

Title:

Reimbursement Arrangements for the England-wide Concessionary Travel Scheme

Lead department or agency:

DfT

Other departments or agencies:

Impact Assessment (IA)

IA No: DFT00023

Date: 26/11/2010

Stage: Final

Source of intervention: Domestic

Type of measure: Secondary legislation

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Summary: Intervention and Options

What is the problem under consideration? Why is government intervention necessary?

The current system for reimbursing bus operators for concessionary travel in England is complex, not easily understood, inconsistent in application and can lead to perverse incentives for operators. Travel Concession Authorities (TCAs) are required by law to reimburse bus operators so that they are left no better and no worse off than in the absence of the scheme. However, there is limited national and local data, limited evidence on how bus operators would have behaved in the absence of the scheme and huge scope for arguments and dispute. Government intervention is necessary to simplify the system, ensure more accurate levels of reimbursement using the best evidence available, and reduce the scope for dispute and perverse incentives. New non-statutory reimbursement guidance is proposed that would address these issues.

What are the policy objectives and the intended effects?

The policy objectives are to simplify the system, ensure more accurate levels of reimbursement and reduce the scope for dispute. This will be achieved by adopting new reimbursement guidance, based on new research findings, that is easier to use. The new approach is conceptually sounder and simpler, will require fewer data inputs and assumptions from TCAs as it relies more on default values, and will provide a stronger benchmark for negotiations.

What policy options have been considered?

The policy options that have been considered are:

- o Policy option 1: A 'do nothing' approach;
- o Policy option 2: Revised reimbursement guidance that is easier to use, requiring fewer inputs and assumptions from TCAs along with some scope for local variation;

Option 2 is preferred because it will simplify the current system, enable more accurate reimbursement with scope for local variation and reduce the scope for dispute between TCAs and Operators.

Alternative options involving a single reimbursement rate or a table of rates by geographical region or other characteristic were considered but were found not to be desirable or feasible given current data.

When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved? It will be reviewed 04/2014

Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review? Yes

SELECT SIGNATORY Sign-off For final proposal stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister  Date: 29 November 2010

Summary: Analysis and Evidence

Policy Option 1

Description:

Revised reimbursement guidance is published. This option also involves amending the concessionary travel schemes regulations.

Price Base Year 2008	PV Base Year 2010	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: £12.9m	High: £13.2m	Best Estimate: £13.1m

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£0.34	2	£54	£455
High	£0.67		£100	£837
Best Estimate	£0.50		£77	£646

Description and scale of key monetised costs by 'main affected groups'

(i) The main cost is expected to be a lower level of reimbursement paid to bus operators on average [£54m to £100m per annum]. It is possible that operators will respond to the changes by increasing fares or reducing services although it has not been possible to include these in the best estimate (see below).

(ii) One-off costs to government and TCAs of additional appeals in the first two years as a result to transition to new system.

Other key non-monetised costs by 'main affected groups'

(i) Potential reduction in services and/or increase in fares by bus operators in response to lower reimbursement rates, which could lead to welfare effects on passengers. It has not been possible to directly model the reaction of operators to this change.

(ii) One-off costs to operators of additional appeals in the first two years.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	£0		£56	£468
High	£0		£102	£850
Best Estimate	£0		£79	£659

Description and scale of key monetised benefits by 'main affected groups'

(i) The main benefit is expected to be a lower level of reimbursement paid by TCAs on average [£54m to £100m per annum].

(ii) It is also estimated that the changes will reduce the administration costs of the schemes by up to around £2m per annum.

Other key non-monetised benefits by 'main affected groups'

No other significant benefits are anticipated from the new guidance.

Key assumptions/sensitivities/risks

Discount rate (%) 3.5%

The assessment of the impact of the preferred option is particularly sensitive to how the new guidance is applied and the reaction of operators (in relation to fares and service levels) to changes in the level of reimbursement locally. A number of sensitivity tests have been undertaken to understand the impact on concessionary payments of alternative assumptions about how the guidance will be implemented. In all cases they indicate a net reduction in reimbursement. Net costs to bus operators could fall to around £10-£21m pa if they react to the new guidance by reducing services and increasing fares.

