

Consultation Response:  
Consultation on Reimbursement  
Arrangements for the Concessionary  
Bus Travel Scheme in England

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# Part 1: Introduction

- 1.1** On 17 September 2010 a public consultation was launched to seek views on proposed changes to reimbursement arrangements for concessionary bus travel in England (technical guidance and associated legislative changes).
- 1.2** A mandatory bus concession for older and disabled people has been in place since 2001. The scheme has gradually been extended since its introduction and since April 2008 has provided free off-peak local bus travel to eligible older and disabled people anywhere in England. Around £1 billion a year is now being spent on concessionary travel in England and it is very popular with the 11 million people who benefit from the opportunity of greater freedom and independence that it provides.
- 1.3** The Coalition Government has committed to protect free bus travel for older people. However, as with all public spending we must make sure that taxpayers' money is spent as efficiently as possible. Changes to the age of eligibility for the scheme were introduced from April 2010 and will deliver significant savings. Further, the Government is keen to support local authorities in ensuring efficient administration of the scheme in determining accurate reimbursement of bus operators according to the 'No better, no worse off' principle.
- 1.4** Draft Concessionary Travel Reimbursement Guidance was published with the Consultation together with a Reimbursement Calculator. The primary aim of the consultation was to seek views on whether the Guidance and Calculator were fit-for-purpose and how they could be improved; whether the balance between simplicity and local flexibility was right; and whether any additional evidence could be provided which supported or contradicted research findings and the methodological framework of the guidance.
- 1.5** Consultees were also asked to provide comments on whether the proposed regulatory changes adequately supported the new reimbursement framework set out in the guidance and their views on proposals for potential future radical reforms of reimbursement arrangements.
- 1.6** The consultation document was published on the Department's website and sent electronically to around 400 stakeholders, including all English

Travel Concession Authorities (TCAs) and major bus operators. The consultation ran for eight weeks, closing on 11 November 2010.

- 1.7** A total of 89 responses were received to the consultation (a list of respondents is included at Annex A). These responses can be broken down as follows:

<b>Table 1 - Breakdown of Responses</b>	
Large Bus Operators	12
Small Bus Operators	6
Representative Organisations	3
Interest Groups	4
Local Government	60
Members of the public	1
Other	3
<b>Total</b>	<b>89</b>

- 1.8** The local government respondents can be broken down further as follows:

<b>Table 2 - Further Breakdown of Local Government respondents</b>	
County Councils	19
Shire Districts	2
Unitary Authorities	29
PTEs	4
Combined Authorities (schemes)	3
Other	3
<b>Total</b>	<b>60</b>

- 1.9** On 29 November 2010, the Government published an Interim Consultation Response on the changes made to the reimbursement guidance following consultation. The final reimbursement guidance and calculator were published at the same time and will apply to Concessionary Travel Schemes in England commencing on or after 1st April 2011.

**1.10** This Final Consultation Response provides further details on the changes made to the guidance and covers responses to the other questions in the consultation document on proposals for legislative changes and options for future reforms.

# Part 2: Executive Summary

- 2.1** A small majority of respondents who expressed an opinion thought that the draft guidance was not fit-for-purpose and could be improved. However, most respondents thought that the new guidance was simpler and easier to understand and use than previous guidance. Respondents provided detailed comments on a wide range of issues and many made suggestions on how to improve the draft guidance.
- 2.2** A majority of respondents did not think that the draft guidance struck the right balance between prescription / simplicity and local flexibility. However, detailed analysis of the arguments put forward did not suggest a clear-cut case for either greater or lesser local flexibility in applying the reimbursement guidance.
- 2.3** Some respondents put forward some additional evidence and data to support or contradict the findings of research and the guidance's methodological framework.
- 2.4** We considered all comments on the draft reimbursement guidance and additional evidence put forward very carefully and where appropriate made changes, some significant, to the final guidance published in November – these were outlined in the Interim Response. No further changes to the guidance have been made but in this Final Response, we provide further detail of the Department's considered view on the many issues raised in consultation so that the rationale for the changes to the guidance is transparent and can be well understood by all stakeholders.
- 2.5** We take the view that the guidance is much improved following the changes we made in response to practitioners' comments and is as close as it can be to the 'No better, no worse off' principle. It is based on the best national evidence available to date and provides some flexibility for TCAs and bus operators to use local evidence in calculating reimbursement.
- 2.6** However, there is scope for improving and refining the guidance and the Department is intent on seeking feedback on the guidance from TCAs and bus operators, though the Reimbursement Working Group and wider engagement with the concessionary travel community, and undertaking some small-scale, focused research with a view to improving the current guidance for next year.

- 2.7** A majority of respondents felt that the proposed changes to the regulations outlined in the consultation document adequately supported the new reimbursement framework set out in the DfT guidance. Again numerous comments and suggestions were received on this subject.
- 2.8** The Department's proposals to reform the regulations covering these were met with broad support and the Department is planning to take these forward largely as outlined in the consultation document. The Department for Transport intends to make new regulations under the Transport Act 2000 to cover statutory concessions. Subject to parliamentary procedures, the Department is planning for these regulations to come into force from 1 April 2011. The 1986 Regulations covering discretionary schemes will be amended in due course.
- 2.9** A few respondents were opposed to our proposals to recognise the independent decision maker's power to adjust reimbursement rates or costs both upwards or downwards when considering appeals; however, many more respondents welcomed these proposals. The Department intends to explicitly recognise in the appeals system that the decision maker has the power to determine upwards or downwards. In our view, this not only complies with the requirements of Regulation (EC) No 1370/2007 but makes for an appeals system that is fairer and more consistent with the 'No better, no worse off' principle that bus operators should not be knowingly over- or under-reimbursed.
- 2.10** A few stakeholders expressed concerns about the length of time some appeals have taken in the past. We note these concerns and are currently reviewing the appeals process to ensure it is more streamlined and efficient in future years. We want appeals to be determined as quickly as possible subject to following the due processes.
- 2.11** With regards to future reforms, there was an appetite among stakeholders for exploring options to reform and simplify reimbursement arrangements further. The two options which received the most votes were a national reimbursement rate and a table of rates disaggregated by geography or other characteristics. However, stakeholder also expressed strong reservations in terms of the need to ensure the 'No better, no worse off' principle is met and their desire to reduce the scope for disputes. Many respondents also argued that some stability in the system was much needed.
- 2.12** We share these concerns and are also not convinced that the evidence base currently available supports such options. The Department has currently no plans to introduce further radical reforms of reimbursement arrangements in the near future. We take the view that it is desirable to allow time for the recent reforms to reimbursement arrangements to bed in before further fundamental changes are made. We will continue to

review this position and, in particular, monitor data developments such as the expansion of smartcard data. As explained above, we will also be looking to refine and improve the current guidance in the coming year.

# Part 3: Analysis of Responses

## Reimbursement Guidance and Calculator

**Question 1: Is the new guidance fit for purpose, i.e. is the advice provided on how to calculate reimbursement clear and relevant and have practical implementation issues been appropriately addressed? If not, please make suggestions as to how the guidance could be improved.**

### *Summary of Responses*

Table 3 - Summary of Responses to Question 1		
	No of responses	% of total (% of Y/N)
Yes	29	32.6 (44.6)
No	36	40.4 (55.4)
No Answer	24	27.0
Total	89	100

- 3.1** Just over one in four respondents did not provide a Yes/No answer to this question (although some provided comments) but of those who expressed an opinion, 55 per cent did not consider the draft guidance fit-for-purpose. However, detailed analysis of the responses shows that most respondents did think that the revised guidance was simpler and easier to understand and use than the previous "RAT" methodology.
- 3.2** Respondents provided detailed comments on a wide range of issues and many made suggestions on how to improve the draft guidance. It would be impossible to list all the issues raised in the consultation but Annex B discusses the most important ones or those questions that were raised most frequently.

### *Government Response*

- 3.3** The Department for Transport is encouraged that most respondents felt that the new guidance is simpler to use and easier to understand

compared to previous guidance as this was one important objective of the new guidance.

**3.4** The Department carefully considered all the issues raised by stakeholders and made changes to final guidance where deemed necessary and appropriate. Some of the most important changes made to the guidance in relation to the concerns raised under Question 1 include:

- Clarification on what ticket combinations can be used in the Discount Fare Method;
- Withdrawal of the underlying trends adjustment;
- Application of Marginal Capacity Costs: there is a presumption that they could apply to all routes.

**3.5** A detailed account of how the government has responded to comments on the technical aspects of the guidance and underlying research can be found at Annex B.

