

# Cabinet

17 January 2024

Concessionary Fares Budget

Key Decision No. REG/2024/001



## Report of Corporate Management Team

**Amy Harhoff, Corporate Director of Regeneration, Economy and Growth**

**Councillor Elizabeth Scott, Cabinet Portfolio Holder for Economy and Partnerships**

### Electoral divisions affected:

Countywide.

### Purpose of the Report

- 1 This report provides Cabinet with a financial update on spending under the English National Concessionary Travel Scheme (ENCTS) in 2022/23 and 2023/24 and how that underspend has been deployed to support bus service provision in line with the decision taken by Cabinet in October 2022.
- 2 The report proposes that the underspend forecast in the ENCTS budget should continue to be redirected to support for bus services in 2024/25 and beyond, given that bus patronage continues to remain subdued.

### Executive summary

- 3 Bus operators have not been able to sustain the pre-pandemic level of commercially-viable services due to the impact of reduced passenger numbers and increased costs.
- 4 In particular, travel under ENCTS has remained significantly below the pre-pandemic rates.
- 5 While this reduces Durham County Council's spending on reimbursement to operators, the associated loss of income for operators means that it makes services less commercially viable, leading to greater need for key services to be maintained under subsidy contract arrangements.

- 6 In March 2022 and October 2022, Cabinet agreed to re-direct unspent funding from the ENCTS budget to the budget for local bus services in 2022/23 and 2023/24, enabling additional contracts to maintain some of the services that had ceased to be commercially viable.
- 7 While passenger numbers have partially recovered over the last two years, they continue to remain well below pre-pandemic levels.
- 8 ENCTS patronage continues to be subdued in County Durham broadly in line with other areas of the UK. An underspend in ENCTS reimbursement costs of up to £2.916 million is projected for 2024/25, which is circa £0.800 million higher than the underspend in the previous financial year, while the costs of local bus service contracts continue at a much higher level than in previous years.
- 9 In 2022/23 the cash limit outturn was a £0.723 million overspend overall in the transport budgets with an underspend on ENCTS of £2.127 million offset by additional spending of £0.302 million on subsidised routes and a £1.825 million contribution to the bus services earmarked reserve. In 2023/24 the forecast cash limit outturn indicates a £0.505 million overspend overall in the transport budgets with an underspend on ENCTS of £2.916 million offset by additional spending of £0.324 million on subsidised routes and a £2.592 million contribution to the bus services earmarked reserve.
- 10 It is proposed that for 2024/25 the ENCTS underspend continues to be re-allocated to enable continued support for local bus services. Given that there appears no sign of a material change in the medium term it is also proposed that this practice be maintained in subsequent years.

## **Recommendations**

- 11 Cabinet is recommended to agree:
  - (a) that the forecast underspend in the ENCTS budget during 2024/25 be redirected to the local bus service support budget; and
  - (b) to maintain the same practice in connection with underspends that are expected to continue to occur in the medium term.

## Background

- 12 Prior to the pandemic a comprehensive network of bus services operated across almost all of the county, although frequencies and coverage were reduced during later evenings and on Sundays, reflecting lower demands for travel. Services operating without subsidy from Durham County Council (“commercial services”) provided a high proportion of the network in most of County Durham. Most of the main towns of County Durham had at least two operators providing locally significant services without subsidy. Go North East provided the majority of the services across the county. Three other firms also ran locally significant bus services without subsidy.
- 13 Approximately 15% of the bus services operated with funding from Durham County Council to provide socially necessary services supplementing the commercial network. These were a mixture of entire services and journeys running at times when a commercial service was not viable, such as evenings.
- 14 Since March 2020, the start of the pandemic, bus services have been protected by special Government funding direct to operators. As part of this scheme in line with national Government guidance, ENCTS reimbursement from local authorities was maintained at levels as based on pre-pandemic passenger journeys. Local authorities have also received grant funding to assist with maintaining non-commercial public transport services however as the region received a large Bus Service Improvement Plan (BSIP) funding allocation local authority pandemic related bus service funding ceased on 30 June 2023.
- 15 In March 2022, Cabinet was advised of the uncertainty of Government support and the reduced number of passenger numbers as a result of the Covid pandemic. Cabinet agreed short term support to bus services in County Durham by redirecting funding from the ENCTS budget which, at that time, was forecast to underspend by £1.934 million during 2022/23.
- 16 At that time, it was envisaged that with an increasing return to more normal life, bus patronage would continue to recover closer to pre-pandemic levels however passenger numbers remained, and continue to remain, subdued and temporary Government financial support was being extended by a succession of short term extensions creating uncertainty for the industry. As such, following a further update to Cabinet in October 2022, Cabinet agreed to further short term support to bus services in County Durham by redirecting underspent funding from the ENCTS budget during 2023/24.

