

Item:
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Report to Partnership Meeting 7 February 2025

FINANCE

Medium Term Financial Plan

Purpose of Report

This report asks the Partnership to note the Medium-Term Financial Plan (MTFP) and remits officers to maintain a rolling five-year plan.

Background

At its meeting on 20 September 2024 the Partnership noted the contents of Audit Scotland's Draft Annual Audit Report for the year ended 31 March 2024 and approved the 2023/24 Audited Annual Accounts.

In their report Audit Scotland noted that progress had been made through the 2024/25 Business Plan to develop a Medium Term Financial forecast for HITRANS in line with the recommendation of the 2022/23 Annual Audit Report but recommended that 'HiTrans should continue to progress developing a medium-term financial plan'

This report sets out this Medium-Term Financial Plan (MTFP) which seeks to provide a range of scenarios for key variables used in the budgeting and financial planning. The report considers the wider economic outlook and how this might impact on HITRANS over the medium-term. The Management commentary also seeks to underline the role HITRANS can and has sought to play in wider public service reform as set out in in work in response to the Local Governance Review and how we have framed this within the new Regional Transport Strategy.

Introduction to Medium Term Financial Plan

Within the wider scope of the 2022/23 Annual Audit Report, it was noted that:

'Local authorities are facing continuing funding pressures and HITRANS will find it increasingly challenging to secure sufficient funding to deliver on its priorities and outcomes.

To date, the Partnership has prepared financial plans on an annual basis due to partner bodies providing annual funding on a consistent basis. In these fiscally challenging times, planning over the medium term is essential for HITRANS to understand its financial prospects and manage any risks or threats to financial sustainability.'

The report went on to recommend:

‘The Partnership needs to prepare a medium-term financial plan to enable a strategic approach to planning.’

The 2024/25 Business Plan was developed with consideration of this Recommendation and following discussion with other RTPs on how they forecast medium term financial planning officers included an income forecast for the subsequent 3 financial years within the Revenue Budget for 2024/25. This sought to capture anticipated income from constituent Councils, Transport Scotland Section 70 Grant to support core costs separately non-core costs such as Research and Strategy, Transport Scotland People and Place Programme and forecast income from bidding to the Active Travel Infrastructure Fund (ATIF). The table also included forecast income for bids being made for EU and UKRI funding including projects with funding in place. The table is reproduced below for information:

Budget Heading	Budget 2023/24	Budget 2024/25	Budget 2025/26	Budget 2026/27	Budget 2027/28
		Recommendation	Forecast	Forecast	Forecast
Income					
Argyll and Bute	26,200	26,200	26,200	26,200	26,200
CnES	18,600	18,600	18,600	18,600	18,600
Highland	90,900	90,900	90,900	90,900	90,900
Moray	46,800	46,800	46,800	46,800	46,800
Orkney	17,500	17,500	17,500	17,500	17,500
Scottish Government - Core	200,000	200,000	200,000	200,000	200,000
Scottish Government - Non-Core	322,750	322,750	322,750	322,750	322,750
SUSTRANS - Active Travel	100,000	0	0	0	0
Regional People and Place Programme		1,736,000	1,736,000	1,736,000	1,736,000
Active Travel Infrastructure Fund	1,055,000	500000	700000	800000	900000
European and Other Project Grants	188,000	1,117,000	1,000,000	1,000,000	1,000,000
Total Income	2,065,750	3,965,918	4,222,750	4,322,750	4,422,750

Looking towards the development of a more detailed MTFP it should be noted that People and Place Programme was reduced to £1,626,186 in 2025/26 due to a reduction in the overall budget although this reduction was offset by additional income secured through the Smarter Choices Smarter Places Programme to support MaaS and Behaviour Change Activities. The ATIF funding bid for has not been allocated due to Scottish Government spending controls but remain live bids.

While Scottish Government Core funding was maintained at a match to the combined Local Authority Contributions (£200,000) 2024-25 also saw a reduction in Scottish

Government support for Non-Core Activities from £322,750 to £296,612.50. This amounted to a 5% cut to the overall Scottish Government Grant offer for Core and Non-Core Activities from the annual grant award that has been in place since 2011/12. For Planning purposes Scottish Government has indicated this is the level of award they expect to make for the 2025/26 Financial Year. Officers are also engaging with Transport Scotland on the procurement of an Integrated Transport Plan for Fort William that is expected to see a Grant top up of between £250,000 and £300,000 to HITRANS to support delivery of this important commission. When the Medium Term Financial Plan is presented within the 2025/26 Business Plan (to the April Partnership Board meeting) the final Grant in Aid to HITRANS will be confirmed and this will be reflected in an updated Plan forecast.

