



Proposed Revenue Budget 2024/2025

Date of meeting 15 March 2024

Date of report 23 March 2024

Report by Treasurer

1. Object of report

To present to the Committee for approval a proposed revenue budget for the financial year 2024/2025, outlining the assumptions made in the preparation of the budget and to advise the Committee of the proposed local authority requisitions to support the Strathclyde Concession Travel Scheme (“the Scheme”). The outline of the 2025/2026 budget is also presented for noting at this stage.

2. Background to report

Members will be aware from previous reports provided to Committee that the downturn in passenger numbers and consequently reimbursement in recent years as a result of the global pandemic allowed the scheme to build up much needed reserves and as a result the financial position and sustainability of the scheme has, in the short term at least, been improved.

In the current financial year however, as reported in the ‘*Revenue Monitoring Report as at 3 February 2024, Period 11*’, there has been a continuing recovery in terms of scheme patronage which is now averaging around 90% of pre pandemic levels. This increase in patronage and reimbursement in 2023/2024 now means that costs of the Scheme has now increased to level which is higher than the funding the Scheme receives via the local authority requisition. This requires to be built into future budget projections to ensure the Scheme is sustainable in the long term, taking all factors into consideration including future patronage levels, operator fares, local government funding settlements and Scheme reserves balances.

Approval was given at the Committee meeting of 12 March 2021 for a new half fare with cap structure to be introduced following the recommendations of the in-depth review carried out in 2020. However, due to reduced operator reimbursement costs over recent financial years as a result of the pandemic, the immediate financial pressures previously being experienced by the Scheme were eased in the short term. The result was that no changes to fares were made in the 2023/2024 financial year.

In addition to the budget for 2024/2025, a draft budget for 2025/2026 has been prepared but due to the one-year funding constraints reflecting the local government budget settlement process the budget is only indicative at this time.

3. Outline of proposals

(i) Revised Fare Structure

The implementation of the new fare structure was scheduled to be implemented at the beginning of the 2022/2023 financial year. The Committee's decision to approve the introduction of the new fare structure was considered necessary in light of ongoing budget pressures, and a risk to the short to medium term sustainability of the Scheme. In doing so, this Committee decision was taken to help safeguard longer term sustainability of the Scheme which, in part, takes account of funding reserves held.

However, the significant reduction in concessionary travel demand during the pandemic resulted in a corresponding reduced reimbursement to Scheme operators. This has enabled the Scheme to build up its reserves, with the reserve balance at 31 March 2024 projected to be £4.976m. Ongoing assessment of the Scheme's financial position during 2023/2024, including taking into account the projected reserves balance has allowed the Scheme to pause the implementation of the new fares structure.

It is hoped that this decision, at least in part, has encouraged the further patronage recovery that has been seen during 2023/2024, giving card holders more opportunity to increase social interactions and leisure journeys post pandemic without the fear of increased costs especially during the current cost of living crisis. The Scotrail off peak pilot has also likely had a positive impact of concession passenger numbers since its introduction in October 2023.

Looking to the future and given the projected reserves balances at the end of 2023/2024 and the anticipated costs of the Scheme in 2024/2025 it is recommended that the Scheme defer the introduction of the half fares structure until April 2025. This will allow the Scheme to establish a new baseline for travel demand, operator reimbursement and Scheme reserves. Although the Scheme will require a draw on reserves to ensure a balanced budget in 2024/2025 the level of reserves in relation to the annual costs of the scheme are sufficient to allow a draw and reduction in reserves in 2024/2025.

(ii) 2024/2025 Budget Proposal

The budget has been prepared on the basis of no change to the fare structure in 2024/2025. It assumes that passenger numbers will continue in line with current trends which is 90% of pre covid levels. Operator reimbursement is anticipated to increase in 2024/2025 as a result of scheme members fare increases which are estimated to be 8.7% for rail and ferry and 3% for the Subway. Reduced reimbursement for Scotrail as a result of the off peak pilot has been factored into the budget projection for the first quarter of 2024/2025. It is anticipated that a reimbursement capping arrangements will be agreed with Scotrail, similar to 2023/2024 where the Scheme will not be financially disadvantaged by the pilot which is scheduled to be in place until 28 June 2024.

Budgeted costs for the administration of the Scheme and support to card holder costs are in line with 2023/2024. Increased salary costs reflecting the implementation of the COSLA pay award for 2023/2024 and an estimation of the 2024/2025 pay award have been offset by short term saving in other employee costs due to reduced employer pension contributions in 2024/2025 and 2025/2026. Income from interest received is expected to reduce in 2024/2025 reflecting the anticipated reduction in interest rates and cash balances.

The Local Authority funding settlement for 2024/2025 has been agreed as a decrease of 1.04% compared to 2023/2024, in line with the local government budget settlement and consequently the proposed Scheme requisition level of £4.095m for 2024/2025 mirrors that estimate.