Impact on admin burden (AB) (£m):			Impact on policy cost savings (£m):	In scope
New AB: N/A	AB savings: N/A	Net: N/A	Policy cost savings: N/A	Yes/No

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			England		
From what date will the policy be implemented?			01/04/2011		
Which organisation(s) will enforce the policy?			TCAs, Dept. for Transport		
What is the annual change in enforcement cost (£m)?			Nil		
Does enforcement comply with Hampton principles?			Yes		
Does implementation go beyond minimum EU requirements?			No		
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: Nil	Non-traded: Nil	
Does the proposal have an impact on competition?			No		
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			Costs: N/A	Benefits: N/A	
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	Micro	< 20	Small	Medium	Large
Are any of these organisations exempt?	No	No	No	No	No

Specific Impact Tests: Checklist

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
Statutory equality duties ¹ Statutory Equality Duties Impact Test guidance	No	18
Economic impacts		
Competition Competition Assessment Impact Test guidance	No	19
Small firms Small Firms Impact Test guidance	Yes	19
Environmental impacts		
Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance	No	20
Wider environmental issues Wider Environmental Issues Impact Test guidance	No	20
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	20
Human rights Human Rights Impact Test guidance	No	20
Justice system Justice Impact Test guidance	Yes	20
Rural proofing Rural Proofing Impact Test guidance	Yes	20
Sustainable development Sustainable Development Impact Test guidance	No	20

¹ Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Evidence Base (for summary sheets) – Notes

References

No. Legislation or publication

- 1 Transport Act 1985
http://www.opsi.gov.uk/RevisedStatutes/Acts/ukpga/1985/cukpga_19850067_en_1
- 2 The Travel Concession Schemes Regulations 1986 (SI 1986, no 77)
<http://www.legislation.gov.uk/ukSI/1986/77>
- 3 Transport Act 2000 http://www.legislation.gov.uk/ukpga/2000/38/pdfs/ukpga_20000038_en.pdf
- 4 Institute of Transport Studies Concessionary Travel Research Reports
<http://www.dft.gov.uk/pgr/regional/buses/concessionary/informationlocalauthorities/reimbursementappeals/>
- 5 Impact Assessment of Administrative Reform of the National Bus Concession in England
http://www.legislation.gov.uk/ukSI/2010/1179/pdfs/ukSIem_20101179_en.pdf

Evidence Base

Annual profile of monetised costs and benefits* - (£m) constant prices

	Y ₀	Y ₁	Y ₂	Y ₃	Y ₄	Y ₅	Y ₆	Y ₇	Y ₈	Y ₉
Transition costs	0.25	0.26	0	0	0	0	0	0	0	0
Annual recurring cost	79	79	79	78	78	78	78	77	75	74
Total annual costs	79.25	79.26	79	78	78	78	78	77	75	74
Transition benefits	0	0	0	0	0	0	0	0	0	0
Annual recurring benefits	79	80.8	80.8	79.8	79.8	79.8	79.8	78.8	76.8	75.8
Total annual benefits	79	80.8	80.8	79.8	79.8	79.8	79.8	78.8	76.8	75.8

* For non-monetised benefits please see summary pages and main evidence base section

Evidence Base (for summary sheets)

I) Problem under consideration and rationale for intervention

The current system of reimbursing bus operators for carrying concessionary passengers in England is complex, not easily understood, inconsistent in application and can lead to perverse incentives for bus operators. Travel Concession Authorities (TCAs)² are required by law to reimburse bus operators so that they are left no better and no worse off than they would have been had there not been a free concessionary travel scheme for older and disabled people. However, there is limited national and local data and limited evidence over how bus operators would have behaved in the absence of the scheme. It is now many years since people over 60 paid a full fare for most of their bus journeys. The result is huge scope for arguments and dispute (175 appeals have been lodged with the Secretary of State since 1st April 2008).

Government intervention is necessary to simplify the current complex system of reimbursement, to ensure more accurate levels of reimbursement and to reduce the scope for dispute.

Accurate reimbursement of bus operators for carrying concessionary passengers can be complicated and difficult to achieve. It is for this reason that the Department for Transport (DfT) provides guidance to TCAs and bus operators to assist them in calculating appropriate reimbursement. The previous guidance issued by DfT involved a need to make a number of assumptions and estimations and often still led to complicated negotiations.

