



Proposed Revenue Budget for 2023/2024 and Long Term Financial Strategy

Date of meeting 17 March 2023

Date of report 28 February 2023

Report by Director of Finance & Corporate Support

1. Object of report

To ask the Partnership consider and approve the revenue budget for 2023/2024, including proposals for fares, fees and charges and note the consequential local authority requisition. In addition to approve the updated Long Term Financial Strategy (LTFS) and proposed updated Reserves Policy.

2. Background

The proposed revenue budget, associated supporting papers, LTFS and revised Reserves Policy were presented to the Strategy & Programmes Committee on 17 February 2023. Following due consideration, the Committee recommended these for approval by the Partnership. There have been no changes since submission to the Strategy & Programmes Committee.

The global pandemic had a material impact on SPT's financial position in financial years 2020/2021 and 2021/2022. Members received regular financial reports outlining that impact affecting all services but in particular in relation to Subway patronage and related income. Members are also aware of the measures taken as a consequence by SPT from financial year 2020/2021 onwards that were necessary to minimise the disruption arising from this financial instability.

In the current financial year however, Subway patronage and income has recovered strongly (no Covid related government support has been provided to SPT since September 2021). Coupled with growing investment returns and other effective cost controls, SPT's financial position is now more stable in the short term and hence it is appropriate to review and update the LTFS at this stage. It has not been updated since 2020, in agreement with External Auditors and the Partnership, given the many and varied financial uncertainties that existed throughout the pandemic.

However, the current inflationary pressures in the UK are impacting across a number of expenditure categories and must be planned for in the draft budget. In addition, there remain a number of significant unknowns at this stage including:

- the local government settlement and therefore the agreed requisition to SPT beyond 2023/2024 – the agreed formula states that the SPT requisition is adjusted by the average percentage across all councils which is the principle applied for 2023/2024;
- the local government pay settlement for 2023/2024;

- the potential impact of the intention to remove Network Support Grant support to commercial bus operators and the potential knock on to services linking communities not served by commercial networks; and
- the duration of the current high inflation and its impact on all cost bases.

Notwithstanding the above uncertainties, financial planning for 2023/2024 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 and delivery plan 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.

As previously reported to members, the process of Subway modernisation will require staff resource for a period to manage and maintain old and new assets, at the same time as we transition to the new fleet and associated equipment. The project is now at that stage and the draft budget must reflect that resource requirement in support of project delivery – this is key to the success of the project.

With regards to wider public transport initiatives, SPT remains keen to ensure that transport is a key enabler to the economic recovery post pandemic and in the long term, a key contributor to the carbon reduction agenda. The recent confirmation of the inclusion of the Clyde Metro scheme within the Strategic Transport Project Review is very positive and SPT will provide support and transport expertise as a key stakeholder and the draft budget will include consideration of the initial resource requirement to fully contribute to the challenges ahead in progressing to direct transport delivery measures.

In addition, SPT plans to continue to invest in new digital solutions for transport information, ticketing solutions, enhanced cyber security and also in maintenance of assets such as bus stations to a high standard, all of which puts pressure on the constrained revenue resources.

The approved Final Business Case for Subway Modernisation required SPT to internally resource its contribution to the Subway project (£46m capital contribution and other associated transition costs). As a consequence, a Subway Fund was established and over the last 11 financial years SPT has contributed to the fund within our revenue funding envelope. The fund is in place 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. In addition, the fund supports 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 assets for a life of up to 40 years.

For 2023/2024, the Scottish Government budget has frozen SPT's General Capital grant at £15.327m. As members are aware, this is in a period of significant ongoing inflationary pressures including in the construction industry. SPT's capital budget is critical in ensuring physical improvement works in support of public transport initiatives are delivered across each local authority within the SPT area. As a consequence, and to seek to mitigate the inflationary pressures, it is proposed to include consideration of support to capital from the revenue budget (historically this has often been the case). For 2023/2024, a proportion of the Scottish Government support to the Subway modernisation project has been rephased to later years and therefore again it is proposed to include consideration of support to the Subway modernisation programme to mitigate that change in the short term.

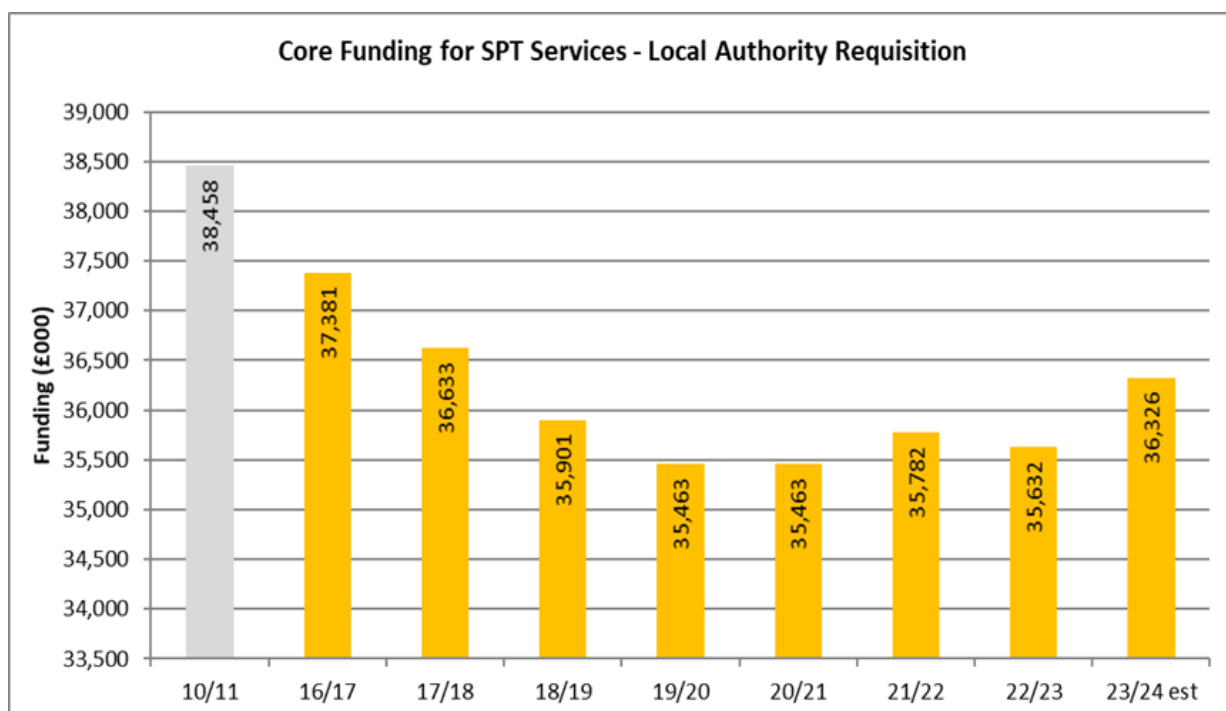
Balancing the SPT revenue budget over the last decade has very much involved the reallocation of resources and significant works to redesign the organisation. This has resulted in significant headcount reductions to reallocate resources to the priority areas identified at the time and to ensure SPT is a lean, efficient organisation. Over the last year, staff resourcing has been reviewed in line with the priorities identified within the Interim Corporate Plan, and the proposed draft budget reflects the resources needed to meet those priorities.

3. Current Position

For 2023/2024, Scottish Government has again announced a one-year budget and local government settlement. This approach fundamentally undermines long term planning. SPT has actively engaged with both the local authorities and the Scottish Government throughout the budget setting process and the established agreement with local authority partners that the SPT requisition will mirror the percentage change to the settlement has again been implemented for 2023/2024. Local authority partners have indicated the settlement will result in an increase of 1.95% which is reflected in the proposed local authority requisition.

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

Notwithstanding the requisition increase noted above, the chart below demonstrates the reductions over the last decade and confirms that funding for transport still remains a significant challenge, particularly in this period of high inflation. Since 2016, inflation as measured by CPI has increased by 19.8%, an additional financial burden which has been borne directly by SPT in that period.

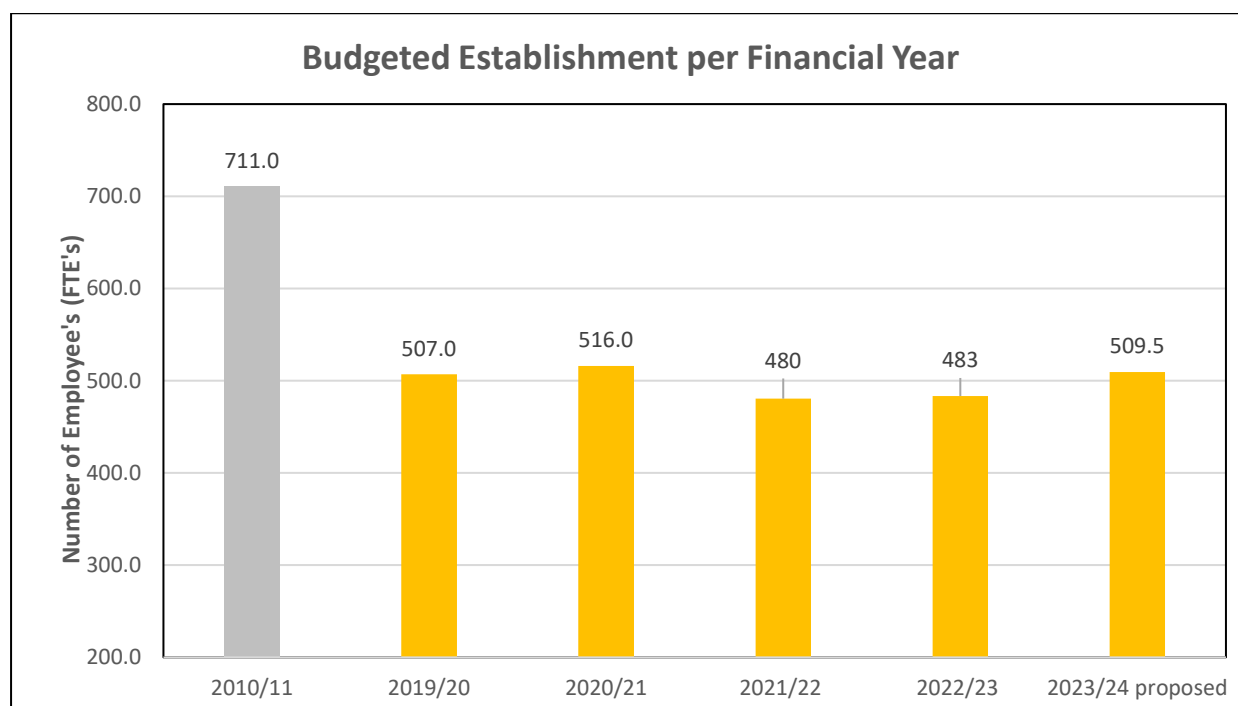


The proposed requisition for 2023/2024 split by local authority can be seen in Appendix 1.

The proposed revenue budget for 2023/2024 can be found at Appendix 2. It has been prepared on the assumption that Subway passenger numbers will be sustained at the current level following a period of strong recovery and generate increased Subway income compared to 2022/2023. It has also been drafted after a comprehensive review of all expenditure lines, taking into account known cost pressures including increases in staff costs, electricity and

other costs including the significant impact of inflation. Members' attention is drawn to the following:

- The staff costs budget for 2023/2024 has been prepared reflecting the implementation of the COSLA pay award for 2022/2023 and an estimation of the 2023/2024 award recognising the ongoing inflationary levels in the UK. The planned staffing establishment for 2023/2024 (see graph below), includes increases to support the Subway modernisation transformation programme as well as strengthening other areas in support of organisational objectives. It is anticipated that these increased resource levels in support of Subway modernisation will reduce on conclusion of the programme, which is reflected in the LTFS.



- Specific inflationary pressures impacting on electricity costs are reflected in the budget with a contractual increase of 59% forecast for 2023/24 (and similar increases forecast for the following financial year). Just over 50% of the total estimated costs of electricity relate to Subway traction power. Members are reminded that the equivalent of all of SPT's electricity usage, including relating to Subway operations, is generated at source from an 100% renewable provider.
- Inflationary pressures have been factored in across a number of budget lines, in particular reflecting existing contracts with annual CPI contractual increases.
- The subsidised bus budget has been increased to reflect pre-existing annual contractual increases and also forecast increases for contracts due for renewal in 2023/2024 in line with current market conditions. 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.

