



## Proposed Revenue Budget for 2020/21 and Long Term Financial Strategy

**Date of meeting** 6 March 2020

**Date of report** 26 February 2020

### Report by Assistant Chief Executive

#### 1. Object of report

To present to the Partnership a proposed draft revenue budget for the financial year 2020/21, outlining the assumptions made in the preparation of the budget, proposals for fees and charges and the draft proposed local authority requisition. The outline of the 2021/22 budget is also presented for noting at this stage. In addition to the draft revenue budget the Long Term Financial Strategy for SPT is also presented.

Members are advised that the Strategy and Programmes Committee scrutinised the following report at its meeting on 7 February 2020, and were asked to note the following recommendations:

- A net revenue budget for 2020/21 of £36.112m;
- Requisitions totalling £35.463m, the same requisition level as 2019/20;
- An increase / revision to fees and charges as outlined in section 4; and
- the updated Long Term Financial Strategy.

However given that the local government draft settlement and SPT capital budget allocation had been announced on the 6<sup>th</sup> February, the Committee agreed that a revised budget taking account of the announcement be prepared for consideration by the Partnership. The purpose of this report is to seek final agreement to the proposed revenue budget and the requisition to each local authority. Further clarification has been received from local authorities since the Strategy and Programmes Committee with regard to proposed requisition funding from local authorities for 2020/21. The proposed reduction is 0.44%. However this is subject to the Scottish Government Budget Bill being passed and any late changes that may occur. The paper also includes some budget amendments which have a neutral impact on the net revenue budget previously noted by the Strategy and Programmes Committee.

#### 2. Background

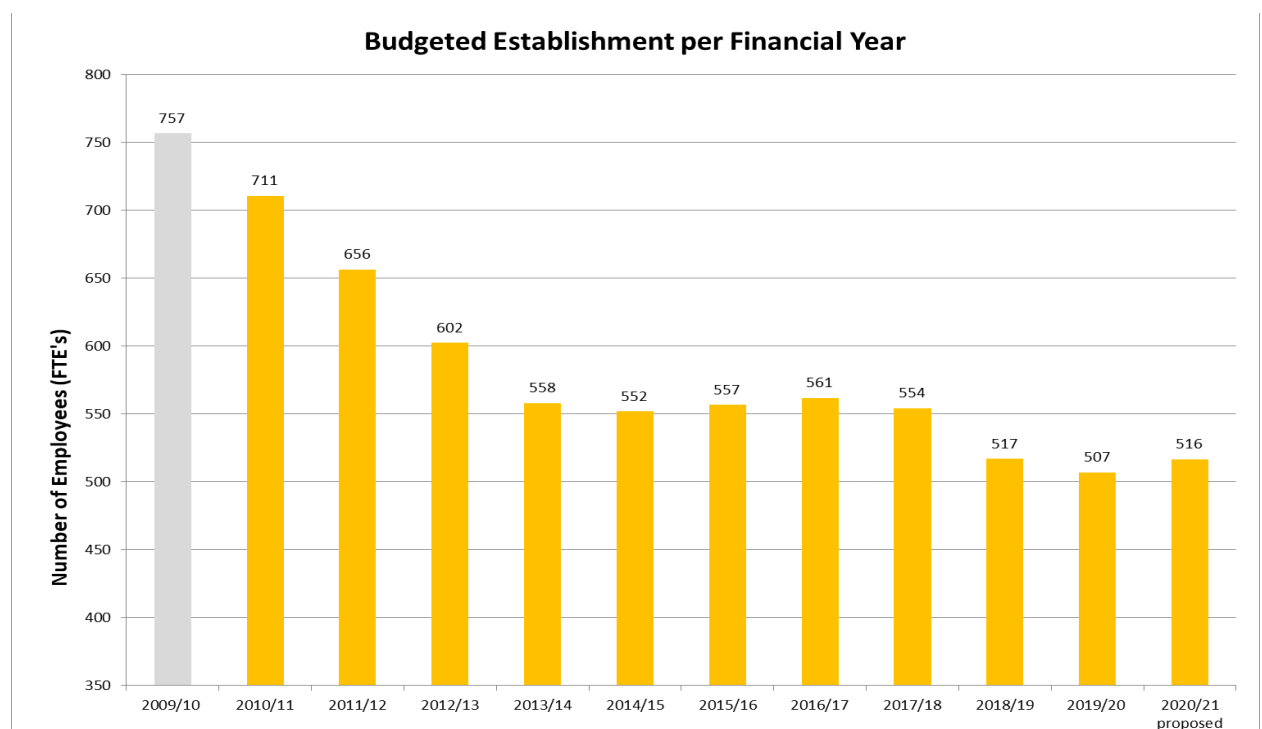
The 2020/21 draft revenue budget was considered by the Strategy and Programmes Committee in February 2019. The budget was in draft form only as SPT's funding is agreed annually and therefore budgets can only be approved a year at a time. The current estimates for 2020/21 have been reviewed and amendments made for staffing changes,

operational costs and income where necessary. In addition to the updated budget for 2020/21 a budget has been drafted for 2021/22, but due to the one-year funding constraints the budget is only indicative at this time. The local authorities that fund SPT are sympathetic to the issues that one-year budgeting can cause, however they are also constrained by the fact that they receive a one-year settlement from the Scottish Government.

As in previous years the budget has taken account of SPT’s long term financial strategy, an update of which is appended to this report at appendix 3. The proposed budget continues to focus on funding socially necessary bus services with ever increasing demand as the commercial market continues to shrink, maintaining the current Subway fleet and associated infrastructure and supporting and allocating funding to the Subway Fund. In addition, SPT is keen to invest in new digital solutions for transport information, interface with stakeholders and ticketing and maintenance of assets such as bus stations to a high standard, all of which puts pressure on revenue resources. The continuing commitment to building the Subway Fund will ensure that SPT can fund the overall modernisation project and associated works without placing any adverse financial pressure on our local authority partners through seeking increased requisition levels.

As reported previously SPT is able to contribute to the Subway Fund as significant organisational changes have been made over a number of years. The changes included restructuring of departments to ensure the organisation is working as efficiently as possible and reviewing the activities performed by the organisation. Over the years some activities have ceased and some have changed, but all changes made have been to ensure the best value use of public money. SPT is currently supporting and promoting a business improvement programme throughout the organisation as a whole. The programme involves training SPT staff on the importance of business improvement and business improvement techniques. In addition, specific organisational reviews are carried out to ensure that the organisation is as lean and efficient as possible.

The chart below shows the reduction in FTE’s from 2009/10 to the proposed establishment for 2020/21. As can be seen there has been significant reductions over years with the proposed full time equivalent staff numbers for 2020/21 being 241 less than 2009/10 or 32%.

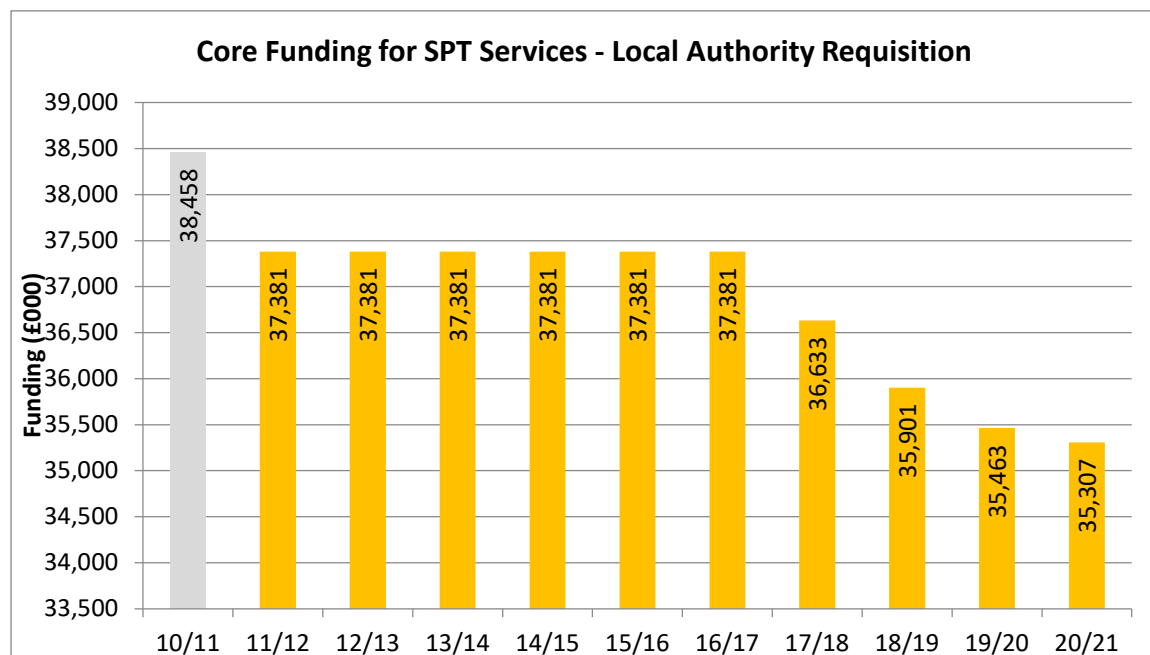


### 3. Current Position

As noted the Scottish Government has again announced a one-year budget and local government settlement. SPT has actively engaged with both the local authorities and the Scottish Government throughout the budget setting process to establish an agreed funding method for the future. Prior to the 2019/20 budget setting process the previous population methodology had not been updated since 2006 and consensus was agreed to update. To this end a revised funding methodology was agreed with SPT's local authority partners, which provides some certainty going forward. The funding distribution is based on annually updated population statistics. However, although there is certainty over how funds will be apportioned any potential reductions in funding made are still to be finalised. However in recent discussions with local authorities the requisition reduction has been estimated at 0.44% based on the anticipated floor calculation for the overall local government settlement. This will not be finalised until the Scottish Parliament agree the full budget and is therefore subject to late changes. Although sympathetic to the problems of one-year budgeting Transport Scotland are not in a position to confirm SPT's funding for greater than a year at a time at present.

The other main significant change since the Strategy and Programmes Committee is to highlight the proposal for revenue support to capital expenditure – this is planned as the level of capital support from government for non-subway modernisation related capital expenditure will be reduced by £8m in 2020/21, and it is important to continue to support regional wide infrastructure projects delivered by SPT and by local authority partners. The Partnership is asked to approve this contribution to capital of £1m recognising the financial support that this will give to local authority partners as part of the capital budget.

The current budget has been drafted whilst taking account of the external environment. For 2020/21 the Local Authority funding settlement has been estimated at a reduction of 0.44%. In 2019/20 the reduction was 1.22%, which represented the average reduction in the floor calculation for all local authorities in Scotland. As a result, and if this was the final position, funding from local authorities would be £35.307m in 2020/21. Since 2010/11 the cumulative reduction in the local authorities' requisition to 2020/21 is £3.151m. With such reductions making a step change in some services such as funding socially necessary bus services is becoming more challenging. The chart below shows how revenue funding provided to SPT by Local Authorities has changed over the period. Against the backdrop of reduced funding, SPT has had to absorb inflation – this is estimated to be £8.9m over the same period.



The proposed draft revenue budget for 2020/21 and indicative figures for 2021/22 can be found at Appendix 1. The budgets have been drafted after a comprehensive review of all expenditure lines, taking into account known cost pressures and organisational / operational changes. Increased costs of running of the Subway have been factored into the budget taking account of the increased maintenance requirement of the aging system and also the dual resourcing that will be required until the new rolling stock and associated equipment is implemented in full. However, TSSSA (Technical Support and Spares Supply Agreement) costs (under Subway Other Third Party Payments) for 2020/21 have been maintained at current levels (plus inflation) which reflects movements in the MSA (Manufacturing & Supply Agreement) programme delivery as reported to the Partnership on 13 December 2019.