The current system has the potential to lead to perverse incentives for bus operators because the method of reimbursement can influence the setting of the level and structure of commercial fares. Evidence produced by the Office of Fair Trading³ suggested that the concessionary fare regime distorts the market by creating an incentive for bus operators to raise fares. The new guidance is designed to reduce these distortions and perverse incentives by applying the change in the operator's own fare to calculate the reimbursement factor, so that the reimbursement factor goes down as an operator's average real fare rises. Also, using a fares discount method to estimate the average fare for the calculation of revenue forgone reduces the incentives to change relative commercial ticket prices to maximise reimbursement.

II) Intended effect

The proposed revised guidance has been informed by an extensive programme of research by a consortium led by the Institute for Transport Studies (ITS), Leeds University and should

- lead to simpler reimbursement calculations;
- a reduced data burden;
- reduced reliance on having to make assumptions in the absence of strong evidence;
- and a more robust benchmark on which to base negotiations between TCAs and Operators.

Nevertheless, there is still plenty of scope for TCAs to introduce local variation in their reimbursement calculations should there be good evidence that their local circumstances are significantly different from the standard DfT approach. The guidance is mainly concerned with providing practical advice on calculating reimbursement as clearly and in as simple terms as possible. In addition to the guidance, a reimbursement tool in Excel will be made available to aid reimbursement calculations.

² The TCA is the local authority responsible for administering the Concessionary Travel scheme in a particular area. As a result of recent changes upper tier authorities will be responsible for the administration of the scheme from 2011. The terms TCA and local authority are used interchangeably in this Impact Assessment.

³ Office of Fair Trading (2009) Local bus services: Report on the market study and proposed decision to make a market investigation reference.

III) Background

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 thereby giving the opportunity of greater freedom and independence to around 11 million people.

Around £1 billion a year is now being spent on concessionary travel in England (including London) on all modes and including a number of different concessionary groups. It is very popular with those who benefit. However the system of reimbursement is not satisfactory because of the difficulty of establishing the number of trips that would have been made and fares that would have been paid by concessionary travellers in the absence of the scheme, and the net additional costs incurred by operators in carrying additional concessionary passengers.

Proposals for a new approach to reimbursement

DfT carried out a consultation on a new approach to reimbursement between September and November 2010. The components of this consultation were:

- a. improved reimbursement guidance based on research by a consortium led by the Institute for Transport Studies, Leeds University
- b. associated legislative changes
- c. future options for radical reform in reimbursement methodology

The new reimbursement arrangements will come into effect on 1st April 2011, at the same time as the change in administrative responsibility for the concessionary travel scheme moves from lower tier to upper tier local authorities. Current legislation requires that Travel Concession Authorities publish their concessionary travel schemes (including the arrangements for reimbursement) for 2011/12 by 1st December 2010.

The new guidance has taken account of extensive comments in the consultation as well as discussions at workshops organised by the Department to explain the proposed approach. However, the guidance represents the considered views of the Department alone.

In parallel to changes to the guidance, the Travel Concession Schemes regulations are being amended to resolve current inconsistencies in the legal framework, bring the regulations in line with the new reimbursement guidance and improve appeals arrangements. The impacts of these changes will be considered in a separate Impact Assessment and are not included here.

Further radical options for reimbursement arrangements were also considered in the consultation exercise. These are discussed in section IV sub-heading Other policy options considered.

Description of current system

Currently, reimbursement paid to bus operators for carrying concessionary passengers takes two forms: revenue foregone and additional costs. The revenue foregone element represents reimbursement to bus operators of average fares foregone of journeys made by those with bus passes who would have travelled by bus irrespective of whether it was free or not. The additional costs element represents reimbursement to bus operators for the additional costs that result from journeys made by passholders purely because of the free fare concession. These additional costs include wear and tear on buses, increased fuel consumption and, in cases where the concession has led to a significant increase in the number of journeys made by passholders, the cost of increasing bus service frequency or expanding the bus fleet in exceptional cases.

The Department provides guidance to local authorities and bus operators on how to calculate appropriate reimbursement based on these two elements⁴. The Department currently also provides a spreadsheet tool RAT (Reimbursement Analysis Tool) to aid the calculation of appropriate reimbursement. The usage of the guidance or the RAT are not mandatory and TCAs are currently able to use a methodology of their choice subject to ensuring compliance with the 'no better, no worse off' principle.

