



Revenue Budget for 2022/23 – Update

Date of meeting 18 February 2022

Date of report 2 February 2022

Report by Director of Finance & Corporate Support

1. Object of report

To provide the members of Strategy & Programmes with an update on the preparations to present a balanced revenue budget for 2022/23 to the 18 March 2022 Partnership, and ask the members to consider the risks and challenges being faced at this stage. This report seeks to highlight the assumptions being made in the preparation of the budget, proposals for fees and charges and the draft proposed local authority requisition.

2. Background

Since the start of the pandemic in March 2020, members have received regular financial reports outlining the ongoing financial and organisational pressures arising from the ongoing pandemic, including government restrictions and messaging of essential travel only in certain periods over the last two years. Members are also aware of the measures taken by SPT over the last two financial years that have been necessary to minimise the disruption to SPT arising from this financial instability.

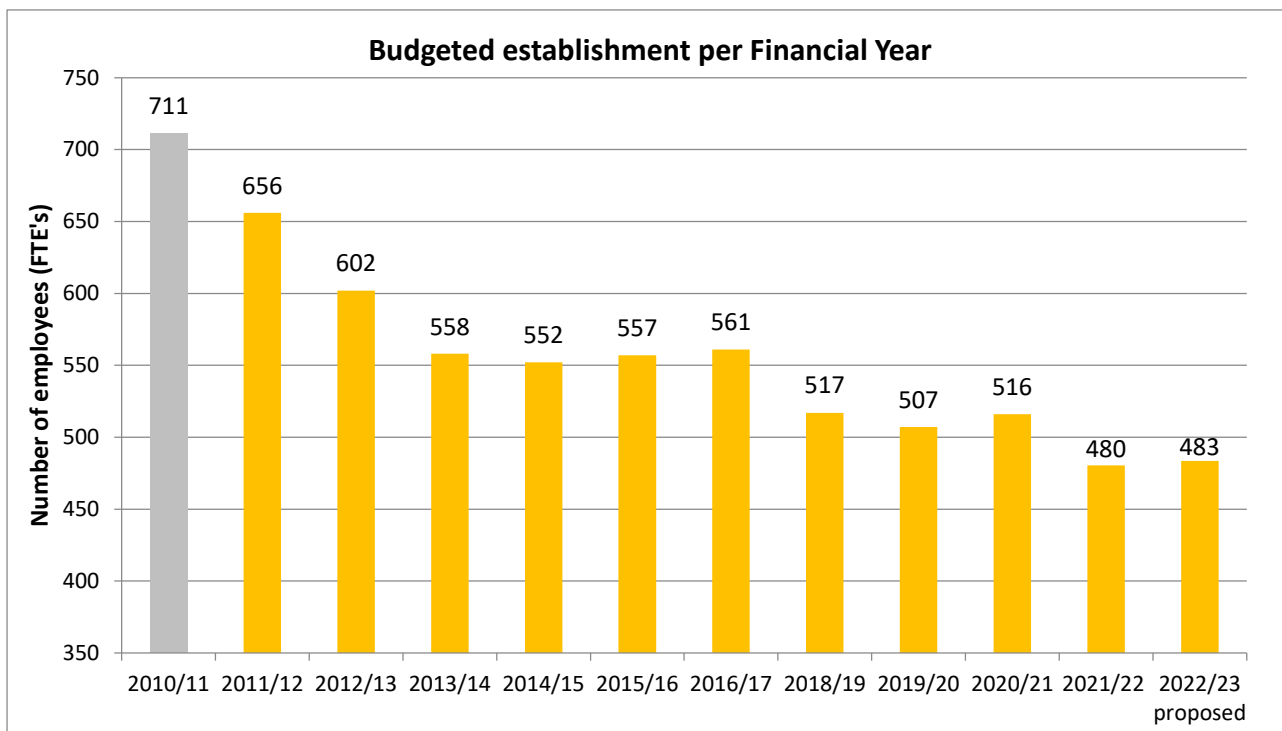
At present after a challenging winter period with the emergence of the Omicron variant there is a renewed hope as we move into the new financial year that the recovery stage of the pandemic will begin. The 2022/23 budget is being prepared on this basis with a positive outlook albeit with a lot of unknowns as we move into the future. The development of a robust and stable budget at this time continues to prove challenging, consistent with all public service organisations. There remain a significant number of unknowns at this stage including:

