



### Subsidised bus service contract recommendations: financial implications

**Committee**            Operations

**Date of meeting**    26 August 2022

**Date of report**    16 August 2022

**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

Members will be aware of the ongoing challenges the Covid-19 pandemic has had on the organisation’s financial position. This continues as we seek to recover from the pandemic. The ending of the Covid support grant in September 2021 from Transport Scotland for the Subway made the challenge to achieve a balanced budget in 2022/23 - given the wider impacts on public transport - more difficult.

Whilst taking cognisance of the overall SPT budget, the importance of the subsidised bus budget was recognised when preparing the budget for 2022/23 and it was agreed that the subsidised budget would be retained at a similar level as 2021/22. To achieve this, 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 allowed scope for accommodating foreseen and unforeseen costs arising from tender renewals and also inflationary increases on contracts in line with the Conditions of Contract.

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

2022/23	Net Approved Budget	Net Projected Outturn	Variance
Subsidised bus services	£12,261,797	£11,923,155	£338,642

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. Clearly at this time there remains many challenges in the network, especially

given the pending conclusion of the Covid support grant - now known as the Network Support Grant - from Transport Scotland in October 2022.

SPT continues to review the gaps in the bus network 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 of £41,622 against the 2022/23 budget. The net impact to SPT's budget is detailed below:

<b>2021/22</b>	<b>Net Approved Budget</b>	<b>Net Projected Outturn</b>	<b>Variance</b>
Subsidised bus services	£12,261,797	£11,964,777	£297,020

While members are being advised of a small positive variance at this stage, given the importance of SPT services as a key element in the regional network SPT needs flexibility to react to changes in passenger flows, demand for My Bus and the bus market.

Clearly consideration must also be given to the impact on current and future budgets when awarding contracts. The 44 contract renewals recently awarded for commencement in July 2022 will incur additional costs of circa £660,000 per annum. This represents a net increase across these contracts of 18% when compared with current contract costs. This was previously noted to the Operations Committee on 28 January 2022 as a potential risk to the 2022/23 budget.

The increase in tendered contract costs are due to a number of factors including:

- the removal of Covid support grant for bus operators in March 2022 which has been replaced by Network Support Grant up until October 2022;
- significant driver shortages (due to the combination of Covid impacts, delays in driver training & testing, retirement rates and driver transferring to the haulage industry) and in many cases operators have had to scale back and/or cancel services;
- inflationary pressures resulting in increased operational costs for operators which has been seen in increased tender prices; and
- the significant increase in the cost of fuel due to volatility of market as a result of the war in Ukraine.

All of the issues above could potentially create increased demand at material cost for SPT to provide further support with significant 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 affordable within the anticipated resource availability in current and future financial years. The limitations of SPT's budget position and the risks of increased demand arising from commercial service cancellations or reductions have been highlighted to Transport Scotland. In doing so, SPT has sought to engage early to understand what plans they may have to safeguard the network.

#### **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 positive variance reported which may require to be utilised later in the financial year to support the regional and local network; and
- (iii) key concerns identified which may impact of 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>None directly.</i>

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