The existing reimbursement guidance involves a substantial need for data collection and a number of assumptions with regard to matters such as demand elasticities, average fares and the number of journeys that would have been made in the absence of the concession. The existing guidance does not distinguish the differences between the various elements of additional costs, i.e. marginal operating costs and marginal capacity costs. These factors can make the negotiation process between bus operators and TCAs fairly complex, with high scope for disagreement. Where negotiations between TCAs and bus operators break down, the operator may appeal to the Secretary of State to resolve the dispute. On average about 68 appeals have been made by bus operators every year since 2006/07 (see Graph 1 later in this impact assessment). This number includes appeals that were later withdrawn, dismissed or were not valid.

IV) Descriptions of options considered in this IA and costs and benefits

Option 1 – Baseline - A 'do nothing' approach where the Department continues with its existing reimbursement guidance and makes no changes to the regulations.

In order to make a comparison with other options a baseline level of reimbursement was calculated. The calculations are based on returns of a DfT survey of actual net concessionary expenditure in 2008/09 by TCAs. Forecasts have been made using official population forecasts by age group, and taking account of the effect of the changes in age structure within the over-60 population using trip rates by age group from the National Travel Survey. The forecasts include the impact of previously announced changes, principally to the age of entitlement for concessionary bus passes. They include an estimate of the effect of raising the age of entitlement to 66, in line with the change to the state pension age change recently announced. This has an effect from 2018/19. The effect of the change in entitlement is partially offset by changes in the number of people in the eligible age group. The forecasts assume no change in underlying trip rates, and that the disabled make up 5% of 60 to 65 year old passholders, i.e. they would not lose entitlement as the age of entitlement increases. The 5% figure is based on evidence about people claiming passes under the Blue Badge scheme.

Table 1 below presents the total forecast expenditure by local authorities on statutory and discretionary concessionary bus travel for older and disabled people in England (but excluding London) in real terms under the existing system. The restriction to England outside London arises because the guidance does not cover the London Bus Network Services due to the franchising arrangements that are in place in London

Table 1 Forecast of total real spend on concessionary travel for older and disabled people: England excluding London (£m 2008/09 prices)

2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
£643	£639	£637	£636	£635	£633	£632	£630	£626	£606	£599

Source: DfT analysis

Option 2 – Revised reimbursement guidance is published

The proposed changes to reimbursement guidance are set out in table 2 below and they refer to changes in the general approach, demand, average fares and average costs.

⁴ This is available at <http://www.dft.gov.uk/pgr/regional/buses/concessionary/informationlocalauthorities/reimbursementappeals>

Changes to the Guidance

Table 2 – Comparison of Old and New Guidance

Old Guidance	New Guidance
General approach	
<ul style="list-style-type: none">• Wide scope for local variation• More data inputs and assumptions required• Model complicated to use• Evidence of over-reimbursement• Current system open to disagreement – see Appeals	<ul style="list-style-type: none">• Simpler guidance• Fewer data inputs due to higher reliance on default values• Model easier to use• Scope for lowering reimbursement due if guidance followed• However because guidance is not statutory, TCAs do not have to follow it.• Appeals risk may not reduce with the new guidance as operators may wish to test new concepts.
Average fare	
<ul style="list-style-type: none">• Basket of fare approach (requires assumptions)	<ul style="list-style-type: none">• Discounted factor method - requires few data items and no assumptions. Discount factor applied to adjust full commercial adult cash fare downwards.• Basket of fare approach in rural areas
Demand	
<ul style="list-style-type: none">• Heavy data burden as the data needed included number of trips, fares, new passholders trip rates and underlying trends.	<ul style="list-style-type: none">• Only data required are the number of trips and fares.
Costs	
<ul style="list-style-type: none">• Distinction between additional operating and marginal capacity costs was confusing.• Marginal costs of 15p were the default value as many TCAs include general allowance for capacity costs in additional operating costs.	<ul style="list-style-type: none">• Distinction between the marginal operating costs and marginal capacity costs is clearer.• Peak Vehicle Requirement (PVR) costs treated separately• Marginal operating costs set at 7.2p.• Marginal capacity costs calculated using mix of national rates and local data.• PVR costs set at £0 but operators can initiate a claim.• Model and tool will be available to aid calculations.