- The plans for easing restrictions in full, and thus any certainty around patronage numbers, trends and revenue plans,
- How much the anticipated shift by businesses from full time office working to a hybrid model will impact on Subway patronage numbers;
- The plans for easing support to commercial bus operators and the impact this will have on services linking communities not served by commercial networks,
- The final local government settlement and therefore the agreed requisition to SPT; and
- Uncertainty, whether the income loss support grant made available from Transport Scotland since 2020/21, will continue and if so at what level.

Notwithstanding the above uncertainties, financial planning for 2022/23 and beyond has endeavoured to take account of the current environment and pressures being faced, but also anticipating some of the pressures that may be brought to bear from the external environment. As a result, the proposed draft budget continues to focus within the resources available, on funding socially necessary bus services with ever increasing demand expected as the commercial market considers potential reductions in government support and therefore potentially continues to shrink, maintaining the current Subway fleet and associated infrastructure and supporting transitional plans for the Subway as we move from old to new rolling stock and updated associated working practices. In addition, looking beyond the pandemic, SPT plans to continue to invest in new digital solutions for transport information, ticketing solutions and maintenance of assets such as bus stations to a high standard, all of which puts pressure on the reduced revenue resources. SPT is keen to ensure that transport is a key enabler to the economic recovery post pandemic and a key contributor to the carbon reduction agenda. The recent announcement of the Strategic Transport Project Review is very encouraging and SPT will provide our support and transport expertise to the initial work on the Clyde Metro scheme as a key stakeholder, and is now considering the resource requirement to fully contribute to the significant challenge ahead.

Over the last 10 financial years SPT has continued to contribute to resource the Subway Fund within our revenue funding envelope. The purpose of this fund is to 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 or a one-off significant funding request. The subway fund has been a key element in SPT's plans, to support its contribution to the subway project (£46m), as well as funding infrastructure works and revenue costs arising from the project including organisational change costs, training and development of the new asset base, as well as scheduled major refurbishments to maintain the asset for a life of up to 40 years. At this stage and based on an assessment of projected future Subway costs, and immediate financial pressures elsewhere in SPT, the current fund balance is at a level which allows SPT to pause contributions to the fund in 2022/23 in order to ensure SPT achieves a balanced budget position for 2022/23. The Subway Fund balance will be reviewed annually and further contributions may be required to be made in future financial years to support Subway long term planning. More certainty with regard to long term financial planning will hopefully become clearer as we move into the next phase of the pandemic recovery in 2022 and it is planned that an update to the long term financial strategy (LTFS) will be provided to members during the 2022/23 financial year.

Balancing the SPT revenue budget over the last decade has very much involved the reallocation of resources and significant works to redesign the organisation. This has resulted in significant headcount reductions to reallocate resources to the priority areas identified above and to ensure SPT is a lean, efficient organisation. The chart below shows the reduction in FTE's from 2010/11 to the proposed establishment for 2022/23. As can be seen there has been significant reductions over years with the proposed full time equivalent staff numbers for 2022/23 being 228 less than 2010/11 or 32%. However, in demonstrating this, like many organisations during the pandemic SPT, in light of revenue budget and funding pressures applied a recruitment freeze. This naturally brought pressures on some areas of the organisation. However it is planned moving forward that current vacant posts will be recruited in line with departmental plans and business needs remaining mindful at all times of the financial environment.