Taking the above into account, including the level of funding available from member local authorities and expected forecasts for patronage, it is recommended to agree a budget of £5.031m for 2024/2025 funded by £4.095m local authority requisition and a draw on reserves of £0.936m. This is based on the best estimate of patronage and consequential operator reimbursement. If the proposed budget is approved, the revised reserve balance will decrease to £4.040m at the end of the financial year 2024/2025. The proposed revenue budget can be found at Appendix 1 and the proposed requisition including the split per Local Authority can be found at Appendix 2.

(iii) Long Term Financial Forecast

A long term financial forecast of the Scheme was undertaken to assist with the decision making process and timing of the implementation of the new fare structure. This further supports the view that the introduction of the new fare structure will be necessary in the immediate future. This forecast, which can be found in Appendix 3, projects financial costs and funding for the next 10 years and is based on a number of assumptions. These include annual year on year increases in operator fares, patronage and administrative costs of supporting the scheme, including employee costs, supplies and third party payments.

It is clear from this forecast that the Scheme is not sustainable in its current format in the long term and the implementation of the new half fare structure should be considered as part of the 2025/2026 budget process, given the anticipated reduction in reserves in 2024/2025 which will only continue to increase in future financial years assuming no additional funding to support the Scheme becomes available from our Local Authority partners. For context the introduction of a half fare structure would reduce the Scheme reimbursement costs by approximately £1.6m annually

4. Conclusion

Although the Scheme is currently on a sound financial footing, increased scheme costs we have seen in 2023/2024 will continue into 2024/2025 and beyond. Patronage has now recovered to 90% of pre pandemic levels which has seen increased operator reimbursement in 2023/2024. Budgeted costs for 2024/2025 mean that the Scheme will be running at a significant deficit which will require to be balanced by scheme reserves. These reserves will allow the Scheme to continue sustainably in its current format until at least April 2025, when clearer passenger travel demand patterns may be more established.

It is therefore important that the deferral of fare increases until April 2025 is recognised as a short-term position, arising only as a result of the Scheme's reserve position. The committee decision to implement the new fares structure will require to be put into effect at a later date in order to safeguard the longer term future of the Scheme taking cognisance of the long term financial forecast.

4. Committee action

The Committee is recommended to approve:

- (i) the proposed budget of £5.031m for financial year 2024/2025;
- (ii) requisitions totalling £4.095m, a 1.04% decrease compared to 2023/2024;
- (iii) a draw on reserves of £0.936m in 2024/2025 and
- (iv) A pause in the implementation of the new fares structure until April 2025.

5. Consequences

Policy consequences	None directly.
Legal consequences	Required to set a balanced budget.
Financial consequences	As outlined in the report.
Personnel consequences	None directly.
Equalities consequences	None directly.
Risk consequences	None directly.
Climate Change, Adaptation & Carbon consequences	None directly.

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Title **Treasurer**
Strathclyde Concessionary Travel Scheme Joint Committee

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Concessionary Travel Scheme

Proposed Revenue Budget 2024/2025

	Current Year		Proposed	Draft
	Budget 2023/2024	Projected outturn 2023/2024		
Payments to Operators	3,876,451	4,076,451	4,745,050	4,960,070
Administration & Overheads	409,229	409,229	408,361	425,518
Total expenditure	4,285,680	4,485,680	5,153,411	5,385,588
Interest received	(147,806)	(297,806)	(122,461)	(71,233)
Total Expenditure	4,137,875	4,187,875	5,030,950	5,314,355
Funded by:				
Requisition	(4,137,875)	(4,137,875)	(4,094,841)	(4,094,841)
CTS Reserves	0	(50,000)	(936,109)	(1,219,514)
Total Income	(4,137,875)	(4,187,875)	(5,030,950)	(5,314,355)
Projected Reserves Balance	5,025,625	4,975,625	4,039,516	2,820,002



Proposed Council Requisition - CTS

Financial Year 2024/2025

	Requisition Financial Year 2023/2024	Proposed Financial Year 2024/2025
Argyll and Bute	209,166	208,316
East Ayrshire	241,331	235,547
East Dunbartonshire	232,010	232,824
East Renfrewshire	184,334	186,531
Glasgow	853,262	842,114
Inverclyde	159,769	163,385
North Ayrshire	291,039	285,924
North Lanarkshire	582,557	569,806
Renfrewshire	332,060	332,217
South Ayrshire	269,273	261,416
South Lanarkshire	616,915	611,333
West Dunbartonshire	166,157	165,427
Total Requisition	4,137,875	4,094,841

Notes

1. Assumes 1.04 decrease in overall requisition at this stage.
2. Change in % allocation to Councils due to update on the latest Mid Point population survey for over 60's (mid-2022).

