,730	3,638,730	4,137,875	4,350,222
Funded by:				
Requisition	(4,058,730)	(4,058,730)	(4,137,875)	(4,137,875)
CTS Reserves	(0)	420,000	0	(212,347)
Total Income	(4,058,730)	(3,638,730)	(4,137,875)	(4,350,222)
Projected Reserves Balance	4,596,504	5,016,504	5,016,504	4,804,157



Proposed Council Requisition - CTS

Financial Year 2023/24

	Requisition Financial Year 2022/23	Proposed Financial Year 2023/24
Argyll and Bute	203,924	209,166
East Ayrshire	236,220	241,331
East Dunbartonshire	227,893	232,010
East Renfrewshire	181,198	184,334
Glasgow	839,650	853,262
Inverclyde	156,154	159,769
North Ayrshire	286,217	291,039
North Lanarkshire	571,907	582,557
Renfrewshire	324,549	332,060
South Ayrshire	263,393	269,273
South Lanarkshire	604,449	616,915
West Dunbartonshire	163,174	166,157
Total Requisition	4,058,730	4,137,875

Notes

1. Assumes 1.95% increase in overall requisition at this stage.
2. Change in % allocation to Councils due to update on the latest Mid Point population survey for over 60's (mid-2021).