To illustrate this, a recent batch of renewed local subsidised service contracts, approved by the Operations Committee on 27 January 2023, resulted in increased costs of £629k or 142%.

- The budget has been prepared on the basis that the strong patronage recovery in Subway will be sustained in 2023/2024. It also incorporates a modest increase in Subway fares, largely on the same basis as was planned for 2022/2023 but postponed in recognition of the cost of living pressures on customers – the first since April 2019. Details of which can be found in section 4 below.
- Interest received has been estimated based on current interest rate and cashflow forecasts, providing welcome mitigation against cost inflation. Rates of return have increased in the current financial year and are forecast to peak in 2023/2024 and fall off thereafter which is reflected in the LTFS.
- A planned revenue contribution to the Capital Budget to provide support to the programme, in line with previous budgets. The capital grant of £15.327m is unchanged from 2022/2023 making it necessary to supplement the general capital funding grant, which remains significantly below historical annual levels of £25m, to support transport projects across the SPT area including local authority partner projects.
- A resumption in contributions to support Subway modernisation. Specific Subway Modernisation grant has been partially rephased from 2023/2024 to future years and a combination of funding sources is required to support the programme in 2023/2024. The previous LTFS provided for contributions to the Subway Fund, as noted in section 2, however a funding need has arisen now and therefore the proposed contribution will be directly to support the Subway capital programme.

Taking all of the above into account, a balanced budget is now presented to the Partnership for approval.

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 noted in section 3, increases were proposed for 2022/2023 with an implementation date of January 2023 but were postponed for consideration within this budget process. The proposal is to implement the previously agreed increases, to ensure appropriate income levels are generated to support operational costs in the longer term.

As can be seen from the table below, which details all Subway fares, only modest changes have been proposed to fares. The last change to Subway fares was in April 2019 and SPT absorbed all additional cost and income pressures during and after the pandemic without passing these costs onto passengers. It is proposed that implementation of these proposed fares be scheduled for January 2024 to align to other rail operator's fare increases.

Similarly, car parking charges are reviewed annually to ensure that all charges are set at an appropriate level for the service provided and strategic aims of SPT, whilst taking account of the offerings of other car park operators in the area. It is proposed to increase charges to

reflect this and align Subway parking charges more closely to comparative services and also to schedule the increases for January 2024.

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	Current Fare	Proposed Fare	Change
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	Current Fare	Proposed Fare	Change
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)	Current Fare	Proposed Fare	Change
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	Current Charge	Proposed Charge	Change
Park and Ride (all day disposable)	£5.70	£7.70	£2.00
Park and Ride (smart PAYG)	£5.70	£7.70	£2.00
Parking only - 30 minutes	£0.60	£1.00	£0.40
Parking only - 1 hour	£1.20	£2.00	£0.80
Parking only - 2 hours	£2.70	£3.00	£0.30
Parking only - all day	£5.70	£7.70	£2.00
Parking only - 28 days	£53.00	Removed	Removed
Park and Ride - 7 day season ticket	£27.00	£36.00	£9.00
Park and Ride - 28 day season ticket	£105.00	£135.00	£30.00
Park and Ride - 6 month season ticket	£540.00	£675.00	£135.00
Park and Ride - annual season ticket	£960.00	£1,200.00	£240.00
Lost ticket fee	£3.20	Removed	Removed
Overstay day rate	£5.70	£7.70	£2.00
Parking add-on	£2.70	£4.60	£1.90

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 and is within the context of no fares increases since April 2019.

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, with the exception of Bus Station Departure Charges. Departure Charges are a core element in the funding of SPT's bus stations and are graded to reflect the services provided at each bus station. A revised Bus Station Departure Charging regime was approved by committee on 9 November 2018 which provided for annual increases based on CPI at August of the previous year. Whilst this would have meant an increase of 8.6% in 2023/2024 it is proposed to limit this increase to 3%, recognising the pressures impacting on bus operators across the SPT area. This is in the context of no increase in charges since April 2019.

5. Long Term Financial Strategy and Reserves

The Partnership is required to update and approve its Long Term Financial Strategy (LTFS). The LTFS has been drafted based on the current estimates within the 2023/2024 and 2024/2025 draft revenue budgets with future projections for costs and income being adjusted by various indices over the years. In addition to the inflationary increases and decreases that have been applied changes have been made for assumed future changes in the organisation, most notably with respect to Subway modernisation.

The forecasts can be broken down into three main categories:

- Short term forecast
- Medium term forecast
- Long term forecast

As would be expected the further out the forecast gets in years the less reliable it may be as there are many factors that may change in the internal or external environment that could affect the forecasts, but are not known at this time. The LTFS demonstrates the projected requirement to utilise the Subway Fund reserve, as planned, in the medium term to support the transition to a modernised system and mode of operation. In addition, SPT recognises the need to continue with the current programme of business improvement and operational reviews to drive further efficiencies throughout the organisation.

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 31 March 2023 are detailed in Appendix 4. It is anticipated based on the current revenue position for 2023/2024 that there will no additions to Reserves.

Following a review of all reserves, a significant change is proposed with reclassification of the 'Guideline Criteria Reserve' to the 'Future Transport Investment Fund'. An appraisal has been undertaken of the potential impact of STPR2 (Strategic Transport Projects Review 2) and of the Transport (Scotland) Act 2019 measures, and it is proposed to widen the reserve as detailed in Appendix 4. Specifically, it is proposed that the reserve will be:

'The Transport Future Investment Fund will be utilised to ensure that there is a steady pipeline of projects to be brought forward to the capital programme, fund preparatory works for major strategic projects and fund SPT's ambitions for Transport in the west of Scotland following on from the Transport (Scotland) Act 2019 and STPR2.'

Given the current level of revenue and capital funding available, and with an understanding of the potential cost of developing transport business cases, the aim of this fund is to bridge the gap from concepts to defined, deliverable major proposals.

It is also proposed to rename the existing 'Rolling Stock, Signalling and Associated Equipment Fund' to 'Subway Modernisation Fund'. This is a title change only, to clarify the use of the fund, with no proposed change to the description or use.

6. Conclusions

The proposed revenue budget for 2023/2024 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 faced over recent years and into the future. The financial challenges continue and SPT continues to work to maintain a stable, sustainable financial position whilst delivering transport services and developments for the residents and businesses in the west of Scotland. The proposed budget presented at Appendix 2 and LTFS at Appendix 3 and Reserves at Appendix 4 are cornerstones in achieving those objectives.

7. Partnership Action

The Partnership is recommended to:

- (i) consider and approve the attached proposed revenue budget for 2023/2024 at Appendix 2 of £36.281m;
- (ii) note the requisitions totalling £35.632m, an increase of 1.95% compared to 2022/23;
- (iii) approve an increase to Subway fares and charges in January 2024 as outlined in section 4 and to Bus Departure charges as outlined in section 4;
- (iv) approve the update to the LTFS in Appendix 3; and

(v) approve the proposed update to the Reserves Policy in Appendix 4.

8. Consequences

Policy consequences	<i>Draft budget has been aligned to agreed priorities.</i>
Legal consequences	<i>Requirement to set a balanced budget will be satisfied with Partnership approval.</i>
Financial consequences	<i>As detailed in the report.</i>
Personnel consequences	<i>As detailed in the report.</i>
Equalities consequences	<i>None directly.</i>
Risk consequences	<i>As detailed in the report.</i>
Climate Change, Adaptation & Carbon consequences	<i>Draft budget has been aligned to agreed priorities including related to Climate Change, Adaptation and Carbon management priorities.</i>

Name Neil Wylie
Title **Director of Finance & Corporate Support**

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Proposed Council Requisition - SPT

Financial Year 2023/2024

	Requisition Financial Year 2022/2023	Proposed Financial Year 2023/24
Argyll and Bute	404,979	416,173
East Ayrshire	1,933,720	1,975,763
East Dunbartonshire	1,729,376	1,763,323
East Renfrewshire	1,527,575	1,563,836
Glasgow	10,108,141	10,284,105
Inverclyde	1,225,432	1,241,936
North Ayrshire	2,134,884	2,173,307
North Lanarkshire	5,424,912	5,527,992
Renfrewshire	2,852,715	2,913,611
South Ayrshire	1,783,284	1,820,805
South Lanarkshire	5,101,778	5,224,066
West Dunbartonshire	1,404,810	1,421,507
Total Requisition	35,631,606	36,326,423

1. Assumes 1.95% increase in overall requisition at this stage but this may change before Partnership approval.
2. Change in % allocation to Councils due to update on the latest Mid Point population survey (mid-2021)
3. SPT covers the Helensburgh and Lomond area of Argyll and Bute.



Budget Report by Division

Draft Budget Summary - 2023/24 - 2024/25

	Historic Data	Proposed		Draft	
	Budget 2022/23	Budget 2023/24	Variance 22/23 v 23/24	Budget 2024/25	Variance 23/24 v 24/25
Chief Executive					
Policy & Strategy	518,299	692,126	(173,826)	719,370	(27,244)
Chief Executive Unit	849,934	874,209	(24,274)	899,711	(25,503)
Total Chief Executive	1,368,234	1,566,334	(198,101)	1,619,081	(52,747)
Operations					
Subway	10,901,210	9,963,514	937,695	11,669,142	(1,705,628)
Bus Operations	16,819,102	18,927,856	(2,108,754)	20,122,855	(1,195,000)
Projects	424,074	548,195	(124,121)	569,345	(21,150)
Health and Safety	177,842	194,973	(17,131)	202,891	(7,918)
Customer Standards	580,521	682,055	(101,534)	707,671	(25,616)
Total Operations	28,902,748	30,316,593	(1,413,845)	33,271,904	(2,955,311)
Business Support					
Finance	1,366,490	1,440,654	(74,163)	1,506,203	(65,549)
Digital	1,217,470	1,541,056	(323,587)	1,598,341	(57,285)
Human Resources	276,905	383,432	(106,527)	398,928	(15,496)
Elected Members	55,643	63,531	(7,888)	63,531	0
Contact Centre	238,247	309,129	(70,883)	322,456	(13,326)
Corporate	2,855,369	(2,787,836)	5,643,206	(2,259,338)	(528,498)
Total Business Support	6,010,124	949,965	5,060,158	1,630,120	(680,155)
Capital Funded from Revenue - General (Capital)	0	1,000,000	(1,000,000)	454,817	545,183
Capital Funded from Revenue - Subway Modernisation (Capital)	0	3,143,030	(3,143,030)	0	3,143,030
Net Total	36,281,106	36,975,923	(694,816)	36,975,923	0
Funded by:					
SPT Requisition	35,631,606	36,326,423	694,817	36,326,423	0
RTP Core Funding	649,500	649,500	0	649,500	0
Total Funding	36,281,106	36,975,923	0	36,975,923	0
Difference	0	0	0	0	0



