

Subsidised bus service contract recommendations: financial implications

Date of meeting 3 November 2023

Date of report 11 October 2023

Report by Director Finance & Corporate Support

1. Object of report

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

2. Background to report

The 2023/2024 approved budget for support to local tendered services and MyBus contracts increased by £1,441,688 (11.7%) to £13,703,485 when the budget was approved in March 2023. The budget was increased despite the financial challenges that SPT faced and recognising the costs associated with providing supported services in the SPT area given the scale of contract cost increases experienced over the previous 12 months.

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

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

2023/2024	Net Approved Budget	Net Projected Outturn	Variance
Subsidised bus services	£13,703,485	£13,381,827	£321,658

During the course of the financial year, actual contract costs continue to be monitored and compared to budgeted costs. Actual costs are reflected following receipt of the 4 weekly returns, which provide details of services operated and income generated.

3. Outline of proposals

Bus contracts are reviewed and retendered having assessed the current need and existing network provision. At this time, there remains many challenges in the network. SPT continues to review the gaps in the bus network arising from commercial operators' decisions to vary or cancel services and provides direct support in the form of subsidised services in accordance with the SPT Framework for Supporting Local Bus Services, where budgetary constraints allow.

Should the Committee accept all the recommendations contained within the following papers, this will result in increased costs to SPT in 2023/2024 of £1,408 against the current 2023/2024 budget projection. The net impact to SPT's budget is detailed below:

2023/2024	Net Approved Budget	Net Projected Outturn	Variance
Subsidised bus services	£13,703,485	£13,383,235	£320,250

Please note the net projected outturn of £13.383m for 2023/2024 represents a cost increase of approximately £2.7m when compared to 2021/2022 actual costs. This demonstrates the significant financial challenges that SPT have experienced in the bus market over the last 18 months.

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.

For context over the next 6 months around 50 contracts are due for renewal. Given the contract cost increases seen over the last 18 months and taking into consideration SPT's overall funding resources available, there are significant risks that critical reviews of individual supported service contracts will be required in order make best use of the budget available. SPT will continue to monitor this risk, however, any significant increased demand may not be affordable within the anticipated resource availability in future financial years.

As noted in the August 2023 committee, First Glasgow, a key operator, elected not to operate a significant number of SPT supported services from February 2023 onwards. This resulted in the termination of these contracts. Replacement contracts have been found on a like for like basis for the remaining duration of the contracts. Additional costs in relation to replacement contracts in line with SPT's conditions of contract are the responsibility of First Glasgow. Discussions are close to be finalised with a view to agreeing a repayment plan which ensures additional costs are covered in full from First Glasgow.

4. Committee action

The Committee is asked to note:

- (i) the financial implications of the recommendations relating to the subsidised bus services budget in the following papers and give due consideration to this in the course of the decision making - the impact of individual decisions is reported in each paper for consideration;
- (ii) the projected small positive variance reported which may require to be utilised later in the financial year to support the regional and local network;
- (iii) the impact of the current financial pressures on the subsidised bus budget in the short to medium term, including in the current and future financial years; and
- (iv) discussions are continuing with First Glasgow to agree a repayment plan which covers the additional costs of replacement contracts for contracts terminated in February 2023.

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>None directly.</i>

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