At this stage, this would result in a net revenue budget at £36.021m (2019/20 - £36.500m) a reduction of 1% in net revenue terms. This will be funded via requisition on local authorities, fares, fees and charges and a contribution from Scottish Government. It should be noted that the contribution from Scottish Government will be reduced to £0.714m (2019/20 - £1.037m) as a result of the transfer to Transport Scotland in 2020 of the management of the Gourock to Kilcreggan ferry service with SPT contributing to a share of the service costs via a deduction in RTP core funding provided to SPT by the Scottish Government.

#### 4. Proposals for Fares, Fees and Charges

As part of the budget setting process SPT has reviewed the fares that it levies for the various services that it provides to both the traveling public and transport operators. In reviewing the fares SPT has considered the potential increased income as well as the potential impact to the travelling public, operators and other customers.

Subway fares are reviewed annually to ensure that all fares are set at an appropriate level for the service provided, whilst taking account of the offerings of other operators in the area. As can be seen from the table below, which details all subway fares, changes have only been made to single / return fares and park and ride charges. No changes have been made to season tickets to further promote regular travel on the Subway.

Smart Ticketing (STR)	Current Fare	Proposed Fare	Change
Adult Single	£1.55	£1.60	£0.05
Adult Daily Cap	£3.00	£3.10	£0.10
Child Single	£0.80	£0.80	No change
Child Daily Cap	£1.50	£1.55	£0.05
<b>Disposable</b>			
Adult Single	£1.75	£1.80	£0.05
Adult Return	£3.30	£3.40	£0.10
Adult Daily	£4.20	£4.30	£0.10
Child Single	£0.80	£0.85	£0.05
Child Return	£1.55	£1.65	£0.10
Child Daily	£2.10	£2.15	£0.05
Concession Single	£1.00	£1.00	Subject to consideration by SCTC
Concession Return	£1.50	£1.50	Subject to consideration by SCTC

<b>Season Tickets – Online STR</b>			
Adult 7 day	£13.00	£13.00	No change
Adult 28 day	£50.00	£50.00	No change
Adult 10 week	£120.00	£120.00	No change
Adult 6 month	£250.00	£250.00	No change
Adult Annual	£450.00	£450.00	No change
Child 7 day	£6.50	£6.50	No change
Child 28 day	£25.00	£25.00	No change
Child 10 week	£60.00	£60.00	No change
Child 6 month	£125.00	£125.00	No change
Child Annual	£225.00	£225.00	No change
<b>Season Tickets (in stations)</b>			
Adult 7 day	£14.00	£14.00	No change
Adult 28 day	£54.00	£54.00	No change
Adult 6 month	£270.00	£270.00	No change
Adult Annual	£485.00	£485.00	No change
Child 7 day	£7.00	£7.00	No change
Child 28 day	£27.00	£27.00	No change
Child 6 month	£135.00	£135.00	No change
Child Annual	£245.00	£245.00	No change
<b>Park and Ride</b>			
Park and Ride (all day disposable)	£5.70	£6.50	£0.80
Park and Ride (all day STR)	£5.70	£6.00	£0.30
STR parking only - 30 minutes	£0.60	£0.70	£0.10
STR parking only - 1 hour	£1.20	£1.40	£0.20
STR parking only - 2 hours	£2.70	£2.80	£0.10
STR parking only - all day	£5.70	£6.00	£0.30
Parking only - 28 days	£53.00	£60.00	£7.00
Park and Ride - 7 day season ticket	£27.00	£28.00	£1.00
Park and Ride - 28 day season ticket	£105.00	£109.00	£4.00
Park and Ride - 6 month season ticket	£540.00	£550.00	£10.00
Park and Ride - annual season ticket	£960.00	£980.00	£20.00
Lost ticket fee	£3.20	£3.30	£0.10
Overstay day rate	£5.70	£6.00	£0.30
Season add on	£2.70	£2.90	£0.20

In budgeting the total Subway income, consideration is given to many factors – fare increases, current and trending patronage levels, plans which may inadvertently risk service disruption, reliability of current aged assets and likelihood of unplanned disruptions, and general economic and market conditions.

In addition to Subway fares there are a number of other fees and charges applicable at Bus Stations and apply to Subsidised Bus Services.

With regard to the Bus Stations in line with the revised charging structure for parking and departures paper approved by the Operations Committee in November 2018, charges for parking and departures will increase in line with CPI. The increase to be applied in April 2020 will be 1.78%. A new Head Stance Agreement at Buchanan bus station will come into effect before the end of the current financial year which will result in increased income in comparison with previous charges applied. It is proposed not to alter other bus station charges at this time.

A review of the maximum permitted fare scales and minimum guideline criteria for subsidised bus services is currently ongoing and therefore it is not proposed to raise these fares at this time.

The proposed revised fees and charges have been incorporated into the draft budget shown at Appendix 1.

## **5. Requisition and Government Grant**

The draft net revenue budget is funded by a local authority requisitions of £35.307m and a contribution from Scottish Government of £0.714m. For planning purposes, it has been assumed that local authority funding for 2021/22 will be consistent with 2020/21 however this is subject to finalisation of the local authority funding settlement.

The draft budget shown at Appendix 1 and proposed requisition levels at Appendix 2 take account of the draft requisition levels and government grant settlement.

## **6. Long Term Financial Strategy (LTFS)**

The Partnership is required to update and approve its Long Term Financial Strategy (LTFS) following recent amendments to powers included as part of the Transport (Scotland) Act 2019, which is attached at Appendix 3. The LTFS has been drafted based on the current estimates within the 2020/21 and 2021/22 draft revenue budgets with future projections for costs and income being adjusted by various indices over the years. In addition to the inflationary increases and decreases that have been applied changes have been made for assumed future changes in the organisation.

The forecasts can be broken down into three main categories: -

- Short term forecast
- Medium term forecast
- Long term forecast

As would be expected the further out the forecast gets in years the less reliable it may be as there are many factors that may change in the internal or external environment that could affect the forecasts, but are not known at this time.

The main message from the LTFS is that based on current estimates unless there is a planned reduction in organisational costs over the long term or a change in the government austerity programme, or levels of local authority funding to transport, SPT's current operating model will become unsustainable. SPT recognises the need to continue with the current programme of business improvement and operational reviews to drive further efficiencies throughout the organisation. In addition, funding for public

transport generally needs to be raised at the highest levels within all levels of government.

## 7. Conclusions

The draft revenue budget for 2020/21 has been drafted taking cognisance of SPT's and our partners priorities and links planned spend to desired outcomes. Overall local authority funding has been budgeted on the basis the current estimated floor calculation reduction of 0.44% but is dependent on the final agreement in the local government settlement to Scottish Local Authorities. SPT is aiming to continue to provide quality services to the traveling public, while meeting its obligations to fund the overall Subway Modernisation programme.

Taking all of the above, including pressures and affordability to partners, into consideration, it would be necessary to set a net revenue budget at a level of 1% less than in financial year 2019/20. It should be noted that although it appears that there has been a net reduction in SPT's overall funding of 1% the reality is that funding reduction from local authorities is estimated at 0.44%. The direct Scottish Government revenue grant has been reduced due to the transfer of the Gourock / Kilcreggan ferry service to Transport Scotland, but as the service has been transferred SPT no longer needs to fund it and therefore the reduction in income and expenditure offset each other.

## 8. Partnership Action

Notwithstanding that the final Local Government Settlement remains outstanding, the Partnership is recommended to consider the attached draft revenue budget and to approve:

- a net revenue budget for 2020/21 of £36.021m;
- requisitions totalling £35.307m, a reduction of 0.44% compared to 2019/20;
- an increase / revision to fees and charges as outlined in section 4; and
- the updated Long Term Financial Strategy.

## 9. Consequences

Policy consequences	<i>Expenditure plan has been aligned to agreed priorities.</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>
Risk consequences	<i>Balanced budget dependent on strong financial management.</i>

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**Title** **Chief Executive**

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# Budget Report by Division

Draft Budget Summary 2020/21 - 2021/22

	Historic Data	Proposed		Draft	
	Budget 2019/20	Budget 2020/21	Variance 19/20 v 20/21	Budget 2021/22	Variance 20/21 v 21/22
<b>Chief Executive</b>					
Cabinet	449,875	468,621	(18,747)	482,463	(13,842)
<b>Total Chief Executive</b>	449,875	468,621	(18,747)	482,463	(13,842)
<b>Operations</b>					
Subway	723,720	1,891,515	(1,167,795)	4,226,058	(2,334,543)
Bus Operations	16,562,197	16,338,695	223,502	16,737,666	(398,970)
Projects	490,492	304,878	185,614	318,510	(13,631)
Policy	456,607	478,306	(21,699)	496,019	(17,713)
Health and Safety	159,614	167,403	(7,790)	173,802	(6,399)
Customer Standards	560,206	585,125	(24,919)	604,663	(19,538)
<b>Total Operations</b>	18,952,836	19,765,922	(813,086)	22,556,717	(2,790,794)
<b>Business Support</b>					
Finance	1,487,358	1,404,243	83,115	1,455,073	(50,830)
Digital	1,000,269	1,194,897	(194,628)	1,254,978	(60,081)
Human Resources	269,099	289,994	(20,895)	304,659	(14,664)
Legal Services	483,030	330,833	152,198	344,893	(14,060)
Business Support	259,294	220,349	38,945	229,070	(8,721)
Elected Members	62,893	58,788	4,105	60,087	(1,299)
Contact Centre	395,026	497,455	(102,429)	532,949	(35,494)
Corporate	1,091,450	366,581	724,869	320,396	46,185
<b>Total Business Support</b>	5,048,420	4,363,142	685,279	4,502,105	(138,964)
<b>Contribution to Subway Fund</b>	12,048,594	10,423,088	1,625,507	7,414,905	3,008,183
<b>Contribution to Capital Funded from Revenue</b>	-	1,000,000	(1,000,000)	1,000,000	-
<b>Net Total</b>	<b>36,499,726</b>	<b>36,020,773</b>	<b>478,953</b>	<b>35,956,190</b>	<b>64,583</b>

Funding	2020/21	2021/22
Local Authority Requisition	35,306,690	35,306,690
SG Core RTP funding	714,083	649,500
<b>Net Budget balance</b>	<b>36,020,773</b>	<b>35,956,190</b>

