

### Budget Assumptions

**1.1** The following section provides an overview of the specific areas of expenditure within the SYPTE Budget for 2020/21.

#### **1.2 Payroll**

As in previous years, the gross payroll budget comprises of a fully costed structure less £250k allowance for vacancies in the year. It has been assumed that, in line with the local government pay settlement, all staff will receive a 2% cost of living increase and any spinal point increases as required. The net increase to the PTE's budget is c.£200k for the full year. The number of posts on the establishment has been reduced from 189 as at December 2018 to 182 as at September 2019, of which 11 posts are currently vacant.

The 2020-23 triennial valuation by South Yorkshire Pensions Authority's Actuary has resulted in the level of future service rate (FSR) increasing from 14% to 16.4% including the future effect of McCloud Review. However, on a positive note, the fund is no longer in deficit. Therefore, the deficit payments of £1m pa will no longer be required.

#### **1.3 Rotherham Interchange**

Rotherham Interchange officially re-opened towards the end of April 2019.

As a result of the refurbishment work, which was largely funded through prudential borrowing, there will be an increase in capital financing costs which will appear in the MCA transport related expenditure budget for 2020/21. This will be covered from the levy reduction reserve. There is the further impact of depreciation, which is covered in paragraph 1.7 below.

#### **1.4 Inflation**

Specific contract inflation has been applied to contracts. Inflation has been assumed at 2.5% for all other contracts.

#### **1.5 Concessions**

Mandatory concessions make up 41% of the SYPTE budget. Whilst SYPTE is constantly refining the model to better forecast the costs of concessionary travel, this process is complicated by the number of factors that impact on patronage. Some variables can be easily identified, including:

- entitlement (most notable of which is the change in the state pension age);
- changes in the network; and
- how passes are issued.

Other variables, however, including the impact of social and economic factors (for instance, how people choose to shop) are more difficult to predict and model.

Elderly patronage continues to decline. However, the resulting saving is being offset by inflationary increases in reimbursement rates. The current assumption is that this will lead to a net increase in cost of £22k for the 2020/21 budget, offset by savings on the issue of passes.

Child patronage is increasing. The reimbursement rate is also increasing as fares rise and the child fare remains fixed at 80p. Overall this results in an increased cost of child concessions by £446k.

## **1.6 Tendered Bus Services**

As with the other contracts it has been assumed a contractual, inflationary increase of 2.5% will apply to all contracts for the renewals that fall within the 2020/21 financial year. The net result of these changes is a £173k increase against 2019/20 whilst managing the impact on the customer offer.

These assumptions are based on Option 1 (2% reduction in transport levy).

## **1.7 Financial Obligations**

The 2020-23 triennial valuation by South Yorkshire Pensions Authority's Actuary have recently been published. The results show that SYPTE's share of the pension fund is now in surplus. It has therefore been assumed that the annual deficit recovery contribution will cease with effect from 2020/21, thus yielding an annual saving of £1m.

Depreciation is assumed to increase due to the revaluation of land and buildings, in particular as a result of the recent refurbishment of Rotherham Interchange, but the excess is fully funded by the Revaluation Reserve.

For 2020/21 interest payments are forecast to reduce by £3.595m due to the repayment of loans in line with the MTFS. Opportunities for early repayment to yield further interest savings will continue to be assessed, but none have presently been included in the proposed budget on the basis that the cost of implementing such measures such as early redemption penalties will outweigh the benefits.

## **1.8 Operational Expenditure Not Included Elsewhere**

Finance officers worked with all budget holders across SYPTE and the MCA to identify the pressures and potential savings for 2020/21 for each of their operational areas. There is one main factor which will have an adverse impact on SYPTE's budget for 2020/21.

In an effort to offset the running costs of on-street furniture (bus stops and shelters) SYPTE has a long-standing contract for advertising displays on some shelters. The company providing the advertising sought to reduce the payment being made to SYPTE, and served notice on the contract, which has now expired on 1st October 2019. A new provider has now been appointed but the net reduction on SYPTE's income is assessed at £175k for 2020/21. The income generated by the new contract increases significantly in future years and has been included in the MTFS.

Savings have been secured across all operational areas of the business that have helped to offset the inflationary and incremental pressures in payroll costs. Only savings that do not have a detrimental impact on services have been included in the proposed budget. After accounting for the points noted above, the overall increase in Operational Expenditure is £255k.