

# WEST YORKSHIRE INTEGRATED TRANSPORT AUTHORITY

ITA EXECUTIVE BOARD

DATE: 29 JANUARY 2010

AGENDA ITEM NO: **5**

**SUBJECT: THREE YEAR FINANCIAL STRATEGY AND BUDGET UPDATE**

## **Report of the Passenger Transport Executive**

### **1. MATTER FOR CONSIDERATION**

- 1.1. To consider the latest position on the three year financial strategy and budget for 2010/11.

### **2. INFORMATION**

- 2.1. Members held a detailed discussion on budget proposals at their meeting in December and considered the proposed three year financial strategy along with the levy implications. At that time the recommendation was for a 1% increase in the levy to help to ensure that there were sufficient reserves to manage the expected risk in concessionary fares budget after the three year agreement ends in 2011. Even allowing for a 1% increase the need for budget savings totalling £9m were projected over the three year period.
- 2.2. During December and January discussions on the levy continued with the District Councils and there is now an expectation that the Authority will keep the levy at the same level as the current year. A further report is being presented to the next meeting of AWYA Leaders to set out the impact this will have on the Authority.
- 2.3. Members are well aware of the pressures on the Authority's budget and of the issues for District Councils in the current recession. The Authority has always tightly managed its resources and been successful in delivering the region's transport priorities. Measures taken in previous years have assisted in ensuring levy increases have remained consistently lower than inflation and indeed the Authority continues to have the lowest levy per head of any ITA at 65% of the ITA average. In addition Metro employs fewer staff than the other PTEs with 380 employees.
- 2.4. 2010/11 is the final year of the three year concessionary fares agreement with the major bus operators which enabled the Authority to manage the significant risks inherent in this budget line. Consultation has yet to commence on the funding and reimbursement methodology which will apply from 2011 onwards but an increase in costs above any increase in the levy is almost inevitable.

- 2.5. Pressure on tendered services budgets continues as the recession impacts on bus operators. Increased tender renewal prices are expected and the lack of competition will make this a difficult problem to solve. The withdrawal of bus services by the major operators is also likely to continue, bringing pressure on the Authority to maintain bus links vital for access to work, training and hospitals.
- 2.6. The three year financial strategy has been prepared with the aim of seeking to reduce costs where possible, minimising any unavoidable increases yet still delivering the key priorities, targets and outcomes. It is proving difficult to increase income in the current economic climate but any such opportunities will continue to be pursued.
- 2.7. The detailed budget outturn for 2009/10 and original budget for 2010/11 have now been prepared and these updated figures have been put into the three year strategy previously discussed with Members. These are shown in Appendix A which sets out the three year position on the basis of a nil increase in the levy for 2010/11 followed by a 1% increase each year. In order to leave reserves at a minimum level this shows savings or cuts required of £1.5m in 2010/11, followed by a further £3.5m and £7.5m in successive years.
- 2.8. The figures shown already include capped budgets in many areas and the impact of other planned measures such as the rationalisation of office space which reduces rental costs from 2011/12 onwards. The Authority has already undertaken to reduce the staffing budget by 8% each year, which will be achieved by a variety of measures but which must include some staff reductions. Whilst this will contribute to the overall level of savings required achievement of the total level of savings shown in the appendix will require some significant policy considerations and wide ranging service reviews.
- 2.9. All areas of expenditure have been examined to identify where cuts could be made and the impact that these would have. A number of these require a lead in time, for example any changes to tendered services would require the appropriate notice to cancel contracts. The intention is to make the necessary £1.5m savings in 2010/11 across all of the main budget heads, but seek to limit any impact on tendered services. Given the level of savings required in subsequent years however significant savings on tendered services will also have to be considered. A further agreement with operators on concessionary fares will be sought but depending on the outcome of that and the resulting level of costs involved then further means of increasing income from operators will be pursued, from increasing departure charges at bus stations through further levies for information provision for example.

- 2.10. It is proposed that the savings required for 2010/11 be sought in the following areas:
- Concessions: £300k;
  - Staffing savings: £300k (in addition to a vacancy target of £300k);
  - Passenger services: £200k;
  - Other activities: £200k;
  - Tendered services: £500k (without losing service provision).
- 2.11. The elderly concession on rail has remained unchanged since 2005 at 35p per journey. This is one of the few areas within concessions which is still discretionary and hence must be considered in the context of a reduced levy. An increase to 65p would save £300k per annum for example. Other options to be explored could include the introduction of a concessionary rail Metrocard or differentiating between single and return fares. Discussions with Northern have commenced to consider whether they are able to contribute to this concession. Child concessionary payments are linked into the current three year agreements with the major operators. Once these come to an end in 2011 then opportunities to reduce these costs will need to be considered. This will initially take the form of revisiting child concessions to put pressure on the operators to maintain concessionary fare levels but receive less subsidy.
- 2.12. A reduction in staffing numbers has been built into the 2010/11 budget and it is anticipated that this will be achieved through a variety of measures. These include restrictions on recruitment, temporary staff and overtime and a freeze on creating new posts unless there is an exceptional business case. The introduction of a voluntary severance scheme will also be an important tool in achieving the necessary savings. Any applications received under such a scheme would be evaluated against strict criteria to ensure value for money and business efficiency were achieved. Further staffing reductions will be planned for 2011/12 onwards.
- 2.13. A programme of savings and cuts within the passenger services and other activities lines, in addition to the staffing savings above, is being finalised. This has drawn on the recent value for money reviews undertaken across all areas and includes reductions in consultancy, marketing and legal costs. Savings will be delivered through more efficient use of resources to try to maintain current outputs whilst reducing the cost of doing so. Opportunities to improve business processes and increase productivity through further ICT investment are also being investigated.
- 2.14. The Authority has taken an innovative approach to recent bus tender renewals in an attempt to increase competition into the market and thereby reduce tender prices. This was successful in a recent Calderdale batch and resulted in an award to a new operator at a reduced overall cost. Whilst such opportunities are difficult to engineer