Concessionary Travel Scheme - Long Term Financial Forecast (Current Fare Structure)

Cost	Year 1 2024/2025	Year 2 2025/2026	Year 3 2026/2027	Year 4 2027/2028	Year 5 2028/2029	Year 6 2029/2030	Year 7 2030/2031	Year 8 2031/2032	Year 9 2032/2033	Year 10 2033/2034
Administrative costs - Travel Card Unit										
Salaries	£254,888	£269,150	£278,301	£287,763	£297,547	£307,664	£318,124	£328,941	£340,125	£351,689
Other employee costs	£34,373	£37,268	£76,533	£79,135	£81,825	£84,608	£87,484	£90,459	£93,534	£96,714
Supplies and Services	£63,100	£63,100	£63,983	£65,071	£66,373	£67,700	£69,054	£70,435	£71,844	£73,281
Other Third Party Payments	£56,000	£56,000	£56,784	£57,749	£58,904	£60,082	£61,284	£62,510	£63,760	£65,035
Total Administrative costs	£408,361	£425,518	£475,601	£489,719	£504,650	£520,054	£535,947	£552,344	£569,263	£586,719
Interest Received	-£122,461	-£71,233	-£41,504	-£5,726	£0	£0	£0	£0	£0	£0
Payments to Operators										
Rail Passengers Projected	3,282,460	3,331,697	3,381,673	3,432,398	3,483,884	3,536,142	3,589,184	3,643,022	3,697,667	3,753,132
Rail Reimbursement Projected	£3,211,846	£3,357,181	£3,509,765	£3,669,284	£3,836,053	£4,010,402	£4,192,674	£4,383,231	£4,582,449	£4,790,722
Average Cost Per Trip	£0.98	£1.01	£1.04	£1.07	£1.10	£1.13	£1.17	£1.20	£1.24	£1.28
Subway Passengers Projected	926,160	940,052	954,153	968,465	982,992	997,737	1,012,703	1,027,894	1,043,312	1,058,962
Subway Reimbursement Projected	£352,960	£369,002	£385,773	£403,306	£421,636	£440,800	£460,834	£481,779	£503,676	£526,568
Average Cost Per Trip	£0.38	£0.39	£0.40	£0.42	£0.43	£0.44	£0.46	£0.47	£0.48	£0.50
Ferries Passengers Projected	614,479	623,696	633,051	642,547	652,185	661,968	671,897	681,976	692,206	702,589
Ferries Reimbursement Projected	£1,180,245	£1,233,887	£1,289,967	£1,348,596	£1,409,890	£1,473,969	£1,540,961	£1,610,998	£1,684,218	£1,760,765
Average Cost Per Trip	£1.92	£1.98	£2.04	£2.10	£2.16	£2.23	£2.29	£2.36	£2.43	£2.51
Total Passengers Projected	4,823,099	4,895,445	4,968,877	5,043,410	5,119,061	5,195,847	5,273,785	5,352,892	5,433,185	5,514,683
Total payments to operators	£4,745,050	£4,960,070	£5,185,505	£5,421,186	£5,667,579	£5,925,170	£6,194,469	£6,476,008	£6,770,343	£7,078,055
Total Concessionary Scheme Costs	£5,030,950	£5,314,355	£5,619,602	£5,905,179	£6,172,228	£6,445,224	£6,730,416	£7,028,352	£7,339,605	£7,664,774
Council requisition	£4,094,841	£4,094,841	£4,094,841	£4,094,841	£4,094,841	£4,094,841	£4,094,841	£4,094,841	£4,094,841	£4,094,841
Draw on Reserves	£936,109	£1,219,514	£1,524,761	£1,810,338	£2,077,387	£2,350,383	£2,635,575	£2,933,511	£3,244,764	£3,569,933
Revised Reserves Balance	-£4,039,516	-£2,820,002	-£1,295,241	£515,097	£2,592,485	£4,942,868	£7,578,443	£10,511,954	£13,756,718	£17,326,651

Assumptions

- Annual increase in employee costs projected at 3.4% from 2026/2027 onwards.
- All other administrative costs increased annually from 2026/2027 onwards in line with Office of Budget Responsibility CPI forecasts.
- Interest received projections based on reserves held, annual cashflow and projected rates.
- Payment to operators projections assume passenger numbers in 2024/2025 for Rail and Ferries will be around 90% of pre covid (2019/20) given current passenger numbers. Subway passenger numbers projected at pre covid levels given current passenger number trends. Also assumes a 3% increase in fares and a 1.5% increase in passenger numbers annually thereafter.
- Requisition from Councils to fund Scheme assumed flat from 2024/2025 onwards.
- Based on the forecast, and assuming passenger numbers and fare increases are in line with projections then reserves will be fully extinguished towards the end of the financial year 2027/2028.