**Question 2: There is scope in the guidance to introduce local variation or take account of local circumstances in some elements of the calculations. Do you think that the balance between simplicity and local flexibility is right?**

*Summary of Responses*

Table 4 - Summary of Responses to Question 2		
	No of responses	% of total (% of Y/N)
Yes	27	30.3 (40.9)
No	39	43.8 (59.1)
No Answer	23	25.8
Total	89	100

**3.6** Again, a quarter of respondents did not provide a Yes/No answer to this question (although some provided comments). Of those who expressed an opinion, 59 per cent did not think that the draft guidance struck the right balance between simplicity and local flexibility. However, detailed analysis of the arguments put forward does not suggest a clear-cut case for either greater or lesser local flexibility in applying the reimbursement guidance.

- 3.7** We received many comments on this issue but the following concerns were raised with relatively greater frequency:
- The guidance is based on national averages that may not reflect local circumstances. The research base is too focused on Southern parts of the country and may not accurately represent Northern or rural areas. No special treatment is recommended for honey pot areas.
  - The distinction between the PTE and Non-PTE areas in the demand curve is too rigid.
  - Use of PTE and Non-PTE average fares in 2005/6 for calculating the reimbursement factor does not reflect the 'No better, no worse off' principle. Long distance routes and high quality operators are unduly penalised under this method.
  - Exception criteria to determine which routes marginal capacity costs apply are too rigid. Some elements in the Marginal Capacity Calculator, such as vehicle mile and hour costs, should be allowed to vary.

#### *Government Response*

- 3.8** The concepts associated with concessionary travel reimbursement are inevitably complex, and, in ensuring that the 'No better, no worse off' principle is met, an important balance has to be struck between the level of prescription, which leads to greater simplicity, and the scope for local variation.
- 3.9** The new guidance has been developed with a view to striking this balance as best as possible. The findings and recommendations of the extensive ITS Leeds research have enabled the Department to be more prescriptive about certain core elements of reimbursement. There have been other aspects of the guidance where we have judged that the use of local data and evidence would better reflect the 'No better, no worse off' principle.
- 3.10** Analysis of the comments made under this question seems to suggest that overall, the balance between prescription and local flexibility in the guidance is about right. However, all arguments put forward for greater or lesser local flexibility have been considered in detail by the Department (see Annex B for a more detailed discussion) and significant changes were made in the final guidance where appropriate, in particular:
- Guidelines on the selection of the PTE Single Demand Curve based on a criteria of car availability among the over 60s;
  - A change in the methodology to calculate the reimbursement factor using the Single Demand Curve based on the operator specific

change in fares between 2005/6 and current year (rather than the change in fares compared to an average national benchmark);

**3.11** In some areas, the Department takes the view that the evidence base currently available does not support changes to the guidance at this stage. However, the Department remains open to robust evidence and data being brought to its attention by stakeholders.

**Question 3: The methods outlined in the guidance are based on extensive new research into the factors that affect reimbursement. Do you have additional robust evidence which supports or contradicts the findings of the research and the guidance's methodological framework?**

*Summary of Responses*

Table 5 - Summary of Responses to Question 3		
	No of responses	% of total
Yes	18	20.2
No	46	51.7
No Answer	25	28.1
Total	89	100

**3.12** 18 respondents (20 per cent) said that they had additional robust evidence to support or contradict the findings of research and the guidance's methodological framework. Respondents provided data and evidence on the following issues:

- Rational behaviour of passengers when purchasing tickets;
- The discount factor method of calculating the average fare forgone;
- The service elasticity parameter in the Marginal Capacity Cost Calculator;
- The Mohring power parameter in the Marginal Capacity Cost Calculator;
- The level of generation of concessionary journeys as a result of the national free travel concession.

*Government Response*

**3.13** The Department for Transport has very carefully considered the evidence put forward that challenges the robustness of the ITS research evidence

and the methodological framework underpinning the guidance - further details can be found at Annex B.

- 3.14** As a result of the comments received in the consultation, the final guidance includes an additional recommendation on the average fare forgone calculations. It recommends that where the proportion of period tickets estimated to be purchased by concessionary passengers in the absence of the scheme exceeds that observed to be purchased by commercial passengers, the basket of fares approach should replace the discount fare method. This is to ensure that the Discount Fare Method is not used where it produces unreasonable results.

**Question 4: In particular do you have further robust evidence/suggestions as to whether and how local circumstances could be taken into account in the calculation of the Reimbursement Factor?**

*Summary of Responses*

Table 6 - Summary of Responses to Question 4		
	No of responses	% of total
Yes	44	49.4
No	21	23.6
No Answer	24	27.0
Total	89	100

- 3.15** Almost half of respondents said they had further evidence or suggestions on the issue of local flexibility in the calculation of the reimbursement factor.

*Government Response*

- 3.16** Similar issues were raised by stakeholders in response to this question as to Question 3 such as, for instance, the application of average fares in the calculation of the reimbursement factor. The Department for Transport's considered view of these concerns and evidence put forward by stakeholders is can be found at Annex B.

**Question 5: Is the reimbursement calculator easy to use? If not, please make suggestions as to how it could be improved?**

*Summary of Responses*

Table 7 - Summary of Responses to Question 5		
	No of responses	% of total (% of Y/N)
Yes	48	53.9 (76.2)
No	15	16.9 (23.8)
No Answer	26	29.2
Total	89	100

**3.17** Around 30 per cent of respondents did not provide a Yes/No answer to this question. Of those who expressed an opinion, a significant majority (over three quarters) considered the calculator to be easy to use. Detailed analysis of responses shows that nearly all respondents preferred the new calculator to previous spreadsheet tools made available to them by the Department.

**3.18** The main concern raised by those who did not consider the calculator user-friendly was that the worksheets containing the underlying workings could have been clearer. Many respondents also pointed out that the Marginal Capacity Costs Calculator did not allow the calculation of costs for individual routes.

*Government Response*

**3.19** The calculator accompanying the final guidance was updated to reflect the changes to the guidance but was also drastically improved. The Department made considerable efforts to improve the clarity of the worksheets containing the underlying calculations and derivations so that they are more transparent and easier to understand. The Marginal Capacity Cost Calculator was amended to enable route-level calculations. Many changes were also made to improve the user-friendliness of the Calculator, including the use of buttons to assist users in navigating through the different steps of the calculations.

## Changes to Regulations

### Question 6: Do the proposed regulatory changes adequately support the new reimbursement framework set out in the guidance?

#### Summary of Responses

Table 8: Summary of Responses to Question 6		
	No of responses	% of total (% of Y/N)
Yes	44	49.4 (73.3)
No	16	18.0 (26.7)
No Answer	29	32.6
Total	89	100

**3.20** Under a third of respondents did not provide a Yes/No answer to this question although some provided comments. Nearly three quarters of those who expressed an opinion felt that the proposed changes to the regulations outlined in the consultation document adequately supported the new reimbursement framework set out in the DfT guidance.

### Question 7: Are there any other changes to the regulations that you would find helpful?

#### Summary of Responses

Table 9: Summary of Responses to Question 7		
	No of responses	% of total (% of Y/N)
Yes	41	46.1 (69.5)
No	18	20.2 (30.5)
No Answer	30	33.7
Total	89	100

**3.21** Under half of respondents made suggestions on other changes that might be useful. All suggestions were carefully considered but given the wide range of issues covered, we will mainly focus on the most frequent issues mentioned under Question 6 and 7.

- 3.22** Most respondents felt the 1986 Regulations were not appropriate for reimbursement arrangements under the Transport Act 2000 and welcomed the proposals to create new regulations covering the mandatory scheme. There was a strong preference for both sets of regulations to be consolidated into one single set under both Acts. Several respondents stressed that in combining the two sets of regulations discretionary elements must not be imposed on operators without their agreement.
- 3.23** A few respondents argued that the 'No better, no worse off' principle should be clearly stated in any revised regulations while others felt the Department should not regulate over reimbursement concepts which may be contested and should not be over-prescriptive. In particular, the Regulations should not preclude TCAs from adopting methods or procedures which are different from what is advised in the DfT reimbursement guidance. Some respondents argued that the new domestic regulations should make express reference to the EU law obligation about net financial effects.
- 3.24** There was strong support for the proposals to enable TCAs to request data from operators in line with the guidance requirements – only two respondents argued that this would impose a significant burden on operators. Some respondents argued that operators should be required to provide data within a specified timeframe such as one month. Other respondents argued that the regulations should make clear that the data should be kept confidential and should only be used for the purposes for which it has been supplied. A few respondents thought that it would be helpful to clarify the scope of the confidentiality requirement of Regulation 14 in relation to Freedom of Information requests.
- 3.25** No objections were made to the proposal that operators should give TCAs seven days' notice before fare revisions are implemented, although a few respondents argued that the notice period should be extended to 15–28 days. The reasons for extending the notice period were, however, not explicitly mentioned in the responses.
- 3.26** There was strong support for the proposals to recognise the Secretary of State's power to be able to adjust the revenue reimbursement rates or additional cost payments both upwards and downwards when considering bus operator appeals on statutory schemes. Respondents felt that this would help prevent appeals being launched without valid grounds and that the proposals were consistent with both EU law and the 'no better no worse off' principle. However, a few respondents were opposed to this proposal arguing that it was unfair.
- 3.27** Just under one in ten respondents called for the 56-day appeal window to be abolished. Many felt that limiting the time period within which

appeals can be launched encouraged speculative appeals as operators sought to preserve their legal position and that removing the appeals window would lead to a reduction in the number of speculative appeals. It was also argued that because additional cost claims could be submitted at any time, it was not logical not to have any appeals recourse outside of the window.