Estimated



## Revenue Monitoring Report

Draft Budget Summary 2020/21 - 2021/22

Historic Data	Proposed		Draft		Notes	
	Budget 2019/20	Budget 2020/21	Variance 19/20 v 20/21	Budget 2021/22		Variance 20/21 v 21/22
<b>EXPENDITURE</b>						
<b>Employee Costs</b>						
Salaries	17,301,283	18,032,528	(731,245)	18,610,597	(578,069)	1 Net increase of 5 posts in establishment. Also includes impact of 3% salary uplift for all employees and salary increments where applicable.
Overtime	680,972	708,136	(27,164)	708,136	-	2 Net decrease between 2019/20 and 2020/21 relates to projected increase in the vacancy time lag recovery based on trends relating to the average number of vacant posts in the establishment in previous financial years.
Other Employee Costs	5,509,077	5,143,939	365,138	5,369,835	(225,896)	
<b>Sub Total Employee Costs</b>	<b>23,491,332</b>	<b>23,884,603</b>	<b>(393,271)</b>	<b>24,688,568</b>	<b>(803,965)</b>	
<b>Property Costs</b>						
Electricity	1,687,184	1,917,280	(230,096)	2,110,220	(192,940)	3 Increase in electricity budget to take account of proposed unit rate increases per contract guidance and also increased consumption arising from the new workshop wheel lathe and train wash.
Repairs and Maintenance	417,000	467,000	(50,000)	467,000	-	4 Increase relates to bus stations repairs and maintenance based on required work at bus stations.
Property Insurance	295,000	300,000	(5,000)	313,750	(13,750)	5 Increase to take account of projected future cost of insurance.
Other Property Costs	3,478,720	3,625,124	(146,404)	3,676,985	(51,861)	6 As a result of increased cleaning costs in line with tender award and also increased depot and yard maintenance planned.
<b>Sub Total Property Costs</b>	<b>5,877,905</b>	<b>6,309,404</b>	<b>(431,499)</b>	<b>6,567,955</b>	<b>(258,551)</b>	
<b>Supplies &amp; Services</b>	<b>2,232,359</b>	<b>2,105,251</b>	<b>127,109</b>	<b>1,974,517</b>	<b>130,733</b>	7 As a result of reduced expenditure planned on rolling stock in line with fleet enhancement and decommissioning strategy. Also reduced expenditure on infrastructure works in line with reduced system possession time as a result of train system testing. This is partially offset by an increase in Subway bank charges due to the increased number of transactions
<b>Transport &amp; Plant Costs</b>	<b>146,150</b>	<b>158,050</b>	<b>(11,900)</b>	<b>158,050</b>	<b>-</b>	
<b>Third Party Payments</b>						
Bus Operator Payments	13,080,289	13,035,474	44,814	13,294,663	(259,189)	8 Increase in local and my bus budget based on projections incorporating estimated inflation. This is offset by a reduced budget (2 months) included for Gourock to Kilcreggan ferry service due to planned transfer of the service to Transport Scotland. SPT, in future, will make their contribution to the service via a reduction in RTP core funding from the Scottish Government.
Community Transport and Enhanced DRT	700,000	700,000	(0)	700,000	-	9 Budgets realigned under other third party payments.
Communications	116,500	-	116,500	-	-	10 Includes costs associated with the new workshop wheel lathe, sumps and pumps maintenance and increased TSSSA costs in line with the estimated inflation. Also includes increased computer maintenance costs.
Other Third Party Payments	5,904,135	6,517,751	(613,616)	8,214,033	(1,696,282)	
<b>Sub Total Third Party Payments</b>	<b>19,800,924</b>	<b>20,253,225</b>	<b>(452,302)</b>	<b>22,208,697</b>	<b>(1,955,471)</b>	
<b>Financing Costs</b>						
Contribution to Subway Fund	12,048,594	10,423,088	1,625,507	7,414,905	3,008,183	11 Reduced contribution taking into account increased costs in other areas. This planned contribution is in line with SPT's current profile for supporting Subway Modernisation and all aspects of the Subway.
Contribution to Capital Funded from Revenue	-	1,000,000	(1,000,000)	1,000,000	-	12 Budget added to support delivery of the capital programme against the backdrop of reduced capital funding in 2020/21.
<b>Sub Total Financing Costs</b>	<b>12,048,594</b>	<b>11,423,088</b>	<b>625,507</b>	<b>8,414,905</b>	<b>3,008,183</b>	
<b>TOTAL EXPENDITURE</b>	<b>63,597,263</b>	<b>64,133,620</b>	<b>(536,357)</b>	<b>64,012,691</b>	<b>120,929</b>	
<b>INCOME</b>						
Subway Income	(21,368,000)	(22,064,417)	696,417	(22,057,417)	(7,000)	13 The increased budget incorporates a proposed fares increase from April 2020. This budget also includes income in relation to secondment of Subway staff and stores support to the joint venture.
Bus Income	(2,630,054)	(2,748,886)	118,832	(2,782,677)	33,791	14 Increased income anticipated from departure charges and Head Stance agreement at Buchanan Bus Station.
Agency Income - Agency Fee	(1,478,484)	(1,477,044)	(1,440)	(1,493,908)	16,864	
Interest Received	(1,200,000)	(1,400,000)	200,000	(1,300,000)	(100,000)	15 Increased interest received based on anticipated interest rates and projected cash balances.
Other Income	(421,000)	(422,500)	1,500	(422,500)	-	
<b>TOTAL INCOME</b>	<b>(27,097,538)</b>	<b>(28,112,847)</b>	<b>1,015,309</b>	<b>(28,056,502)</b>	<b>(56,346)</b>	
<b>Net Total</b>	<b>36,499,726</b>	<b>36,020,773</b>	<b>478,953</b>	<b>35,956,190</b>	<b>64,583</b>	



## Budget Report by Directorate - Cabinet

Draft Budget Summary 2020/21 - 2021/22

	Historic Data	Proposed		Draft		Notes
	Budget 2019/20	Budget 2020/21	Variance 19/20 v 20/21	Budget 2021/22	Variance 20/21 v 21/22	
<b>EXPENDITURE</b>						
<b>Employee Costs</b>						
Salaries	333,682	348,149	(14,467)	358,548	(10,399)	1
Other Employee Costs	106,193	110,472	(4,280)	113,915	(3,442)	1
<b>Sub Total Employee Costs</b>	439,875	458,621	(18,747)	472,463	(13,842)	
<b>Supplies &amp; Services</b>	5,000	5,000	0	5,000	-	
<b>Transport &amp; Plant Costs</b>	5,000	5,000	0	5,000	-	
<b>Total</b>	<b>449,875</b>	<b>468,621</b>	<b>(18,747)</b>	<b>482,463</b>	<b>(13,842)</b>	

### Notes

1. Includes impact of 3% salary uplift for all employees and salary increments where applicable.



## Budget Report by Directorate - Subway

Draft Budget Summary 2020/21 - 2021/22

	Historic Data	Proposed		Draft		Notes
	Budget 2019/20	Budget 2020/21	Variance 19/20 v 20/21	Budget 2021/22	Variance 20/21 v 21/22	
<b>EXPENDITURE</b>						
<b>Employee Costs</b>						
Salaries	9,086,290	10,242,465	(1,156,175)	10,551,731	(309,266)	1
Overtime	607,472	635,136	(27,664)	635,136	-	
Other Employee Costs	2,626,397	3,045,353	(418,956)	3,168,650	(123,297)	1
<b>Sub Total Employee Costs</b>	<b>12,320,158</b>	<b>13,922,954</b>	<b>(1,602,796)</b>	<b>14,355,517</b>	<b>(432,563)</b>	
<b>Property Costs</b>						
Electricity	1,458,098	1,664,213	(206,115)	1,830,634	(166,421)	2
Property Insurance	270,000	275,000	(5,000)	288,750	(13,750)	
Other Property Costs	1,895,620	2,059,179	(163,559)	2,083,360	(24,182)	3
<b>Sub Total Property Costs</b>	<b>3,623,719</b>	<b>3,998,392</b>	<b>(374,673)</b>	<b>4,202,745</b>	<b>(204,353)</b>	
<b>Supplies &amp; Services</b>	<b>2,402,708</b>	<b>2,042,962</b>	<b>359,746</b>	<b>2,042,306</b>	<b>656</b>	<b>4</b>
<b>Transport &amp; Plant Costs</b>	<b>20,000</b>	<b>45,000</b>	<b>(25,000)</b>	<b>45,000</b>	<b>-</b>	
<b>Third Party Payments</b>						
Bus Operator Payments	20,000	20,000	(0)	20,000	-	
Other Third Party Payments	3,705,135	3,926,624	(221,489)	5,617,907	(1,691,282)	5
<b>Sub Total Third Party Payments</b>	<b>3,725,135</b>	<b>3,946,624</b>	<b>(221,489)</b>	<b>5,637,907</b>	<b>(1,691,282)</b>	
<b>TOTAL EXPENDITURE</b>	<b>22,091,720</b>	<b>23,955,931</b>	<b>(1,864,211)</b>	<b>26,283,474</b>	<b>(2,327,543)</b>	
<b>INCOME</b>						
Subway Income	(21,368,000)	(22,064,417)	696,417	(22,057,417)	(7,000)	6
<b>TOTAL INCOME</b>	<b>(21,368,000)</b>	<b>(22,064,417)</b>	<b>696,417</b>	<b>(22,057,417)</b>	<b>(7,000)</b>	
<b>Net Total</b>	<b>723,720</b>	<b>1,891,515</b>	<b>(1,167,795)</b>	<b>4,226,058</b>	<b>(2,334,543)</b>	

### Notes

1. Includes impact of increased establishment, 3% salary uplift for all employees and salary increments where applicable.
2. As a result of proposed unit rate increases per contract guidance and also increased consumption arising from the new workshop wheel lathe and train wash.
3. As a result of increased cleaning costs in line with tender award and also increased depot and yard maintenance planned.
4. Reduced expenditure planned on rolling stock in line with fleet enhancement and decommissioning strategy. Also reduced expenditure on infrastructure works in line with reduced system possession time as a result of train system testing. This is partially offset by an increase in Subway bank charges due to the increased number of transactions.
5. Includes costs associated with the new workshop wheel lathe, sumps and pumps maintenance and increased TSSSA costs in line with the projected profile.
6. The increased budget incorporates a proposed fares increase from April 2020. This budget also includes income in relation to secondment of Subway staff and stores support to the joint venture.



## Budget Report by Directorate - Bus Operations

Draft Budget Summary 2020/21 - 2021/22

	Historic Data	Proposed		Draft		Notes
	Budget 2019/20	Budget 2020/21	Variance 19/20 v 20/21	Budget 2021/22	Variance 20/21 v 21/22	
<b>EXPENDITURE</b>						
<b>Employee Costs</b>						
Salaries	2,781,128	2,538,642	242,486	2,636,520	(97,879)	1
Overtime	50,500	50,500	(0)	50,500	-	
Other Employee Costs	806,849	740,864	65,984	774,218	(33,353)	1
<b>Sub Total Employee Costs</b>	<b>3,638,477</b>	<b>3,330,006</b>	<b>308,471</b>	<b>3,461,238</b>	<b>(131,232)</b>	
<b>Property Costs</b>						
Electricity	190,586	210,717	(20,131)	233,001	(22,284)	
Repairs and Maintenance	372,000	422,000	(50,000)	422,000	-	2
Property Insurance	15,000	15,000	0	15,000	-	
Other Property Costs	1,219,900	1,194,884	25,016	1,214,441	(19,557)	
<b>Sub Total Property Costs</b>	<b>1,797,486</b>	<b>1,842,601</b>	<b>(45,115)</b>	<b>1,884,441</b>	<b>(41,840)</b>	
<b>Supplies &amp; Services</b>	<b>98,400</b>	<b>65,400</b>	<b>33,000</b>	<b>65,400</b>	<b>-</b>	<b>2</b>
<b>Transport &amp; Plant Costs</b>	<b>91,600</b>	<b>81,600</b>	<b>10,000</b>	<b>81,600</b>	<b>-</b>	
<b>Third Party Payments</b>						
Bus Operator Payments	12,810,289	13,015,474	(205,186)	13,274,663	(259,189)	3
Community Transport and Enhanced DRT	700,000	700,000	(0)	700,000	-	
Communications	4,000	4,000	(0)	4,000	-	
Other Third Party Payments	213,000	223,500	(10,500)	228,500	(5,000)	
<b>Sub Total Third Party Payments</b>	<b>13,727,289</b>	<b>13,942,974</b>	<b>(215,686)</b>	<b>14,207,163</b>	<b>(264,189)</b>	
<b>TOTAL EXPENDITURE</b>	<b>19,353,251</b>	<b>19,262,581</b>	<b>90,670</b>	<b>19,699,843</b>	<b>(437,261)</b>	
<b>INCOME</b>						
Bus Station Income	(2,630,054)	(2,748,886)	118,832	(2,782,677)	33,791	4
Agency Income - Agency Fee	(161,000)	(175,000)	14,000	(179,500)	4,500	
	<b>(2,791,054)</b>	<b>(2,923,886)</b>	<b>132,832</b>	<b>(2,962,177)</b>	<b>38,291</b>	
<b>Net Total</b>	<b>16,562,197</b>	<b>16,338,695</b>	<b>223,502</b>	<b>16,737,666</b>	<b>(398,970)</b>	

### Notes

1. Includes impact of reduced establishment partially offset by 3% salary uplift for all employees and salary increments where applicable.
2. Increase relates to bus stations repairs and maintenance based on required work at bus stations. The increased budget is partially offset by a reduction in the supplies and services budget.
3. Increase in local and my bus budget based on projections incorporating estimated inflation. This is offset by a reduced budget (2 months) included for Gourrock to Kilcreggan ferry service due to planned transfer of the service to Transport Scotland. SPT, in future, will make their contribution to the service via a reduction in RTP core funding from the Scottish Government.
4. Increased income anticipated from departure charges and Head Stance agreement at Buchanan Bus Station.