While People and Place Programme Funding was forecast at the expected award for 2025/26 for subsequent years the indicative budget, we have agreed with Transport Scotland to work to for 2025/26 planning is a substantial increase to £2,431,884. An increase of 50% (£805,698).

Core and RTS Revenue Budget

In 2011/12 Scottish Government Grant in Aid funding provided £522,750 and this annual Scottish Government Grant in Aid remained at £522,750 through to 2024/25, when it was decreased by 5%. The combined partner Council contributions to HITRANS have remained at 2006/07 levels of £200,000 throughout with this matched by £200,000 of the Scottish Government grant.

However, there has been significant increase in inflation between 2013/14 and 2024/25, while the funding from both Central and Local Government has remained virtually static, with no additional funding provided for increasing salaries and other Core costs. Bank of England Consumer Price Index indicates a 34.2% increase over the same period between 2013 and 2023.

HITRANS has also been very successful over the years in attracting third party income to supplement its operational and delivery funding and continues to explore opportunities. Sources of this funding have included Bus Route Development Grant, Bus Investment Fund, MaaS Investment Fund, Islands Team Funding, multiple EU funds and UKRI / Innovate UK.

The Treasurer has prepared a five year forecast of income and expenditure that is included as the Appendix to this report. This develops the previous income forecast and includes a more refined consideration of salary inflation and income forecasts.

RTS Delivery Plan Funding

As reported to the Partnership at its meeting in September 2024, HITRANS is in the process of developing our RTS Delivery Plan and a draft of this is included as a separate item at this meeting.

One of the key outcomes will be to determine what resources are required to fulfil the Scottish Government NTS, HITRANS RTS and partner organisations objectives and targets within the Highlands and Islands. It is intended that an update on resources

required will be provided within the Business Plan when this is considered by the Partnership in April

MTFP Management Commentary

RTP annual funding has been provided on an annual basis since before the inception of the statutory regional transport partnerships through the Transport (Scotland) Act 2005. A degree of single year funding allocations is inevitable with our main funding being provided through the annual Scottish Government and Local Government budget setting processes. For HITRANS it should be noted though that there has been a degree of stability within this and for that as an organisation we are particularly grateful to our partners Councils and Transport Scotland who have maintained a broadly consistent level of support since the establishment of the statutory HITRANS.

While 2024/25 saw a drop in non-core Scottish Government budget this was more than offset with the significant increase in Scottish Government funding overall as a result of the establishment of the People and Place Programme with delivery through Regional Transport Partnerships.

HITRANS partner Councils have maintained their Core contributions of £200,000 from the outset of the statutory HITRANS which has provided consistency and confidence for the organisation to succeed.

Costs including staffing, inflation, travel and office costs have continued to increase for HITRANS and this has meant that in order to stand still it has been essential for the organisation to seek additional funding from external sources.

Within the region HITRANS have developed two shared service projects where local delivery areas are managed regionally to improve efficiency in the delivery of local public services through a small specialist resource that is available to the partner Councils involved. These are:

- Public Transport Information Shared Service – this collaboration involved the five HITRANS partner Councils and has seen resources shared to enable HITRANS to employ a dedicated public transport information officer to deliver roadside information (at 2,500 bus stops), manage a regional real time information contract, fund a single database / software costs for management of public transport timetable data and the annual costs of managing / delivering / maintaining the Real Time Information System. This project has recently extended with support from bus operators towards the costs of maintaining bus stop infrastructure in Highland Council area.
- Electric Vehicle Infrastructure Fund Shared Service – initially covering Comhairle nan Eilean Siar, Moray Council, Orkney Islands Council and Shetland Islands Council this shared service is evolving with Moray moving into the Highland Council led EVIF and Argyll and Bute Council joining the HITRANS supported programme. The project has allowed HITRANS to lead a request for ambitious funding for EV infrastructure across the Northern and Western Isles. Balancing this with the requests from other Scottish LAs, Transport Scotland have recently indicated that we can apply for £2m of capital expenditure, which needs to deliver some private investment as well, likely a Charge Point Operator (CPO) who would oversee the charging network. This necessitates a long-term partnership

to secure a return on investment for the private sector. It is therefore critical for the Councils that the EVIF programme delivers an EV charging network that is self-sustaining financially.

The principles that have allowed HITRANS regional shared services to succeed have been applied to the Regional People and Place Programme. Placing collaboration with local authorities and other partners such as Cairngorms National Park Authority at its heart the Regional People and Place Programme saw Transport Scotland allocate over £1.6m to HITRANS in 2024/25. The budget for 2025/26 is to increase to nearly £2.5m and will expand the programme focus beyond Active Travel Behaviour Change to encompass a number of wider sustainable travel objectives. RTP Lead Officers and Transport Scotland Active Travel Leads have also discussed the viability of including an element of longer-term funding to be identified within the People and Place Programme allocation to provide longer term security particularly relating to staff costs. This is expected to initially be for a 3-year horizon rather than the 5-year horizon covered within the MTFP but reflects a very welcome recognition of the need to move towards multiyear financial security.