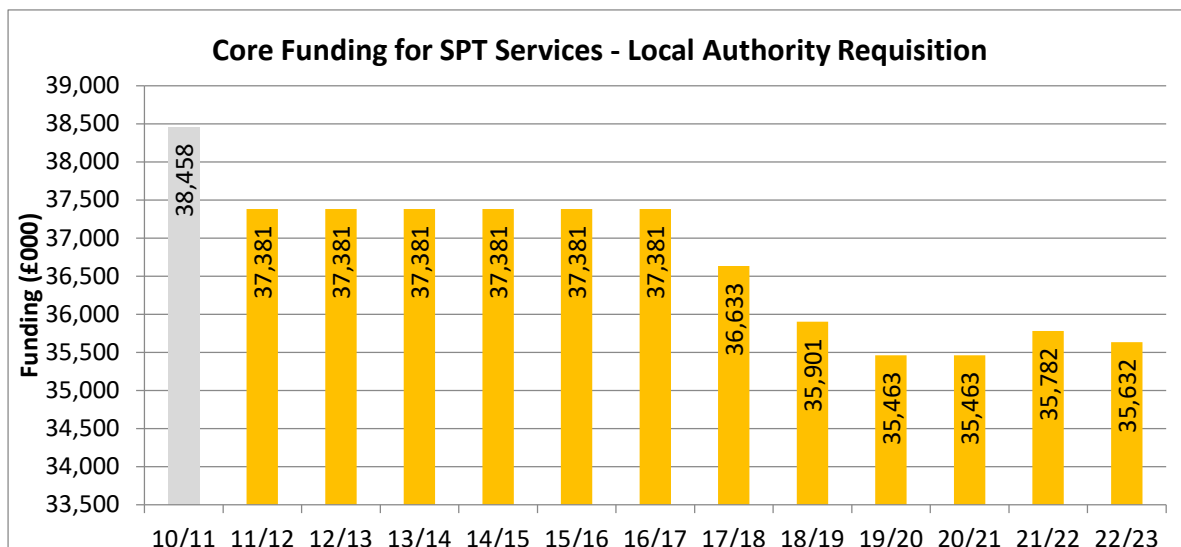


3. Current Position

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 – at the time of writing the local government settlement has been issued in draft and it is assumed following detailed discussions with local authority partners that the SPT requisition will mirror the +/- percentage change to the settlement. At this stage for financial planning purposes it is assumed a 0.42% requisition reduction based on current projections provided. This assumption will not be finalised until the Scottish Parliament agree the full budget and is therefore subject to late changes.

Transport Scotland however have confirmed the continuation of their revenue support grant of £0.649m.

The current budget has been drafted whilst taking account of the external environment at this stage. The assumed level of requisition is reduced by 0.42% compared to 2021/22 – the chart below demonstrates the changes over the last decade and confirms that funding for transport still remains a significant challenge.



The proposed requisition (subject to the final settlement) for 2022/23 split by local authority can be seen in Appendix 1.

The proposed draft revenue budget for 2022/23 can be found at Appendix 2 – and is a balanced budget at this stage. It has been prepared on the assumption that as covid restrictions ease, Subway passenger numbers will increase and generate increased Subway income compared to 2020/21 and 2021/22. It has also been drafted after a comprehensive review of all expenditure lines, taking into account known cost pressures including increases in electricity, staff costs and supported services costs including the significant impact of inflation. At this stage there is no allocation in the Scottish Budget for covid support grant for light rail operators in 2022/23. However if the Scottish Government require to react to new variants by implementing new or additional restrictions, which impact on SPT's ability to generate planned income over a significant period of time then SPT would in all likelihood require proportionate funding from the Scottish Government to achieve a balanced budget position and would as a consequence need to make its case for financial support. Members' attention is drawn to the following:

- in undertaking the budget preparation, a number of scenarios have been considered for income levels – the attached budget projection is based on a prudent approach given the number of unknowns regarding the full lifting of restrictions and incorporates passenger levels achieved in 2021/22. Specifically, this cautious approach assumes subway patronage will be based on patronage levels achieved in October and November 2021 which reached 70% to 75% of pre covid levels. This was just prior to the emergence of the Omicron variant which resulted in additional restrictions in December and a drop in patronage to 58% of pre covid levels. It is anticipated that this percentage will increase from February onwards as a result of new guidance from the Scottish Government changing the 'work from home' message to a hybrid working model. The budget also incorporates a modest increase in Subway fares – the first since April 2019. Details of which can be found in section 4 below.
- the budget also acknowledges the will be negative impact to passenger numbers and Subway income from the introduction of free bus travel for under 22's (Young Persons' Free Bus Travel Scheme). It is difficult to quantify how significant the impact will be in 2022/23 in the absence of actual data but a phased reduction across the year culminating at 50% of under 22 patronage by the end of 2022/23 is assumed and the Subway income budget reflects this. As mentioned above Scottish Government covid support is not assumed at this stage for 2022/23 and SPT would

