



Subsidised bus service contract recommendations: financial implications

Committee Operations

Date of meeting 4 November 2022

Date of report 18 October 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 financial and organisational pressures arising from the pandemic, including government restrictions and messaging of essential travel only in certain periods over the last two years. This has been exacerbated in 2022 with the rapid increase in UK inflation, with potential material impacts on internal and external costs and the knock-on impact on SPT budgets.

Whilst taking cognisance of the overall SPT budget, the importance of the subsidised bus budget was recognised when preparing the budget for 2022/2023 and it was agreed that the subsidised budget would be retained at a similar level as 2021/2022. 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:

2022/2023	Net Approved Budget	Net Projected Outturn	Variance
Subsidised bus services	£12,261,797	£11,900,257	£361,540

The net projected outturn has decreased by £64,520 since the last Operations Committee and is based on a detailed review of individual contract costs to date and known future plans at the time of writing. 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, especially given the conclusion of the Covid support grant - now known as the Network Support Grant - from Transport Scotland on the 9 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 reduced costs of £9,605 against the 2022/2023 budget. The net impact to SPT's budget is detailed below:

2022/2023	Net Approved Budget	Net Projected Outturn	Variance
Subsidised bus services	£12,261,797	£11,890,652	£371,145

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.

Consideration must also be given to the impact on current and future budgets when awarding contracts. Experience from the most recent tendering exercise has indicated that tender prices being received for the provision of subsidised services have increased materially with a net increase of 18% across all contracts renewed. If contract cost increases are sustained at this 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.

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

- the removal of Covid support grant for bus operators in March 2022 which was replaced by Network Support Grant up until 9 October 2022. The impact of the conclusion in this support is likely to be seen in future tender exercises;
- 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 sustained increased cost of fuel due to volatility of the 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 has been highlighted to Transport Scotland, with a request to consider providing funding directly to SPT to allow it to support any further gaps in the network. This request has been declined.

However, highlighting the potential outcomes and risks has resulted in the establishment of the Scottish Bus Taskforce which includes key stakeholders from across the bus industry. Its remit is to discuss and attempt to find solutions to the current issues faced in the industry.

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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