- 3.28** There were also concerns among some respondents that the guidance would form the basis of appeals determinations and that this would introduce an in-built bias in the appeals system.
- 3.29** Five per cent of respondents also felt that the current arrangements whereby appeals are made to the Secretary of State were unsatisfactory as many appeals would relate to the DfT guidance itself. They argued that an independent tribunal, rather than the Secretary of State, should determine appeals. If the suggestion for a suitable tribunal is not taken up, the SoS should have the power to determine that a scheme is unlawful. This should be expressly provided for in new regulations.
- 3.30** A few respondents were concerned that the appeals process took too long and that provisions should be made to regulate appeals proceedings and in particular should set time limits for appeal determinations.

#### *Government Response to Q6–7*

- 3.31** There is a general consensus that the regulatory framework needs to be clarified in respect of the mandatory concessionary travel scheme. The Government intends to make new regulations under the Transport Act 2000 to cover statutory concessions. Subject to parliamentary procedures, the Department for Transport is planning for these regulations to come into force from 1 April 2011.
- 3.32** The mandatory and discretionary concessions are created by separate pieces of primary legislation. While this does not, in itself, preclude them from being dealt with in one single Statutory Instrument, the primary legislation provisions are sufficiently different to mean that it is more appropriate to deal with them in separate, dedicated, instruments.
- 3.33** The 1986 Regulations covering discretionary schemes will be revised in due course to ensure consistency in the terminology of the new statutory instrument covering the statutory concession. There should be greater clarity with regard to the different procedural arrangements associated with the concessionary and statutory scheme as a result of two separate sets of regulations.

- 3.34** Primary legislation does not contain a provision for the 'No better, no worse off' objective. However, this provision has been restated in the new regulations as it has been a fundamental element of reimbursement. Other clauses in the 1986 Regulations such as those defining the components of reimbursement have been removed as they are already covered in the relevant European Regulations and as such it would be incorrect for them to also to be specified in domestic regulations.
- 3.35** The Regulations will also preserve the right of TCAs and operators to agree reimbursement arrangements using their own methodology provided that a standard method is applied. However, as in the 1986 Regulations, TCAs will be able to use, at their own costs, an alternative method should the standard method be inappropriate for a particular operator.
- 3.36** We are planning to change the regulations so that operators have to notify TCAs of fare changes no later than on the day of the change (compared to in the 1986 Regulations). This is compared to the provisions in the 1986 Regulations where fare changes were to be shared by Operators with the TCAs no later than seven days. As reimbursement calculations are done retrospectively, it was felt that any further advance notice of fare changes would be unnecessary.
- 3.37** The new regulations will continue to enable TCAs to request data to calculate reimbursement, including data items specified in the guidance such as ticket sales data. Provisions similar to those found in the 1986 Regulations will be replicated in the new regulations in order to protect operators' commercial confidentiality and operators' commercially sensitive data will not be able to be divulged by TCAs to third parties - even with respect to FOI requests without prior written consent from the relevant operator(s).
- 3.38** The Department is also planning to explicitly recognise the Secretary of State's (or independent decision maker on his behalf) power to adjust reimbursement rates or additional costs both upwards and downwards when considering appeals. We believe that this is consistent with both the requirements of Regulation (EC) No 1370/2007 as well as the 'No better, no worse off' principle that no bus operators should be knowingly under- or over-reimbursed.
- 3.39** The new regulations will also make it clear that operators must provide details of the grounds for the application in appeals. This is to avoid a situation where speculative appeals are launched without detailed grounds being stated.
- 3.40** Many stakeholders said they would like to see the 56-day appeals window removed or at least extended. However, this would require a

change to primary legislation and we do not currently have plans to do so. However we will continue to review the position on this issue.

- 3.41** A few stakeholders also called for an independent tribunal to consider appeals. The Department takes the view that appeal determinations are determined in an unbiased way and that the current system is fair and does not need changing. Appeals are currently determined by independent decision makers appointed by the Secretary of State. The Secretary of State or his appointed representative will, in determining the appeals brought to him, take account of the DfT guidance, but most importantly will apply the law relating to the compensation of operators. The Secretary of State is an impartial arbiter and will always consider evidence which supports a departure from the guidance. This will ensure that the 'No better no worse off' principle is met.
- 3.42** We note stakeholders' concerns about the length of time some appeals have taken in the past. Appeals take time because they touch on complex legal and economic issues and it is imperative that each appeal is considered fairly. In particular, it takes time to obtain all the data necessary from both TCAs and operators before any analysis can be undertaken. We are currently considering ways in which the appeals process can be streamlined to reduce delays. One way of reducing the overall length of the process would be for operators to submit their data proformas at the time in which the appeal is made. The current practice of data requests being made by the DfT after an appeal is lodged means that data analysis cannot start as soon as an appeal has been lodged. We want appeals to be determined as quickly as possible subject to following due processes.

## Options for Future Reforms

**Question 8a: Which of the options (A–D) below are worthwhile pursuing and what are the benefits / drawbacks of each option?**

### *Summary of Responses*

Table 10: Summary of Responses to Question 8a								
Option	A		B		C		D	
	No of responses	% of Y/N						
Yes	36	53.7	31	47.7	18	28.1	10	15.9
No	31	46.3	34	52.3	46	71.9	53	84.1
No Answer	22		24		25		26	
Total	89		89		89		89	

Option A: A single national reimbursement rate.

Option B: A table of reimbursement rates which vary by geography and/or trip characteristics.

Option C: A table of payments which vary by geography and/or trip characteristics.

Option D: A flat payment per concessionary trip.

**3.43** Around a quarter of respondents did not provide a Yes/No answer to this question. Of those who expressed an opinion, a small majority of respondents thought that a single national reimbursement rate was an option worth pursuing. All other options were deemed to be inappropriate by a majority of respondents although options C and D (flat payment per trip or varying by geography) attracted by far the most opposition - there was a much less clear-cut majority against option B (table of reimbursement rates).

**3.44** Respondents thought that the main benefit of option A (single national reimbursement rate) would be to make reimbursement arrangements much simpler to understand and administer and more predictable, therefore potentially reducing uncertainty about the costs of the scheme and decreasing administrative costs for all parties. This option would also greatly reduce the scope for arguments.

**3.45** One of the main drawbacks of this option was that it would undermine the 'No better, no worse off' principle because it would not take account of major variations between areas and it would be impossible to set a rate which does not lead to under-reimbursement or over-reimbursement

of some operators. Some respondents also thought that it would provide an incentive for operators to increase fares as there would be a disconnect between the average fare forgone and the reimbursement factor.

- 3.46** Simplicity was also seen as one of the main advantages of option B. In addition, respondents thought that it could potentially better reflect local variation.
- 3.47** However, one of the main drawbacks of this option was that it was seen as too complicated and open to challenge and that it would be difficult to establish which rate applied to which journeys, leading to arguments between TCAs and bus operators. Some respondents also thought that it would be extremely difficult to derive robust reimbursement factors by geography and trip characteristics.
- 3.48** Simplicity and predictability were again seen as one of the main advantages of option C but a substantial number of respondents did not see any advantages to this option.
- 3.49** Respondents thought that the main drawback of Option C was that it was too complicated and open to challenge and that it may not achieve the 'No better, no worse off' objective. There would also be arguments as to which routes fall within which categories.
- 3.50** The main advantage of option D was simplicity but the reverse of this was that this option was seen as somewhat too crude and in contradiction of the 'No better, no worse off' principle. In particular, it could potentially discriminate against rural or long-distance services.