Revenue Monitoring Report

Draft Budget Summary - 2023/24 - 2024/25

Historic Data	Proposed		Draft		Notes	
	Budget 2022/23	Budget 2023/24	Variance 22/23 v 23/24	Budget 2024/25		Variance 23/24 v 24/25
EXPENDITURE						
Employee Costs						
Salaries	17,971,040	20,149,091	(2,178,051)	20,903,803	(754,712)	1 Includes impact of increased establishment, provision for salary uplift for all employees and salary increments where applicable.
Overtime	615,040	647,044	(32,004)	647,044	0	0
Other Employee Costs	5,444,660	5,693,885	(249,225)	5,955,162	(261,277)	2 Includes impact of increased establishment, provision for salary uplift for all employees and salary increments where applicable. This is partially offset by an increase in the vacancy time lag adjustment to 5% of salary base.
Sub Total Employee Costs	24,030,740	26,490,020	(2,459,280)	27,506,008	(1,015,988)	
Property Costs						
Electricity	2,198,439	3,495,518	(1,297,079)	4,683,214	(1,187,696)	3 Increase based on projections provided by Scottish Procurement for estimated electricity increases. Estimated increases are 59% in 2023/24 and cumulatively to 113% in 2024/25.
Repairs and Maintenance	433,000	402,000	31,000	402,000	0	0
Property Insurance	381,000	397,000	(16,000)	397,000	0	0
Other Property Costs	3,713,849	4,129,965	(416,116)	4,365,265	(235,300)	4 Incorporates increases in contract costs and increased inflation rate impact including for security, cleaning and gas costs.
Sub Total Property Costs	6,726,288	8,424,483	(1,698,195)	9,847,479	(1,422,996)	
Supplies & Services	2,082,408	1,463,919	618,489	1,436,040	27,879	5 Reduction in costs as a result of reduced spend on current rolling stock fleet anticipated as new trains enter the system. Also reduced infrastructure stock issues, and tickets costs. Offset by increased bank charges projected and decreased Projects team capitalisation.
Transport & Plant Costs	136,550	133,850	2,700	123,850	10,000	
Third Party Payments						
Bus Operator Payments	13,361,737	14,840,400	(1,478,663)	15,780,400	(940,000)	6 Increased payments to bus operators incorporates provision for increases in contract renewals, inflation on continuing contracts and also an increase in the community transport budget.
Communications	369,000	365,000	4,000	365,000	0	0
Other Third Party Payments	9,492,371	9,364,007	128,363	9,890,157	(526,150)	7 Includes additional costs associated with the TSSSA contract in line with the payment profile. It also incorporates increased computer maintenance costs and consultancy costs. This is partially offset by the removal of the corporate provision to shield SPT from the potential effects of inflation increases and changes in the bus market as this is now factored into the budget position.
Sub Total Third Party Payments	23,223,108	24,569,407	(1,346,299)	26,035,557	(1,466,150)	
Financing Costs						
Capital Funded from Revenue - General (Capital)	0	1,000,000	(1,000,000)	454,817	545,183	8 Planned funding to support the General Capital Programme in 2023/24.
Capital Funded from Revenue - Subway Modernisation (Capital)	0	3,143,030	(3,143,030)	0	3,143,030	9 Planned funding to support Subway Modernisation in 2023/24.
Sub Total Financing Costs	0	4,143,030	(4,143,030)	454,817	3,688,213	
TOTAL EXPENDITURE	56,199,093	65,224,709	(9,025,616)	65,403,751	(179,042)	
INCOME						
Subway Income	(14,548,560)	(18,921,932)	4,373,372	(19,371,496)	449,564	10 Increased ticket income projected in line with current income and passenger numbers (90% of pre covid income).
Bus Station Income	(2,189,081)	(2,198,625)	9,545	(2,309,777)	111,151	
Agency Income - Agency Fee	(1,488,347)	(1,611,229)	122,882	(1,629,556)	18,326	11 Increased agency income in relation to the school agency fee and travel card unit costs (which are recovered from the Concessionary Travel Scheme).
Interest Received	(1,300,000)	(5,100,000)	3,800,000	(4,700,000)	(400,000)	12 Significant increase in interest received based on projected cash balances and current and future interest rates.
Other Income	(392,000)	(417,000)	25,000	(417,000)	0	0
TOTAL INCOME	(19,917,987)	(28,248,787)	8,330,799	(28,427,829)	179,042	
Net Total	36,281,106	36,975,923	(694,816)	36,975,923	0	



Budget Report by Directorate - Policy & Strategy

Draft Budget Summary - 2023/24 - 2024/25

	Historic Data	Proposed		Draft		Notes
	Budget 2022/23	Budget 2023/24	Variance 22/23 v 23/24	Budget 2024/25	Variance 23/24 v 24/25	
EXPENDITURE						
Employee Costs						
Salaries	384,798	520,991	(136,193)	541,460	(20,469)	1
Other Employee Costs	121,001	158,634	(37,633)	165,410	(6,775)	1
Sub Total Employee Costs	505,799	679,626	(173,826)	706,870	(27,244)	
Supplies & Services	1,000	1,000	0	1,000	0	
Transport & Plant Costs	1,500	1,500	0	1,500	0	
Third Party Payments						
Communications	10,000	10,000	0	10,000	0	
Sub Total Third Party Payments	10,000	10,000	0	10,000	0	
Total	518,299	692,126	(173,826)	719,370	(27,244)	

Notes

1. Includes impact of increased establishment, provision for salary uplift for all employees and salary increments where applicable.



Budget Report by Directorate - Chief Executive Unit

Draft Budget Summary - 2023/24 - 2024/25

	Historic Data	Proposed		Draft		Notes
	Budget 2022/23	Budget 2023/24	Variance 22/23 v 23/24	Budget 2024/25	Variance 23/24 v 24/25	
EXPENDITURE						
Employee Costs						
Salaries	632,839	654,192	(21,353)	680,066	(25,874)	1
Other Employee Costs	205,746	201,667	4,079	210,295	(8,628)	
Sub Total Employee Costs	838,584	855,859	(17,274)	890,361	(34,503)	
Supplies & Services	7,000	14,000	(7,000)	5,000	9,000	
Transport & Plant Costs	4,350	4,350	(0)	4,350	-	
Total	849,934	874,209	(24,274)	899,711	(25,503)	

Notes
 1. Includes provision for salary uplift for all employees and salary increments where applicable.



Budget Report by Directorate - Subway

Draft Budget Summary - 2023/24 - 2024/25

	Historic Data	Proposed		Draft		Notes
	Budget 2022/23	Budget 2023/24	Variance 22/23 v 23/24	Budget 2024/25	Variance 23/24 v 24/25	
EXPENDITURE						
Employee Costs						
Salaries	10,214,991	11,554,611	(1,339,620)	11,966,170	(411,559)	1
Overtime	565,040	581,544	(16,504)	581,544	0	0
Other Employee Costs	3,142,528	3,456,475	(313,947)	3,603,697	(147,222)	1
Sub Total Employee Costs	13,922,559	15,592,630	(1,670,071)	16,151,411	(558,781)	
Property Costs						
Electricity	1,862,095	2,960,730	(1,098,636)	3,966,262	(1,005,531)	2
Property Insurance	350,000	365,000	(15,000)	365,000	0	0
Other Property Costs	2,137,340	2,343,371	(206,031)	2,483,542	(140,171)	3
Sub Total Property Costs	4,349,435	5,669,101	(1,319,667)	6,814,804	(1,145,702)	
Supplies & Services	1,910,501	1,236,400	674,101	1,236,400	0	4
Transport & Plant Costs	17,000	9,000	8,000	9,000	0	
Third Party Payments						
Bus Operator Payments	25,400	25,400	0	25,400	0	0
Other Third Party Payments	5,224,875	6,352,915	(1,128,040)	6,803,624	(450,709)	5
Sub Total Third Party Payments	5,250,275	6,378,315	(1,128,040)	6,829,024	(450,709)	
TOTAL EXPENDITURE	25,449,770	28,885,446	(3,435,677)	31,040,639	(2,155,192)	
INCOME						
Subway Income	(14,548,560)	(18,921,932)	4,373,372	(19,371,496)	449,564	6
TOTAL INCOME	(14,548,560)	(18,921,932)	4,373,372	(19,371,496)	449,564	
Net Total	10,901,210	9,963,514	937,695	11,669,142	(1,705,628)	

Notes

1. Includes impact of increased establishment, provision for salary uplift for all employees and salary increments where applicable.
2. Increase based on projections provided by Scottish Procurement for estimated electricity increases. Estimated increases are 59% in 2023/24 and cumulatively to 113% in 2024/25.
3. Incorporates increases in contract costs and increased inflation rate impact including for security, cleaning and gas costs.
4. Due to reduced spend on current rolling stock fleet anticipated as new trains enter the system. Also reduced infrastructure stock issues, and tickets costs . Offset by increased bank charges projected.
5. As a result of additional costs associated with the TSSSA contract in line with the payment profile.
6. Increased ticket income projected in line with current income and passenger numbers (90% of pre covid income).



Budget Report by Directorate - Bus Operations

Draft Budget Summary - 2023/24 - 2024/25

	Historic Data	Proposed		Draft		Notes
	Budget 2022/23	Budget 2023/24	Variance 22/23 v 23/24	Budget 2024/25	Variance 23/24 v 24/25	
EXPENDITURE						
Employee Costs						
Salaries	2,681,134	2,945,086	(263,952)	3,057,338	(112,252)	1
Overtime	34,500	48,000	(13,500)	48,000	0	0
Other Employee Costs	807,849	864,062	(56,213)	907,706	(43,644)	1
Sub Total Employee Costs	3,523,483	3,857,148	(333,665)	4,013,044	(155,897)	
Property Costs						
Electricity	249,594	396,855	(147,261)	532,175	(135,320)	2
Repairs and Maintenance	408,000	377,000	31,000	377,000	0	0
Property Insurance	19,000	20,000	(1,000)	20,000	0	0
Other Property Costs	1,252,669	1,410,379	(157,710)	1,490,313	(79,934)	3
Sub Total Property Costs	1,929,263	2,204,234	(274,970)	2,419,488	(215,254)	
Supplies & Services	48,000	43,000	5,000	43,000	0	
Transport & Plant Costs	98,100	108,100	(10,000)	98,100	10,000	
Third Party Payments						
Bus Operator Payments	13,336,337	14,815,000	(1,478,663)	15,755,000	(940,000)	4
Communications	4,000	0	4,000	0	-	
Other Third Party Payments	254,000	289,000	(35,000)	299,000	(10,000)	
Sub Total Third Party Payments	13,594,337	15,104,000	(1,509,663)	16,054,000	(950,000)	
TOTAL EXPENDITURE	19,193,182	21,316,481	(2,123,299)	22,627,632	(1,311,151)	
INCOME						
Bus Operations Income	(2,189,081)	(2,198,625)	9,545	(2,309,777)	111,151	-
Agency Fee Income - Councils	(185,000)	(190,000)	5,000	(195,000)	5,000	
TOTAL INCOME	(2,374,081)	(2,388,625)	14,545	(2,504,777)	116,151	
Net Total	16,819,102	18,927,856	(2,108,754)	20,122,855	(1,195,000)	

Notes

1. Includes provision for salary uplift for all employees and salary increments where applicable.
2. Increase based on projections provided by Scottish Procurement for estimated electricity increases. Estimated increases are 59% in 2023/24 and cumulatively to 113% in 2024/25.
3. Incorporates increases in contract costs and increased inflation rate impact including for security, cleaning and gas costs.
4. Increased payments to bus operators incorporates provision for increases in contract renewals, inflation on continuing contracts and also an increase in the community transport budget.



Budget Report by Directorate - Projects

Draft Budget Summary - 2023/24 - 2024/25

	Historic Data	Proposed		Draft		Notes
	Budget 2022/23	Budget 2023/24	Variance 22/23 v 23/24	Budget 2024/25	Variance 23/24 v 24/25	
EXPENDITURE						
Employee Costs						
Salaries	751,742	812,297	(60,555)	843,136	(30,839)	1
Other Employee Costs	238,267	250,033	(11,766)	260,241	(10,208)	1
Sub Total Employee Costs	990,009	1,062,331	(72,321)	1,103,377	(41,046)	
Supplies & Services	(570,935)	(519,135)	(51,799)	(539,032)	19,897	2
Transport & Plant Costs	5,000	5,000	0	5,000	0	
Total	424,074	548,195	(124,121)	569,345	(21,150)	

Notes

1. Includes provision for salary uplift for all employees and salary increments where applicable.
2. It is anticipated the level of capitalisation for the Projects team will reduce based on planned work on capital projects in 2023/2024.