need to make its case for further support if it was required. The actual position for 2022/23 will clearly be dependent upon the restrictions in place, customer behaviours and support to public transport but based on current information is considered to be a balanced approach;

- the subsidised bus budget has been maintained at the same levels as 2021/22 but this has only been possible by reducing other budget lines. The budget reflects the current commitments and also gives SPT flexibility to react to increased demand for My Bus as covid restrictions ease in line with Scottish Government guidance. The budget also includes provision for inflationary increases in line with conditions of contract and assumes increases in contract renewals. In challenging times SPT has worked hard to protect the subsidised bus budget understanding the importance of supporting bus services in the SPT area. However this budget only allows for minimal scope to absorb the pressures that may arise from the pandemic recovery and the impact of reduced financial support to commercial operators from government. This could create increased demand for SPT to provide further support, with network gaps in the bus market potentially arising as commercial operators withdraw services. SPT will continue to monitor this risk, however any significant increased demand may not be directly affordable within the anticipated resource availability in the next financial year.
- an increase in staff costs from £22.9m to £24.2m – the budget includes an allowance for the adoption of the public sector pay award framework and also takes account of the planned increase in employer national insurance contributions of 1.25% due to be implemented in April 2022. Employee levels remain relatively static compared to 2021/22 after a period of significant reductions.
- no planned revenue contribution to the Capital Budget – this has been necessary in previous years to supplement the reduced capital funding received and support to local authority partner projects but with the current revenue budget pressures is not considered to be affordable, and
- a pause in contributions to the subway fund from £5.2m to zero. The Subway Fund balance will be reviewed annually and further contributions may be required to be made in future financial years to support Subway long term planning. At this stage no contributions are planned for either 2022/23 or 2023/24. This is a significant reduction which does bring risks to SPT's ability to ensure it has the resources available to respond to any new challenges arising from the subway project without seeking additional resources from local authority partners. However, this reduction is proposed based on an assessment of current Subway Fund balances and future Subway funding commitments and estimates.

Taking all of the above into account, a balanced budget is now presented to Strategy & Programmes for consideration and subject to members' comments and further refinements, subsequent approval by the Partnership. Further work will continue before Partnership approval to minimise the uncertainties around some of the assumptions made. However, this work is likely to continue into 2022/23 as restrictions ease and new scheme's such as under 22 free bus travel begin for which the impact to SPT is likely to be significant but not fully known at this stage.

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 stakeholders.

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, only modest changes have been proposed to fares with no changes to park and ride charges. The car park equipment is due to be replaced with a new system during 2022/23 and any park and ride fare changes will be considered post implementation. The last change to Subway fares was in April 2019 and SPT have absorbed all additional cost and income pressures during the pandemic without passing these costs onto passengers. A fare increase was approved for 2020/21 but was suspended with the onset of the covid pandemic. It is proposed that implementation of these proposed fares be scheduled for January 2023 to align to other rail operator's fare increases.

