



Subsidised bus service contract recommendations: financial implications

Committee Operations

Date of meeting 27 January 2023

Date of report 9 January 2023

Report by Director of Finance & Corporate Support

1. Object of report

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

2. Background

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

Whilst taking cognisance of the overall SPT budget, the importance of the subsidised bus budget was recognised when preparing the budget for 2022/2023 and it was agreed that the subsidised budget would be retained at a similar level as 2021/2022. To achieve this, it was necessary to critically review all other expenditure areas with a view to reducing costs and commitments where possible that had the least impact on the services SPT provides. The approved subsidised budget allowed scope for accommodating foreseen and unforeseen costs arising from tender renewals and also inflationary increases on contracts in line with the Conditions of Contract.

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

2022/2023	Net Approved Budget	Net Projected Outturn	Variance
Subsidised bus services	£12,261,797	£11,873,307	£388,490

The net projected outturn has decreased by £17,345 since the last Operations Committee and is based on a detailed review of individual contract costs to date and known future plans at the time of writing. Actual costs are reflected following receipt of the 4 weekly returns, which provide details of services operated and income generated.

3. Outline of proposals

Bus contracts are reviewed and retendered having assessed the current need and existing network provision. At this time there remains many challenges in the network. SPT continues to review the gaps in the bus network arising from commercial operators' decisions to vary or cancel services and provides direct support in the form of subsidised services in accordance with the SPT Framework for Supporting Local Bus Services, where budgetary constraints allow. Should the Committee accept all the recommendations contained within the following papers, this will result in increased costs of £32,065 against the 2022/2023 budget. The net impact to SPT's budget is detailed below:

2022/2023	Net Approved Budget	Net Projected Outturn	Variance
Subsidised bus services	£12,261,797	£11,905,372	£356,425

Please note the net projected outturn of £11.905m for 2022/2023 represents a cost increase of approximately £1.1m when compared to 2021/2022 actual costs.

While members are being advised of a small positive variance at this stage, given the importance of SPT services as a key element in the regional network SPT needs flexibility to react to changes in passenger flows, demand for My Bus and the bus market. For example, if contracts recently awarded under delegated powers continue beyond their current end dates, then the full year impact would represent increased costs of £155,428 in 2023/2024.

Furthermore, consideration must also be given to the impact on future year budgets when awarding contracts. Overall 23 contracts are due for renewal in 2023. The 10 contracts recommended to be awarded in the proposed awards paper will generate additional costs of £35,646 in the financial year 2023/2024. This represents a net increase across these contracts of 5.7% when compared with current contract costs. However, 13 contract awards remain outstanding. As detailed in the proposed award paper, the value of 4 of the 14 contracts initially advertised were considered as excessive and will be re-tendered with a view to minimising future contract cost increases. However, there is a risk that there will be increased costs for these contracts which will impact on the 2023/2024 budget.

Experience from recent tendering exercises has indicated that tender prices being received for the provision of subsidised services have increased materially with a net increase of 18% across all contracts renewed. While it is encouraging that increased costs in the initial batch of contract awards are less than this, it is unlikely this will be achieved across all contract renewals. This cost increase has only been possible as a result of removing less viable or underused journeys. If contract cost increases are sustained at a high level over the short to medium term then this will have a significant impact on future subsidised bus budgets with the potential for reduced network provision or frequency of services especially if the overall funding envelope stays the same or is reduced.

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

- the removal of Covid support for bus operators in March 2023 - the impact of the conclusion in this support is likely to be seen in future tender exercises;
- significant driver shortages (due to the combination of Covid impacts, delays in driver training and testing, retirement rates and drivers transferring to the haulage industry) and in many cases operators have reduced and/or cancelled services;
- inflationary pressures resulting in increased operational costs for operators which are reflected in increased tender prices; and

- the sustained increased cost of fuel due to volatility of the market.

All of the issues above could potentially create increased demand at material cost for SPT to provide further support with significant network gaps in the bus market potentially arising as commercial operators withdraw services. SPT will continue to monitor this risk, however, any significant increased demand may not be affordable within the anticipated resource availability in current and future financial years. All of these risks will be considered when drafting the 2023/24 subsidised bus budget.

4. Committee action

The Committee is asked to note:

- (i) the financial implications of the recommendations relating to the subsidised bus services budget in the following papers and give due consideration to this in the course of the decision making - the impact of individual decisions is reported in each paper for consideration;
- (ii) the projected positive variance reported which may require to be utilised later in the financial year to support the regional and local network; and
- (iii) key concerns identified which may impact of the subsidised bus budget in the short to medium term, including in the current and future financial years.

5. Consequences

Policy consequences	<i>None directly.</i>
Legal consequences	<i>None directly.</i>
Financial consequences	<i>As detailed in the report.</i>
Personnel consequences	<i>None directly.</i>
Equalities consequences	<i>Reduced financial flexibility may impact on SPT's ability to support social necessary services.</i>
Risk consequences	<i>None directly.</i>
Climate Change, Adaptation & Carbon consequences	<i>None directly.</i>

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