Budget Report by Directorate - Health and Safety

Draft Budget Summary - 2023/24 - 2024/25

	Historic Data	Proposed		Draft		Notes
	Budget 2022/23	Budget 2023/24	Variance 22/23 v 23/24	Budget 2024/25	Variance 23/24 v 24/25	
EXPENDITURE						
Employee Costs						
Salaries	134,748	148,716	(13,968)	154,664	(5,949)	1
Other Employee Costs	42,295	45,457	(3,163)	47,426	(1,969)	1
Sub Total Employee Costs	177,042	194,173	(17,131)	202,091	(7,918)	
Supplies & Services	600	600	0	600	0	
Transport & Plant Costs	200	200	0	200	0	
Total	177,842	194,973	(17,131)	202,891	(7,918)	

Notes

1. Includes provision for salary uplift for all employees and salary increments where applicable.



Budget Report by Directorate - Customer Standards

Draft Budget Summary - 2023/24 - 2024/25

	Historic Data	Proposed		Draft		Notes
	Budget 2022/23	Budget 2023/24	Variance 22/23 v 23/24	Budget 2024/25	Variance 23/24 v 24/25	
EXPENDITURE						
Employee Costs						
Salaries	395,947	474,962	(79,015)	493,934	(18,972)	1
Overtime	10,000	10,000	(0)	10,000	0	
Other Employee Costs	122,573	148,093	(25,519)	154,737	(6,644)	1
Sub Total Employee Costs	528,521	633,055	(104,534)	658,671	(25,616)	
Supplies & Services	51,000	48,000	3,000	48,000	0	
Transport & Plant Costs	1,000	1,000	(0)	1,000	0	
Total	580,521	682,055	(101,534)	707,671	(25,616)	

Notes

1. Includes provision for salary uplift for all employees and salary increments where applicable.



Budget Report by Directorate - Finance

Draft Budget Summary - 2023/24 - 2024/25

	Historic Data	Proposed		Draft		Notes
	Budget 2022/23	Budget 2023/24	Variance 22/23 v 23/24	Budget 2024/25	Variance 23/24 v 24/25	
EXPENDITURE						
Employee Costs						
Salaries	1,020,106	1,100,571	(80,466)	1,154,361	(53,790)	1
Other Employee Costs	314,485	330,382	(15,898)	342,141	(11,759)	1
Sub Total Employee Costs	1,334,590	1,430,954	(96,363)	1,496,503	(65,549)	
Supplies & Services	11,500	4,500	7,000	4,500	0	
Transport & Plant Costs	400	200	200	200	0	
Third Party Payments						
Other Third Party Payments	20,000	5,000	15,000	5,000	0	
Sub Total Third Party Payments	20,000	5,000	15,000	5,000	0	
Total	1,366,490	1,440,654	(74,163)	1,506,203	(65,549)	

Notes

1. Includes provision for salary uplift for all employees and salary increments where applicable.



Budget Report by Directorate - Digital

Draft Budget Summary - 2023/24 - 2024/25

	Historic Data	Proposed		Draft		Notes
	Budget 2022/23	Budget 2023/24	Variance 22/23 v 23/24	Budget 2024/25	Variance 23/24 v 24/25	
EXPENDITURE						
Employee Costs						
Salaries	919,791	1,181,498	(261,707)	1,224,803	(43,306)	1
Overtime	3,000	5,000	(2,000)	5,000	0	
Other Employee Costs	286,679	349,558	(62,880)	363,538	(13,980)	1
Sub Total Employee Costs	1,209,469	1,536,056	(326,587)	1,593,341	(57,285)	
Supplies & Services	3,000	3,000	0	3,000	0	
Transport & Plant Costs	5,000	2,000	3,000	2,000	0	
Total	1,217,470	1,541,056	(323,587)	1,598,341	(57,285)	

Notes

1. Includes impact of increased establishment, provision for salary uplift for all employees and salary increments where applicable.



Budget Report by Directorate - Human Resources

Draft Budget Summary - 2023/24 - 2024/25

	Historic Data	Proposed		Draft		Notes
	Budget 2022/23	Budget 2023/24	Variance 22/23 v 23/24	Budget 2024/25	Variance 23/24 v 24/25	
EXPENDITURE						
Employee Costs						
Salaries	205,848	290,272	(84,424)	301,867	(11,595)	1
Other Employee Costs	64,057	86,159	(22,103)	90,061	(3,902)	1
Sub Total Employee Costs	269,905	376,432	(106,527)	391,928	(15,496)	
Supplies & Services	7,000	7,000	0	7,000	0	
Total	276,905	383,432	(106,527)	398,928	(15,496)	

Notes

1. Includes impact of increased establishment, provision for salary uplift for all employees and salary increments where applicable.



Budget Report by Directorate - Elected Members

Draft Budget Summary - 2023/24 - 2024/25

EXPENDITURE

Supplies & Services

Transport & Plant Costs

Total

Historic Data	
Budget 2022/23	
	52,143
	3,500
Total	55,643

Proposed		Draft	
Budget 2023/24	Variance 22/23 v 23/24	Budget 2024/25	Variance 23/24 v 24/25
61,531	(9,388)	61,531	0
2,000	1,500	2,000	0
63,531	(7,888)	63,531	0



Budget Report by Directorate - Contact Centre

Draft Budget Summary - 2023/24 - 2024/25

	Historic Data	Proposed		Draft		Notes
	Budget 2022/23	Budget 2023/24	Variance 22/23 v 23/24	Budget 2024/25	Variance 23/24 v 24/25	
EXPENDITURE						
Employee Costs						
Salaries	363,313	465,896	(102,583)	486,002	(20,107)	1
Overtime	2,500	2,500	0	2,500	0	
Other Employee Costs	102,181	126,363	(24,182)	132,909	(6,546)	1
Sub Total Employee Costs	467,993	594,758	(126,765)	621,411	(26,653)	
Supplies & Services	58,100	66,100	(8,000)	66,100	0	
Transport & Plant Costs	500	500	0	500	0	
Third Party Payments						
Other Third Party Payments	25,000	47,000	(22,000)	47,000	0	2
Sub Total Third Party Payments	25,000	47,000	(22,000)	47,000	0	
TOTAL EXPENDITURE	551,593	708,358	(156,765)	735,011	(26,653)	
INCOME						
Agency Fee Income - Councils	(303,347)	(389,229)	85,883	(402,556)	13,326	3
Other Income	(10,000)	(10,000)	0	(10,000)	0	
TOTAL INCOME	(313,347)	(399,229)	85,883	(412,556)	13,326	
Net Total	238,247	309,129	(70,883)	322,456	(13,326)	

Notes

1. Includes impact of increased establishment, provision for salary uplift for all employees and salary increments where applicable.
2. Increased maintenance contract and support costs.
3. Increased agency income in relation to travel card unit costs above which are recovered in full from the Concessionary Travel Scheme.



Budget Report by Directorate - Corporate

Draft Budget Summary - 2023/24 - 2024/25

	Historic Data	Proposed		Draft		Notes
	Budget 2022/23	Budget 2023/24	Variance 22/23 v 23/24	Budget 2024/25	Variance 23/24 v 24/25	
EXPENDITURE						
Employee Costs						
Salaries	265,784	0	265,784	0	0	1
Other Employee Costs	(3,000)	(323,000)	320,000	(323,000)	0	2
Sub Total Employee Costs	262,784	(323,000)	585,784	(323,000)	0	
Property Costs						
Electricity	86,750	137,933	(51,183)	184,778	(46,845)	3
Repairs and Maintenance	25,000	25,000	0	25,000	0	
Property Insurance	12,000	12,000	0	12,000	0	
Other Property Costs	323,840	376,215	(52,375)	391,410	(15,195)	4
Sub Total Property Costs	447,590	551,148	(103,558)	613,188	(62,040)	
Supplies & Services	503,500	497,924	5,576	498,941	(1,017)	
Third Party Payments						
Communications	355,000	355,000	0	355,000	0	
Other Third Party Payments	3,968,495	2,670,092	1,298,403	2,735,533	(65,441)	5
Sub Total Third Party Payments	4,323,495	3,025,092	1,298,403	3,090,533	(65,441)	
Financing Costs						
Contribution to Capital Funded from Revenue - General (Capital)	0	1,000,000	(1,000,000)	454,817	545,183	6
Contribution to Capital Funded from Revenue - Subway Modernisation (Capital)	0	3,143,030	(3,143,030)	0	3,143,030	7
Sub Total Financing Costs	0	4,143,030	(4,143,030)	454,817	3,688,213	
TOTAL EXPENDITURE	5,537,369	7,894,194	(2,356,824)	4,334,479	3,559,715	
INCOME						
Agency Fee Income - Councils	(1,000,000)	(1,032,000)	32,000	(1,032,000)	0	8
Interest Received	(1,300,000)	(5,100,000)	3,800,000	(4,700,000)	(400,000)	9
Other Income	(382,000)	(407,000)	25,000	(407,000)	0	
TOTAL INCOME	(2,682,000)	(6,539,000)	3,857,000	(6,139,000)	(400,000)	
Net Total	2,855,369	1,355,194	1,500,176	(1,804,521)	3,159,715	

Notes

1. Removal of corporate provision for salary increases which is now budgeted at departmental level.
2. As a result of an increase in the vacancy time lag adjustment to 5% of salary base.
3. Increase based on projections provided by Scottish Procurement for estimated electricity increases. Estimated increases are 59% in 2023/24 and cumulatively to 113% in 2024/25.
4. Incorporates increases in contract costs and increased inflation rate impact including for security, cleaning and gas costs.
5. Due to removal of the corporate provision to shield SPT from the potential effects of inflation increases and changes in the bus market as this is now factored into the overall budget position.
6. Planned funding to support the General Capital Programme in 2023/24.
7. Planned funding to support Subway Modernisation in 2023/24.
8. Increased agency income in relation to the school agency fee.
9. Significant increase in interest received based on projected cash balances and current and future interest rates.

APPENDIX 3

Strathclyde Partnership for Transport Long Term Financial Strategy (LTFS)

1. Introduction

The Partnership is currently operating in an extremely challenging environment with inflationary pressures impacting on all organisational costs. Conversely, the core requisition income that SPT receives will not rise in line with the external inflationary pressures, which will lead to a funding gap if corrective action is not taken. This Financial Strategy highlights the challenges that SPT will face in future years whilst taking account of known changes in the internal environment along with pressures and opportunities from the external environment.

The Financial Strategy doesn't stand alone and is one of a suite of internal strategies that complement each other, support the Corporate Plan and ensure sound organisational governance. The other strategies are touched upon along with external strategies that impact on the organisation. In addition, the framework that SPT has in place to ensure sound financial governance is detailed within the strategy.

The major financial risks facing the organisation are described along with the effect the risks will have if they come to fruition, the mitigation for the risk and the fall-back plan if the mitigations are not wholly successful.

Finally, the financial strategy should be a living document and kept under constant review. The parameters for review and seeking approval are also detailed.

2. Financial Context

2.1 Introduction

As touched upon in the introduction SPT is currently operating in a challenging financial environment with potentially significant cost and income pressures impacting on the organisation at present and over the medium to long term.

2.2 Core Funding

SPT receives its core funding via a requisition from the 12 local authorities within the SPT area. A revised funding methodology was agreed for 2018/2019 and subsequent years, which means there is certainty over the formula for determining the requisition amount and also how it will be apportioned across the 12 local authorities. The annual requisition will be adjusted each year by the movement in the floor calculation for all Scottish local authorities, which is published by the Scottish Government as part of their budget process. For every one percent reduction /increase SPT loses / gains approximately £360,000.

2.3 Subway Modernisation

Subway Modernisation will place increased cost pressures on the Partnership in the short term as SPT continues to pay for and operate the current rolling stock and associated equipment, whilst new assets come online, which means that there is a period of double cost for the organisation. Savings in the medium / long term may be generated through revised staffing models in both Maintenance and Operations along with the negotiation of external costs in relation to the current rolling stock and associated equipment. The savings in regards to Maintenance will be driven by the technology within the new trains, which will negate some of the manual checks that currently have to be carried out on a regular basis. Savings within Operations may be driven by the ultimate goal of driverless trains, from an expenditure perspective specialist ongoing external support will no longer be required once the project is complete which will result in an annual ongoing saving. For the Subway as a whole future operational models are currently being developed as part of the overall project, however estimates have been built into the current LTFS at this stage.

In addition to potential cost savings a year on year increase in Subway income has been factored into the LTFS. The increase is based on patronage growth of 1.5% each year from 2025/2026, which is as per the approved Final Business Case for Subway Modernisation. In addition an uplift has been included for annual ticket price raises of 2.6%.