## Budget Report by Directorate - Projects

Draft Budget Summary 2020/21 - 2021/22

	Historic Data	Proposed		Draft		Notes
	Budget 2019/20	Budget 2020/21	Variance 19/20 v 20/21	Budget 2021/22	Variance 20/21 v 21/22	
<b>EXPENDITURE</b>						
<b>Employee Costs</b>						
Salaries	1,091,648	850,353	241,295	886,797	(36,444)	1
Overtime	-	-	-	-	-	
Other Employee Costs	342,586	260,025	82,561	272,088	(12,063)	1
<b>Sub Total Employee Costs</b>	1,434,234	1,110,378	323,857	1,158,885	(48,507)	
Capitalised Salaries	(962,742)	(817,000)	(145,743)	(851,875)	34,876	2
Supplies & Services	4,000	3,000	1,000	3,000	-	
<b>Transport &amp; Plant Costs</b>	15,000	8,500	6,500	8,500	-	
<b>Total</b>	<b>490,492</b>	<b>304,878</b>	<b>185,614</b>	<b>318,510</b>	<b>(13,631)</b>	

### Notes

1. Includes impact of reduced establishment partially offset by 3% salary uplift for all employees and salary increments where applicable.
2. Reduction in capitalised salaries due to realignment of Project's structure including the creation of the Subway transformation team.



## Budget Report by Directorate - Policy

Draft Budget Summary 2020/21 - 2021/22

	Historic Data	Proposed		Draft		Notes
	Budget 2019/20	Budget 2020/21	Variance 19/20 v 20/21	Budget 2021/22	Variance 20/21 v 21/22	
<b>EXPENDITURE</b>						
<b>Employee Costs</b>						
Salaries	346,461	359,005	(12,544)	372,313	(13,308)	1
Overtime	-	-	-	-	-	
Other Employee Costs	102,646	109,301	(6,655)	113,706	(4,405)	1
<b>Sub Total Employee Costs</b>	449,107	468,306	(19,199)	486,019	(17,713)	
<b>Supplies &amp; Services</b>	-	1,000	(1,000)	1,000	-	
<b>Transport &amp; Plant Costs</b>	-	1,500	(1,500)	1,500	-	
<b>Third Party Payments</b>						
Other Third Party Payments	7,500	7,500	(0)	7,500	-	
<b>Sub Total Third Party Payments</b>	7,500	7,500	(0)	7,500	-	
<b>Total</b>	<b>456,607</b>	<b>478,306</b>	<b>(21,699)</b>	<b>496,019</b>	<b>(17,713)</b>	

### Notes

1. Includes impact of 3% salary uplift for all employees and salary increments where applicable.



## Budget Report by Directorate - Health and Safety

Draft Budget Summary 2020/21 - 2021/22

	Historic Data	Proposed		Draft		Notes
	Budget 2019/20	Budget 2020/21	Variance 19/20 v 20/21	Budget 2021/22	Variance 20/21 v 21/22	
<b>EXPENDITURE</b>						
<b>Employee Costs</b>						
Salaries	122,208	127,904	(5,696)	132,664	(4,760)	1
Other Employee Costs	36,606	38,699	(2,093)	40,338	(1,639)	1
<b>Sub Total Employee Costs</b>	158,814	166,603	(7,789)	173,002	(6,399)	
<b>Supplies &amp; Services</b>	600	600	(0)	600	-	
<b>Transport &amp; Plant Costs</b>	200	200	(0)	200	-	
<b>Total</b>	<b>159,614</b>	<b>167,403</b>	<b>(7,790)</b>	<b>173,802</b>	<b>(6,399)</b>	

### Notes

1. Includes impact of 3% salary uplift for all employees and salary increments where applicable.





## Budget Report by Directorate - Customer Standards

Draft Budget Summary 2020/21 - 2021/22

	Historic Data	Proposed		Draft		Notes
	Budget 2019/20	Budget 2020/21	Variance 19/20 v 20/21	Budget 2021/22	Variance 20/21 v 21/22	
<b>EXPENDITURE</b>						
<b>Employee Costs</b>						
Salaries	385,223	399,031	(13,808)	413,567	(14,536)	1
Overtime	15,000	15,000	0	15,000	-	
Other Employee Costs	113,983	119,094	(5,110)	124,096	(5,002)	1
<b>Sub Total Employee Costs</b>	514,206	533,125	(18,919)	552,663	(19,538)	
<b>Supplies &amp; Services</b>	45,000	51,000	(6,000)	51,000	-	
<b>Transport &amp; Plant Costs</b>	1,000	1,000	(0)	1,000	-	
<b>Total</b>	<b>560,206</b>	<b>585,125</b>	<b>(24,919)</b>	<b>604,663</b>	<b>(19,538)</b>	

### Notes

1. Includes impact of 3% salary uplift for all employees and salary increments where applicable.



## Budget Report by Directorate - Finance

Draft Budget Summary 2020/21 - 2021/22

	Historic Data	Proposed		Draft		Notes
	Budget 2019/20	Budget 2020/21	Variance 19/20 v 20/21	Budget 2021/22	Variance 20/21 v 21/22	
<b>EXPENDITURE</b>						
<b>Employee Costs</b>						
Salaries	1,112,800	1,045,267	67,533	1,079,428	(34,161)	1
Overtime	500	-	500	-	-	
Other Employee Costs	320,659	306,077	14,582	322,745	(16,669)	1
<b>Sub Total Employee Costs</b>	<b>1,433,958</b>	<b>1,351,343</b>	<b>82,615</b>	<b>1,402,173</b>	<b>(50,830)</b>	
<b>Supplies &amp; Services</b>	<b>32,000</b>	<b>32,000</b>	<b>0</b>	<b>32,000</b>	<b>-</b>	
<b>Transport &amp; Plant Costs</b>	<b>1,400</b>	<b>900</b>	<b>500</b>	<b>900</b>	<b>-</b>	
<b>Third Party Payments</b>						
Other Third Party Payments	20,000	20,000	(0)	20,000	-	
<b>Sub Total Third Party Payments</b>	<b>20,000</b>	<b>20,000</b>	<b>(0)</b>	<b>20,000</b>	<b>-</b>	
<b>Total</b>	<b>1,487,358</b>	<b>1,404,243</b>	<b>83,115</b>	<b>1,455,073</b>	<b>(50,830)</b>	

### Notes

1. Includes impact of reduced establishment partially offset by 3% salary uplift for all employees and salary increments where applicable.



## Budget Report by Directorate - Digital

Draft Budget Summary 2020/21 - 2021/22

	Historic Data	Proposed		Draft		Notes
	Budget 2019/20	Budget 2020/21	Variance 19/20 v 20/21	Budget 2021/22	Variance 20/21 v 21/22	
<b>EXPENDITURE</b>						
<b>Employee Costs</b>						
Salaries	761,891	908,336	(146,445)	953,476	(45,140)	1
Overtime	3,000	3,000	0	3,000	-	
Other Employee Costs	225,378	273,561	(48,183)	288,503	(14,941)	1
<b>Sub Total Employee Costs</b>	990,269	1,184,897	(194,628)	1,244,978	(60,081)	
<b>Supplies &amp; Services</b>	4,000	4,000	0	4,000	-	
<b>Transport &amp; Plant Costs</b>	6,000	6,000	0	6,000	-	
<b>Total</b>	<b>1,000,269</b>	<b>1,194,897</b>	<b>(194,628)</b>	<b>1,254,978</b>	<b>(60,081)</b>	

### Notes

1. Includes impact of increased establishment, 3% salary uplift for all employees and salary increments where applicable.



## Budget Report by Directorate - Legal Services

Draft Budget Summary 2020/21 - 2021/22

### EXPENDITURE

#### Employee Costs

Salaries	368,963
Other Employee Costs	111,218

#### Sub Total Employee Costs

480,180

#### Supplies & Services

2,000

#### Transport & Plant Costs

850

#### Total

**483,030**

Historic Data	Proposed		Draft		Notes	
	Budget 2019/20	Budget 2020/21	Variance 19/20 v 20/21	Budget 2021/22		Variance 20/21 v 21/22
Employee Costs						
Salaries	368,963	251,737	117,226	260,993	(9,256)	1
Other Employee Costs	111,218	76,246	34,972	81,050	(4,804)	1
<b>Sub Total Employee Costs</b>	<b>480,180</b>	<b>327,983</b>	<b>152,198</b>	<b>342,043</b>	<b>(14,060)</b>	
Supplies & Services	2,000	2,000	0	2,000	-	
Transport & Plant Costs	850	850	(0)	850	-	
<b>Total</b>	<b>483,030</b>	<b>330,833</b>	<b>152,198</b>	<b>344,893</b>	<b>(14,060)</b>	

#### Notes

1. Includes impact of reduced establishment partially offset by 3% salary uplift for all employees and salary increments where applicable.



## Budget Report by Directorate - Human Resources

Draft Budget Summary 2020/21 - 2021/22

### EXPENDITURE

#### Employee Costs

Salaries	201,294
Other Employee Costs	60,805

#### Sub Total Employee Costs

262,099

#### Supplies & Services

7,000

#### Total

269,099

Historic Data	Proposed		Draft		Notes
Budget 2019/20	Budget 2020/21	Variance 19/20 v 20/21	Budget 2021/22	Variance 20/21 v 21/22	
	218,036	(16,741)	229,005	(10,970)	1
	64,959	(4,154)	68,653	(3,695)	1
	282,994	(20,895)	297,659	(14,664)	
	7,000	(0)	7,000	-	
	289,994	(20,895)	304,659	(14,664)	

#### Notes

1. Includes impact of 3% salary uplift for all employees and salary increments where applicable.



## Budget Report by Directorate - Business Support

Draft Budget Summary 2020/21 - 2021/22

	Historic Data	Proposed		Draft		Notes
	Budget 2019/20	Budget 2020/21	Variance 19/20 v 20/21	Budget 2021/22	Variance 20/21 v 21/22	
<b>EXPENDITURE</b>						
<b>Employee Costs</b>						
Salaries	196,673	166,454	30,219	172,911	(6,457)	1
Overtime	-	-	-	-	-	
Other Employee Costs	60,121	51,395	8,726	53,660	(2,264)	1
<b>Sub Total Employee Costs</b>	256,794	217,849	38,945	226,570	(8,721)	
<b>Supplies &amp; Services</b>	2,000	2,000	(0)	2,000	-	
<b>Transport &amp; Plant Costs</b>	500	500	(0)	500	-	
<b>Total</b>	<b>259,294</b>	<b>220,349</b>	<b>38,945</b>	<b>229,070</b>	<b>(8,721)</b>	

### Notes

1. Includes impact of reduced establishment partially offset by 3% salary uplift for all employees and salary increments where applicable.