in the current market, it is believed we may achieve further savings in 2010/11 of £500k without needing to reduce mileage. Discussions with operators considering how tenders can be repackaged or reprofiled to restrict cost increases will also continue. A list of the poorest performing services will be drawn up to consider whether these can continue to be supported in a more effective way.

- 2.15. The Authority faces considerable financial challenges in the coming three years with the most significant threat clearly being the huge uncertainties of the future funding and reimbursement methodology of concessionary fares. A 1% increase in the levy would be a sensible strategy to provide some protection in the event that the budget figures are incurred as projected. However in recognition of the financial pressures facing the District Councils it is proposed that the Authority proceeds with a nil increase in the levy in 2010/11 and that this can be delivered with careful management of resources and continued efforts to make savings. This does mean however that significant increases in the levy, or significant cuts, are very likely to be required in 2011/12 and subsequent years to meet the costs of concessionary travel. A further report will be prepared for the Authority's meeting on 12 February at which the budget for 2010/11 and the levy will need to be considered and formally approved.

### **3. FINANCIAL AND LEGAL IMPLICATIONS**

- 3.1. As set out in the report.

### **4. STAFFING IMPLICATIONS**

- 4.1. As set out in the report.

### **5. EQUAL OPPORTUNITY IMPLICATIONS**

- 5.1. None arising directly from this report.

### **6. RECOMMENDATIONS**

- 6.1. That the ITA Executive Board note the current position with the three year financial strategy and 2010/11 budget and levy.
- 6.2. That the ITA Executive Board endorse the approach on savings set out in the report.

Director General  
West Yorkshire Passenger Transport Executive

## Appendix A

## WYITA/WYPTE three year financial forecast

All £000's	Actual 2008/09	Original Estimate 2009/10	Forecast Outturn	Original budget 2010/11	Forecast 2011/12	Forecast 2012/13
Concessionary Fares	44,579	46,819	<b>50,961</b>	<b>47,774</b>	<b>53,019</b>	<b>55,670</b>
Subsidised Services	24,670	26,534	<b>25,132</b>	<b>26,680</b>	<b>28,368</b>	<b>29,428</b>
Passenger Services	9,826	9,957	<b>9,999</b>	<b>10,011</b>	<b>10,509</b>	<b>10,654</b>
Rail Charges	71,871	71,894	<b>72,096</b>	<b>72,096</b>	<b>72,817</b>	<b>73,545</b>
Pensions	1,388	1,549	<b>1,441</b>	<b>1,517</b>	<b>1,532</b>	<b>1,547</b>
Financing charges	9,234	9,473	<b>8,808</b>	<b>8,701</b>	<b>8,469</b>	<b>8,182</b>
Cuts/efficiencies				<b>-1,500</b>	<b>-3,500</b>	<b>-7,500</b>
Central Contingency	0	500	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Other Activities	5,002	6,155	<b>6,078</b>	<b>6,643</b>	<b>5,792</b>	<b>5,836</b>
	<b>166,570</b>	<b>172,881</b>	<b>174,515</b>	<b>171,922</b>	<b>177,006</b>	<b>177,362</b>
Special Rail Grant	-71,871	-71,894	<b>-72,096</b>	<b>-72,096</b>	<b>-72,817</b>	<b>-73,545</b>
C Fares Grant	-8,667	-8,871	<b>-8,871</b>	<b>-9,116</b>	<b>-9,481</b>	<b>-9,860</b>
Payments to Districts	4,345	4,625	<b>4,625</b>	<b>4,625</b>	<b>4,671</b>	<b>4,718</b>
Transport Levy	-93,492	-96,000	<b>-96,000</b>	<b>-96,000</b>	<b>-96,960</b>	<b>-97,930</b>
<b>Net use of/(addition to) reserves</b>	<b>-3,115</b>	<b>741</b>	<b>2,173</b>	<b>-665</b>	<b>2,419</b>	<b>746</b>
Reserves at year end	7,424	5,990	5,251	5,916	3,497	2,751
<i>of which:</i>						
General reserves	<b>4,553</b>	<b>3,238</b>	<b>5,251</b>	<b>5,916</b>	<b>3,497</b>	<b>2,751</b>
Concessionary travel reserves	2,871	2,752				