## **Bus Passenger Numbers and Bus Service Network**

- 17 Total bus journeys, boarding in County Durham, remain at 83% when compared to the same period in 2019/20 (4.6 million journeys in July to September 2023 compared to 5.6 million in the same period in 2019).
- 18 Travel under ENCTS has remained significantly below the pre-pandemic rates principally reflecting changes in travel shopping and a loss of confidence in bus travel by some users. Total ENCTS journeys in County Durham remain circa 70% of pre-pandemic levels (1.5 million journeys in July to September 2023 compared to 2.2 million in the same period in 2019).
- 19 The way in which bus services are funded and the split between commercial and supported services is not well understood by the public and generally when bus services are reduced it is the council which generally faces criticism.
- 20 New subsidised service contracts were arranged by the council to sustain services where the commercial withdrawals would have left communities with no service or lost important links funded by redirecting underspent funding from the ENCTS budget. A comprehensive network of bus services currently continues to operate across almost all of the county, although frequencies and coverage are reduced during later evenings and on Sundays, reflecting lower demands for travel.

## **Other Industry Issues**

- 21 Pressures in the labour market have created quite severe problems at times with shortages of drivers causing journeys to fail to operate and at times emergency timetable changes have been necessary to stabilise the operation.
- 22 Bus operators are facing significant cost pressures with large increases in fuel prices though these have since reduced to some extent and many other costs increasing at above the level of general inflation. Recruitment and retention issues mean that it seems likely wage costs will rise to at least take account of inflation in the economy. The cost pressures naturally impact on the cost of subsidised service contracts.
- 23 Bus operators are also having to adjust to lower income from their local bus services coupled with the transition away from the special funding arrangements that supported bus operators through the impact of the Covid pandemic. In particular, travel under ENCTS has remained significantly below the pre-pandemic rates principally reflecting changes in travel shopping habits and a loss of confidence in bus travel by some users.

- 24 In essence there are not sufficient passenger numbers, and therefore fares income, to cover the cost of operating the services and sustaining the commercial network at pre-pandemic levels.

### **Department for Transport – Guidance Review**

- 25 In the National Bus Strategy Bus Back Better published in March 2021, central Government confirmed that a number of elements related to ENCTS would be reviewed. This included the reimbursement guidance and, by extension, the reimbursement calculator following the impact of COVID-19 on travel patterns.
- 26 That review is currently ongoing and revised guidance is expected to be published in the near future. Any change could result in an increase or decrease to the amount of ENCTS reimbursement to local bus operators however it is expected that nationally reimbursement to bus operators will increase overall.
- 27 Within County Durham, should local bus operators receive less ENCTS funding, this could result in services being cut back. Should the council be required to reimburse local bus operators a larger ENCTS reimbursement this could impact on the MTFP of the council and the opportunity of redirecting underspent funding from the ENCTS budget to support bus services no longer commercially viable.

### **Funding**

- 28 Central Government continues to support the industry with finance support provided to the industry and in the most recent announcement has made £300 million of recovery funding available nationally to support bus networks across the country until 2025 in two forms:
- (a) 'bus service operator grant+ (BSOG)' which is payable directly to bus operators: the bus operators BSOG+ allocations are significantly less than its predecessor subsidy, Bus Recovery Grant (BRG); and
  - (b) 'BSIP+' which is payable to local transport authorities: the region will not receive any BSIP+ funding as it is already in receipt of significant BSIP revenue funding which the Government has confirmed can be redirected towards supporting bus services where required.

- 29 In addition, all operators in County Durham joined the Government's initiative that temporarily capped single fares at £2 from January 2023. This was initially funded to March 2023 and subsequently extended to June 2023 and then to October 2023 when the cap was due to become £2.50 until ending at the start of November 2024. The fare will now remain capped at £2. This has resulted in extra patronage, although actual fares income has declined materially, so this scheme has only been possible with the temporary funding.
- 30 In April 2022 the region secured funding of up to £163,521,172 for improvements identified in the region's BSIP.
- 31 The budget to procure bus services and the budget to fund concessionary fares (which sits outside of the current Regeneration, Economy and Growth cash limit) as summarised in the table in Appendix 2.
- 32 As can be seen the increased cost of procuring bus services has been part-funded by the underspend in the concessionary fares budget. As such, there is a risk that a number of bus services currently financially supported by the council would need to be withdrawn should the forecast underspend in the ENCTS budget during 2024/25 not be redirected to the local bus service support budget. It is estimated 15-25% of services currently financially supported would need to be withdrawn.
- 33 In Durham, the council could potentially retain up to £2.65 million of funding underspend from the concessionary fares budget in the 2024/25 financial year which could be used to offset many of the services which would be withdrawn by bus operators as not being commerciality viable. Given that there are not likely to be sufficient passenger numbers, and therefore fares income, to cover the cost of operating the services and sustaining the commercial network in the medium term consideration should also be given to retaining up to £2.65 million of funding underspend from the concessionary fares budget in the 2025/26.

## **Summary**

- 34 Prior to the pandemic a comprehensive network of bus services operated across almost all of the county, although frequencies and coverage were reduced during later evenings and on Sundays, reflecting lower demands for travel.
- 35 Since the start of the pandemic, bus services have been protected by special Government funding direct to operators and local authorities maintaining reimbursement higher than for ENCTS journeys actually being made.