## Budget Report by Directorate - Contact Centre

Draft Budget Summary 2020/21 - 2021/22

	Historic Data	Proposed		Draft		Notes
	Budget 2019/20	Budget 2020/21	Variance 19/20 v 20/21	Budget 2021/22	Variance 20/21 v 21/22	
<b>EXPENDITURE</b>						
<b>Employee Costs</b>						
Salaries	513,022	532,221	(19,199)	562,644	(30,423)	1
Overtime	4,500	4,500	(0)	4,500	-	
Other Employee Costs	130,388	141,778	(11,390)	155,714	(13,935)	1
<b>Sub Total Employee Costs</b>	<b>647,910</b>	<b>678,499</b>	<b>(30,590)</b>	<b>722,857</b>	<b>(44,358)</b>	
<b>Supplies &amp; Services</b>	<b>62,700</b>	<b>71,500</b>	<b>(8,800)</b>	<b>75,000</b>	<b>(3,500)</b>	
<b>Transport &amp; Plant Costs</b>	<b>100</b>	<b>2,500</b>	<b>(2,400)</b>	<b>2,500</b>	<b>-</b>	
<b>Third Party Payments</b>						
Other Third Party Payments	55,000	47,000	8,000	47,000	-	
<b>Sub Total Third Party Payments</b>	<b>55,000</b>	<b>47,000</b>	<b>8,000</b>	<b>47,000</b>	<b>-</b>	
<b>TOTAL EXPENDITURE</b>	<b>765,710</b>	<b>799,499</b>	<b>(33,789)</b>	<b>847,357</b>	<b>(47,858)</b>	
<b>INCOME</b>						
Agency Income - Agency Fee	(317,484)	(302,044)	(15,439)	(314,408)	12,364	2
<b>TOTAL INCOME</b>	<b>(317,484)</b>	<b>(302,044)</b>	<b>(15,439)</b>	<b>(314,408)</b>	<b>12,364</b>	
<b>Net Total</b>	<b>448,226</b>	<b>497,455</b>	<b>(49,229)</b>	<b>532,949</b>	<b>(35,494)</b>	

### Notes

1. Includes impact of 3% salary uplift for all employees and salary increments where applicable.
2. Reduced recovery from Concessionary Travel Scheme for travel card unit costs in 2020/21 based on proposed travel card unit budget.



## Budget Report by Directorate - Elected Members

Draft Budget Summary 2020/21 - 2021/22

**EXPENDITURE**

	Budget 2019/20
Supplies & Services	54,393
Transport & Plant Costs	4,500
Third Party Payments	
Other Third Party Payments	4,000
<b>Sub Total Third Party Payments</b>	<b>4,000</b>
<b>Total</b>	<b>62,893</b>

	Proposed		Draft	
	Budget 2020/21	Variance 19/20 v 20/21	Budget 2021/22	Variance 20/21 v 21/22
Supplies & Services	50,288	4,105	51,587	(1,299)
Transport & Plant Costs	4,500	(0)	4,500	-
Other Third Party Payments	4,000	(0)	4,000	-
<b>Sub Total Third Party Payments</b>	<b>4,000</b>	<b>(0)</b>	<b>4,000</b>	<b>-</b>
<b>Total</b>	<b>58,788</b>	<b>4,105</b>	<b>60,087</b>	<b>(1,299)</b>





## Budget Report by Directorate - Corporate

Draft Budget Summary 2020/21 - 2021/22

	Historic Data	Proposed		Draft		Notes
	Budget 2019/20	Budget 2020/21	Variance 19/20 v 20/21	Budget 2021/22	Variance 20/21 v 21/22	
<b>EXPENDITURE</b>						
<b>Employee Costs</b>						
Salaries	-	44,929	(44,929)	-	44,929	1
Other Employee Costs	465,250	(193,885)	659,135	(207,500)	13,615	2
<b>Sub Total Employee Costs</b>	465,250	(148,957)	614,207	(207,500)	58,543	
<b>Property Costs</b>						
Electricity	38,500	42,350	(3,850)	46,585	(4,235)	
Repairs and Maintenance	45,000	45,000	0	45,000	-	
Property Insurance	10,000	10,000	(0)	10,000	-	
Other Property Costs	363,200	371,061	(7,861)	379,184	(8,123)	
<b>Sub Total Property Costs</b>	456,700	468,411	(11,711)	480,769	(12,358)	
<b>Supplies &amp; Services</b>	475,300	584,500	(109,200)	484,500	100,000	3
<b>Transport &amp; Plant Costs</b>	-	-	-	-	-	
<b>Third Party Payments</b>						
Bus Operator Payments	250,000	-	250,000	-	-	4
Communications	105,000	-	105,000	-	-	5
Other Third Party Payments	1,907,000	2,285,127	(378,127)	2,285,127	-	6
<b>Sub Total Third Party Payments</b>	2,262,000	2,285,127	(23,127)	2,285,127	-	
<b>Financing Costs</b>						
Contribution to Subway Fund	12,048,594	10,423,088	1,625,507	7,414,905	3,008,183	7
Contribution to Capital Funded from Revenue	-	1,000,000	(1,000,000)	1,000,000	-	8
<b>Sub Total Financing Costs</b>	12,048,594	11,423,088	625,507	8,414,905	3,008,183	
<b>TOTAL EXPENDITURE</b>	<b>15,707,844</b>	<b>14,612,169</b>	<b>1,095,675</b>	<b>11,457,801</b>	<b>3,154,368</b>	
<b>INCOME</b>						
Agency Income - Agency Fee	(1,000,000)	(1,000,000)	(0)	(1,000,000)	-	
Interest Received	(1,200,000)	(1,400,000)	200,000	(1,300,000)	(100,000)	9
Other Income	(421,000)	(422,500)	1,500	(422,500)	-	
<b>TOTAL INCOME</b>	<b>(2,621,000)</b>	<b>(2,822,500)</b>	<b>201,500</b>	<b>(2,722,500)</b>	<b>(100,000)</b>	
<b>Net Total</b>	<b>13,086,844</b>	<b>11,789,669</b>	<b>1,297,175</b>	<b>8,735,301</b>	<b>3,054,368</b>	

### Notes

- Budget required for salary costs associated with displaced employees.
- Decrease relates to projected increase in the vacancy time lag recovery based on trends relating to the average number of vacant posts in the establishment in previous financial years.
- Includes an initial budget for costs relating to COP26 which may require adjustment once the scope of SPT's support is known.
- Projected costs of subsidised bus services shown within the Bus Operations budget.
- Budgets realigned under other third party payments.
- Increased budgets required for computer maintenance and consultancy. Also includes transfer of budgets from Communications (see note 5).
- Reduced contribution taking into account increased costs in other areas. This planned contribution is in line with SPT's current profile for supporting Subway Modernisation and all aspects of the Subway.
- Budget added to support delivery of the capital programme against the backdrop of reduced capital funding in 2020/21.
- Increased interest received based on anticipated interest rates and projected cash balances.



## Budget changes between S&P Committee and Partnership

Draft Budget 2020/21

	Department	S&P Committee	Partnership	Adjustment	Notes
<b>Funding</b>					
<b>Proposed Funding - S&amp;P Committee</b>				<b>36,112,226</b>	
<b>Movements</b>					
Local Authority Requisition		35,462,726	35,306,690	(156,036)	Estimated reduction in requisition of 0.44% compared to the financial year 2019/20 in line with estimated floor calculation reduction for local authorities.
SG Core RTP Funding		649,500	714,083	64,583	Funding adjustment takes account of contract payments by SPT for Gourock to Kilcreggan ferry before transfer to Transport Scotland in 2020.
<b>Proposed Funding - Partnership</b>				<b>36,020,773</b>	
<b>Budget</b>					
<b>Proposed Budget - S&amp;P Committee</b>				<b>36,112,226</b>	Draft budget position noted as per Strategy and Programmes Committee on 7 February 2020.
<b>Movements</b>					
Agency Staff	Subway	144,000	36,000	(108,000)	Four previous agency staff are now employed by SPT on fixed term contracts in line with fleet enhancement programme for the current rolling stock.
Employee costs	Subway	4,395,470	4,529,772	134,303	See above
Technical Support and Spares Supply Agreement (TSSSA)	Subway	2,541,300	876,437	(1,664,863)	TSSSA costs for 2020/21 have been maintained at current levels (plus inflation) which reflects movements in the MSA (Manufacturing & Supply Agreement) programme delivery as reported to the Partnership on 13 December 2019.
Concession Reimbursement	Subway	(275,000)	(190,000)	85,000	Estimated reduction in concession reimbursement from the Scheme as a result of the proposed increase in concession fares by the Strathclyde Concessionary Travel Scheme Joint Committee of 50p on singles and returns.
Ferry Contract	Bus Operations	-	64,583	64,583	Budget included to cover contract costs of Gourock to Kilcreggan ferry before the transfer to Transport Scotland in 2020.
Computer Maintenance Contracts	Corporate	812,627	896,627	84,000	To take account of emerging computer maintenance contracts and licences.
Capital Funded from Revenue	Corporate	-	1,000,000	1,000,000	Capital support from the government has been reduced by £8m in 2020/21. This contribution will help support the capital programme including providing financial support to local authority partners.
Subway Fund	Corporate	10,109,563	10,423,088	313,524	The continuing commitment to building the Subway Fund will ensure that SPT can fund the overall modernisation project and associated works and services.
<b>Proposed Budget - Partnership</b>				<b>36,020,773</b>	

## Proposed Council Requisition - SPT

Financial Year 2020/21

	Requisition Financial Year 2019/20	Proposed Financial Year 2020/21
Argyll and Bute	417,232	407,246
East Ayrshire	1,944,553	1,929,418
East Dunbartonshire	1,724,328	1,715,478
East Renfrewshire	1,511,119	1,507,081
Glasgow	9,903,284	9,919,623
Inverclyde	1,255,970	1,237,558
North Ayrshire	2,165,417	2,142,250
North Lanarkshire	5,421,275	5,386,979
Renfrewshire	2,819,873	2,815,424
South Ayrshire	1,796,886	1,782,305
South Lanarkshire	5,073,795	5,051,896
West Dunbartonshire	1,428,993	1,411,433
<b>Total Requisition</b>	<b>35,462,726</b>	<b>35,306,690</b>

1. The above is based on a reduction of 0.44% to the overall requisition between 2019/20 and 2020/21.
2. Change in % allocation to Councils due to update on the latest Mid Point population survey (mid-2018)

## Strathclyde Partnership for Transport Long Term Financial Strategy

### 1. Introduction

The Partnership is currently operating in a challenging environment with core requisition income likely to reduce year on year in the medium term, whilst the organisations cost base increases through pay awards and general inflationary increases on contracts and supplies and services. This Financial Strategy highlights the challenges that SPT will face in future years whilst taking account of known changes in the internal environment along with pressures and opportunities from the external environment.

The Financial Strategy doesn't stand alone and is one of a suite of internal strategies that complement each other and ensure sound organisational governance. The other strategies are touched upon along with external strategies that impact on the organisation. In addition, the framework that SPT has in place to ensure sound financial governance is detailed within the strategy.

The major financial risks facing the organisation are described along with the effect the risks will have if they come to fruition, the mitigation for the risk and the fall back plan if all else fails.

Finally, the financial strategy should be a living document and kept under constant review. The parameters for review and seeking approval are also detailed.

### 2. Financial Context

#### 2.1 Introduction

As touched upon in the introduction SPT is currently operating in a challenging financial environment with potentially significant cost and income pressures impacting on the organisation at present or which may impact on the organisation in the near future.

#### 2.2 Core Funding

SPT receives its core funding via a requisition from the 12 local authorities within the SPT area. A revised funding methodology was agreed for 2018/19 and subsequent years, which means there is certainty over the formula for determining the requisition amount and also how it will be apportioned across the 12 local authorities. The annual requisition will be adjusted each year by the movement in the floor calculation for all Scottish local authorities, which is published by the Scottish Government as part of their budget process. Due to the overall reduction in public funding it is likely that SPT's core funding will be reduced each year beyond this budget settlement. For every one percent reduction SPT loses approximately £350,000.

### **2.3 Subway Modernisation**

Subway Modernisation will place increased cost pressures on the Partnership in the short to medium term, but should have a positive impact over the long term. In the short to medium term SPT has to continue to pay for and operate the current rolling stock and associated equipment, whilst new assets come online, which means that there is a period of double cost for the organisation. In addition to the external costs it is likely that there will be a period of increased maintenance costs as staff are required for the old and new trains and associated systems. In addition, as the organisation plans for the introduction of the new system there is increased staffing costs as current plans and practices need to be reviewed and rewritten so the organisation is operationally ready. On a positive note once the new system is operational there will be a revised operating model for the Subway. The revised operating model has the potential to generate ongoing revenue savings, which have been built into the current financial model.

