



Subsidised bus service contract recommendations: financial implications

Date of meeting 26 April 2024

Date of report 8 April 2024

Report by Director of Finance & Corporate Support

1. Object of report

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

2. Background to report

The 2024/2025 approved budget for support to local tendered services and MyBus contracts increased by £564,148 (4.1%) to £14,267,633 when the budget was approved in March 2024. The budget was increased despite the financial challenges that SPT faced and recognising the costs associated with providing supported services in the SPT area given the scale of contract cost increases experienced over the previous 2 years. For context since 2022/2023 the overall budget has increased by £2,005,836 (16.4%).

To achieve this budget increase, it was necessary to critically review all other expenditure areas with a view to reducing costs and commitments where possible that had the least impact on the services SPT provides. The approved subsidised budget allows limited scope for accommodating expected and unforeseen costs arising from in year contract specification amendments, tender renewals and inflationary increases in contract prices in line with the Conditions of Contract.

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

2024/2025	Net Approved Budget	Net Projected Outturn	Variance
Subsidised bus services	£14,267,633	£14,367,185	(£99,552)

The projected overspend is due to the extension to contracts on the Isle of Arran, as approved by the Chairs Committee on 26 March 2024. During the course of the financial year, actual contract costs continue to be monitored and compared to budgeted costs. Actual costs are reflected following receipt of the 4 weekly returns, which provide details of services operated and income generated.

3. Outline of proposals

Bus contracts are reviewed and retendered having assessed the current need and existing network provision. At this time, there remain many challenges in the network. SPT continues to review the gaps in the bus network arising from commercial operators' decisions to vary or cancel services and provides direct support in the form of subsidised services in accordance with the SPT Framework for Supporting Local Bus Services, where budgetary constraints allow. Should the Committee accept all the recommendations contained within the following papers, this will result in further increased costs to SPT in 2024/2025 of £158,425 against the current 2024/2025 budget projection. The net impact to SPT's budget is detailed below:

2024/2025	Net Approved Budget	Net Projected Outturn	Variance
Subsidised bus services	£14,267,633	£14,525,610	(£257,977)

If contract cost increases, as a result of financial pressures on bus operators (including reduced government support, inflationary pressures on operational costs and driver shortages) are sustained at this high level over the short to medium term then this will have a significant impact on future subsidised bus budgets with the potential for reduced network provision or frequency of services especially if the overall funding envelope stays the same or is reduced.

Furthermore, consideration must also be given to the impact on future year budgets when awarding contracts. 45 contracts are due for renewal in 2024, 26 of which were reported to the Committee in January 2024 and 14 contracts reported to this Committee, leaving 5 contracts still to be finalised in 2024. The 14 contracts recommended to be awarded in the proposed awards paper will generate additional costs to SPT of £144,761 in the financial year 2024/2025 when compared to budget projections. Although the contract increases are not as significant as previous contract renewals this is partially due to mitigations put in place. These include reviewing specifications and altering timetables to ensure the best value possible for each contract is achieved. This has been achieved for some contracts by removing journeys with low passenger numbers or providing scope for optional timetables offering enhanced provision and optional farescale.

Given the contract cost increases seen over the last 2 years and taking into consideration SPT's overall funding resources available, there are significant risks that critical reviews of individual supported service contracts will be required in order to make best use of the budget available especially in light of the current projected overspend for 2024/2025. SPT will continue to monitor this risk, however, any significant increased demand may not be affordable within the anticipated resource availability in future financial years.

4. Committee action

The Committee is asked to note:

- (i) the financial implications of the recommendations relating to the subsidised bus services budget in the following papers and give due consideration to this in the course of the decision making - the impact of individual decisions is reported in each paper for consideration;
- (ii) the projected negative variance reported which reduces the scope SPT has to support the regional and local network in the remainder of the financial year; and
- (iii) the impact of the current financial pressures on the subsidised bus budget in the short to medium term, including in the current and future financial years.

5. Consequences

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

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