2.4 Subsidised Bus Services

The subsidised bus budget is an area that historically has been protected from any reductions and has increased over the years. SPT carried out a review of its Guideline Criteria for Subsidised Local Bus Services, but any potential financial benefit that could have been derived from the review has been negated by overall changes in the external bus market. Unfortunately, with the current service model SPT is duty bound to seek to plug gaps in the commercial market, in line with the Framework for Supported Services, where an operator deems a service to be commercially unviable and where it is affordable for SPT to do so. This can result in services being run commercially during the day, but being subsidised in the evenings or weekends even though if looked at as a whole the service may be viable. It is clear that from a financial perspective the current delivery model may not be sustainable in the long term and need to be reviewed whilst taking account of the options contained within the Transport (Scotland) Act 2019.

2.5 Transport (Scotland) Act 2019

The Transport (Scotland) Act 2019 has given SPT more powers in respect of the bus market with for example, franchising similar to rail services now being possible. At the time of writing this report the associated guidance on how to enact the range of possible additional powers have not been drafted and issued by Transport Scotland and therefore significant progress has not been made to date. The aim would be to negate the issues where SPT would need to plug gaps in the bus market for certain areas, but the powers have not been tested before in Scotland and therefore the costs and complexities of implementation are unknown. However, allowance has been made within the LTFS for potential works in relation to new powers building on the experience of similar circumstances in England. No amendment has been made specifically to the Subsidised Bus Budget as it is assumed at this stage that as delivery models potentially change, it will have a cost neutral affect.

2.6 Staffing Costs

Due to the increased levels of inflation in the UK, wage settlements are a hot topic with inflationary increases being applied that would have been unheard of just a few years ago. As employee costs amount to approximately 40% of SPT's gross expenditure any inflationary increase has a significant financial impact. The projected salary increase rate has been set at 3.7% a year, which is the rate used by the actuaries of the Strathclyde Pension Fund in their annual valuation of the funds for accounting purposes. An inflationary increase of 3.7% would cost the organisation approximately £1m annually or in simplistic terms over the 10-year financial projection pay awards could increase organisational costs by in excess of £10 million.

2.7 Inflation

Contracts are predominantly linked to the Consumer Price Index (CPI), which is currently running at 10.5% (December 2022), which is significantly above the government target of 2%. The Office of Budget Responsibilities is currently forecasting the medium-term rate at 2%, but there is also the potential for negative inflation in the short term. Most general supplies and services that are procured by SPT can also increase year on year based on CPI. Service contracts that are labour intensive can also be affected by the annual change in the real living wage. For projection purposes varying indices have been used depending on the cost category (see section 6.3).

2.8 Cost Mitigations

For over a decade SPT has been on a journey of continuous improvement reviewing all services that it provides to ensure that they are still relevant and fit for purpose. The ongoing review has seen budgeted staff numbers reduce from 711 in 2010/2011 to 510 in 2023/2024, which is an overall reduction of 28%. This reduction in staffing along with the other running costs saved throughout the reviews has allowed SPT to make significant contributions to the Subway Fund / reserves over the last number of years. With the modernisation project progressing and funds already in place there is no requirement to keep this contribution going over the life of the 10-year Financial Strategy projections and therefore funds are freed to offset the inflationary and other cost pressures facing the organisation.

Although the current environment is challenging SPT is in an excellent position to face these financial challenges due to the hard work that has been carried out over the years to seek efficiencies and streamline services.

3. Economic Outlook

In recent times the economy has taken a battering due to COVID-19, uncertainty caused by Brexit, record high inflation rates, scarcity of labour across various sectors and the war in Ukraine.

UK GDP in volume terms is estimated to have risen by 0.2% in 2022 Quarter 2 (April to June). UK GDP is expected to have fallen by -0.5% in 2022 Quarter 3 (July to September) and to fall a further -0.3% in 2022 Quarter 4 (October to December). The expectation is that UK GDP will continue to fall throughout 2023 and into mid-2024 as high energy prices and tighter financial conditions weigh on consumer spending. Thereafter, UK GDP is expected to start to recover slowly.

CPI inflation has increased from 2.1% in April 2022 to 10.5% in December 2022. It is This reflects the squeeze on real incomes from higher global energy and tradable goods prices. The expectation is that CPI inflation starts to fall back from early 2023 as previous increases in energy prices drop out of the annual comparison and domestic inflationary pressures subside. Thereafter, CPI inflation is forecast to fall sharply to be below the 2% target in two years' time, and further below the target in three years' time.

The unemployment rate was 3.7% in the three months to January 2023, the lowest level since 1974. The labour market remains tight and pay growth has continued to strengthen. However, as a result of the anticipated slowdown in demand and the weak economic outlook, the unemployment rate is expected to rise to 6.5% in three years' time. At a local level the 'tightness' of the labour market is having a direct impact on bus services, with a reported 10% vacancy level for bus drivers affecting operator's ability to deliver services in the West of Scotland. This is negatively impacting on commercial, subsidised and school transport services.

4. Links to Other Strategies

4.1 Introduction

The Partnerships financial strategy draws upon and complements a number of SPT's internal strategies as well as strategies and guidance from its key stakeholders. The most significant of these being the RTS.

4.2 Regional Transport Strategy (RTS)

The primary strategy covering SPT's activities is the Regional Transport Strategy (RTS) (<https://www.spt.co.uk/about-us/what-we-are-doing/regional-transport-strategy/>). The current RTS is now at end of life with a new strategy having been drafted, which is currently going through the formal approval process. The new RTS contains 9 policy themes, which are detailed and described below: -

• Policy Theme: Accessing and using transport

This policy theme focuses on ensuring everyone can use the transport system by improving the accessibility, affordability, availability and safety of the transport system.

• Policy Theme: Reducing the need to travel and managing demand for car Travel

This policy theme focuses on reducing the need to travel and, in particular, reducing travel by car to help reduce harmful transport emissions, improve our health and overall quality of life, and enable investment in sustainable transport.

• Policy Theme: Enabling walking, wheeling and cycling

This policy theme focuses on making walking, wheeling and cycling the natural choice for shorter everyday journeys to improve our quality of life and to support a modal shift to more sustainable travel.

• Policy Theme: Enhancing quality and integration of public transport

This policy theme focuses on improving the quality of public transport particularly reliability, punctuality and value for money and facilitating an integrated public transport system including networks and services, ticketing, information and journey planning, and integration with other modes including active travel, Community Transport and Park and Ride, and ensuring governance models for public transport enable delivery of an integrated transport system and the RTS.

- **Policy Theme: Improving road safety**

The policy theme focuses on improving road safety in the region particularly to improve safety for vulnerable road users and enable more walking, wheeling and cycling and development of high-quality places designed for the movement of people.

- **Policy Theme: Decarbonising vehicles and improving air quality**

This policy theme focuses on the transition from conventionally fuelled vehicles to electric, hydrogen and other alternative fuels whilst continuing to support councils to manage and improve air quality in Air Quality Management Areas and deliver Low Emission Zones.

- **Policy Theme: Moving goods more sustainably**

This policy theme focuses on the sustainable movement of goods in the region, particularly increasing rail freight and increasing sustainability of delivery of goods.

- **Policy Theme: Increasing resilience and adapting to climate change**

This policy theme focuses on the resilience of the regional transport system to disruption and adapting to climate change impacts.

- **Policy Theme: Protecting and enhancing natural and built environments**

This policy theme focuses on the design and development of the transport system to protect and enhance natural and built environments, particularly helping improve biodiversity and human health through incorporation and integration of green infrastructure and other nature-based solutions, green networks and placemaking into transport strategies, plans and projects.

- **Policy Theme: Connecting Places**

This policy theme focuses on the spatial context for the RTS and future RTS Delivery Plans, setting out the strategic gateways, corridors and locations that will be a focus for future transport appraisal and investment to support regional development priorities, economic strategies and the Growth Deals.

When planning both capital and revenue spend the policy themes and wider strategic framework of the RTS must be considered.

4.3 Other Transport Strategies

SPT's Bus Strategy is currently being updated whilst taking cognisance of the new RTS, changes in the bus market and external environment that have arise since the previous version was published in 2014. The proposed structure and content of the revise bus strategy is detailed in the table below with further details available at https://www.spt.co.uk/media/zqsayayn/sp251122_agenda8.pdf.

Strathclyde Regional Bus Strategy – proposed structure and content	
Strategic Framework	Vision, Objectives and Outcomes Policies: <ul style="list-style-type: none"> • Level of Service Framework • Service Quality Framework • Fare and Ticketing Policy and Index
Strategy Components	Network Plan Fares, Ticketing and Information Action Plan Accessibility Action Plan Safety & Security Action Plan Decarbonisation Plan Behaviour Change and Marketing Action Plan Operating and Funding Model(s) – Strategic Business Case
Delivery Plan	Capital investment plan & programme Operating & Funding Model(s) – Full Business Case Project plans and programmes to support delivery of the Action Plans
Monitoring and Evaluation Components	Passenger Satisfaction Monitoring Network and Operational Performance Monitoring Fares Monitoring Patronage and demand monitoring Strategy Component/Action Plan Progress Reports

4.4 Stakeholder Strategies

There are a number of stakeholder strategies that either directly influence SPT's overall strategies or need to be considered when evaluating investment proposals: -

- National Transport Strategy

The Transport (Scotland) Act 2019 now makes it a statutory requirement for the Scottish Government to produce a National Transport Strategy (NTS). The NTS sets out the Scottish Governments vision for transport for the next 20 years. More details on the National Transport Strategy can be found at

<https://www.transport.gov.scot/our-approach/national-transport-strategy/>.

- Local Transport Strategies

The local authorities within the SPT area each individually produce Local Transport Strategies. These strategies set out at a local level how transport can enable each local authorities' visions for their area and what interventions are required to meet that vision.

4.5 Financial Strategies

There are a number of other financial strategies, which have a direct influence on the long term financial strategy. The other strategies are:-

- Procurement Strategy (<https://www.spt.co.uk/about-us/who-we-are/standards-responsibility/procurement-strategy/>)
- Treasury Strategy (see section 7)
- Capital Strategy (see section 7)

The above strategies compliment the Financial Strategy and are part of SPTs overall financial governance framework.

5. Financial Governance

5.1 Introduction

SPT has a range of governance controls and measures to enable sound financial stewardship. The arrangements cover policy and procedures, training, roles and responsibilities, reporting and approvals.

5.2 Governance Manual

SPT has a suite of governance documents that are consolidated into the Partnerships governance manual. The Governance Manual is available through SPT's intranet and internet sites as well as being provided in hard copy to all managers. All SPT employees and elected members must comply with the guidance and regulations within the governance manual. The governance manual includes: -

- Standing Orders of the Partnership
- Committee Terms of Reference
- Scheme of Delegated Functions
- Financial Regulations
- Standing Orders Relating to Contracts
- Code of Corporate Governance
- Members' Code of Conduct
- Members' Allowances and Expenses Guide
- Multi Member Wards Protocol
- Code of Practice on Publicity
- Counter Fraud Strategy
- Code of Conduct for Employees
- Guidance on the Register of Interests for Employees

Although all of the guidance contained within the governance manual can impact on financial stewardship the most important document in financial terms is SPT's Financial Regulations. The purpose of the Financial Regulations is to: -

- Establish the financial framework to minimise risk and protect the Partnership and its assets, as well as recognising fiduciary duty (the Partnership's duty to tax payers, other funding partners and stakeholders within the Partnership area);
- Reflect and provide guidance on best practice;
- Ensure flexibility on compliance but still maintaining proper control over risk;
- Balance risk, cost and control and effectiveness of operations; and
- Clearly set out responsibilities for compliance and for ensuring compliance.

Where any serious breaches in financial regulations are identified Audit and Assurance will be requested to carry out an investigation, which may lead to specific recommendations, including the need instigate formal disciplinary investigations.

5.3 Training

SPT is committed to training both its employees and members and has specific training programmes for all managers and budget holders. Specific internal training sessions are available in Financial Management, Procurement and Corporate Governance.