**Question 8b: If you have a preferred option please let us know**

*Summary of Responses*

Table 11: Summary of Responses to Question 8b		
Option	No of respondents	% of Preferences
A	17	37.8
B	15	33.3
C	8	17.8
D	5	11.1
No Answer	44	
Total	89	

**3.51** Almost half of respondents did not express a preference for any of the options. Of those who expressed an opinion, the 'single national rate' option was deemed as favourite by over a third of respondents, narrowly followed by the 'table of reimbursement rates' option (just under a third of respondents elected this option as their favourite). The two 'flat payment' options attracted the least votes.

**Question 9: What evidence would be required to support each option and how could that be best sourced?**

**3.52** Around half of respondents provided comments in this question. Many respondents felt that the wider use of smartcard technology would, in the future, help provide the robust data necessary to develop these options. Others thought that the data already available on concessionary trips, fares and other factors would be suitable but would need to be obtainable by route/service type, geography and other characteristics to support options B and C. The collection of such data and development of the options would also require a collaborative approach between DfT, TCAs and bus operators. Other respondents thought that no robust data was yet available in a comprehensive manner to support the development of these options.

**Question 10: If the Department were to develop more radical options, over what timeframe should any further changes be introduced?**

**3.53** Just under three quarters of respondents answered this question. Most respondents felt that any further changes to reimbursement arrangements should be developed with sufficient lead times so that the implications of the changes could be fully assessed. Many suggested that a lead time of at least one year would be appropriate and that stakeholders should be fully consulted. A few respondents were happy to see further reforms be implemented as soon as 2012/13.

**3.54** However, many respondents felt that now was not the time for further radical changes to reimbursement arrangements. They argued that these had been in a constant state of flux since the introduction of local free fares in 2006 and a period of stability was required. They took the view that no further radical changes should be introduced other than refinements to the current approach.

*Government Response to Q8–10*

**3.55** The Department notes that there is some appetite among stakeholders for exploring options to reform and simplify reimbursement arrangements further, especially in the form of fixed reimbursement rates, whether set

at a national level or disaggregated by geography or other characteristics. However, we also note the strong reservations which stakeholders have put forward in terms of the need to ensure the 'No better, no worse off' principle is met and their desire to reduce the scope for disputes. Many argued that some stability in the system was much needed.

- 3.56** It is paramount for any reimbursement system to deliver 'No better, no worse off' as closely as possible. Options A and B (fixed reimbursement rates) are attractive in terms of delivering simpler arrangements and this is certainly an important factor to consider. However, the challenge would also be to design a system where reimbursement rates are set at such a level that operators are not under-reimbursed but without leading to other operators being over-reimbursed. Not only would such a system contravene EU legislation, it would also be financially inefficient. Finally the Department is not convinced that the evidence necessary for the development of such options is yet available in a comprehensive and robust manner.
- 3.57** Given these challenges and responses received in consultation, the Department has no plans to introduce further radical reforms in the near future. We take the view that it is desirable to allow time for the recent reforms to reimbursement arrangements to bed in before further fundamental changes are made. We will continue to review this position and, in particular, monitor data developments such as the expansion of smartcard data.
- 3.58** The Department believes that the new reimbursement guidance is as close as it can be to 'no better no worse off' while being simpler and more prescriptive than in the past. It is based on the best available national evidence to date and provides some flexibility for TCAs and bus operators to take account of local circumstances. However, there is scope for further refinements and improvements and the Department is intent on seeking feedback from TCAs and bus operators, through the Reimbursement Working Group and wider engagement with the concessionary travel community, as to how the guidance can be improved, both in terms of the methodology and practical application issues.
- 3.59** The Department is also considering the possibility of further research on specific aspects of the reimbursement methodology and is keen to access data which would support such research. Annex C provides further information on the type of data which would be useful to support some of this work. TCAs and bus operators who own suitable data and are willing to share those with the Department for research purposes are invited to contact [concessionaryfares@dft.gsi.gov.uk](mailto:concessionaryfares@dft.gsi.gov.uk). The Department

would also like to explore the possibility of collaborating with parties on future research on other issues such as the service elasticity.

# Annex A: Respondents

**Table A1: List of Consultation Respondents**

Abellio West London Ltd (trading as Abellio Surrey)	National Express West Midlands
The Association of Local Bus Company Managers (ALBUM)	Norfolk County Council
The Association of Transport Co-ordinating Officers (ATCO)	North Somerset Council
Arriva Plc	North Yorkshire Concessionary Fares Partnership
Bournemouth Transport Ltd (Yellow Buses)	North Yorkshire County Council
Bracknell Forest Council	Northumberland Council
Brighton & Hove City Council	Nottingham Business School
Buckinghamshire County Council	Nottinghamshire County Council
Cambridgeshire County Council	Passenger Transport Executive Group (PTEG)
Cheshire Districts Concessionary Travel Scheme	Peterborough City Council
Compass Travel (Sussex) Ltd	Plymouth City Council
Cornwall Council	Portsmouth City Council
County Councils Network	Reading Borough Council
Confederation of Passenger Transport (UK) (CPT)	Redcar and Cleveland Borough Council
Cumbria County Council	The Rotala Group
The Dales & Bowland Community Interest Company	Rural Services Network
Derby City Council	Sargeants Brothers Ltd
Devon County Council	Shropshire Council
Dorset County Council	South Gloucestershire Council
DRM Coaches Ltd	South Somerset District Council
East Riding of Yorkshire Council	Southampton City Council
	Southend on Sea Borough Council
	Stagecoach Group Plc

East Sussex County Council	Stephensons of Essex Ltd
East Yorkshire Motor Services Group Ltd	Stockton-on-Tees Borough Council
Essex County Council	Suffolk County Council
FirstGroup Plc	Surrey County Council
Greater Manchester Passenger Transport Executive	Swindon Borough Council
Go West Travel Ltd (trading as Norfolk Green)	The TAS Partnership Ltd
The Go-Ahead Group Plc	Tees Valley Enhanced Concessionary Travel Scheme (Hartlepool, Middlesbrough, Redcar & Cleveland and Stockton-on-Tees UAs)
Hampshire County Council	Thurrock Council
Hartlepool Borough Council	Transport for London
Hertfordshire County Council	Transdev Blazefield Ltd
Hull City Council	TravelWatch NorthWest
F Hunt Coach Hire Ltd	TravelWatch SouthWest
Isle of Wight Council	Tyne & Wear Passenger Transport Executive (Nexus)
JMP Consultants Ltd	West Berkshire Council
Johnsons Coach & Bus Travel LTD	Western Greyhound Ltd
Kent County Council	West Midlands Passenger Transport Executive (Centro)
Lancashire County Council	Wiltshire Council
Leicestershire County Council	Wokingham Borough Council
Lincolnshire County Council	Worcestershire County Council
Local Government Association (LGA)	One Member of the Public
Luton Borough Council	
Medway Council	
Middlesbrough Council	
Milton Keynes Council	

# Annex B: Changes to the Guidance

- B.1** This Annex describes in greater detail the Department for Transport's considered view on some of the comments made in consultation on specific aspects of the reimbursement guidance and the changes and clarifications made in the guidance as a result.

## General

### **Clarification on variations to discretionary schemes**

- B.2** The Guidance has been amended to reflect the correct notice period required under the Transport Act 1985 for variations to discretionary schemes.
- B.3** In addition to the mandatory concession, an Authority may provide further concessions locally in its Scheme on a discretionary basis under provisions of the Transport Act 1985. The Authority may change those local elements of its Scheme by means of a Variation Notice. It may require an Operator to participate in the locally enhanced Scheme by serving a Participation Notice. If, under section 97(2) of the Transport Act 1985, an Authority wishes to be in a position to serve a Participation Notice in the event of the operator indicating that he was not prepared to accept a Variation to the Scheme, then the Authority should allow a period of at least 56 days (rather than the 28 days suggested in the draft version of the guidance) plus any time required for the delivery of notices between the issue of a Variation Notice and the date on which the Variation is due to take effect. This would allow 28 days for operators to respond to the Variation notice, and a further 28 days for the Authority to serve a Participation Notice.

### **Treatment of infrequent services, Community bus services and small operators**

- B.4** The final version of the Guidance suggests that TCAs may wish to consider making special arrangements for the reimbursement of infrequent bus services (service of once a day or less).

- B.5** The reason for making this provision is that concessionary passengers using infrequent bus services may not have the same incentive or opportunity to increase the number of trips with free fares compared with a situation of no concessionary scheme as would be the case with users of more frequent bus services. The users of infrequent bus services are relatively small in number so do not show up in national surveys or datasets. However such services are an important link for rural communities and can be an important part of the business of small bus operators.
- B.6** The same principle applies to community bus services eligible for the concessionary travel scheme.
- B.7** The Guidance also reminds TCAs that they may wish to have regards to the provisions made in the regulations governing concessionary travel reimbursement which provide that a standard method does not necessarily need to be applied to small operators as it may prove unduly onerous to both the TCA and the operator.