- 36 In March and October 2022, Cabinet was advised of the uncertainty of Government support and the reduced number of passenger numbers as a result of the Covid pandemic and Cabinet agreed short term support to bus services in County Durham by redirecting funding from the ENCTS budget.
- 37 Prior to the outbreak of the pandemic, bus passenger numbers had started to increase after many years of slow decline however currently bus passenger numbers in the county are around 80% of pre-pandemic levels.
- 38 New subsidised service contracts were arranged by the council to sustain services where the commercial withdrawals and a comprehensive network of bus services currently continues to operate across almost all the county utilising the local bus service revenue funding and the ENCTS funding.
- 39 There are not sufficient passenger numbers, and therefore fares income, to cover the cost of operating the services and sustaining the commercial network at pre-pandemic levels and this position is not likely to change in the medium term.
- 40 It is possible for the council to retain up to £2.65 million of funding underspend from the concessionary fares budget in the 2024/25 financial year to continue the which would be used to continue to support the services withdrawn by bus operators as not being commerciality viable. In addition, consideration could be given to maintaining the same practice in connection with underspends that are expected to continue to occur in the medium term.

### **Background papers**

None.

### **Other useful documents**

None.

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## **Appendix 1: Implications**

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### **Legal Implications**

None.

### **Finance**

In 2022/23 the cash limit outturn was a £0.723 million overspend overall in the transport budgets with an underspend on ENCTS of £2.127 million offset by additional spending of £0.302 million on subsidised routes and a £1.825 million contribution to the bus services earmarked reserve. In 2023/24 the forecast cash limit outturn indicates a £0.505 million overspend overall in the transport budgets with an underspend on ENCTS of £2.916 million offset by additional spending of £0.324 million on subsidised routes and a £2.592 million contribution to the bus services earmarked reserve.

### **Consultation and Engagement**

No consultation is required however information will be provided to the Bus Board.

### **Equality and Diversity / Public Sector Equality Duty**

Failure to act is likely to have a disproportionate effect on the elderly and people with limited mobility who rely on public transport.

### **Climate Change**

Failure to act is likely to increase the number of people travelling by private car.

### **Human Rights**

None.

### **Crime and Disorder**

None.

### **Staffing**

None.

### **Accommodation**



None.

## **Risk**

Failure to act is likely to have a negative impact of people's ability to access employment, education and health.

Central Government's review of the ENCTS guidance and calculator could mean that the council is required to provide higher reimbursement to local bus service operators. This could impact on the MTFP of the council and the opportunity of redirecting underspent funding from the ENCTS budget to support bus services no longer commercially viable.

Central Government continues to provide financial support to the bus industry to mitigate the impacts of reduced patronage as a result of the COVID-19 pandemic. Should this central Government financial support be withdrawn the financial viability of bus services will be impacted and further withdrawals may occur.

## **Procurement**

Additional services will follow well established procurement methodologies.

## Appendix 2: Finance Tables

- 1 The budget to procure bus services is summarised in the table below (excluding the North East Combined Authority's grant):

	2021/22			2022/23			2023/24		
	Budget	Outturn	Variance	Budget	Outturn	Variance	Budget	Projected outturn Q2	Variance
Cost of contracts and related spending	4,536,846	4,892,367	355,521	4,621,861	7,628,204	3,006,343	5,819,339	10,396,902	4,577,563
Fares income and other related income	(1,780,167)	(2,042,246)	(262,079)	(1,934,182)	(4,638,454)	(2,704,272)	(1,934,182)	(6,187,885)	(4,253,703)
<b>Total</b>	<b>2,756,679</b>	<b>2,850,121</b>	<b>93,442</b>	<b>2,687,679</b>	<b>2,989,750</b>	<b>302,071</b>	<b>3,885,157</b>	<b>4,209,017</b>	<b>323,860</b>
Contribution from bus service reserve		0			(302,071)			(323,860)	
<b>Net</b>		<b>2,850,121</b>			<b>2,687,679</b>			<b>3,885,157</b>	

2 The budget to fund concessionary fares, which sits outside of the current Regeneration, Economy and Growth cash limit, is summarised in the table below:

	2021/22			2022/23			2023/24		
	Budget	Outturn	Variance	Budget	Outturn	Variance	Budget	Projected outturn Q2	Variance
Reimbursement to bus operators	12,136,037	10,992,793	(1,143,244)	12,175,343	9,974,947	(2,200,396)	12,134,690	9,085,000	(3,049,690)
Other related costs	69,691	69,690	(1)	30,555	103,563	73,008	30,208	154,402	124,194
Income from charges	(330)	(330)	0	(500)	(346)	154	(9,500)	(500)	9,000
<b>Total</b>	<b>12,205,398</b>	<b>11,062,153</b>	<b>(1,143,245)</b>	<b>12,205,398</b>	<b>10,078,164</b>	<b>(2,127,234)</b>	<b>12,155,398</b>	<b>9,238,902</b>	<b>(2,916,496)</b>
Contribution to bus service reserve		0			2,127,234			2,916,496	
<b>Net</b>		<b>11,062,153</b>			<b>12,205,398</b>			<b>12,155,398</b>	