### **2.4 Subsidised Bus Services**

The subsidised bus budget has increased in recent years even though SPT's overall requisition funding has been reducing. In the last 10 years the subsidised bus budget has increased from £9.830 million (2010/11) to £12.213 million (2019/20), which is an increase of £2.383 million or 24.2%. Even though the budget has been increasing there is the constant threat that changes in the commercial bus market could require significantly more investment from SPT to plug the gaps in the bus market, where routes or parts of routes become unprofitable.

SPT is currently only part way through the review of its Guideline Criteria for Subsidised Local Bus Services and therefore the financial effect of any changes is unknown.

### **2.5 Transport (Scotland) Act 2019**

The Transport (Scotland) Act 2019 has given SPT more powers in respect of the bus market with franchising similar to rail services now being possible. Franchising would negate the issues where SPT would need to plug gaps in the bus market for certain areas, but the power has not been utilised before and therefore the costs and complexities of implementation are unknown.

### **2.6 Staffing Costs**

Although for a number of years no or minimal pay increases were granted, it is possible that annual inflationary increases will be the norm going forward. As employee costs amount to approximately 37% of SPT's gross expenditure any inflationary increase has a significant financial impact. An inflationary increase of 3.7% would cost the organisation approximately £863,000 annually or in simplistic terms over the 10-year financial projection pay awards could increase organisational costs by £8.63 million, assuming that SPT's overall establishment is unchanged. The 3.7% projected salary increase rate has been set at the same value as that used by the actuaries of the Strathclyde Pension Fund in their annual valuation of the funds for accounting purposes). The effect of this increase year on year coupled with the expected reduction in funding would be unsustainable in the long term.

## **2.7 Inflation**

The majority of contracts held by SPT are linked to the Consumer Price Index (CPI), which is currently running at 1.5%, but can fluctuate both upwards and downwards. The Office of Budget Responsibilities is currently forecasting the medium term rate at 2%. Most general supplies and services that are procured by SPT can also increase year on year based on CPI. Service contracts that are labour intensive can also be affected by the annual change in the living wage. For projection purposes varying indices have been used depending on the cost category (see section 5.3), assuming a steady state applying all the estimated cost and inflationary increases would equate to an annual increase in expenditure of approximately £740,000.

## **2.8 Cost Mitigations**

For the last decade SPT has been on a journey of continuous improvement reviewing all services that it provides to ensure that they are still relevant and fit for purpose. The ongoing review has seen budgeted staff numbers reduce from 757 in 2009/10 to 507 in 2019/20, which is an overall reduction of 33%. This reduction in staffing along with the other running costs saved throughout the reviews has allowed SPT to make significant contributions to the Subway Fund / reserves over the last number of years. With the modernisation project progressing and funds already in place there is no requirement to keep this contribution going over the life of the 10-year Financial Strategy projections and therefore funds are freed to offset the inflationary and other cost pressures facing the organisation.

Although the current environment is challenging SPT is in an excellent position to face these financial challenges due to the hard work that has been carried out over the years to seek efficiencies and streamline services.

## **3. Economic Outlook**

The current economic outlook is somewhat uncertain due to the current negotiations with the EU in relation to trade. There is still also the possibility that if the final Brexit deal is not concluded by the end of 2020 that Britain will leave the EU without a deal and fall back on World Trade Organisation (WTO) rates. The uncertainty surrounding the trading relationship with the EU and other nations makes any medium to long term economic forecast very challenging.

In the short term it is likely that the UK will not meet its annual Gross Domestic Product (GDP) growth target of 2% a year. In terms of business investment there has been a 0.5% drop in 2019 and it is likely that this decline will continue in 2020. The labour market in the UK has been strong, but there now appears to be signs that it is cooling with a reduction in vacancies and a potential decrease in pay awards going forward. Inflation (Consumer Price Index (CPI)) is currently running slightly under the 2% target, but is likely to be there or there or there about going forward. Interest rates are currently at 0.75% and are now forecast to fall in 2020.

The medium to longer term economic forecast should become clearer on the final details of a future trade deal with the EU are known.

#### 4. Funding for Transport Investment

SPT commissioned a review of transport investments in the SPT area to assess potential funding mechanisms for new investments. The key findings from the report in November 2019 include: -

- *structuring of the projects / schemes will be key – they must be developed in such a way that the balance of risk incentivises efficient delivery of the project and a value for money cost of finance*
- *there are a number of different potential funding solutions available to SPT. These each require, to a greater or lesser extent, further work and approvals before funds could be raised. Some of the options require a change in statute from either the UK Government or Scottish Government. The recent passing of the Transport (Scotland) Bill has opened up a new funding source through the ability to locally implement a workplace parking levy similar to that employed by Nottingham City Council*
- *we have looked at a variety of alternative delivery models in the United Kingdom. A key feature of the delivery models is the ability to raise or generate revenue as well as the ability to borrow in order to finance investment. These are key areas that SPT should consider*
- *in benchmarking the SPT area with other similar sized metropolitan areas it is apparent there are a range of approaches which are taken to organising and funding public transport. A key factor is the level of funding which is generated by passenger / farebox revenue which ranges from under 30% to over 50% in some areas. In continental Europe a payroll-based tax is often used as a source of funding, which is not an available option in the UK at the moment*
- *bus reform is a key topic in public transport at present. Transport for Greater Manchester has recently published its proposals for reform and its preferred system of franchising. In addition, West Yorkshire is investigating whether it can purchase the two main bus companies who have put their operations up for sale. In Scotland, the Transport (Scotland) Bill has just been passed giving councils and regional transport partnerships more powers in relation to bus services. We note that SPT already has the bus powers that the Transport Bill was making available to local authorities. We have set out some of the potential benefits of bus reform.*

The key findings of the report will influence the revised Regional Transport Strategy, in relation to funding future projects and services.

## 5. Links to Other Strategies

### 5.1 Introduction

The Partnerships financial strategy draws upon and compliments a number of SPT's internal strategies as well as strategies and guidance from its key stakeholders. The most significant of these being the RTS.

### 5.2 Regional Transport Strategy (RTS)

The primary strategy covering SPT's activities is the Regional Transport Strategy (RTS) ([http://www.spt.co.uk/wmslib/Documents/RTS/catalyst\\_for\\_change.pdf](http://www.spt.co.uk/wmslib/Documents/RTS/catalyst_for_change.pdf)). The current RTS is under review with the new RTS planned to be completed in 2021. The current RTS clearly documents what SPTs, Strategic Priorities and Outcomes are. The current strategic outcomes are: -

- **Attractive Seamless Reliable Travel**  
Interventions to support the delivery of a modern, integrated and attractive transport network include continuation of Subway Modernisation programme, bus passenger infrastructure improvements, improvements at key transport nodes and interchanges, travel information improvements including Real Time Passenger Information and development of smart, integrated ticketing.
- **Improved Connectivity**  
Interventions to support the delivery of a more efficient and safe transport network including improvements to urban traffic control systems, junction improvements and safety improvements on rural roads.
- **Access for All**  
Interventions to support the delivery of a more accessible and safe transport network include more accessible public transport and active travel infrastructure and bus fleet improvements on socially necessary services.
- **Reduced Emissions**  
Interventions to support the delivery of a more sustainable transport network and travel behaviour include park and ride development, delivery or development of new cycling infrastructure and schemes in support of town centre regeneration plans to encourage more sustainable travel to work, shops and services.

When planning both capital and revenue spend the strategic outcomes of the RTS must be considered.

### 5.3 Stakeholder Strategies

There are a number of stakeholder strategies that either directly influence SPT's overall strategies or need to be considered when evaluating investment proposals: -

- National Transport Strategy

The Transport (Scotland) Act 2019 now makes it a statutory



requirement for the Scottish Government to produce a National Transport Strategy (NTS). The NTS sets out the Scottish Government's vision for transport for the next 20 years. As with SPT's RTS the government is currently reviewing the NTS with a new NTS set to be published in 2020.

- Local Transport Strategies

The local authorities within the SPT area each individually produce Local Transport Strategies. These strategies set out at a local level how transport can enable each local authority's vision for their area and what interventions are required to meet that vision.

## 5.4 Financial Strategies

There are a number of other financial strategies, which have a direct influence on the long term financial strategy. The other strategies are:-

- Procurement Strategy ([http://www.spt.co.uk/corporate/wp-content/uploads/2019/07/procurementstrategy\\_2019-2022.pdf](http://www.spt.co.uk/corporate/wp-content/uploads/2019/07/procurementstrategy_2019-2022.pdf))
- Treasury Strategy (see section 8)
- Capital Strategy (see section 8)

The above strategies compliment the Financial Strategy and are part of SPT's overall financial governance framework.

## 6. Financial Governance

### 6.1 Introduction

SPT has a range of governance controls and measures to enable sound financial stewardship. The arrangements cover policy and procedures, training, roles and responsibilities, reporting and approvals.

### 6.2 Governance Manual

SPT has a suite of governance documents that are consolidated into the Partnerships governance manual. The Governance Manual is available through SPT's intranet and internet sites as well as being provided in hard copy to all managers. All SPT employees and elected members must comply with the guidance and regulations within the governance manual. The governance manual includes: -

- Standing Orders of the Partnership
- Committee Terms of Reference
- Scheme of Delegated Functions
- Financial Regulations
- Standing Orders Relating to Contracts
- Code of Corporate Governance
- Members' Code of Conduct
- Members' Allowances and Expenses Guide
- Multi Member Wards Protocol
- Code of Practice on Publicity
- Counter Fraud Strategy

- Code of Conduct for Employees
- Guidance on the Register of Interests for Employees

Although all of the guidance contained within the governance manual can impact on financial stewardship the most important document in financial terms is SPT's Financial Regulations. The purpose of the Financial Regulations is to: -

- Establish the financial framework to minimise risk and protect the Partnership and its assets, as well as recognising fiduciary duty (the Partnership's duty to tax payers, other funding partners and stakeholders within the Partnership area);
- Reflect and provide guidance on best practice;
- Ensure flexibility on compliance but still maintaining proper control over risk;
- Balance risk, cost and control and effectiveness of operations; and
- Clearly set out responsibilities for compliance and for ensuring compliance.

Where any serious breaches in financial regulations are identified Audit and Assurance will be requested to carry out an investigation, which may lead to specific recommendations, including the need instigate formal disciplinary investigations.

### **6.3 Training**

SPT is committed to training both it's employees and members and has specific training programmes for all managers and budget holders. Specific internal training session are available in Financial Management, Procurement and Corporate Governance.

### **6.4 Roles and Responsibilities**

There are clearly defined roles and responsibilities for those involved in the financial stewardship of the Partnership.

#### **Assistant Chief Executive**

The Assistant Chief Executive (ACE), under section 95 of the Local Government (Scotland) Act 1973 is the nominated proper officer for the Partnership's financial affairs. The proper officer (also known as the section 95 Officer) is responsible for all financial affairs, advice and record keeping of all the Partnership's activities.

#### **Strategy Group**

The Strategy Group is comprised of the Chief Executive, Assistant Chief Executive and the Director of Finance. The Strategy Group is responsible both collectively and individually for ensuring effective financial management across the organisation.

The individual members of the Strategy Group are responsible for the budgets allocated to each of the directorates / services that they control. Budget responsibility can be delegate to others, however the members of the Strategy Group will hold overall responsibility for effective financial management.

## **Managers / Budget Officers**

All managers' / budget officers are responsible for ensuring that the services / projects that they manage are delivered in line with the Partnership's policies and objectives. As Budget Holders they are responsible for the budgets delegated to them to deliver their services/projects in a manner which demonstrates value for money.

## **Finance**

SPT's finance function provides a full range of services including payroll, treasury management, procurement, contract management, accounts payable, accounts receivable, insurance services and financial and management accounting services. With regard to the Financial Strategy the key services are: -

- providing accounting and financial management services;
- reporting on the financial performance of the organisation;
- providing stewardship of Partnership funds;
- preparing and monitor Revenue and Capital Budgets; and
- providing financial appraisals and support to projects.

