



Subsidised bus service contract recommendations: financial implications

Committee Operations

Date of meeting 29 January 2021

Date of report 13 January 2021

Report by Assistant Chief Executive

1. Object of report

To advise the Committee of the financial implications of the subsidised bus contract recommendations being considered at the meeting.

2. Background

The 2020/21 approved budget was increased by £557,458 (4.6%) to £12,770,157 when the budget was approved in March 2020. This increase occurred in an environment where SPT's overall budget has remained flat. Members are reminded that the net subsidised bus budget as a percentage of SPT's overall net budget has increased from 33.5% in 2019/20 to 35.5% in 2020/21, which is an increase of 2%. This was to accommodate foreseen and unforeseen costs arising from tender renewals and also inflationary increases on contracts in line with the Conditions of Contract. Members have previously been advised that budget growth of this scale is unsustainable in the longer term given the increasing pressures on SPT's local authority funders and the likelihood of further funding reductions.

Members have been appraised throughout the year of the ongoing challenges the Covid-19 pandemic has had on the organisation and the financial environment and stability. As highlighted to members, it has been necessary to critically review all expenditure areas with a view to reducing the forecast deficit as much as possible. Members have been advised that the level of savings needed cannot be achieved without impacts on services either directly or indirectly. With this in mind it is necessary to capture any uncommitted budget estimates at this stage including those within the tendered bus budget.

The opening position prior to the decisions being sought at this meeting is as below:

2020/21	Net Approved Budget	Net Projected Outturn	Variance
Subsidised bus services	£12,770,157	£11,119,880	£1,650,277

*Please note the positive variance forecast above is essential to SPT achieving a balanced budget for 2020/21 given the wider financial challenges arising from the COVID pandemic. For further information please see www.spt.co.uk/documents/latest/SP201120_Agenda4.pdf

The net projected outturn is based on a detailed review of individual contract costs to date and future plans at the time of writing. It incorporates savings captured in the first quarter of the financial year from reduced My Bus contract payments where operators continued to receive contract payments at 75% of the pre Covid levels. These contracts were used to support strategic bus routes during the pandemic period where no alternative commercial service provision was available, thus ensuring strategic links for communities were maintained.

Members will be aware that restrictions continue and have changed frequently throughout the pandemic period, and SPT has adjusted services and reacted accordingly. Further changes since the last committee in November 2020 have now been incorporated into the net projected budget outturn. This budgeted outturn assumes therefore the financial implications of the papers considered at this meeting.

During the course of the financial year actual contract costs are monitored and compared to budgeted costs. Actual costs are incorporated within forecast outturns reflected following receipt of the 4 weekly returns, which provide details of services operated and income generated.

3. Proposals

As stated above, projected cost reductions arising from service amendments have been incorporated into the net projected outturn position for 2020/21 already. A positive variance of £1,650,277 is projected.

Members should be aware that the proposed awards paper does not impact on the 2020/21 forecast outturn as these contracts, if approved, would commence in July 2021.

While members are being advised of a positive variance at this stage, members attention is drawn to the fact that SPT's overall financial stability as detailed in the 20 November 2020 Strategy and Programmes report '*Updated Financial Forecast for the financial year 2020/21*' is significantly hampered by the current pandemic. This positive variance projected for the year will therefore be required to offset significant reductions in income and assist SPT to move closer to achieving a balanced budget for 2020/21.

The importance of SPT services cannot be underestimated as a key element in the regional network, and of course the response to the disruptions since March. Not only has SPT maintained essential services during a time of vastly reduced commercial operations, but have reallocated resources to ensure that strategic gaps are filled. At present within the current lockdown SPT local services continue to operate contractual mileage. A limited My Bus service sufficient to operate within the current restrictions and respond to a much reduced demand also continues to operate.

A key concern moving forward is the significant risk to the commercial market when financial support from the Scottish Government reduces or ceases. This could potentially create demand for SPT to provide further support, with significant network gaps in the bus market potentially arising as commercial operators withdraw services. This increased demand is unlikely to be affordable within the current resources available to SPT. At present financial support for bus operators has been confirmed up until March 2021.

Clearly consideration must also be given to the impact on future year budgets when awarding contracts. The 15 contracts recommended to be awarded in the proposed awards paper will generate additional costs of £12,086 in the financial year 2021/22. However, 21 contract awards remain outstanding as detailed in the proposed award paper being considered by the Committee. Operational assessment of initial prices for these contracts were considered as excessive and will be re-tendered with a view to reducing future contract

costs. However, there is a risk that there will be increased costs for these contracts which will impact on the 2021/22 budget.

4. Committee action

The committee is asked to:

- note the financial implications of the recommendations in the following papers, and give due consideration to this in the course of the decision making. The impact of individual decisions is reported in each paper for consideration; and
- note the proposal that the projected positive variance reported will be utilised to support SPT's overall financial position.

5. Consequences

Policy consequences	<i>None.</i>
Legal consequences	<i>None.</i>
Financial consequences	<i>As detailed in the report.</i>
Personnel consequences	<i>None.</i>
Equalities consequences	<i>None</i>
Risk consequences	<i>None.</i>

Name Valerie Davidson

Title **Assistant Chief Executive**

Name Gordon MacLennan

Title **Chief Executive**

For further information, please contact *Neil Wylie, Director of Finance, on 0141 333 3380.*