**The draft guidance does not conform to the principles laid out in EU regulations on the 'reasonable profit' associated with reimbursement.**

- B.8** EU Regulations 1370/2007 are the overarching legislation that governs reimbursement arrangements. The 'No better, no worse off' principle that is referred to in the Travel Concession Schemes Regulations 1986 is consistent with the approach mandated in the EU regulations.
- B.9** Section 6 of the Annex of EU regulation 1370/2007 states that:  
*'Reasonable profit' must be taken to mean a rate of return on capital that is normal for the sector in a given Member State and that takes account of the risk, or absence of risk, incurred by the public service operator by virtue of public authority intervention.*
- B.10** The Department takes the view that the position on reasonable profit set out in the final guidance is consistent with EU regulations. There is an implicit allowance for operator profit within the revenue forgone element of reimbursement through the average fare forgone. In addition the guidance recommends that a profit allowance be made in the form of a rate on return on capital employed for additional peak vehicle requirements.
- B.11** The Annex to the EU regulations has also been appended to the final version of guidance to reiterate the legal obligations of Travel Concession Authorities under these regulations.

## Average Fares

### **It is incorrect to assume rational behaviour of passengers when purchasing tickets**

- B.12** The Discount Factor Method is the preferred method for calculating the average fare forgone in the draft guidance. This method is based on existing trip patterns of concessionary passengers and how these would assign themselves to different tickets based on their relative price ratios. The principle of this method is that in the absence of the free fare scheme, concessionary pass holders would be expected to behave rationally and buy discounted tickets (such as daily and weekly tickets) to economise on their expenditure on bus journeys.
- B.13** Some consultation responses received challenged this methodology as an incorrect characterisation of ticket purchasing behaviour - they argued that ticket choices can be irrational or sub-optimal, for example people may choose single tickets when they should have chosen period tickets. Data was supplied to us by some respondents to prove this conjecture.
- B.14** We agree that decisions about ticket purchases may be affected by uncertainty of future trip patterns. However, evidence on the precise incidence of sub-optimal ticket purchase is not easy to find as it ideally requires detailed data on individuals and their daily trips and ticket purchasing behaviour. Evidence from the purchase of a particular ticket, on its own, does not represent sufficient evidence for sub-optimal ticket purchase.
- B.15** Other data provided during the consultation suggested that whatever the degree of sub-optimal ticket choice, there were a number of places in England with advantageously priced period tickets where a significant proportion of commercial passengers purchased daily and other period tickets rather than single tickets. We have also considered data from the half fare concessionary scheme, where half fare day tickets, as well as half fare single tickets were purchased. These data sources suggest that concessionary passengers did purchase period tickets when the relative ticket prices make it worthwhile for them to do so.
- B.16** The average fare calculator has been tested with several different combinations of ticket prices. In the cases where we have data on commercial ticket prices and ticket purchases, the calculator generates estimates of the proportions of period tickets bought by concessionary passengers that are lower than that observed to be bought by commercial passengers. Therefore the Department takes the view that

the ticket allocation methodology provides sensible results and that it does not need to be adjusted.

- B.17** However, we have included a safeguard in the guidance so that if, for a particular operator, the calculator estimates that a higher proportion of concessionary passengers purchase period tickets than commercial passengers, the Basket of Fares method should be used instead of the Discount Fare Method. The Calculator displays the final ticket allocation under the Discount Fare Method so that users can easily check the results.

### **Application of the Discount Fare Method and ticket type combinations**

- B.18** Many respondents pointed out that the Discount Factor Method did not seem to work for certain types of ticket combinations. The final version of the Guidance clarifies in which circumstances the Discount Fare Method can be used depending on the types of tickets available. In particular, it is recognised that the method does not work in the case of operators with only cash fares and weekly tickets or in the case of operators with no cash fares but with daily and weekly tickets.
- B.19** In addition, the Discount Fare Method is not applicable in the very rare cases where operators have atypical ticket price combinations such that the daily ticket to average cash fare price ratio is greater than 5 (before or after degeneration). In those cases the Basket of Fares Method should be used.

### **The Discount Factor Method of calculating the average fare forgone is incorrect**

- B.20** We received a representation from a group of respondents who suggested that the method for calculating the discount fare was incorrect because it appeared to implicitly assume that the trips made at discount fares would still be made at full fares - this was described as "degeneration of cheaper into more expensive trips" (the process of 'degeneration' adjusts trips down so that they are brought from free fares to full fares).
- B.21** We have considered the Discount Factor Calculator against this argument but are of the view that it needs no further adjustment. The discount factor methodology does allow for trips that would have been made using discount tickets before degeneration but are made at the full average cash fare after allowing for degeneration. In the 'AF Workings' spreadsheet in the reimbursement calculator, under the heading of 'Degenerate cash fare trip', the number of trips made at the cash fare falls after degeneration, but trips of other ticket types stay the same. This has the effect of reducing the weight of cash fares in the discount factor

calculation, and therefore increasing the fare discount. The scale of the reduction in the number of cash fare trips depends on the gap in cost per trip between the cash fare and period ticket - the bigger the gap in cost per trip, the bigger the reduction in the number of cash fare trips. This seems plausible where following degeneration, the trips are switching from cheap (per trip) period tickets to expensive (per trip) cash tickets.

**Use of a generic single ticket price inappropriate in calculating reimbursement. The use of the Average Equivalent Single Fare and/or Multi operator tickets should be allowed for in the average fare calculator**

- B.22** An argument was made in the consultation that the observed average single commercial fare is affected by passengers being more likely to choose returns or day tickets for longer, more expensive single trips. This is because the price of returns and day tickets are a higher discount against the single price for longer than for shorter trips. Therefore the observed weighted average single ticket price is lower than the average single fare that would be paid by passengers if all fares were single cash fares. The latter is known as the Average Equivalent Single Fare (AESF).
- B.23** The AESF gives a more detailed view of the relativity of different ticket prices for different lengths of trip, and therefore a more detailed estimate of the likely use of the different types of single and discounted tickets by concessionary passengers. However, the calculation of an AESF requires considerable data and analysis on ticket prices and trip lengths and is unlikely to be available in many TCAs. The guidance allows TCAs to use an AESF where they have the data, but does not require it.
- B.24** The use of an average observed single fare rather than an AESF can have different effects on reimbursement. If the estimation of the ticket choice of concessionary passengers is based on the average observed single fare, that will tend to give a lower proportion of period tickets chosen compared with using the AESF. In turn this implies a lower fare discount factor. The net effect on the average fare forgone that is used in the reimbursement calculation is uncertain. The average single fare is likely to be lower than the AESF, but the fare discount factor that is calculated using the observed average single fare is also likely to be lower than the fare discount factor calculated using the AESF.
- B.25** There were also suggestions in the consultation about the inclusion of multi-operator tickets. The guidance recommends that where relevant multi-operator ticket prices and sales should be included in the calculation of the average fare that concessionary passengers would have paid. The distribution of multi-operator ticket sales by operator could be based on each operator's share of total journeys or some other appropriate method.

## **Exception criteria for when not to apply the Discount Factor Method is not suitable**

- B.26** The draft consultation guidance contained an exception criteria that applies to circumstances when the Fare Discount Method is thought to be unsuitable. The criteria is defined as operators who have 60 per cent or more of concessionary passenger boardings (on services serving a TCA's area) carried on buses where the average weekday daytime frequency (09.30 to 18.00) is one bus per hour or less.
- B.27** In the consultation there were comments about possible perverse incentives of applying the criteria, and a suggestion that the criteria should be applied by corridor. It was also suggested that operators should be allowed to disaggregate their routes by types of service operated, rather than apply the criteria in an all-or-nothing way to all services.
- B.28** We have considered these comments and suggestions, but on balance we do not think that changing the exception criteria or the way it is applied will improve the methodology. The use of corridors or types or services requires identification and definition not currently used in the guidance. The further complication for what is an exception criterion does not appear to be justified.
- B.29** The final version of the guidance therefore has the same exception criteria as in the draft guidance.