The anticipated impacts of policy option 2 are as follows:

Monetised Impacts

1) Reimbursement

The new guidance and tools will provide authorities and operators with a more accurate basis with which to calculate the reimbursement due. From historic data available to the Department for Transport, it is anticipated that the overall amount of reimbursement that bus operators receive from TCAs is likely to

reduce as a result of the changes to the guidance, even though TCAs will still be required to reimburse on the basis of the 'no better, no worse' principle as at present. The methods used to calculate expected reimbursement are explained below.

The estimated level of reimbursement in 2008/09 under option 2 uses data from individual TCAs. Specifically the calculation of revenue reimbursement and the number of generated trips in the new guidance requires information about the change in real fare between 2005/06 and 2008/09 that concessionary passengers would have paid in the absence of the concessionary fares scheme. Information on the change in fare is available from the DfT survey of TCAs, but only for 35 TCAs. The change in fare is then applied to the appropriate single demand curve that relates fares to demand to read off the reimbursement factor. There is one curve for Passenger Transport Executive (PTE), and one for non PTEs. These calculations do not include any effect of different reimbursement arrangements for low frequency services. The guidance suggests that these should be treated off model.

The 2008/09 fare used in the calculation includes a 5% additional discount on the average fare reported to allow for applying the fare discount or basket of fares method. The average fare for PTEs was not adjusted.

It is not known whether the TCAs without 2005/06 fares data would be likely to have more or less saving with the new methodology. The TCAs with 2005/06 data have a spread by geography and area type, so they may be reasonably representative. Any overall figure for changes in reimbursement should be treated as an estimate based on grossing-up from a sample rather than a full census of all authorities.

The overall % saving in reimbursement is calculated as the difference between the estimated level of reimbursement using the new guidance and the actual level of reimbursement in 2008/09. This % change is then applied to the total levels of reimbursement estimated for the years 2011/12 to 2021/21. There is a large variation between TCAs in the % change in reimbursement between actual reimbursement and that estimated by the model based on the new guidance.

Annex 2 contains the estimated savings in real terms from 2011/12 to 2020/21 after implementing the change in guidance. Given the uncertainty with the additional cost data, the results are presented for different values of total additional costs. The variation in these estimates stems from variation in the marginal capacity costs. A range between 7p, 12p, and 17p was used for marginal capacity costs. In accordance with the guidance a rate of 7.2p per generated passenger was used for marginal operating costs.

Two scenarios are presented in Annex 2. In scenario 2a additional costs are applied in all places at the rates detailed above. In scenario 2b an assumption about the application of Peak Vehicle Requirement is made such that around £2m of costs are added to reimbursement.

With a marginal capacity cost rate of 7p per generated passenger, the overall saving in reimbursement in the authorities with 2005/06 fare data is **16%** (this includes those authorities with increases as well as decreases in reimbursement). At higher marginal capacity costs the overall savings are **12%** (12p) and **9%** (17p).

Table 3 below summarises the reimbursement savings. Scenario 2b which uses a marginal capacity cost of 17p per generated passenger, and an estimate of PVR costs, provides a low estimate of the reimbursement savings. Scenario 2a with a marginal capacity cost of 7p per generated passenger and no PVR costs provides a high estimate of the savings. In the absence of detailed data about costs and limited coverage of fare data we cannot be certain what the precise level of savings is, but our best estimate is the mid point of these two estimates. Note that the absolute level of saving per annum falls over time because the forecast level of reimbursement without changes to the guidance also falls over time (see table 1).

Technically these changes in reimbursement are transfers between operators and TCAs, but they do have implications for distribution of effects, and in turn may have implications for welfare if operators respond by making behavioural changes – this is discussed below.

Table 3 Reimbursement Saving Forecast for Concessionary Travel (£m 2008/09)

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	NPV over 10 years
Low	£56	£55	£55	£55	£55	£55	£55	£54	£53	£52	£454
Best estimate	£79	£79	£79	£78	£78	£78	£78	£77	£75	£74	£645
High	£102	£102	£102	£102	£101	£101	£101	£100	£97	£96	£836

Source: LA Survey 2010 and DfT calculations

2) Administration costs

Costs to Local Authorities

In administering a concessionary travel scheme TCAs are responsible for setting local schemes, negotiating with operators, issuing passes, processing application forms, posting passes to concessionaires and answering queries from the public.

