

**Report to:** Finance, Resources and Corporate Committee

**Date:** 12 July 2022

**Subject:** **Bus Service Revenue Funding and Expenditure**

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Is this a key decision?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for call-in by Scrutiny?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information or appendices?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
If relevant, state paragraph number of Schedule 12A, Local Government Act 1972, Part 1:	
Are there implications for equality and diversity?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

## 1. Purpose of this Report

- 1.1 To update the Committee on current financial pressures impacting spend on the bus services.

## 2. Information

### Covid Funding For Bus Services

- 2.1 Since April 2020, Government has issued emergency funding to bus operators and Local Transport Authorities and continued to pay Bus Services Operators Grant (BSOG) at pre-pandemic rates. It requested that Local Transport Authorities (LTAs) continue to make concessionary fare payments to operators at pre-pandemic rates.
- 2.2 On 1 March 2022, Government announced a further funding programme for bus and light rail, the Local Transport Fund. This provides funding for six months direct to bus operators and LTAs calculated on the basis of the difference between costs and revenues and therefore intended to reduce as passenger revenues increase. The CA has been awarded £2,029,088 for the period 6 April to 4 October. It is estimated that bus operators in the region are receiving c £1.2m per month from Government.

- 2.3 Government has made it clear that no further funding will be provided after October. A condition to the current funding, applicable to both LTAs and operators, is that they must collaborate on a Network Sustainability Review to understand the position when funding ends. This was reported to Transport Committee on 1 July indicating 11% of the bus network (measured by mileage) is currently not generating sufficient revenue to continue to operate on a commercial basis once the funding ends in October. This could impact up to 62 routes where some or all of the journeys could be withdrawn. The Mayor has written to the Secretary of State seeking a further transitional period of funding as patronage recovers and the positive effects of the Bus Service Improvement Plan can be realised.
- 2.4 Following submission of its Bus Service Improvement Plan in October 2021, the Combined Authority has received an indicative award of £69m revenue funding over three years to fund a reduction in fares and an enhancement of the bus network. Confirmation of this funding is awaited.

#### Bus Service Expenditure

- 2.5 The Combined Authority has, under the Transport Act 1968, a duty to consider the need of socially necessary bus services and a power to procure such services. Approximately 22% of all bus service mileage operating in West Yorkshire is procured by the Authority through contracts with bus operators. The criteria for what is funded is set by Transport Committee.
- 2.6 The 2022/23 budget contains £16.6m for this purpose. This is broadly broken down as follows

Socially Necessary Bus Services	£14.1m
School Bus Services (net of revenue and contributions by Councils and other parties)	£2.6m
AccessBus	£2.4m
BSOG – Government Grant	-£2.0m

- 2.7 There are a number of cost pressures impacting on bus service expenditure at present. The wider economy is causing fuel and wage costs to increase; the latter is also affected by a labour market shortage of bus drivers and engineers. Bus patronage is around 75% of pre pandemic rates which, notwithstanding the pandemic funding summarised earlier in this report, is impacting on service viability.
- 2.8 As a result, this budget overspent by £1.1 million in 21/22 and is forecast to overspend by £2.25m in 2022/23. The causes of this overspend can be summarised as follows;

#### School Transport

- 11% of the cost growth in school transport arose as a result of contracts triggering automatic inflationary uplifts with an average uplift in contract value of 8.4%
- 56% related to other inflationary impacts on contracts with no automatic indexation where SME school bus contractors made claims linked to fuel

costs. Several operators have terminated contracts which were then re-procured at a higher cost (average 8-12%).

- The remaining 33% of the cost growth is where contracts were amended or re-procured to address capacity or other network issues, together with a reduction in payments to co-funding Councils of £150k to reflect changes to volume and school admissions and transport policies

#### Bus Services

- In 21/22 Arriva Yorkshire gave notice to withdraw some routes in Wakefield and Kirklees. Following an assessment of passenger use and social value, continuation of these services was secured from other bus operators at a full year cost of £285k. This was reported to Transport Committee.
- Contracts for services are typically awarded for three years and subject to re-procurement following a value for money appraisal. The full year additional cost of procuring contracts for existing services in 21/22 is £140k. Contract renewals in 22/23 are resulting in price increases of 12.5% causing a forecast cost increase of £347k
- Fares revenue on several contracts where the CA takes “revenue risk” has been lower than forecast due to reduced passenger demand
- Scope to mitigate this growth in costs is limited to withdrawal of poorly used bus services. The uncertainty around post pandemic demand, Covid funding and the ambition to improve bus services through the National Bus Strategy have prevented any ability to reduce services in line with cost pressures.