## **Demand**

### **The distinction between the PTE and Non-PTE areas is too rigid**

- B.30** The draft guidance stipulated that all TCAs that are not PTEs should use the Non-PTE curve. Some stakeholders suggested in their consultation responses that there are some TCAs that are not PTEs but do share similar characteristics with them. It was suggested to us that for these 'PTE-like' TCAs the PTE demand curve would be more appropriate.
- B.31** ITS research suggested that one of the most significant determinants of bus journey demand is car availability among the over 60s. On this basis we have suggested in the final guidance that TCAs that have a similar percentage of car ownership among the over 60s as PTE areas (based on Census data) may find the PTE area demand curve more suitable.
- B.32** **However, it is important to note that these are guidelines.** Indeed the guidance suggests (paragraph 6.11) that TCAs *may wish to*, not should, use the PTE Single Demand Curve based on these criteria. In

practice this means that TCAs should use their own judgment and assess the strength of local evidence as to what would constitute 'No better, no worse off' before opting to choose the PTE demand curve. If TCAs have evidence that they area or particular sub-areas are more like non PTEs, this is a relevant consideration in deciding the reimbursement method for all services or a subset of services.

- B.33** Some local judgement should also be exercised in how the PTE curve is applied in a particular TCA area. Paragraph 6.15 in the final guidance contains some advice in this regard. For instance, a TCA which is classified as a 'PTE-like' area but attracts considerable cross boundary journeys from non PTE areas characterised by high car ownership may wish to consider using the non PTE reimbursement rate for the return journeys made by those non-residents. However, this depends on the extent to which data is available to be able to distinguish between journeys made by the TCA's own residents and those visiting from outside.
- B.34** For avoidance of doubt, the advice given in paragraphs 5.11–5.12 of the guidance regarding what method PTEs should use to estimate the average fare forgone does not apply to the 'PTE-like' areas listed in Table 5.6. These areas should use the Discount Factor Method where possible.

**Use of the PTE and Non-PTE average fares in 2005/6 for calculating the reimbursement factor does not reflect the 'No better, no worse off' principle. Long distance routes and high quality operators are unduly penalised under this method.**

- B.35** Under the draft guidance, the Operator specific average fare forgone in the year of calculating reimbursement was compared against a typical average fare forgone for PTE and Non-PTE areas in 2005/6. These average PTE and Non-PTE fares were derived by ITS from the PTE/MCL datasets.
- B.36** Many respondents considered this unfair to operators who had higher than average fares in 2005/6 because they operated long distance routes or because they offered above average service quality. Comparison of the average PTE and Non-PTE fare to their higher than average current fares generated a lower rate of reimbursement than if a 'like with like' comparison of their current average fares against their own average fares in 2005/6 was made.
- B.37** This particular problem has been considered at length by the Department, and we have devised a solution in the draft guidance by allowing TCAs to calculate reimbursement for operators on the basis of

the change in their own fares in 2005/6 rather than a change in their fares compared to an national average fare since 2005/06.

- B.38** It is important to stress that there have been no changes to the underlying principle of the Single Demand Curve - it was always the change in fares, not the absolute fare in the current year, that determined the reimbursement factor. What has changed between the draft and final guidance is the benchmark against which the change in fares is being measured. In the draft guidance, the 2005/06 fare against which the current operator fare was measured was the average fare for PTE areas and Non-PTE areas. In the final guidance the comparison is between the operator's current fare and the operator's 2005/06 fare.
- B.39** In order to calculate the reimbursement factor in the Single Demand Curve, it is therefore necessary to estimate the growth in operators' real fares between 2005/6 and the current reimbursement period. The preferred method suggested in the Guidance is for TCAs and operators to compare the average fare foregone in 2005/06 with the average fare foregone in the year of calculation. It is vital that these comparisons are made on a like-with-like basis between the two years, i.e. covering the same range of services.
- B.40** In cases where appropriate fare data on a like-for-like basis is not available (e.g. new operator, operator with significant changes to services), a TCA-wide average change in fares between 2005/06 and 2010/11 can be used, or if this is not available, the Calculator provides an estimate of the average change in fares based on a national bus fare index. From 2010/11 onwards, the change in the specific operator fare between 2010/11 and the year of calculation should be used.

**'The Underlying Trends' methodology is not robust and introduces significant scope for dispute.**

- B.41** Underlying trends are those factors, other than fares, that could have an impact on the demand for concessionary journeys. The original ITS estimation of the Single Demand Curves included aggregate underlying trend adjustments for PTE and Non-PTE areas between 2005/06 and 2008/9.
- B.42** The underlying trend adjustment was introduced in the draft guidance to help those TCAs and Bus Operators who considered the impact of underlying trends in their own local area to be significantly different from that already taken on board in the Single Demand Curve.
- B.43** The methodology for estimating the local underlying trends to be applied to the single demand curve was to compare the actual change in

commercial trips between 2005/6 and the year of calculation with the change in real fares between 2005/6 and the year of calculation. Any change in commercial trips beyond those attributable to the real fare change was estimated to represent the underlying trend. This underlying trend was then applied to concessionary trips in the single demand curve. This adjustment had the impact of increasing/decreasing the reimbursement factor by a few percentage points.

- B.44** Consultation responses received pointed out that this adjustment could potentially be inconsistent with the aggregate nature of the single demand curves. Also, there would be significant difficulties in obtaining accurate data to calculate this adjustment.
- B.45** It is also the Department's view that the underlying trend adjustment in the draft guidance was conceptually unsound and potentially confused the relationship between fares and demand that is essential to the calculation of reimbursement. The underlying trends adjustment has therefore been removed from the final guidance and calculator.
- B.46** However, this does not mean that TCAs and Bus Operators who have successfully increased their bus patronage through high quality services and consistently low real fares changes will be penalised. Where bus patronage has increased significantly over time due to high quality services, this will be reflected in the observed number of concessionary trips. Bus operators will be reimbursed for each of these additional trips. Under the method of calculating the reimbursement factor on the basis of the change in operator specific fares between 2005/6 and the current year, those operators with consistently low real fares changes will be compensated with a higher reimbursement factor than others.

**The Pre-free scheme level of travel was underestimated in the construction of the demand function, leading to an overestimation of elasticity and generation. The quality of 2005/6 data was poor and needs to be re-examined**

- B.47** The argument is that data about pre-free scheme level of travel by concessionary passengers (and also passholding) is over-estimated, but data after 2005/06 is more accurate, so that the effect on trips and passholding of going from pre-free to free is over-estimated in the calculation of the single demand curve.
- B.48** Data from four PTEs and from seven MCL counties, alongside national data, were used in the construction of the demand curve. Detailed work was carried out on the PTE/MCL data to ensure that comparisons between years for individual scheme data are not coloured by changes that are not related to the introduction of statutory free travel, or year-on-year changes in the nature of the concessions offered. The single

demand curve also contains an estimate of the number of trips made at full fare by people eligible for a pass under the pre-free fare scheme, but who later took up a pass when the scheme became free. These are the so called new passholders. The number of relevant trips at full fare by new passholders is not directly observable for individual schemes, but should be included in the trips that operators are reimbursed for. The research considered various sources for this data, including the National Travel Survey. The level of trips at full fare for new passholders was estimated at 30 per cent of the trips they made under a free scheme (the abstraction ratio).

- B.49** The most reliable data on passholders tends to come from TCAs which have had a consistent policy of requiring passholders to reapply for their pass every “n” years, such as every year, or two year or three. In this respect, the data for the seven counties used in the construction of the demand curve is robust and consistent because passes are typically issued by most of the participating authorities on the basis that they have to be renewed every year, a policy which has been in place for some time.

### **The Impact of requirements under the Disability Discrimination Act (DDA) and other soft factors were omitted in the estimation of the Single Demand Curves**

- B.50** In relating trips to the change in concessionary fare from pre-free fares to free fares, adjustments were made to the data to allow for factors other than the change in fares that was affecting trips. These include demographic trends and underlying trends in concessionary trips. The population of people over 60 grew by between 1 per cent and 3 per cent per annum in the areas used to build up the single demand curve. Prior to 2006 there had been a consistent underlying downward trend in bus journey numbers (including both concessionary and non-concessionary passengers) at a national level outside London, and there is clear evidence of an underlying downward trend in concessionary travel in at least some areas such as the PTEs. A downward trend of 1.7 per cent per annum was used to adjust concessionary trips in PTEs from 2005/06. In non PTEs there was a small upward adjustment of 0.4 per cent per annum in 2006/07 and 2007/08. These trends are a composite of different impacts on demand that could come about from individual factors that affect demand by concessionary passengers in a negative and positive way. The trends are not specific to any one operator or a particular area.
- B.51** The analysis did not specifically identify the effects of DDA or other soft factors on bus demand, but rather took an overall view of trends that affect concessionary demand. To the extent that operators have made

improvements to their own services and that attracts more concessionary trips, then they are reimbursed for those additional trips.