With the new guidance, TCAs will still have to carry out in-house functions such as collecting and auditing data on trips and fares (or use consultants to do this for them) and carry out legal functions. There could be some negotiating cost savings because of fewer disagreements with operators about new pass holder trip rates, fare elasticities, and eligible additional costs. On average there might be some additional upfront effort to categorise operator ticket types but over the long term there will be a saving as the process of generating the average fare is mechanised.

It is unlikely that there would be any cost savings in the first year as the new guidance will be thoroughly tested by both sides. Initially it is possible that there could be a jump in the number of appeal cases, however it is hoped that the changes made to the reimbursement guidance in light of the consultation responses will reduce this risk. However, once any disputes have been resolved and appeals decided the process will become certain as subsequent changes to the reimbursement rate will depend only on changes to the real fare.

It has not been possible to directly estimate savings to TCAs from the reduced costs of negotiation and dispute. It has been assumed in this impact assessment that savings will be about a 5% reduction in costs. This would amount to £0.9m in the second year and thereafter. This has been calculated by applying a 5% saving to the cost of administration as estimated in the Impact Assessment of Administrative Reform of the National Bus Concession in England (see reference 5) .

Costs to Operators

From the same IA, the cost of negotiating a scheme to the operators was estimated to be between £3,500 and £5,500 per operator depending on the size of authority. The total negotiating cost was estimated to be £4.6m. If 20% of costs could be saved after the first year this would amount to £0.9m. This is similar to the % savings for operators estimated to arise from a central administration of concessionary fares – see *Possible changes to the administration of concessionary travel Consultation paper* (Annex F) (DfT 2009)

The Net Present Value (NPV) for 10 years of the administration cost savings for both operators and TCA are estimated to be £13.56m in 2008/09 prices.

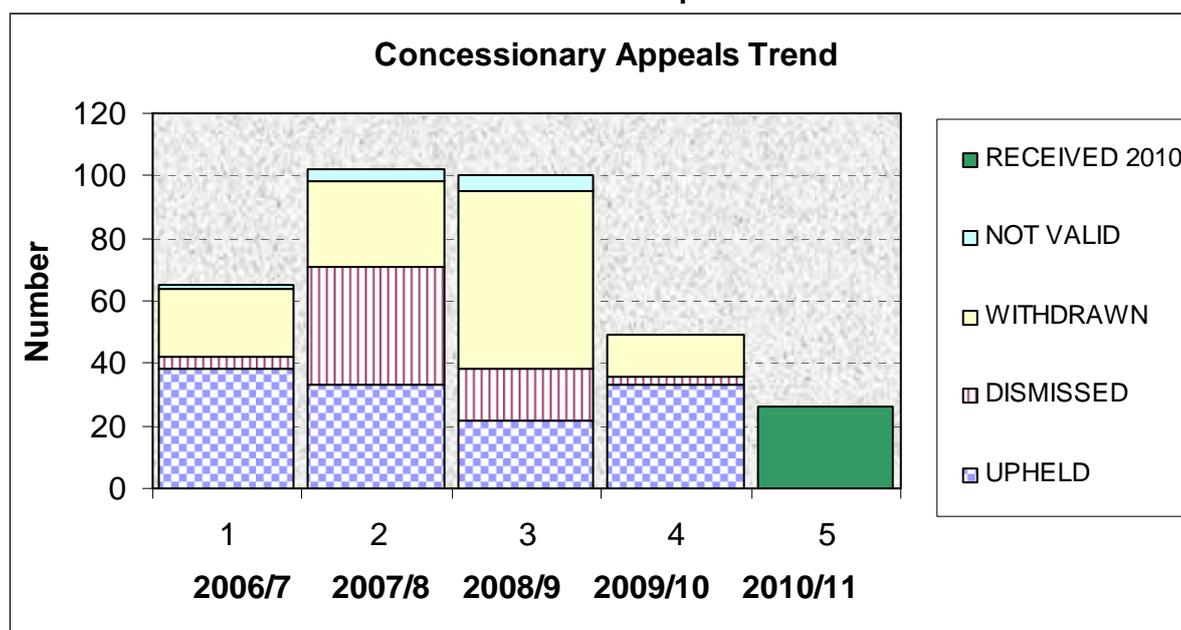
3) Change in appeals costs

Costs to the Government

Based on recent experience we estimate that the total cost per appeals case submitted is around £4,000. This include the DfT costs for staff, legal advice and decision makers.