- 2.9 The withdrawal of Government Covid funding explained in paragraph 2.3 is likely to result in operators threatening service reductions and withdrawals leading to pressure on the Combined Authority to fund the continuation of services for some communities. This will place more pressure on an overspending budget.

#### Concessionary Fare Expenditure

- 2.10 The Combined Authority funds the ENCTS free bus pass scheme for older people and adults with disabilities together with reduced bus fares for under 19s. Whilst under 19 patronage has almost returned to pre pandemic rates, use of the free pass is currently around 65% of pre pandemic rates.
- 2.11 Ordinarily, bus operators are paid under the ENCTS scheme based on the actual passengers carried multiplied by a rate per passenger which reflects the average fare that would have been paid less a factor to identify that some journeys are made because of the free travel scheme. At Government request, the CA has been calculating the payments using passenger numbers and the rate per passenger in operation in 2019/20.
- 2.12 There is currently an underspend in this budget area. The 21/22 budget outturn was £4.2m less than budget and it is forecast that this budget could underspend by up to £6m in 22/23. The reasons for this can be summarised as follows

- ENCTS use had declined in the year prior to the pandemic however payments made prior to March 2020 were based upon a three-year forecast of patronage. This reduced expenditure in 2021 however the budget was maintained given the Covid uncertainty
- Bus operators have been reducing service frequencies since autumn 2021 as a result of driver shortages. A commensurate reduction in payments was made.
- From October 2022, the CA will begin a transition back to payment based on actual passenger numbers from the current use of 2019/20 data. This will be done at a rate of 5% per month in line with DfT advice. Assuming ENCTS use levels at 70% of 19/20 then this process will account for £3m to the current underspend
- Once this transition is complete, bus operators are expected to challenge the current rate per passenger which mostly have not been reviewed since 2017. If this results in an increase in rates, the budgetary impact would be from March 2023 onwards.

2.13 The withdrawal of Government Covid funding explained in paragraph 2.3 together with the transition of concessionary fare payments back to actuals will impact on the cashflow of bus operators who have asked if the CA could continue funding concessions at the higher rate for the remainder of the financial year in return for a deferral of service reductions.

#### Budget Monitoring

- 2.14 This report sets out how these two very significant areas of the Combined Authority's revenue budget have become volatile largely due to the current financial climate and operating environment. It has been identified that closer budget monitoring is required to ensure the financial consequences of operational and contractual decisions are well understood. A number of actions are in progress with support from Internal Audit which include;
- Breaking down the bus service expenditure into discrete cost centres separating School bus costs from general services to ensure clearer clarity of the bottom line implications
  - Revising Budget Holder and Controller responsibilities to ensure clearer accountability
  - Provide earlier warning of budget over/ underspends
  - Ensuring the budget consequences of contractual decisions are clear to the team when deciding courses of action
  - Review and remedy the information systems which sit behind the process on monitoring spend in this area.

### **3. Tackling the Climate Emergency Implications**

- 3.1. A key aim of the bus network is to enable people to travel by sustainable modes in order to tackle the climate emergency.

### **4. Inclusive Growth Implications**

- 4.1 The Bus Network Development Plan will seek to protect services to communities, particularly those areas of high deprivation, in order to support the region's inclusive growth ambitions.

## **5. Equality and Diversity Implications**

- 5.1 Supporting Equality and Diversity through ensuring the bus service is attractive, inclusive and accessible for all is a key aim of the West Yorkshire Bus Service Improvement Plan.
- 5.2 An Equality Impact Assessment will be undertaken for any actions by the Combined Authority arising from the Bus Network Sustainability Review.

## **6. Financial Implications**

- 6.1 This report currently presents a forecast overspend on bus services and underspend in concessions and identifies how this budget area will continue to be under pressure due to external factors. It is proposed to provide regular updates on expenditure to this Committee.
- 6.2 The current strike action by Arriva Yorkshire has resulted in the suspension of payments to the company which has not been taken into consideration in the figures presented in this report.

## **7. Legal Implications**

- 7.1 There are no legal implications directly arising from this report.

## **8. Staffing Implications**

- 8.1 There are no staffing implications directly arising from this report.

## **9. External Consultees**

- 9.1 The Bus Network Sustainability Review has been undertaken with detailed input and engagement of bus operators.

## **10. Recommendations**

- 10.1 That Finance, Resources and Corporate Committee notes the current position with bus service and concessionary fare spending and the actions being taken to mitigate the current budgetary position.

## **11. Background Documents**

There are no background documents referenced in this report.

## **12. Appendices**

None