In the past EU funding has been an area of significant success for HITRANS. EU Exit has reduced the availability funding with the loss of access to European Territorial Cooperation Funding being a significant loss for HITRANS. We will continue to advocate for a new approach in this regard in future ETC programmes but recognise this is a matter reserved to UK Government. HITRANS has continued to seek opportunities within available programmes and have secured Horizon Europe funding through the RURALITIES project. We have also participated in a further five Horizon Europe consortium bids and will continue to look to utilise our extensive network of EU Member State contacts to seek new opportunities to bid for Horizon Europe funding. The high intervention rate (100% funded) makes Horizon Europe an extremely competitive funding stream. Officers have also explored EURO-GIA funding and will be preparing a bid to this programme in 2025.

HITRANS has successfully bid for a range of domestic funds through competitive bidding programmes including success in recent years in the following sources:

- Smarter Choices Smarter Places
- UKRI – Future Flight Challenge
- UKRI – Centre for Connected and Autonomous Vehicles
- Bus Partnership Fund
- MaaS Investment Fund

Smarter Choices Smarter Places has essentially now been absorbed into the People and Place Programme. The same programme directly funded through the RTP can now be utilised for activity previously taken forward by HITRANS through the MaaS Investment Fund enabling digital transport solutions to be secured including to support Demand Responsive Transport. As the success of this programme is captured through monitoring and evaluation HITRANS will make the case that it represents a model that supports the delivery of the National Performance Framework and key Government priorities in a way that works best within the Highlands and Islands with real collaboration with key local partners. We believe that this model would work well for other areas of transport currently managed at a national level or where funding is not

being provided to meet the needs of rural or island areas as fairly or equitably as we believe should be the case. Our 2021 Rural Bus Funding and Support Report set out areas for improvement in the way we support bus services in Scotland and the recommendations of this report would represent a good opportunity to improve Bus Futures in the Highlands and Islands with support to both partner Councils and HITRANS.

HITRANS have actively supported the public service reform agenda and contributed a proposal under the Democracy Matters workstream within the Local Governance Review setting out how HITRANS and our partner Councils could assume additional transport responsibilities. A number of the areas proposed by HITRANS in this work have featured in the new approach taken to Active Travel following the Transformation Project undertaken by Transport Scotland on behalf of Ministers.

HITRANS new Regional Transport Partnership includes recommendations on transport governance that align well with the work of Audit Scotland on Fiscal Sustainability and Public Service Reform. Collectively RTPs have refreshed the Develop to Deliver report that helps set out a framework on how and where RTPs can be more engaged in a new delivery approach on supporting transport in Scotland. Opportunities for this are also reflected in the commitment to re-start work on the Review of Transport Governance which Scottish Government / Transport Scotland include as a commitment within the Fair Fares Review to re-start the Review of Transport Governance.

A major demand driver for transport is Health. In the Highlands and Islands Health Travel both for patients, companions and staff can be particularly challenging. HITRANS has commenced work on developing the potential for a Health and Transport Action Plan for the Highlands and Islands. This work has been recognised as a key commitment within the Scottish Government's Transport to Health Delivery Plan. This Plan also recognises HITRANS work on developing a report to recommend improvements for patient travel from Uist and Barra to Stornoway to improve outcomes for patients within its recommendations. These are two examples where HITRANS is working in line with the National Performance Audit of NHS in Scotland 2024 underlining our potential and an enabler of improvement and change in public service delivery.

Audit Scotland have recently completed a Sustainable Transport Audit which is expected to be published in late January / early February 2025. This will help clarify delivery of a range of national commitments including the ambition to reduce car kms by 20% by 2030. RTPs and local authorities will be important partners to Scottish Government in delivering this ambition and it offers an opportunity for further collaboration and a focus on the best range of measures to support reduced car use and increased active and sustainable travel to and within the Highlands and Islands. These targets will be set with a focussed horizon of delivering real change in the period to 2030. Building this on a foundation of a commitment to secure funding and resourcing in the next five-year period is going to be critical to meeting this shared ambition and underlines the importance of HITRANS establishing a clear Medium Term Financial Plan.

Recommendation

1. Members are invited to note the report.
2. Members are asked to discuss the principles set out in the report.

3. Members are asked to delegate preparation of the final Medium Term Financial Plan to the Partnership Treasurer and Partnership Director and for this to be included in the 2025/26 Business Plan that will be taken to the April 2025 Partnership Meeting for approval by the Partnership Board.

Report by: Ranald Robertson
Designation: Partnership Director
Date: 8th January 2025
Background Paper: Five Year Budget Forecast Table