## **Audit and Assurance**

The Audit and Assurance team provides the following services to the Partnership:

- the provision of assurance services, which is the primary role for Audit and Assurance. Assurance services are an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes to ensure operations are being conducted in accordance with external regulations, legislation, internal policies and procedures (e.g. financial, performance, compliance, system security, etc.);
- consulting services which are advisory and related to service activities, the nature and scope of which are agreed with senior management; and
- Fraud Prevention and Detection Services: The Counter Fraud Strategy (including Anti-Fraud and Corruption Policy, Whistle Blowing Policy and Financial Regulations relating to financial irregularity) outlines the Partnership's commitment to prevent, detect, investigate and report fraud. Audit and Assurance assist management in the effective discharge of this strategy.

## **External Audit**

The role of External Audit is to provide assurance to the Controller of Audit and Audit Scotland that the Partnership has spent public money properly to deliver outcomes in an efficient and effective manner. They also provide assurance to the Elected Members, the Strategy Group and general public that the Partnerships performance

is reported in accordance with the Code of Practice on Local Authority Accounting / Financial Accounting Standards and presents a true and fair view of the Partnerships activities.

## **6.5 Reporting and Approvals**

### **Budget Setting**

Both the capital and revenue budget go through various rounds of scrutiny before being approved. Once drafted by budget officers / finance, the budgets are presented to the Strategy Group and go through a series of challenge sessions as the budgets go through their various iterations. Once approved by the Strategy Group the budgets will be presented to the Strategy and Programmes Committee who have an opportunity to question officers on the budget submission and if they see fit they will recommend that the Partnership approves the budget. The final stage is the budget being put before the Partnership for approval where there is another opportunity to scrutinise the budget plans before the budget is approved.

### **Budget Monitoring**

SPT operates a 4 weekly accounting period and therefore produces 13 budgetary control reports a year for both capital and revenue spend. On a 4 weekly basis reports are issued to the Strategy Group for review and challenge. In addition, reports are issued to Managers and Budget Officers throughout the organisation.

Both revenue and capital monitoring reports are presented to the Strategy and Programmes Committee for review. The revenue report includes actual spend to date against budget and an estimated projected outturn for the year against the full year's budget. For capital the budgetary control report is presented along with any amendments to the programme, which when taken together formulates the projected outturn for the year.

## **7. Financial Forecasts**

### **7.1 Introduction**

The financial forecast is based on known factors projected forward over a 10-year period. The forecast can be broken down into three main categories: -

- Short term forecast
- Medium term forecast
- Long term forecast

As would be expected the further out the forecast gets in years the less reliable it may be as there are many factors that may change in the internal or external environment that could affect the forecasts, but are not known at this time.

### **7.2 Short Term Forecast**

The short term forecast covers the years 2019/20 to 2020/21 and due to the short time frame the reliance on estimations is far lower than the other forecasts. The 2019/20 financial year is almost complete and the 2020/21 budget has been drafted, but has yet to be approved. The table below summarises the financial position for the two years and is detailed within the 10 year forecast at Appendix 1.

<b>Category</b>	<b>Year 1 2019/20</b>	<b>Year 2 2020/21</b>
Expenditure	49,463,669	52,710,533
Subway Fund Contribution	15,633,595	10,423,088
Capital Funded from Revenue	0	1,000,000
Operational Income	(28,597,538)	(28,112,847)
<b>Net Expenditure</b>	<b>36,499,726</b>	<b>36,020,773</b>
<b>Financed By</b>	<b>36,499,726</b>	<b>36,020,773</b>
<b>Variance</b>	<b>0</b>	<b>0</b>

As can be seen from the above SPT is able to contribute to the Subway Fund in both years to further increase reserve balances, whilst continuing with all current operations. In year 2 the monies received from local authorities has been reduced by 0.44% (£156,000) in line with the local government draft settlement. Also funding from the Scottish Government has been reduced by £323,000, but with an equivalent reduction in expenditure. The reduction is due to the Gourrock / Kilcreggan ferry being transferred to Transport Scotland at the end of May 2020.

### 7.3 Medium Term Forecast

The medium term forecast covers the years 2021/22 to 2022/23 and includes estimated changes that are planned to take place in the organisation. No indices have been used to adjust the forecasts for 2021/22 within the financial model as this year forms part of the draft budget for submission for the 2020/21 cycle. The indices used to adjust the forecasts for 2022/23 are detailed in the table below: -

<b>Category</b>	<b>Description</b>	<b>Index</b>	<b>Comments</b>
Expenditure	Employee Costs	3.7%	Increase based on SPFO's, actuaries projections.
Expenditure	Electricity	2.50%	Increase based on information provided by the Scottish Government.
Expenditure	Other Property Costs	2%	Increase based on CPI.
Expenditure	Bus Operator Payments	3.33%	Increase based on CPI and an allowance for potential contract renewal increases.
Expenditure	Other Costs	2%	Increase based on CPI.
Income	Bus Income	2%	Increase based on CPI.
Income	Agency Income	(5%)	Reduction based on potential savings in service delivery.
Income	Other Income	1%	Nominal increase year on year.
Financed By	Requisition Income	(1%)	Reduction based on the potential reduction to the overall funding available to Local Authorities in Scotland overall.
Financed By	Scottish Government Grant	(1%)	Reduction estimate to be prudent.

The table below summarises the financial position for the two years and is detailed within the 10 year forecast at Appendix 1.

Category	Year 3 2021/22	Year 4 2022/23
Expenditure	55,597,787	59,256,818
Subway Fund Contribution	7,414,905	4,181,495
Capital Funded from Revenue	1,000,000	0
Operational Income	(28,056,502)	(27,841,685)
<b>Net Expenditure</b>	<b>35,956,190</b>	<b>35,596,628</b>
<b>Financed By</b>	<b>35,956,190</b>	<b>35,596,628</b>
<b>Variance</b>	<b>0</b>	<b>0</b>

In the year 2022/23 it has been assumed that there will be staffing changes within the Subway due to the implementation of the new system. The costs for the Technical Support and Spares Supply Agreement (TSSSA) have also been increased in line with the current payment profile. SPT is able to contribute to the Subway Fund in both years to further increase reserve balances, whilst continuing with all current operations.

#### 7.4 Long Term Forecast

The long term forecast covers the years from 2023/24 onwards and includes estimated changes that are planned to take place in the organisation. The indices used to adjust the forecasts for 2023/24 onwards are the same as those used for the medium term forecast, with the exception of Subway income, which has been increased by 1% per year from year 2023/24 onwards.

Category	Year 5 2023/24	Year 6 2024/25	Year 7 2025/26	Year 8 2026/27	Year 9 2027/28	Year 10 2028/29
Expenditure	56,665,192	58,408,285	60,207,973	62,066,162	63,984,828	65,966,015
Subway Fund Contribution	6,427,802	4,549,881	2,625,690	653,163	0	0
Capital Funded from Revenue	0	0	0	0	0	0
Operational Income	(27,852,332)	(28,069,911)	(28,294,290)	(28,525,346)	(28,762,965)	(29,007,042)
<b>Net Expenditure</b>	<b>35,240,662</b>	<b>34,888,255</b>	<b>34,539,372</b>	<b>34,193,979</b>	<b>35,221,863</b>	<b>36,958,973</b>
<b>Financed By</b>	<b>35,240,662</b>	<b>34,888,255</b>	<b>34,539,372</b>	<b>34,193,979</b>	<b>33,852,039</b>	<b>33,513,518</b>
<b>Variance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,369,825</b>	<b>3,445,455</b>

In the year 2023/24 adjustments have been made to employee costs to take account of further staff changes in relation to the implementation of the new system. In addition, the general supplies budget has been reduced by £500,000 as there should no longer be a need to support the current rolling stock.

As can be seen from the table above with the assumed inflation levels and funding reductions by 2027/28 SPT's costs are greater than the assumed funding levels. The financial forecast will need to be monitored closely over the coming years and corrective measures put in place well in advance of 2027/28 if the funding deficit looks likely to become a reality.

## 7.5 Scenarios

The indices and financial forecasts detailed in section 7.2 to 7.5 are the best estimates of income and expenditure for future years. However, they are by no means certain and therefore various scenarios have to be modelled to ensure that the organisation is as prepared as it can be. Appendices 2 and 3 detail the same 10 year forecasts, but the indices have been varied by 1% each way i.e. +1% and -1%.

For the 1% increase the funding gap transpires earlier in 2025/26, but still far enough in the future that corrective action can be taken. For the 1% decrease in indices the funding gap would transpire outwith the 10-year reference period.

The scenarios clearly show that unless there is an organic reduction in organisational costs over the long term or there is a change in the government austerity programme there will be a clear requirement for efficiency programs in the long term.

## 8. Treasury Management

SPT has adopted the CIPFA “Treasury Management in the Public Services – Code of Practice” which sets out good practice for treasury management governance. In addition, SPT is fully compliant with the Prudential Code of Capital Finance in Local Authorities, which is intrinsically linked to the Treasury Management Code. The Partnership complies with legal and regulatory requirements in relation to its Treasury Management activities and has appointed consultants to provide advice on Treasury Management issues, including technical issues and the formulation of views on interest rates.

The primary requirements of the Treasury Management Code of Practice are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of SPT’s treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which SPT will seek to achieve those policies and objectives.
- Receipt by the Partnership of an annual strategy report for the year ahead, a mid-year progress report and an annual review report of the previous year.
- Delegation by SPT of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

Treasury management in this context is defined as:

“The management of the organisation’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

The CIPFA Prudential and Treasury Management Codes require, the preparation of a capital strategy, which includes the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
- an overview of how the associated risk is managed.
- the implications for future financial sustainability.

The Treasury Management Strategy Statement, Annual Investment Strategy and Capital Strategy can be found on SPT's website ([http://www.spt.co.uk/documents/latest/SPTP080319\\_Agenda7.pdf](http://www.spt.co.uk/documents/latest/SPTP080319_Agenda7.pdf)).

SPT is in the fortunate position that it is currently debt free with no plans to borrow in the short to medium term. As at period 9, 2019/20 SPT held £165 million in investments. The funds were split across a number of UK institutions in various instant, term and fixed accounts. The large investment balance is predominantly due to the Subway Modernisation project with the funds being earmarked for the project and other operational expenditure in future years.

## 9. Reserves

A key component the Financial Strategy is the Partnerships reserve position. SPT's reserve policy was last updated in December 2019 and is currently going through the committee approval process. The reserves policy has recently been updated due to the Transport (Scotland) Act 2019 rectifying the anomaly created by the Transport (Scotland) Act 2005 and therefore RTP's can now hold and contribute to reserves.

Reserves can be held for three main purposes: -

- a working balance to help cushion the impact of uneven cash flows - this forms part of General Reserves;
- a contingency to cushion the impact of unexpected events or emergencies which also forms part of General Reserves; and
- a means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.



The current proposed reserves to be held by SPT and their current balances are detailed in the table below.

Description	2018/19 (£000's)	Estimated Additions / (Draw) 2019/20 (£000's)	Revised Balance (£000's)
<b>Earmarked Reserves</b>			
Rolling Stock, Signalling and Associated Equipment Fund	31,283	3,717	35,000
Subway Infrastructure Fund	15,000	5,000	20,000
Guideline Criteria Review Fund	5,000	5,000	10,000
Strategic Bus Routes Fund	2,000	0	2,000
<b>Total Earmarked Reserves</b>	<b>53,283</b>	<b>13,717</b>	<b>67,000</b>
Non-earmarked Fund	6,669	331	7,000
<b>Total General Fund Balance</b>	<b>59,952</b>	<b>14,048</b>	<b>74,000</b>
Capital Fund	25,983	0	25,983
Renewal and Repair Fund	1,500	0	1,500
Insurance Fund	1,000	0	1,000
<b>Total Useable Reserves</b>	<b>88,435</b>	<b>14,048</b>	<b>102,483</b>

## 10. Risk Management

SPT has a Corporate risk register that is reported to each meeting of the Audit & Standards Committee. In addition, individual departments have their own risk registers as well as risk registers for significant projects that are undertaken.