5.4 Roles and Responsibilities

There are clearly defined roles and responsibilities for those involved in the financial stewardship of the Partnership.

Director of Finance & Corporate Support

The Director of Finance & Corporate Support under section 95 of the Local Government (Scotland) Act 1973 is the nominated proper officer for the Partnership's financial affairs. The proper officer (also known as the section 95 Officer) is responsible for all financial affairs, advice and record keeping of all the Partnership's activities.

Strategy Group

The Strategy Group is comprised of the Chief Executive, Director of Finance & Corporate Support, Director of Subway, Head of Bus Strategy & Delivery and Head of Policy & Planning. The Strategy Group is responsible both collectively and individually for ensuring effective financial management across the organisation.

The individual members of the Strategy Group are responsible for the budgets allocated to each of the directorates / services that they control. Budget responsibility can be delegated to others, however the members of the Strategy Group will hold overall responsibility for effective financial management.

Managers / Budget Officers

All managers' / budget officers are responsible for ensuring that the services / projects that they manage are delivered in line with the Partnership's policies and objectives. As Budget Holders they are responsible for the budgets delegated to them to deliver their services/projects in a manner which demonstrates value for money.

Finance

SPT's finance function provides a full range of services including payroll, treasury management, procurement, contract management, accounts payable, accounts receivable, insurance services and financial and management accounting services. With regard to the Financial Strategy the key services are: -

- providing accounting and financial management services;
- reporting on the financial performance of the organisation;
- providing stewardship of Partnership funds;
- preparing and monitor Revenue and Capital Budgets; and
- providing financial appraisals and support to projects.

Audit and Assurance

The Audit and Assurance team provides the following services to the Partnership:

- the provision of assurance services, which is the primary role for Audit and Assurance. Assurance services are an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes to ensure operations are being conducted in accordance with external regulations, legislation, internal policies and procedures (e.g. financial, performance, compliance, system security, etc.);
- consulting services which are advisory and related to service activities, the nature and scope of which are agreed with senior management; and
- Fraud Prevention and Detection Services: The Counter Fraud Strategy (including Anti-Fraud and Corruption Policy, Whistle Blowing Policy and Financial Regulations relating to financial irregularity) outlines the Partnership's commitment to prevent, detect, investigate and report fraud. Audit and Assurance assist management in the effective discharge of this strategy.

External Audit

The role of External Audit is to provide assurance to the Controller of Audit and Audit Scotland that the Partnership has spent public money properly to deliver outcomes in an efficient and effective manner. They also provide assurance to the Elected Members, the Strategy Group and general public that the Partnerships performance is reported in accordance with the Code of Practice on Local Authority Accounting / Financial Accounting Standards and presents a true and fair view of the Partnerships activities.

5.5 Reporting and Approvals

Budget Setting

Both the capital and revenue budget go through various rounds of scrutiny before being approved. Once drafted by budget officers / finance, the budgets are presented to the Strategy Group and go through a series of challenge sessions as the budgets go through their various iterations. Once approved by the Strategy Group the budgets will be presented to the Strategy and Programmes Committee who have an opportunity to question officers on the budget submission and if they see fit they will recommend that the Partnership approves the budget. The final stage is the budget being put before the Partnership for approval where there is another opportunity to scrutinise the budget plans before the budget is approved.

Budget Monitoring

SPT operates a 4 weekly accounting period and therefore produces 13 budgetary control reports a year for both capital and revenue spend. On a 4 weekly basis reports are issued to the Strategy Group for review and challenge. In addition, reports are issued to Managers and Budget Officers throughout the organisation.

Both revenue and capital monitoring reports are presented to the Strategy and Programmes Committee for review. The revenue report includes actual spend to date against budget and an estimated projected outturn for the year against the full year's budget. For capital the budgetary control report is presented along with any amendments to the programme, which when taken together formulates the projected outturn for the year.

6. Financial Forecasts

6.1 Introduction

The financial forecast is based on known factors projected forward over a 10-year period. The forecast can be broken down into three main categories: -

- Short term forecast
- Medium term forecast
- Long term forecast

As would be expected the further out the forecast gets in years the less reliable it may be as there are many factors that may change in the internal or external environment that could affect the forecasts, but are not known at this time.

6.2 Short Term Forecast

The short-term forecast covers the years 2022/2023 to 2023/2024 and due to the short time frame the reliance on estimations is far lower than the other forecasts. The current financial year is almost complete and the 2023/2024 budget has been drafted, but has yet to be approved. The table below summarises the financial position for the two years and is detailed within the 10 year forecast at Appendix 1.

Category	Year 1 2022/2023	Year 2 2023/2024
Expenditure	53,390,093	61,081,679
Reserves Contribution	9,549,000	0
Capital Funded from Revenue	0	4,143,030
Operational Income	(26,657,987)	(28,248,787)
Net Expenditure	36,281,106	36,975,923
Financed By	36,281,106	36,975,923
Variance	0	0

As can be seen from the above SPT is able to contribute to Reserves in 2022/2023 and make a significant contribution to capital in 2023/2024, whilst continuing with all current operations due largely to the accelerated recovery (against forecast) of subway income and short-term increase in investment income. In year 2 the monies received from local authorities has been increased by 1.95% (£694,816), which is based on the Scottish Government Floor Calculation.

6.3 Medium Term Forecast

The medium term forecast covers the years 2024/2025 to 2025/2026 and includes estimated changes that are planned to take place in the organisation. No indices have been used to adjust the forecasts for 2024/2025 within the financial model as this year forms part of the draft budget for submission for the 2023/2024 cycle. The indices used to adjust the forecasts for 2025/2026 and beyond are detailed in the table below: -

Category	Description	Percentage Adjustment	Comments
Expenditure	Employee Costs	3.7%	Increase based on SPFO's, actuaries projections.
Expenditure	Electricity	2%	Estimate taking account of recent considerable inflationary increases.
Expenditure	Other Property Costs	Various	Increase based on CPI.
Expenditure	Bus Operator Payments	Various	Increase based on CPI
Expenditure	Other Costs	Various	Increase based on CPI.
Income	Subway Income	4.1% / Various	Based on 1.5% passenger growth and 2.6% annual fares increase for all passenger related income and CPI for all other income streams.
Income	Bus Income	Various	Increase based on CPI.
Income	Agency Income	3.7%	Increase based on SPFO's, actuaries projections.
Income	Other Income	Various	Increase based on CPI.
Financed By	Requisition Income	Flat	
Financed By	Scottish Government Grant	Flat	

The CPI inflation rate applied to each applicable financial year in the model are detailed in the table below. The rates are based on the expectations of the Office of Budget Responsibility and are based on the rate at Q3 each year. Where inflation is predicted to be negative no inflationary increase has been assumed.

Financial Year	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
CPI Rate Applied	0%	1%	1.80%	1.90%	2%	2%	2%

The table below summarises the financial position for the two medium term years and is detailed within the 10 year forecast at Appendix 1.

Category	Year 3 2024/2025	Year 4 2025/2206
Expenditure	64,948,934	66,288,257
Reserves Contribution	0	0
Capital Funded from Revenue	454,817	0
Operational Income	(28,427,829)	(27,738,935)
Net Expenditure	36,975,923	38,549,323
Financed By	36,975,923	38,549,323
Variance	0	0

In 2024/2025 the most significant item to note is the planned contribution to the General Capital Programme of £454k.

In the year 2025/2026 it has been assumed that there has been some supplies cost and maintenance contract costs negated within the Subway due the service now being provided through the Technical Support and Spares Supply Agreement (TSSSA). In addition, the TSSSA cost has been varied to keep the annual cost in line with the contractual profile. Minor amendments have been made to staff costs as SPT transitions into a new way of working at the Subway. SPT has started to utilise the Transport Future Investment Fund with £1m planned to be spent in year with an associated release from reserves. There has also been a release from the Subway Fund of £573k to fund the transition to Subway Modernisation.

6.4 Long Term Forecast

The long-term forecast covers the years from 2026/2027 onwards and includes estimated changes that are planned to take place in the organisation. The indices used to adjust the forecasts for 2026/2027 onwards are the same as those used for the medium-term forecast.

Category	Year 5 2026/27	Year 6 2027/28	Year 7 2028/29	Year 8 2029/30	Year 9 2030/31	Year 10 2031/32
Expenditure	69,288,156	68,789,842	69,768,900	71,892,685	73,857,950	74,890,129
Reserves Contribution	0	0	0	0	0	0
Capital Funded from Revenue	0	0	0	0	0	0
Operational Income	(28,420,912)	(29,268,217)	(30,156,411)	(31,087,191)	(31,858,288)	(32,771,312)
Net Expenditure	40,867,244	39,521,625	39,612,489	40,805,494	41,999,662	42,118,816
Financed By	40,867,244	39,521,625	38,975,923	38,975,923	38,975,923	37,975,923
Variance	0	0	636,566	1,829,572	3,023,739	4,142,894

In the year 2026/2027 and 2027/2028 there have been significant staff adjustments assumed in both Subway Operations and Maintenance. Estimated severance costs have also been booked in 2026/2027 and 2027/2028 to take account of these establishment adjustments and a contribution from the Subway Fund has been released to partially offset these costs. Transport Future Investment Fund continues to be utilised each year with a planned £2m spend a year apart from 2031/2032 when this is reduced to £1m. Over the life of the LTFS it is planned to spend the full £12m contained within the fund, all to support the delivery of measures associated with the Transport (Scotland) Act 2019 and STPR2.

As can be seen from the table above with the assumed inflation factors and no planned increase in funding the organisation enters a deficit from 2028/2029 onwards. The financial forecast will need to be monitored closely over the coming years and corrective measures put in place well in advance of 2028/2029 if the funding deficit looks likely to become a reality.

6.5 Scenarios

The indices and financial forecasts detailed in section 6.2 to 6.4 are the best estimates of income and expenditure for future years. However, they are by no

means certain and therefore various scenarios have to be modelled to ensure that the organisation is as prepared as it can be. Appendices 2 and 3 detail the same 10 year forecasts, but the indices have been varied by 1% each way i.e. +1% and -1%.

For the scenarios as the forecasts are balanced until 2026/2027 and therefore stay balanced with the 1% increase and decrease. However, the draw or contribution to reserves / capital will vary. For the later years where the forecast is not balanced the deficit shows a resulting increase / decrease.

The scenarios clearly show that unless there is an organic reduction in organisational costs over the long term or there is a change in the government austerity programme there will be a clear requirement for efficiency programs in the long term.

7. Treasury Management

SPT has adopted the CIPFA “Treasury Management in the Public Services – Code of Practice” which sets out good practice for treasury management governance. In addition, SPT is fully compliant with the Prudential Code of Capital Finance in Local Authorities, which is intrinsically linked to the Treasury Management Code. The Partnership complies with legal and regulatory requirements in relation to its Treasury Management activities and has appointed consultants to provide advice on Treasury Management issues, including technical issues and the formulation of views on interest rates.

The primary requirements of the Treasury Management Code of Practice are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of SPT’s treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which SPT will seek to achieve those policies and objectives.
- Receipt by the Partnership of an annual strategy report for the year ahead, a mid-year progress report and an annual review report of the previous year.
- Delegation by SPT of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

Treasury management in this context is defined as:

“The management of the organisation’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

The CIPFA Prudential and Treasury Management Codes require, the preparation of a capital strategy, which includes the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
- an overview of how the associated risk is managed.
- the implications for future financial sustainability.

The Treasury Management Strategy Statement, Annual Investment Strategy and Capital Strategy can be found on SPT's website (https://www.spt.co.uk/media/lr2iuhl2/p180322_agenda9.pdf).

SPT is in the fortunate position that it is currently debt free with no plans to borrow in the short to medium term. As at period 10, 2022/2023 SPT held £187 million in investments. The funds were split across a number of UK institutions in various instant, term and fixed accounts. The large investment balance is predominantly due to the Subway Modernisation project with the funds being earmarked for the project and other operational expenditure in future years.

8. Reserves

A key component the Financial Strategy is the Partnerships reserve position. Reserves can be held for three main purposes: -

- a working balance to help cushion the impact of uneven cash flows - this forms part of General Reserves;
- a contingency to cushion the impact of unexpected events or emergencies which also forms part of General Reserves; and
- a means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.