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
Disposable			
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	£1.60	£0.05
Child Daily	£2.10	£2.15	£0.05
Concession Single	£1.00	£1.00	Set by SCTC
Concession Return	£1.50	£1.65	Set by SCTC
Season Tickets – Online STR			
Adult 7 day	£13.00	£13.50	£0.50
Adult 28 day	£50.00	£52.00	£2.00
Adult 10 week	£120.00	£125.00	£5.00
Adult 6 month	£250.00	£260.00	£10.00
Adult Annual	£450.00	£470.00	£20.00
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

Season Tickets (in stations)			
Adult 7 day	£14.00	£14.50	£0.50
Adult 28 day	£54.00	£56.00	£2.00
Adult 6 month	£270.00	£275.00	£5.00
Adult Annual	£485.00	£490.00	£5.00
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
Park and Ride			
Park and Ride (all day disposable)	£5.70	£5.70	No change to park and ride fares. These will be reviewed post implementation of new car park equipment.
Park and Ride (all day STR)	£5.70	£5.70	
STR parking only - 30 minutes	£0.60	£0.60	
STR parking only - 1 hour	£1.20	£1.20	
STR parking only - 2 hours	£2.70	£2.70	
STR parking only - all day	£5.70	£5.70	
Parking only - 28 days	£53.00	£53.00	
Park and Ride - 7 day season ticket	£27.00	£27.00	
Park and Ride - 28 day season ticket	£105.00	£105.00	
Park and Ride - 6 month season ticket	£540.00	£540.00	
Park and Ride - annual season ticket	£960.00	£960.00	
Lost ticket fee	£3.20	£3.20	
Overstay day rate	£5.70	£5.70	No change
Season add on	£2.70	£2.70	No change

In budgeting for 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. Whilst a fares increase is never welcome the average increase to fares affected is just over 3% which is below the current level of inflation.

In addition to Subway fares there are a number of other fees and charges applicable at Bus Stations and apply to Subsidised Bus Services. At this stage it is not proposed to change the fares, fees and charges of other SPT services given the level of uncertainty and the ongoing challenges in the bus market. However they will be reviewed during 2022/23.

5. Reserves

The reserves policy states that reserve balances must be reported / reviewed annually as part of the budget setting process to the Partnership. The current reserves held by SPT along with the projected balances at 31st March 2022 are detailed in Appendix 3b. It is anticipated, based on the current revenue position for 2021/22 that there will additions to the

Rolling Stock, Signalling and Associated Equipment Fund and also to the Non-earmarked reserve.

One minor change is proposed to the reserves policy, which can be found at Appendix 3a. The proposed change in the policy document is to update the targeted level of non-earmarked reserves to be based on all operational income for a period of approximately 6 months. The change reflects the reality that SPT relies on income from across the organisation and that as result of our experiences over the last 2 years due to covid, particularly the first quarter of 2020/21, that it is prudent to do so. The proposed amendment to the policy is highlighted and shown under section 3.1 of Appendix 3a. Any further changes to the reserves policy will be considered as part of the review of the LTFS planned to be reported to members in 2022/23. The aim is for this to allow for longer term planning from a stronger baseline, taking into account specific organisational plans including from the new Regional Transport Strategy due to be delivered in 2022/23.

6. Conclusions

The draft revenue budget for 2022/23 has been drafted taking cognisance of SPT's and our partners priorities and links planned spend to desired outcomes but also the current external environment which all public sector organisations have been faced over the last two years. There is still clearly a lot of unknowns as we hopefully move towards the recovery phase of the pandemic. The financial challenges continue and SPT continues to work closely with local authorities to bring about a stable, sustainable financial position.

Significant reductions have been built into the 2022/23 budget and through this a balanced budget has been achieved. No income loss grant for 2022/23 has been assumed at this stage although we will work closely with Transport Scotland during this challenging recovery period and keep them informed of SPT's financial position. The draft budget reflects the difficulties faced by SPT and the likelihood of considerable pressures continuing in 2022/23.

7. Committee Action

Notwithstanding that the final Local Government Settlement remains outstanding, the committee is requested to consider and recommend to the Partnership for approval:

- the attached draft revenue budget for 2022/23 of £36.281m, subject to refinements over the coming weeks;
- requisitions totalling £35.632m, a 0.42% reduction compared to 2021/22, noting that this may be amended to reflect any change in the local government settlement formula;
- an increase to Subway fares in January 2023 as outlined in section 4;
- the update to the Reserves Policy in Appendix 3a; and
- note the current and projected reserve balances as detailed in Appendix 3b.

8. 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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