### **ITS have confused concessionary trips and concessionary passholders in the formulation of the Single Demand Curve**

- B.52** This was a concern that the analysis behind the single demand curve should measure the responsiveness to changes in the concessionary fare by reference to a trip weighted rather than a person weighted measure. There will be a difference in the two measures depending on the distribution of trip rates and the variation in responsiveness to fare changes by trip rates. In cases where people who make few trips respond proportionately more to a fare change than people who make lots of trips, then a trip weighted response will be lower than a person weighted measure.
- B.53** The data used directly in the estimation of the single demand curve from the four PTEs and seven counties refers to trips and not individuals.
- B.54** Some of the background research findings used in the single demand curve refers directly to trips, for example data from the STATS 100 used in Research Report 8 (*Whole Market Demand Elasticity Variation*).
- B.55** The research using the National Travel Survey (Research Report 6) and the ITS telephone survey (Research Report 7) are based on responses by individuals eligible for a concessionary pass. The reported responsiveness of trips in the research using the NTS data are trip weighted.
- B.56** The report on the ITS telephone survey records the person weighted responsiveness to fare changes. The trip weighted responsiveness is reported in the Main Report (section 4). The trip weighted responsiveness is lower than the person weighted responsiveness by about 10 per cent, but the size of the difference in the estimates is influenced by the fact that the ITS telephone survey did not include people who rarely used bus services.

### **The reimbursement factors in the ITS main report are significantly different from the reimbursement factors reported in the 'synergy report'.**

- B.57** The Single Demand Curve Parameters in the draft guidance and calculator and final guidance and calculator were marginally different. This is because the parameters in the draft guidance and calculator were not the final values recommended by ITS. We were informed of this during the consultation period and have amended the parameter values accordingly in the final guidance.

Table B1: Single Demand Curve Parameters						
Guidance Version	PTE			Non-PTE		
Parameters	$\lambda$	$\beta$	RF at fare index 1.061	$\lambda$	$\beta$	RF at fare index 1.061
DRAFT	0.7227	-0.6605	51.7	0.6402	-0.8367	41.9
FINAL	0.7232	-0.6687	49.8	0.6406	-0.8357	42.0

**The guidance is based on national averages that may not reflect local circumstances. The research base is too focused on Southern parts of the country and may not accurately represent Northern or rural areas. No special treatment is recommended for honey pot areas.**

**B.58** We have considered the concerns raised on the representativeness of the evidence base underpinning the guidance. The ITS recommendations were based on the following datasets:

- Pass holding and journey data from four PTE areas and seven Districts administered by MCL;
- STATS100A - National operator dataset;
- ITS Telephone Survey - National survey of concessionary pass holders;
- National Travel Survey - Panel data on pass holder trip rates;

**B.59** Thus, while the PTE and MCL datasets were an important source of data in the construction of the Single Demand Curve, the researchers based their overall conclusions on the national datasets as well. It is worth noting here that the researchers did not find a systematic variation in the responsiveness of bus users to changes in fares by geographical region.

**B.60** It is possible to make some inferences about demand by concessionary passengers in rural or low population density areas. Details of these can be found in the ITS Research Reports 6 and 7. However, access to bus services in rural areas varies considerably depending on the location and pattern of settlements and local services and the pattern of bus services. However, the new guidance does allow for special treatment of services or operators with particular characteristics, and some of these characteristics are more likely to be found in rural areas, for example, low frequency services.

**B.61** We are currently investigating the possibility obtaining more detailed data about trends in concessionary trips in rural areas from 2005/6

onwards, but our ability to progress is severely limited by the availability of suitable robust data. **The Department would welcome such data should they be available to stakeholders.**

**'Honey pot' areas ought to be treated differently to other areas.**

- B.62** The guidance does not make any specific adjustment for areas that attract visitors, the so called honey pot areas. These areas have been particularly affected by the introduction, in 2008, of free concessionary travel on local buses anywhere in England. Previously, people aged over 60 would have paid the full commercial fare on local buses outside their local area, though some places had discretionary enhancements allowing concessions for trips to adjacent local areas. Honey pot areas may experience a large growth in trips that are reimbursed because the change in price for non local concessionary passholders is from full commercial fares to free fares, and where origins and destination of trips are wholly in the honey pot area, the local TCA is reimbursing both legs of a generated round trip.
- B.63** The large growth in concessionary trips in honey pot areas is already reflected in the recorded number of trips that bus operators are being reimbursed for. For reimbursement purposes the main question is whether the responsiveness of a mix of local and non-local concessionary passholders in a honey pot area to a change in fare is any different from places where concessionary trips are made predominantly by local passholders.
- B.64** There is some evidence from the ITS telephone survey that the responsiveness to a change in fare of trips made by concessionary passholders completely outside their local area (the 'honey potters') might be higher than the responsiveness to a change in fare for local trips (see research report 7 section 4.2 and table A2.16). This finding seems broadly consistent with what we estimate is the purpose mix and likely alternative modes for generated trips by non-local passholders in honey pot areas.
- B.65** This would tend to suggest that 'honey potters' may have a higher elasticity of demand and should therefore be reimbursed at a lower reimbursement factor. However, in the absence of robust and comprehensive data on these pass holders, there is no straightforward way of adjusting the single demand curve in the guidance to apply to honey pot areas.
- B.66** Given the particular nature of generated trips in honey pot areas and their concentration at particular times of the year the additional costs incurred by operators may include additional peak vehicle requirements. The guidance suggests an approach for calculating these costs.

## Additional Costs

### Corrections to the Marginal Operating Cost Calculator

**B.67** ITS research recommended a mean marginal operating cost (MOC) of £0.072 per generated passenger outside London in 2009/10 prices. This mean value includes fuel, tyre and oil costs, maintenance and cleaning, insurance, information and additional time costs. Based on ITS recommendations, the guidance suggests that that the mean value can be varied by trip (journey) length. This is because fuel, tyres and oil cost and maintenance and cleaning cost components of the mean value are likely to vary with the length of trips made. The guidance suggests marginal operating cost can be varied using the following formula:

$$\text{Marginal Operating Cost} = 0.042 + [0.030 \times (\text{JourneyLengthInMiles} / 4.1)]$$

**B.68** The 4.1 mile mean trip length used in the formula is based on a table in Research Report 6 (*Analysis of the National Travel Survey data*). We have reviewed whether this is the appropriate value to use in the formula looking at the most up-to-date National Travel Survey data and concluded that the 4.1 miles figure should be changed to 3.9 miles.

**B.69** 3.9 miles is the average bus boarding length by those aged 60 and over. A bus journey (or trip) is defined as a single bus boarding. The journey starts when the concessionary passenger boards the bus at a bus stop and ends when the passenger alights the bus.

**B.70** **This correction in the average journey length used in the formula does not change the mean marginal operating cost. This still remains at £0.072 in 2009/10 prices.** However, the formula for varying the marginal operating cost in the calculator changes to:

$$\text{Marginal Operating Cost} = 0.042 + [0.030 \times (\text{JourneyLengthInMiles} / 3.9)]$$

**B.71** This correction has been made accordingly in the reimbursement calculator and guidance.

**The exception criteria to which routes Marginal Capacity Costs apply is too rigid. Some elements in the Marginal Capacity Calculator such as vehicle mile and hour costs should be allowed to vary.**

- B.72** In the draft guidance, the onus was on operators to claim marginal capacity costs on a route by route basis. As a rule of thumb, the draft guidance suggested that it is unlikely that claims for marginal capacity costs would be submitted if excess capacity in a particular route was greater than two thirds.
- B.73** Some respondents put forward the argument that the ITS research could be interpreted as recommending that marginal capacity costs be applied to all routes. Also, the rule of thumb measure was considered vague and difficult to implement. Cost claims at a route level would impose a considerable burden on both operators and TCAs.
- B.74** Based on these comments, the Department has considered the ITS recommendations in this area in further detail. In the final guidance, there is a presumption that marginal capacity costs apply at the network level. In practice, we expect that these will be calculated on a route by route basis as data are more likely to be available at route level than for a whole network. **It is vital that local route level information is used in the calculation of marginal capacity costs wherever possible.** A mix of the values provided in the calculator with some local factors is unlikely to produce accurate results.
- B.75** We have also considered the arguments put forward by both TCAs and bus operators that unit costs for vehicle hours used in the additional cost calculation should be allowed to vary across areas. The basis of the unit costs for vehicle hours used in the draft guidance is the average hourly wage rate for bus and coach drivers (recorded in the Annual Survey of Hours and Earnings (ASHE)) plus an allowance for on-costs (such as driver training costs). Figures from the ASHE survey suggest that average hourly wage rates for bus and coach drivers do not vary much by region outside London. Further, even if there is variation in wage rates by area or company, we are not observing the variations in productivity and therefore effective unit costs. It is likely that above average wages are associated with above average productivity and hence average or below average unit cost. Therefore, in the final guidance, the unit costs for vehicle hours remain as defaults and do not vary across areas.
- B.76** The Mohring Factor (estimate of the responsiveness of service frequency in response to changes in demand) has also been fixed – the default value is 0.6. This is a network average so it is a reasonable approximation to apply at a network wide level.