The current proposed reserves to be held by SPT and their current balances are detailed in the table below.

	2021/22 Actual £000's	2022/23 Movements £000's	2022/23 Balance £000's	2023/24 Movements £000's	2023/24 Balance £000's	Projected Future Years Movement £000's	Balance £000's
General Fund Balance							
Subway Modernisation Fund	53,243	5,070	58,313	-2,706	55,607	-23,581	32,026
Subway Infrastructure Fund	19,502	-1,800	17,702	-5,975	11,727	-10,900	827
Transport Future Investment Fund	10,000	2,000	12,000		12,000	-12,000	0
Strategic Bus Routes Fund	5,223		5,223		5,223	0	5,223
Earmarked	87,968	5,270	93,238	-8,681	84,557	-46,481	38,076
Non-earmarked	12,367		12,367		12,367	0	12,367
Total General Fund Balance	100,335	5,270	105,605	-8,681	96,924	-46,481	50,443
Insurance Fund	1,219		1,219		1,219	0	1,219
Capital Fund	26,173		26,173		26,173	0	26,173
Renewal and Repair Fund	1,500		1,500		1,500	0	1,500
Capital Grants Unapplied Account	40,166	-26,801	13,365	-6,777	6,588	0	6,588
Total Other Reserves	69,058	-26,801	42,257	-6,777	35,480	0	35,480
						0	0
Total Reserves	169,393	-21,531	147,862	-15,458	132,404	-46,481	85,923

It is anticipated that over the term of the LTFS that all earmarked reserves will be significantly utilised.

The Subway Fund will be used to fund any severance costs following on from the reorganisation of both Operations and Maintenance within the Subway. In addition, it will fund the mid-life refurbishment of the new rolling stock & associated equipment along with funding any unforeseen costs in relation to the overall modernisation. It is projected that a transfer will be required to the Subway Infrastructure Fund to ensure the continuing work on SPT's tunnels.

The Subway Infrastructure Fund funds the vital work that is carried out in the tunnels on an annual basis. The creation of the fund has allowed SPT to prioritise local authority projects with the reduced level of capital grant that it receives. To ensure the General Capital Grant is protected a transfer from the Subway Fund will be required to ensure the fund has appropriate resources to last until the end of the LTFS.

The Transport Future Investment Fund will be utilised to ensure that there is a pipeline of projects that can enter the capital programme. In addition, it will be utilised to realise SPT's ambitions following on from the Transport (Scotland) Act 2019 and STPR2. Taking franchising as an example, it has been publicised in England that the cost of successfully taking that option to the implementation stage has been up to £15m. It would be unaffordable to fund such costs as business as usual.

Although no specific draw has been shown against the Strategic Bus Route Fund its purpose is to fund any unanticipated material changes that occur in the market or costs in relation to strategic bus routes. The cost base applied to this fund could be categorised as emerging and therefore is not planned other than for ensuring there is a financial provision set aside.

As can be seen from the table above it is estimated that SPT's reserve balances will reduce from £169m to £86m over the life of the LTFS.

9. Risk Management

SPT has a Corporate risk register that is reported to each meeting of the Audit & Standards Committee. In addition, individual departments have their own risk registers as well as risk registers for significant projects that are undertaken.

Within the corporate risk register there are a number of finance related risks, which are directly relevant to the Financial Strategy. The risks are reproduced in the table below and are reviewed on a periodic basis.

Risk	Effect	Mitigation	Fall back plan (what would SPT actually do/has already done?)
Potential Capital funding allocation not matched to programme demands	Potential project delays; Project reprioritisation; Loss of reputation and lost opportunities.	Continued dialogue with Scottish Government with regards to funding; Aligning programme and budgets to funding schedules; Effective project delivery, programme management processes, monitoring of expenditure, accounting and budgeting regimes.	Adjust capital programme to known funding availability; Consider alternative funding routes including borrowing to support the programme; Affordability of projects; Prioritisation of projects; Reserves policy (potential utilisation).
Insufficient revenue funding to Public Transport incorporating Reduced future Local Authority budget settlements	Reduction in service provision, lost opportunities, potential impact on internal resourcing.	Continued dialogue with Scottish Government with regards to funding; Continued dialogue with constituent authorities; Continuation of ongoing efficiency programme.	Continue to reconfigure processes and services to maximise efficiencies, with particular emphasis on digitalisation; Renegotiate contracts with suppliers. Reprioritise spend.
Current economic conditions adversely impact on SPT's operational income and return on cash reserves	Economic conditions impact on employment practices and supply chain with a consequential downturn in patronage; Rental income negatively impacted by economic downturn; Return on investment in line with Bank of England base rate of 3.5%.	Continued dialogue with Scottish Government with regards to grant funding; Frequent, proactive review and management of cash balances to maximise return; Strict maintenance of treasury management practices including counter party lists and spread of investments.	Reduce services and staff numbers in line with budgetary reductions; Regular review of SPT's investment portfolio.

10. Strategy Review

The financial strategy must be reviewed and approved by the Partnership at least annually where practicable. The last Financial Strategy was produced in 2019/2020, with no update being provided until now. The gap in review / reporting was due to the uncertainty created by the COVID 19 pandemic and the delayed approach was discussed and agreed with SPT's external auditors. The Director of Finance & Corporate Support may review the Financial Strategy at any time where a change in the external or internal environment has had or is going to have a significant impact on the current Financial Strategy. Any in year changes to the strategy must be presented to the Strategy and Programmes Committee with the revised Financial Strategy ultimately being approved by the Partnership.

Long Term Financial Forecast - Summary

Category	Year 1 2022/23	Year 2 2023/24	Year 3 2024/25	Year 4 2025/26	Year 5 2026/27	Year 6 2027/28	Year 7 2028/29	Year 8 2029/30	Year 9 2030/31	Year 10 2031/32
Employee Costs	23,525,739	26,490,020	27,506,008	28,516,815	30,458,528	29,940,533	30,285,106	31,405,655	32,601,179	33,807,422
Property Costs	6,651,288	8,424,483	9,847,479	9,941,144	10,088,324	10,279,658	10,479,942	10,689,541	10,903,331	11,121,398
Supplies & Services	1,863,408	1,463,919	1,436,040	886,040	894,900	911,009	928,318	946,884	965,822	985,138
Transport & Plant Costs	131,550	133,850	123,850	123,850	125,089	127,340	129,760	132,355	135,002	137,702
Third Party Payments	21,218,108	24,569,407	26,035,557	26,820,408	27,721,315	27,531,302	27,945,775	28,718,251	29,252,616	28,838,469
Contribution to Reserves	9,549,000			0	0	0	0	0	0	0
Capital Funded from Revenue		4,143,030	454,817							
Total Expenditure	62,939,093	65,224,709	65,403,751	66,288,257	69,288,156	68,789,842	69,768,900	71,892,685	73,857,950	74,890,129
Subway Income	(18,798,560)	(18,921,932)	(19,371,496)	(20,122,309)	(20,914,494)	(21,747,388)	(22,615,076)	(23,518,994)	(24,459,507)	(25,438,105)
Bus Income	(2,439,081)	(2,198,625)	(2,309,777)	(2,309,777)	(2,332,875)	(2,374,866)	(2,419,989)	(2,468,389)	(2,517,756)	(2,568,111)
Agency Income - Agenc	(1,528,347)	(1,611,229)	(1,629,556)	(1,689,849)	(1,752,374)	(1,817,211)	(1,884,448)	(1,954,173)	(2,026,477)	(2,101,457)
Interest Received	(3,500,000)	(5,100,000)	(4,700,000)	(3,200,000)	(3,000,000)	(2,900,000)	(2,800,000)	(2,700,000)	(2,400,000)	(2,200,000)
Other Income	(392,000)	(417,000)	(417,000)	(417,000)	(421,170)	(428,751)	(436,897)	(445,635)	(454,548)	(463,639)
Total Income	(26,657,987)	(28,248,787)	(28,427,829)	(27,738,935)	(28,420,912)	(29,268,217)	(30,156,411)	(31,087,191)	(31,858,288)	(32,771,312)
Net Expenditure	36,281,106	36,975,923	36,975,923	38,549,323	40,867,244	39,521,625	39,612,489	40,805,494	41,999,662	42,118,816
Financed By										
Local Authority Requisit	35,631,606	36,326,423	36,326,423	36,326,423	36,326,423	36,326,423	36,326,423	36,326,423	36,326,423	36,326,423
Scottish Government Gr	649,500	649,500	649,500	649,500	649,500	649,500	649,500	649,500	649,500	649,500
Contribution from Reser	0	0	0	1,573,400	3,891,321	2,545,703	2,000,000	2,000,000	2,000,000	1,000,000
Total Financed By	36,281,106	36,975,923	36,975,923	38,549,323	40,867,244	39,521,625	38,975,923	38,975,923	38,975,923	37,975,923
Variance	(0)	0	(0)	0	0	0	636,566	1,829,572	3,023,739	4,142,894

Long Term Financial Forecast - Summary

1% Increase in Indices

Category	Year 1 2022/23	Year 2 2023/24	Year 3 2024/25	Year 4 2025/26	Year 5 2026/27	Year 6 2027/28	Year 7 2028/29	Year 8 2029/30	Year 9 2030/31	Year 10 2031/32
Employee Costs	23,760,997	26,754,920	27,781,068	28,801,984	30,763,114	30,239,939	30,587,957	31,719,711	32,927,190	34,145,496
Property Costs	6,717,801	8,508,728	9,945,954	10,040,555	10,189,207	10,382,455	10,584,741	10,796,436	11,012,365	11,232,612
Supplies & Services	1,882,042	1,478,559	1,450,400	894,900	903,849	920,119	937,601	956,353	975,480	994,990
Transport & Plant Costs	132,865	135,189	125,089	125,089	126,339	128,613	131,057	133,678	136,352	139,079
Third Party Payments	21,430,289	24,815,101	26,295,912	27,088,613	27,998,529	27,806,615	28,225,232	29,005,434	29,545,142	29,126,853
Contribution to Reserves	9,644,490	0	0	0	0	0	0	0	0	0
Capital Funded from Revenue	0	4,184,460	459,365	0	0	0	0	0	0	0
Total Expenditure	63,568,484	65,876,956	66,057,789	66,951,140	69,981,038	69,477,741	70,466,589	72,611,612	74,596,529	75,639,030
Subway Income	(18,986,545)	(19,111,151)	(19,565,211)	(20,323,532)	(21,123,639)	(21,964,862)	(22,841,227)	(23,754,184)	(24,704,102)	(25,692,486)
Bus Income	(2,463,471)	(2,220,612)	(2,332,875)	(2,332,875)	(2,356,203)	(2,398,615)	(2,444,189)	(2,493,072)	(2,542,934)	(2,593,793)
Agency Income - Agency Fee	(1,543,630)	(1,627,342)	(1,645,851)	(1,706,748)	(1,769,897)	(1,835,384)	(1,903,293)	(1,973,715)	(2,046,742)	(2,122,471)
Interest Received	(3,535,000)	(5,151,000)	(4,747,000)	(3,232,000)	(3,030,000)	(2,929,000)	(2,828,000)	(2,727,000)	(2,424,000)	(2,222,000)
Other Income	(395,920)	(421,170)	(421,170)	(421,170)	(425,382)	(433,039)	(441,266)	(450,092)	(459,093)	(468,275)
Total Income	(26,924,567)	(28,531,274)	(28,712,107)	(28,016,324)	(28,705,122)	(29,560,899)	(30,457,975)	(31,398,063)	(32,176,871)	(33,099,026)
Net Expenditure	36,643,917	37,345,682	37,345,682	38,934,816	41,275,916	39,916,842	40,008,614	41,213,549	42,419,658	42,540,005
Financed By										
Local Authority Requisition	35,987,922	36,689,687	36,689,687	36,689,687	36,689,687	36,689,687	36,689,687	36,689,687	36,689,687	36,689,687
Scottish Government Grant	655,995	655,995	655,995	655,995	655,995	655,995	655,995	655,995	655,995	655,995
Contribution from Reserves	0	0	0	1,589,134	3,930,235	2,571,160	2,020,000	2,020,000	2,020,000	1,010,000
Total Financed By	36,643,917	37,345,682	37,345,682	38,934,816	41,275,916	39,916,842	39,365,682	39,365,682	39,365,682	38,355,682
Variance	(0)	0	(0)	0	0	0	642,932	1,847,868	3,053,976	4,184,323

