

**Report to:** West Yorkshire Combined Authority

**Date:** 22 July 2022

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

**Director:** Angela Taylor, Director Corporate & Commercial Services

**Author:** Dave Pearson, Director Transport & Property Services

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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 Combined Authority on current financial pressures impacting spend on the bus services and to recommend arrangements to ensure sound budget management during the current volatile period.
- 1.2 To approve a virement from the 2022/23 concessionary travel budget to the bus tendered services budget.

## 2. Information

### Economic Pressures On Bus Services

- 2.1 Bus patronage and fare revenue reduced dramatically during the pandemic and is at around 75% of the equivalent period in 2019/20. 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. Government funding comes to an end in October 2022 and LTAs will move back to making concessionary fare payments based on actual passenger use through the remainder of 2022/23.

- 2.2 Since the start of 2022, increasing fuel costs have impacted on bus services and a national shortage of bus drivers has caused high workforce turnover and increasing labour costs.
- 2.3 There is a significant risk to bus service provision arising from the withdrawal of funding. It was reported to Transport Committee on 1 July 2022 that 11% of the bus network (measured by miles operated) 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. Bus operators must notify their intentions to change services in October by the end of July.
- 2.4 In early 2021, Government launched its National Bus Strategy and set aside funding for LTAs to deliver this through local Bus Service Improvement Plans. 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 but it should be noted that Government has indicated that this money is not to be used to meet the rising costs of maintaining the existing network but is about growth.

#### 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:

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|--|--------|
| Socially Necessary Local Bus Services  | £14.1m |
| School Bus Services (net of revenue and contributions by Councils and other parties) | £2.6m  |
| AccessBus  | £2.3m  |
| BSOG – Government Grant /other   | -£2.4m |

- 2.7 As reported to Finance, Resources and Corporate Committee on 12 July 2022, this budget overspent by £1.1 million in 21/22. Since the budget was set in February, further cost pressures impacting on bus service expenditure have emerged and it is currently predicted to overspend by £2.1m in 2022/23, with further pressures still expected to arise. This is set out in Appendix A. The causes of this overspend can be summarised as follows:

- School Transport – inflationary adjustment of contracts small / medium sized bus operators providing school services together with re

procurement of contracts have resulted in increased contract values of between 8-12%

- 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.
- Bus Services - 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%.
- AccessBus- the current contracts expire later in the year, negotiations to extend the contract term are in progress however the fleet is approaching the end of its operating life and contractors are expected to seek to cover the high maintenance costs arising from operating with older vehicles.

#### Concessionary Fare Expenditure

- 2.8 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.
- 2.9 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.
- 2.10 There is currently an underspend in this budget area. As reported to Finance Resources, and Corporate Committee on 12 July 2022, the 21/22 budget outturn was £4.2m less than budget and it is forecast that this budget could underspend further 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 2021/22 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 increase 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.

### Addressing The Immediate Issue

- 2.11 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 full 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 Finance Resources and Corporate Committee with regular updates on actual and forecast spend in these critical areas of the CA revenue budget.
- 2.12 To stabilise the current overspend position, it is proposed that a virement of £2.1 million is made from the 2022/2023 concessionary fare budget to the bus services budgets, as set out in Appendix A. Financial Regulations sets the requirement for virements over £200k to be made by a decision of the Combined Authority.

### Risks and Issues in the Coming Year

- 2.13 As explained in 2.3, the current financial climate may result in some bus operators seeking to reduce or withdraw bus services where fares revenue is not meeting costs. Affected communities will look to the CA to fund their continuation or replacement. Discussions with bus operators are in progress and Transport Committee will be advised on the implications for the transport system of any actions the operators may take and options to intervene will be assessed should this be necessary. The financial implications of this process will be reported to Finance, Resources and Corporate Committee which will assess the budget implications. It should also be noted that some smaller savings are being made in year as a result of lost mileage, with some funded services not operating due to driver shortage or strike action. These savings will be monitored along with the other upward pressure on these budgets.
- 2.14 The position with the concessionary fares spend is not yet stable although it is anticipated to continue to underspend against budget for the remainder of the financial year.
- 2.15 Finance, Resources and Corporate Committee on 12 July 2022 approved that £2 million is transferred to an earmarked reserve for public transport support in

2022/23 and beyond, to help the Combined Authority manage through this period of volatility, in line with the in-principle decision made at the budget meeting in February 2022. The need to draw down on this reserve will be considered alongside the regular reporting on budget forecasts as set out above, with any future requirements to increase the bus services budget brought to the Combined Authority for consideration.

- 2.16 Agenda item 9 sets out work underway to consider inflationary impacts on the Combined Authority budgets and the work to develop a robust medium term financial strategy. The budgets considered in this paper and the risks identified will form a significant part of this strategy work.

### **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 area 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 the Finance, Resources and Corporate Committee and periodically to this meeting.

### **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 the Combined Authority notes the current position with bus service and concessionary fare spending and the actions being taken to mitigate the current budgetary position.
- 10.2 That the Combined Authority approves a virement of £2.1 million from the 2022/23 concessionary travel budget to the tendered bus service budget as set out in Appendix A.

## **11. Background Documents**

There are no background documents referenced in this report.

## **12. Appendices**

Appendix 1 – Tendered bus service budget 2022/23