Within the corporate risk register there are a number of finance related risks, which are directly relevant to the Financial Strategy. The risks are reproduced in the table below and are reviewed on a periodic basis.

<b>Risk</b>	<b>Effect</b>	<b>Mitigation</b>	<b>Fall back plan (what would SPT actually do / has already done?)</b>
Capital funding allocation not matched to programme demands	Potential project delays; Project reprioritisation; Loss of reputation and lost opportunities.	Continued dialogue with Scottish Government with regards to funding; Aligning programme and budgets to funding schedules; Effective project delivery, programme management processes, monitoring of expenditure, accounting and budgeting regimes.	Adjust capital programme to known funding availability; Consider alternative funding routes including borrowing to support the programme.
Reduced future Local Authority budget settlements	Reduction in service provision, lost opportunities, potential impact on internal resourcing.	Continued dialogue with constituent authorities; Continuation of ongoing efficiency programme.	Continue to reconfigure processes and services to maximise efficiencies, with particular emphasis on digitalisation; Renegotiate contracts with suppliers. Reprioritise spend.
Current economic conditions continue to adversely impact on SPT's return on cash reserves	Continuation of historically low level of return leading to impact on budgets and hence services. Brexit implications are unclear.	Frequent, proactive review and management of cash balances to maximise return. Strict maintenance of treasury management practices including counter party lists and spread of investments.	Reduce services and staff numbers in line with budgetary reductions; Regular review of SPT's investment portfolio.
Unplanned disruption of Subway	Potential closure of Subway, loss of business, loss of income, poor press, loss of public support, negative public perception, loss of political backing.	PR, project plans, project management skills and techniques, dialogue with constituent authorities and Scottish Government and customers.	Continue existing Subway operations, investigate failure of project; Inform the public.
Continual network reviews/ service withdrawals by commercial operators in bus market	SPT requested to step in to provide services; SPT requested to explain and/or rationalise the actions of commercial market.	On-going dialogue with operators, traffic commissioner and other stakeholders; Review service provision and options for delivering services against a backdrop of guideline criteria.	Reprioritise entire supported bus network; Apply to Scottish Government for additional funding; Introduce lower cost delivery options.
Rolling stock contract is not delivered to budget, time or quality requirements	Unable to deliver reliable service or to customer expectations due to rolling stock or infrastructure performance; Reduced/degraded operation; Undermining of the key business case; Impact on public, government and stakeholder reputation.	Appointment of project delivery team including project controls/governance roles; Appointment of Client technical advisory team (CTA); Appointment of Independent Competent Person service as part of safety verification and validation process; Robust tendering process and appointment of suitable JV contractor; Continued programme challenge and reporting; Development of operational readiness plan; Budget contingency.	Review maintenance and operations plans; Increased inspection, testing and verification; Proactive communication and engagement with stakeholders and public.
Failure to maintain high standards expected under good governance arrangements	Failure to adhere to good practice, possible external audit scrutiny, loss of management reputation	Adhere to guidelines, inform staff of importance of governance	Review of internal controls. Corrective action.
EU (withdrawal) Act 2018 Brexit implications	Impact on service outcomes	Contract terms and conditions	Follow government guidance; Internal policy and procedures.

## 11. Strategy Review

The financial strategy must be reviewed and approved by the Partnership at least annually. The Assistant Chief Executive may review the Financial Strategy at any time where a change in the external or internal environment has had or is going to have a significant impact on the current Financial Strategy. Any in year changes to the strategy must be presented to the Strategy and Programmes Committee with the revised Financial Strategy ultimately being approved by the Partnership.

## Long Term Financial Forecast - Summary

Category	Year 1 2019/20	Year 2 2020/21	Year 3 2021/22	Year 4 2022/23	Year 5 2023/24	Year 6 2024/25	Year 7 2025/26	Year 8 2026/27	Year 9 2027/28	Year 10 2028/29
Employee Costs	22,016,332	23,884,603	24,688,568	27,042,044	24,112,601	25,004,766	25,929,943	26,889,351	27,884,257	28,915,974
Property Costs	5,807,905	6,309,404	6,567,955	6,709,865	6,854,877	7,003,060	7,154,484	7,309,220	7,467,342	7,628,925
Supplies & Services	2,168,359	2,105,251	1,974,517	2,014,008	1,554,288	1,585,374	1,617,081	1,649,423	1,682,411	1,716,059
Transport & Plant Costs	120,150	158,050	158,050	161,211	164,435	167,724	171,078	174,500	177,990	181,550
Third Party Payments	19,350,924	20,253,225	22,208,697	23,329,690	23,978,991	24,647,362	25,335,387	26,043,669	26,772,829	27,523,508
Contribution to Subway Fund	15,633,595	10,423,088	7,414,905	4,181,495	6,427,802	4,549,881	2,625,690	653,163	0	0
Capital Funded from Revenue	0	1,000,000	1,000,000	0	0	0	0	0	0	0
<b>Total Expenditure</b>	<b>65,097,264</b>	<b>64,133,620</b>	<b>64,012,691</b>	<b>63,438,312</b>	<b>63,092,994</b>	<b>62,958,166</b>	<b>62,833,662</b>	<b>62,719,324</b>	<b>63,984,828</b>	<b>65,966,015</b>
Subway Income	(22,468,000)	(22,064,417)	(22,057,417)	(22,057,417)	(22,277,991)	(22,500,771)	(22,725,778)	(22,953,036)	(23,182,567)	(23,414,392)
Bus Income	(2,630,054)	(2,748,886)	(2,782,677)	(2,838,330)	(2,895,097)	(2,952,999)	(3,012,059)	(3,072,300)	(3,133,746)	(3,196,421)
Agency Income - Agency Fee	(1,478,484)	(1,477,044)	(1,493,908)	(1,419,213)	(1,348,252)	(1,280,839)	(1,216,797)	(1,155,958)	(1,098,160)	(1,043,252)
Interest Received	(1,600,000)	(1,400,000)	(1,300,000)	(1,100,000)	(900,000)	(900,000)	(900,000)	(900,000)	(900,000)	(900,000)
Other Income	(421,000)	(422,500)	(422,500)	(426,725)	(430,992)	(435,302)	(439,655)	(444,052)	(448,492)	(452,977)
<b>Total Income</b>	<b>(28,597,538)</b>	<b>(28,112,847)</b>	<b>(28,056,502)</b>	<b>(27,841,685)</b>	<b>(27,852,332)</b>	<b>(28,069,911)</b>	<b>(28,294,290)</b>	<b>(28,525,346)</b>	<b>(28,762,965)</b>	<b>(29,007,042)</b>
<b>Net Expenditure</b>	<b>36,499,726</b>	<b>36,020,773</b>	<b>35,956,190</b>	<b>35,596,628</b>	<b>35,240,662</b>	<b>34,888,255</b>	<b>34,539,372</b>	<b>34,193,979</b>	<b>35,221,863</b>	<b>36,958,973</b>
<b>Financed By</b>										
Local Authority Requisition	35,462,726	35,306,690	35,306,690	34,953,623	34,604,087	34,258,046	33,915,465	33,576,311	33,240,547	32,908,142
Scottish Government Grant	1,037,000	714,083	649,500	643,005	636,575	630,209	623,907	617,668	611,491	605,376
<b>Total Financed By</b>	<b>36,499,726</b>	<b>36,020,773</b>	<b>35,956,190</b>	<b>35,596,628</b>	<b>35,240,662</b>	<b>34,888,255</b>	<b>34,539,372</b>	<b>34,193,979</b>	<b>33,852,039</b>	<b>33,513,518</b>
<b>Variance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,369,825</b>	<b>3,445,455</b>

## Long Term Financial Forecast - Summary

1% Increase in Indices

Category	Year 1 2019/20	Year 2 2020/21	Year 3 2021/22	Year 4 2022/23	Year 5 2023/24	Year 6 2024/25	Year 7 2025/26	Year 8 2026/27	Year 9 2027/28	Year 10 2028/29
Employee Costs	22,016,332	23,884,603	24,688,568	27,288,930	24,641,510	25,799,661	27,012,245	28,281,821	29,611,066	31,002,786
Property Costs	5,807,905	6,309,404	6,567,955	6,775,545	6,989,731	7,210,726	7,438,746	7,674,016	7,916,768	8,167,241
Supplies & Services	2,168,359	2,105,251	1,974,517	2,033,753	1,594,765	1,642,608	1,691,887	1,742,643	1,794,923	1,848,770
Transport & Plant Costs	120,150	158,050	158,050	162,792	167,675	172,706	177,887	183,223	188,720	194,382
Third Party Payments	19,350,924	20,253,225	22,208,697	23,551,777	24,442,805	25,368,552	26,330,406	27,329,809	28,368,266	29,447,340
Contribution to Subway Fund	15,633,595	10,423,088	7,414,905	3,283,068	4,806,130	2,225,844	0	0	0	0
Capital Funded from Revenue	0	1,000,000	1,000,000	0	0	0	0	0	0	0
<b>Total Expenditure</b>	<b>65,097,264</b>	<b>64,133,620</b>	<b>64,012,691</b>	<b>63,095,863</b>	<b>62,642,618</b>	<b>62,420,097</b>	<b>62,651,170</b>	<b>65,211,512</b>	<b>67,879,742</b>	<b>70,660,518</b>
Subway Income	(22,468,000)	(22,064,417)	(22,057,417)	(22,057,417)	(22,498,565)	(22,948,536)	(23,407,507)	(23,875,657)	(24,353,170)	(24,840,234)
Bus Income	(2,630,054)	(2,748,886)	(2,782,677)	(2,866,157)	(2,952,142)	(3,040,706)	(3,131,927)	(3,225,885)	(3,322,662)	(3,422,342)
Agency Income - Agency Fee	(1,478,484)	(1,477,044)	(1,493,908)	(1,404,273)	(1,320,017)	(1,240,816)	(1,166,367)	(1,096,385)	(1,030,602)	(968,766)
Interest Received	(1,600,000)	(1,400,000)	(1,300,000)	(1,100,000)	(900,000)	(900,000)	(900,000)	(900,000)	(900,000)	(900,000)
Other Income	(421,000)	(422,500)	(422,500)	(430,950)	(439,569)	(448,360)	(457,328)	(466,474)	(475,804)	(485,320)
<b>Total Income</b>	<b>(28,597,538)</b>	<b>(28,112,847)</b>	<b>(28,056,502)</b>	<b>(27,858,797)</b>	<b>(28,110,293)</b>	<b>(28,578,419)</b>	<b>(29,063,129)</b>	<b>(29,564,402)</b>	<b>(30,082,238)</b>	<b>(30,616,661)</b>
<b>Net Expenditure</b>	<b>36,499,726</b>	<b>36,020,773</b>	<b>35,956,190</b>	<b>35,237,066</b>	<b>34,532,325</b>	<b>33,841,678</b>	<b>33,588,041</b>	<b>35,647,110</b>	<b>37,797,504</b>	<b>40,043,857</b>
<b>Financed By</b>										
Local Authority Requisition	35,462,726	35,306,690	35,306,690	34,600,556	33,908,545	33,230,374	32,565,766	31,914,451	31,276,162	30,650,639
Scottish Government Grant	1,037,000	714,083	649,500	636,510	623,780	611,304	599,078	587,097	575,355	563,848
<b>Total Financed By</b>	<b>36,499,726</b>	<b>36,020,773</b>	<b>35,956,190</b>	<b>35,237,066</b>	<b>34,532,325</b>	<b>33,841,678</b>	<b>33,164,845</b>	<b>32,501,548</b>	<b>31,851,517</b>	<b>31,214,486</b>
<b>Variance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>423,196</b>	<b>3,145,563</b>	<b>5,945,988</b>	<b>8,829,371</b>