Long Term Financial Forecast - Summary

1% Decrease in Indices

Category	Year 1 2022/23	Year 2 2023/24	Year 3 2024/25	Year 4 2025/26	Year 5 2026/27	Year 6 2027/28	Year 7 2028/29	Year 8 2029/30	Year 9 2030/31	Year 10 2031/32
Employee Costs	23,290,482	26,225,120	27,230,948	28,231,647	30,153,943	29,641,128	29,982,255	31,091,598	32,275,167	33,469,348
Property Costs	6,584,775	8,340,238	9,749,004	9,841,732	9,987,441	10,176,862	10,375,142	10,582,645	10,794,298	11,010,184
Supplies & Services	1,844,774	1,449,280	1,421,680	877,180	885,951	901,898	919,035	937,415	956,164	975,287
Transport & Plant Costs	130,234	132,512	122,612	122,612	123,838	126,067	128,462	131,031	133,652	136,325
Third Party Payments	21,005,927	24,323,713	25,775,201	26,552,204	27,444,102	27,255,989	27,666,317	28,431,069	28,960,090	28,550,084
Contribution to Reserves	9,453,510	0	0	0	0	0	0	0	0	0
Capital Funded from Revenue	0	4,101,600	450,269	0	0	0	0	0	0	0
Total Expenditure	62,309,702	64,572,462	64,749,714	65,625,375	68,595,275	68,101,944	69,071,211	71,173,759	73,119,370	74,141,228
Subway Income	(18,610,574)	(18,732,713)	(19,177,781)	(19,921,085)	(20,705,349)	(21,529,914)	(22,388,926)	(23,283,804)	(24,214,912)	(25,183,724)
Bus Income	(2,414,690)	(2,176,639)	(2,286,679)	(2,286,679)	(2,309,546)	(2,351,118)	(2,395,789)	(2,443,705)	(2,492,579)	(2,542,430)
Agency Income - Agency Fee	(1,513,063)	(1,595,117)	(1,613,260)	(1,672,951)	(1,734,850)	(1,799,039)	(1,865,604)	(1,934,631)	(2,006,212)	(2,080,442)
Interest Received	(3,465,000)	(5,049,000)	(4,653,000)	(3,168,000)	(2,970,000)	(2,871,000)	(2,772,000)	(2,673,000)	(2,376,000)	(2,178,000)
Other Income	(388,080)	(412,830)	(412,830)	(412,830)	(416,958)	(424,464)	(432,528)	(441,179)	(450,003)	(459,003)
Total Income	(26,391,407)	(27,966,299)	(28,143,550)	(27,461,545)	(28,136,703)	(28,975,535)	(29,854,847)	(30,776,319)	(31,539,706)	(32,443,599)
Net Expenditure	35,918,295	36,606,163	36,606,163	38,163,830	40,458,571	39,126,409	39,216,364	40,397,440	41,579,665	41,697,628
Financed By										
Local Authority Requisition	35,275,290	35,963,158	35,963,158	35,963,158	35,963,158	35,963,158	35,963,158	35,963,158	35,963,158	35,963,158
Scottish Government Grant	643,005	643,005	643,005	643,005	643,005	643,005	643,005	643,005	643,005	643,005
Contribution from Reserves	0	0	0	1,557,666	3,852,408	2,520,246	1,980,000	1,980,000	1,980,000	990,000
Total Financed By	35,918,295	36,606,163	36,606,163	38,163,830	40,458,571	39,126,409	38,586,163	38,586,163	38,586,163	37,596,163
Variance	(0)	0	(0)	0	0	0	630,201	1,811,276	2,993,502	4,101,465

Strathclyde Partnership for Transport Reserves Policy

1.0 Introduction

- 1.1 It is best practice that the Partnership has a documented and approved Reserves Policy.
- 1.2 Local Authority Accounting Practice (LAAP) Bulletin 99 published in July 2014 provides advice from CIPFA in respect of Local Authority Reserves and Balances. This guidance applies to the Partnership, as the Partnership follows local authority accounting rules.
- 1.3 The following Policy reflects the key messages from the LAAP Bulletin and also outlines the practical application.

2.0 LAAP Bulletin 99 – Main Messages

- 2.1 In Scotland there are explicit statutory powers under Schedule 3 of the Local Government (Scotland) Act 1975 permitting Local Authorities to establish a Renewal and Repair Fund, an Insurance Fund and Capital Fund alongside a requirement to maintain a General Fund Reserve. These powers extend to the Partnership as well.
- 2.2 Within the General Fund Reserve, organisations are allowed to create specific funds earmarked for specific purposes, which are called earmarked reserves.
- 2.3 It is the duty of the Chief Finance Officer to report on the robustness of estimates and adequacy of reserves as part of their statutory duty. This requirement also needs to take account of the requirements of CIPFA's Prudential Code in respect of affordability when making recommendations about the Partnership's future Capital Programme.
- 2.4 The LAAP Bulletin makes it clear it is not the responsibility of External Auditors to prescribe the optimum or minimum level of reserves for organisations.
- 2.5 Whilst not prescribing a generally acceptable minimal level of reserves the LAAP Bulletin makes it clear that reserves should not be held without a clear purpose. This purpose however does include "a contingency to cushion the impact of unexpected events or emergencies".
- 2.7 In the case of Earmarked Reserves there should be a clear protocol setting out the purpose of the reserve, how and when the reserve can be used and a process for review of the reserve to ensure continuing relevance and adequacy.
- 2.8 The LAAP Bulletin concludes that "it is not normally prudent for reserves to be deployed to finance recurrent expenditure" and "where such action is taken it should be made explicit and an explanation given as to how such expenditure will be funded in the medium to long term"

3.0 Types of Reserves Operated by the Partnership

3.1 General Fund Reserve

The General Fund Reserve is split between earmarked and non-earmarked reserves. As the name suggests the earmarked reserves are held for a specific purpose, but there is no restriction on whether the funds are spent on capital or revenue. The non-earmarked reserve is

SPTs true general reserve and is held as an organisational contingency. SPT's non earmarked reserve is targeted to be held at approximately six months of Operational income.

3.2 Repairs and Renewals Fund

The Repairs and Renewals Fund is held to fund expenditure which relates directly to the repairing, maintaining, replacing works of plant, building or equipment. Utilisation of this fund can only be agreed as part of the annual budget process (or capital / revenue amendments).

3.3 Insurance Fund

The Insurance Fund can only be used to fund expenditure directly relating to insurance, including the costs of insurance excesses, premiums and risk management.

3.4 Capital Fund

The Capital Fund can be utilised to fund approved capital expenditure. Utilisation of this fund can only be agreed as part of the annual capital budget process (or capital amendments).

4.0 Governance of Reserves

4.1 It is important that there is clarity on the rules and responsibilities in respect of the governance of the Partnership's Funds and Reserves. The governance arrangements are: -

- Balances – The non-earmarked general fund balance will be held at approximately six months of Operational income. All other balances to be held at approved levels varied for any draws and additions. Balances will be reviewed annually as part of the budget setting process.
- Creation – With the exception of earmarked reserves all other reserves are statutory. The creation of a new earmarked reserve requires the approval of the Strategy & Programmes Committee. As a minimum a request to create a new earmarked reserve must include: -
 - a description of what the reserve is for;
 - the reason that the reserve is required;
 - the amount of reserve that is required;
 - timescales for the utilisation of the reserve; and
 - how the reserve will be funded.
- Additions – Where an addition to reserves is planned as part of the budget setting process it must be approved by the Partnership. In year additions to reserves must be approved by the Strategy and Programmes Committee.
- Draws – The utilisation of reserves must be approved by the Partnership as part of the Capital or Revenue budget process. Where the need to utilise a reserve arises in year it must be approved by the Strategy and Programmes Committee and reported to the Partnership.
- Reporting / Review – Reserve balance must be reported / reviewed annually as part of the budget setting process to the Partnership. Any amendments to reserves required following the review, will be proposed as part of the budget setting process. Where any amendments are being made to reserves or new reserves created in year the report to the Strategy and Programmes Committee must include details of all current reserve balances held.

Unapplied Capital Grants are excluded from the above governance arrangements as, although a cash reserve, the fund is simply utilised to account for capital grants between financial years.

5.0 Review

The Reserves Policy requires to be reviewed and approved no less frequently than three yearly by the Strategy and Programmes Committee. The Director of Finance & Corporate Support may review the Reserves Policy at any time where a change in the external or internal environment has had or is going to have a significant impact on the policy. Any changes to the policy must be presented to the Strategy and Programmes Committee with the revised Reserves Policy ultimately being approved by the Partnership.

Reserves Balances 2023/24

	2021/22 Actual £000's	2022/23 Projected Movements £000's	2022/23 Balance £000's	2023/24 Projected Movements £000's	2023/24 Balance £000's	Description	Reason	Timing
General Fund Balance								
Subway Modernisation Fund	53,243	5,070	58,313	-2,706	55,607	Reserve required to meet SPT's ongoing obligation to fund the overall Subway Modernisation Programme. In addition the new trains, signalling and associated equipment are planned to have significant overhauls over their useful life. The fund may also be required to offset revenue spend in relation to severance costs and cover increased costs in relation to moving from the current to revised Subway operating model.	The contributions made to the Subway fund from revenue were intended to part fund the overall Subway modernisation project, major overhauls to the assets created, to fund one off revenue costs in relation to the overall modernisation programme and to fund major infrastructure works going forward.	30 years
Subway Infrastructure Fund	19,502	-1,800	17,702	-5,975	11,727	Significant investment is required in Subway Tunnels and other infrastructure to ensure their long term fitness for service.	As above	20 years
Transport Future Investment Fund	10,000	2,000	12,000	0	12,000	The Transport Future Investment Fund will be utilised to ensure that there is a steady pipeline of projects to be brought forward to the capital programme, fund preparatory works for major strategic projects and fund SPT's transport ambitions for the west of Scotland following on from the Transport (Scotland) Act 2019) and STPR2.	The reserve is required as it is not possible to capitalise early optioneering works and feasibility studies which are required to bring projects to a point where they can enter the capital programme. Although some allowances for these if made within the revenue budget more focus has to be put on priming projects now that Subway Modernisation is in its final few years. In addition the exploration of Bus Franchising is likely to be very costly based on the experience of English Authorities and without specific funding would be difficult to fund from general revenue resources.	10 years
Strategic Bus Routes Fund	5,223		5,223		5,223	Fund to be utilised in the event that an unanticipated material change occurs in the market provision or cost in the designated strategic bus routes.	The bus market is volatile and in a constant state of flux. It is sound financial management to have a reserve for funding one off emergencies.	10 years
Earmarked	87,968	5,270	93,238	-8,681	84,557			
Non-earmarked	12,367		12,367		12,367	Contingency fund to be used in emergencies. Funds to be held at approximately 6 months of Operational income.	Statutory Reserve	n/a
Total General Fund Balance	100,335	5,270	105,605	-8,681	96,924			
Insurance Fund	1,219		1,219		1,219	Cash reserve, which accumulates capital receipts from the sale of the Partnership's assets. The reserve can also include specific contributions from revenue. The reserve can be utilised to fund capital expenditure.	Statutory Reserve	n/a
Capital Fund	26,173		26,173		26,173	Used to fund expenditure which relates directly to the repairing, maintaining, replacing works, plant, building or equipment.	Statutory Reserve	n/a
Renewal and Repair Fund	1,500		1,500		1,500	Insurance fund can be used to fund expenditure directly relating to insurance, including the costs of insurance excesses, premiums and risk management.	Statutory Reserve	n/a
Total Other Reserves	28,892	0	28,892	0	28,892			
Total Reserves	129,227	5,270	134,497	-8,681	125,816			