



## Subsidised bus service contract recommendations: financial implications

**Date of meeting** 26 January 2024

**Date of report** 8 January 2024

**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 to report

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 despite the financial challenges that SPT faced and recognising the costs associated with providing supported services in the SPT area given the scale of contract cost increases experienced over the previous 12 months.

To achieve this budget increase, 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 limited scope for accommodating expected and unforeseen costs arising from in year contract specification amendments, tender renewals and also inflationary increases in contract prices in line with the Conditions of Contract.

The current projected outturn position prior to papers recommended to this Committee is detailed below:

| 2023/2024               | Net Approved Budget | Net Projected Outturn | Variance |
|-------------------------|---------------------|-----------------------|----------|
| Subsidised bus services | £13,703,485         | £13,247,876           | £455,609 |

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.

### 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.

Should the Committee accept all the recommendations contained within the following papers, this will result in increased costs to SPT in 2023/2024 of £12,836 against the current 2023/2024 budget projection. 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         | £13,260,712           | £442,773 |

If contract cost increases, as a result of financial pressures on bus operators (including reduced government support, inflationary pressures on operational costs and driver shortages) 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.

Furthermore, consideration must also be given to the impact on future year budgets when awarding contracts. 45 contracts are due for renewal in 2024. The 26 contracts recommended to be awarded in the proposed awards paper will generate additional costs to SPT of £259 in the financial year 2024/2025. Although the contract increases are not as significant as previous contract renewals this is partially due to mitigations put in place. These include reviewing specifications and altering timetables to ensure the best value possible for each contract is achieved. This has been achieved for some contracts by removing journeys with low passenger numbers or providing scope for optional timetables offering enhanced provision and optional farescale.

However, 19 contract awards remain outstanding. As detailed in the proposed award paper being considered by the Committee, 13 of the 39 contracts initially advertised 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 2024/2025 budget.

Given the contract cost increases seen over the last 18 months and taking into consideration SPT’s overall funding resources available, there are significant risks that critical reviews of individual supported service contracts will be required in order make best use of the budget available. SPT will continue to monitor this risk, however, any significant increased demand may not be affordable within the anticipated resource availability in future financial years.

As noted in the November 2023 committee, First Glasgow, a key operator, elected not to operate a significant number of SPT supported services from February 2023 onwards. This resulted in the termination of these contracts. Replacement contracts were 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. A repayment plan which ensures additional costs are covered in full from First Glasgow has now been agreed. This has been due to the positive dialogue between SPT and the operator since the beginning of the financial year in order to agree the best solution for both parties.

#### 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 small positive variance reported which may require to be utilised in the remainder of the financial year to support the regional and local network;

- (iii) the impact of the current financial pressures on the subsidised bus budget in the short to medium term, including in the current and future financial years; and
- (iv) A repayment plan with First Glasgow has been agreed which covers the additional costs of replacement contracts from February 2023.

## 5. Consequences

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| 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>Any reduction in socially necessary bus services may increase personal car usage in the SPT area.</i> |

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