## **The default service elasticity measure of 0.66 is incorrect**

- B.77** The service elasticity is used in the guidance to calculate the change in revenue from commercial passengers that operators experience when they put on extra services to cater for generated concessionary trips. The relationship is such as that for a 10 per cent change in service (measured by bus miles) there would be a 6.6 per cent change in commercial trips.
- B.78** This relationship between bus miles and trips was used in Research Paper 9 (*Costs*) to do with calculation of additional costs. Research Paper 9 did not itself estimate this relationship, but took results from a literature survey of transport research, *The Demand for Public Transport (TRL593, 2004)* (table 7.5). The value of the service elasticity quoted in that table of 0.66 is the average of a number of studies and is a long-term response of trips to changes in services. The individual studies quoted in *TRL 593* are based on a variety of different types of analysis and data, and there is a wide range in the results quoted, some with high service elasticities, and some with low elasticities.
- B.79** During the consultation some respondents supplied the Department with confidential data concerning bus routes where the service level had been changed and estimates made of the related changes in patronage. We are aware of stated intentions research recently carried out for the Competition Commission, which included questions about the reaction of passengers to changes in service frequency (see [http://www.competition-commission.org.uk/inquiries/ref2010/localbus/survey\\_evidence.htm](http://www.competition-commission.org.uk/inquiries/ref2010/localbus/survey_evidence.htm)). We also have data from concessionary travel appeals cases that appear to show varying responses in commercial trips to changes in frequency in the period since 2005/06.
- B.80** There are a number of problems in interpreting these data, especially where service changes are combined with other changes in services and also where other background factors (negative or positive) are affecting bus demand. To get an accurate estimate of the response to change in service requires that these other factors are properly screened out, so that the identified effect on patronage is due to service frequency change only. The response being measured should also be a long-term response because the service changes made as a result of the free fare scheme have now been in place for a number of years. There are a number of techniques to identify a long-term service effect, but they tend to be data hungry. In using these data and analysis for the purpose of calculating reimbursement, it is desirable that they are representative of different situations.

**B.81** At present the figure of 0.66 for the service elasticity is our best estimate of the figure to use in the reimbursement guidance. But we recognise that further research of a range of sources would be useful. We would welcome working with operators on this in the future as further research will require analysing operators' data.

**ITS econometric model used in calculating additional costs is not fit-for-purpose (as it is based on STATS100A data)**

**B.82** In the ITS research an econometric model is used to estimate the different components of additional costs – marginal operating costs, marginal capacity costs and peak vehicle requirement costs. This econometric model uses data from the Department for Transport's STATS100A database and TAS data. It covers the period from financial year 1999/2000 to 2006/07. The data is at operator level so that there is an observation for each individual operating company. There are 1653 observations in total. Details of the model are in the Appendix to Research Report 9 (*Costs*).

**B.83** The marginal operating cost per additional passenger is calculated as the rate of change of costs with respect to the number of passengers holding vehicle miles and the vehicle fleet constant. At 2009 prices the relevant figure is 8p per generated passenger. This is similar to, but slightly higher than using a components approach. ITS note the wide confidence interval in the econometric estimates, and give greater weight to the components approach in their recommended value of 7.2p.

**B.84** The econometric model is also used to estimate marginal capacity costs. In addition to the econometric results, ITS add in an allowance for vehicle hours. Vehicle hours are not included in the regression equation because they are not collected in STATS100A. The effect of adding in vehicle hours is problematic because to the extent that vehicle hours affect costs, that effect would have been picked up indirectly in the estimated coefficients on vehicle miles and vehicle fleet.

**B.85** The Department for Transport consulted Professor Ian Preston to peer review the econometric estimates (see <http://www.dft.gov.uk/pgr/regional/buses/concessionary/informationlocal/authorities/reimbursementappeals/reimbursement-research/pdf/peer.pdf>). Professor Preston's assessment was that by adding in vehicle hours separately there was a risk of double counting in the estimated unit costs. In the light of these comments the Department of Transport decided to adopt a different approach based on information from operators about costs directly related to vehicle miles and vehicles to estimate a vehicle miles and peak vehicle requirement unit cost, and also including a vehicle hours unit cost based on the average earnings of bus drivers plus an employment on-cost.

**Peak Vehicle Requirement is not as exceptional as ITS have suggested. There is a lack of clarity in this area of the guidance.**

- B.86** It is possible that PVR may be a cost in some places, especially where there has been a large increase in trips by concessionary passholders, for example in so-called honey pot areas, but as a general rule PVR costs are deemed to be incurred in exceptional circumstances.
- B.87** The PVR costs are calculated separately from the calculator. In response to comments in the consultation the guidance has been redrafted to clarify the calculation, including the costs and other inputs to be included and the relevant generated concessionary trips over which the costs are paid.

**It is unfair to use the GDP deflator to uprate additional costs in future years. A bus industry cost index would be more appropriate.**

- B.88** The disadvantage of using an industry specific index in uprating additional costs in future years is that it could distort incentives to adopt efficient practices to keep costs as low as possible. The GDP deflator reflects general trends in costs and productivity and provides incentives to undertake productivity improvements when costs increase.
- B.89** The Department believes that using an industry-specific index to take account of the impacts of specific one-off policy changes on the industry's costs such as reduction in BSOG is not appropriate. Making a one-off adjustment to account for those changes (for instance to additional unit costs) might be a more sensible approach. Changes to BSOG will not take place for another year and we are currently considering how these changes might best be taken into account in future guidance.

# Annex C: Future data requirements

## Data on concessionary journeys and passholding

- C.1** The guidance is based largely on research carried out by a consortium led by the Institute for Transport Studies at the University of Leeds. The research is summarised in a series of papers published on the Department's website <http://www.dft.gov.uk/pgr/regional/buses/concessionary/informationlocalauthorities/reimbursementappeals/reimbursement-research/>.
- C.2** Various datasets were used to construct the Single Demand Curve Framework. One important part of the research was Paper 5 – *Elasticity estimates from PTE and MCL datasets*. At the time of the research this was the best detailed view of changes in concessionary travel demand and passholding in individual areas in the years immediately after the introduction of free concessionary travel.
- C.3** The Department is looking to access similar data to expand the analysis and would like to hear from TCAs, bus operators and consultants who have local data or know of the existence of data on concessionary journeys and passholding that could be analysed in a similar way to Research Paper 5.
- C.4** Specifically the data should be capable of being analysed in order to identify different categories of passholders (“old” and “new”) and their journeys. The data should be concerned with TCAs outside PTEs, preferably in the northern half of England – broadly the regions North West, North East, Yorkshire and Humberside, East Midlands and West Midlands, in TCAs that did not have a free scheme prior to April 2006, and preferably where the scheme was countywide.
- C.5** We know from previous work that data on trips and passholding prior to April 2006 is not always readily available, and may require cleaning and adjustment to make them comparable with data after April 2006. It would therefore be helpful to know how the trips and passholding data was collected, the extent to which data has already been checked and adjusted as well as the availability of raw unadjusted data. In addition it

would be helpful to know about the availability of local data that can be used to take account of other supply and demand factors that might affect local concessionary trips and passholding after 2006.

## Smartcard data on concessionary journeys

- C.6** The Discount Fare Method of calculating the average fare forgone is currently based on a sample of smartcard data from the NoWcard consortium. The data on concessionary passholder trips observed at free fares have been used to model how eligible people would allocate themselves to different ticket types (cash fares, daily and weekly tickets) depending on the relative price structure of these tickets. All the individual trips were aggregated to construct a lookup table of trips for different ticket price ratios. In total the NoWcard data provided observations for around 90,000 pass holders and nearly 600,000 concessionary journeys over a period of five weeks.
- C.7** The Department would welcome similar smartcard data from TCAs and operators that can be used to expand the current dataset and improve its representativeness. In particular, it would be helpful to have data on the distribution of concessionary pass holders by the number of journeys made in each of the periods for which tickets are available (e.g. the number of travellers making more than two journeys a day, three journeys a day etc).