Over the years the total number of appeals has been decreasing from the peak that was observed in 2007/08 after the scheme changed from a half-fare to a free-fare concession in 2006, see Graph 1.

Graph 1



At this stage it is not possible to accurately assess the effect on the number of appeals from the revised guidance and changes to the regulations. This is the first time a significant change has been made to the reimbursement guidance since the statutory scheme was introduced in 2001. Previous changes to the level of concession on offer have triggered increases in appeals so it might be expected that changes to the reimbursement guidance will have the same effect.

The results presented below assume that appeals would increase in the first year after the changes either by 50% in the low scenario or by 100% in the high scenario. In the 2nd year the same pattern is assumed and in subsequent years the assumption is a return to the base levels observed in 2010/11.

Table 4 Appeals Additional Costs to Government

		£, 2008/09 prices										NPV Over 10 Years
		2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	
Appeals Additional Costs	Low scenario	£55,456	£56,704	£0	£0	£0	£0	£0	£0	£0	£0	£106,514
	High scenario	£110,912	£113,408	£0	£0	£0	£0	£0	£0	£0	£0	£213,029

Year 1 change assumed to be equal to 50% with respect to 2010/11 for low scenario and 100% for high scenario.

Year 2 change assumed to be equal to Year 1 changes.

Year 3 onwards change assumed to be equal to 0% with respect to 2010/11.

The NPV of the additional costs to the Government are just over £100,000 in the case of a 50% increase in appeals cases in 2011/12, and just over £200,000 in the case of a 100% increase in appeals cases with respect to the appeals received in 2010/11. This effect is small compared to the reimbursement effect.

Costs to TCA's

Currently, the total average cost of appeals for TCAs is estimated to be £8,000 for a standard appeal case. This includes management time, legal advice, administration time and consultancy time. The appeal cost associated with non-standard appeals could be much higher.

Making the same assumptions as for the Central Government case, it is possible to estimate the additional appeal costs that the TCA would incur if there would be an increase in the appeals number to process of 50% (low scenario) and 100% (high scenario) for two years before returning to the levels observed in 2010/11. Table 5 shows those costs.

Table 5 Appeals Additional Costs to TCAs

		£, 2008/09 prices										
		2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	NPV Over 10 Years
Appeals Additional Costs	Low scenario	£110,912	£113,408	£0	£0	£0	£0	£0	£0	£0	£0	£213,029
	High scenario	£221,825	£226,816	£0	£0	£0	£0	£0	£0	£0	£0	£426,058

Year 1 change assumed to be equal to 50% with respect to 2010/11 for low scenario and 100% for high scenario.

Year 2 change assumed to be equal to Year 1 changes.

Year 3 onwards change assumed to be equal to 0% with respect to 2010/11.

The NPV of additional appeal costs for TCAs is equal to over £200,000 in the low scenario and over £400,000 in the high scenario.

Operator costs

It is recognised that operators will also incur an increase in costs if the number of appeals increases. This effect was noted in the consultation responses, but no figures were provided so it has not been possible to estimate these costs.

Non-Monetised Impacts

4) Operator responses

In addition to the first round impacts of lower reimbursement and reduced administration costs if the new guidance is applied, there is a possibility that second-round effects will occur as a result of the reactions of operators. There are a number of different ways in which operators might react to changes in the arrangements for reimbursement within a local area. The main potential responses are as follows:

- Do nothing – maintain services and fares at current levels absorbing the reduction in concessionary travel reimbursement into the bottom line
- Increase fares
- Reduce services – although a TCA may step-in to secure socially necessary services through the tendered market

In practice the response of operators will vary by location and the impact at a national level will encompass the full range of potential responses.

The assessment has not directly modelled the impact of changes in the guidance on the bus market. In part this reflects uncertainty about operator reaction and the application of the new guidance at a local level. However, to provide an indication of the order of scale of these impacts this assessment has used previous research on the reaction of operators to a reduction in Bus Service Operators Grant (BSOG). BSOG is a grant paid by the DfT to reimburse bus operators for some of the excise duty paid on the fuel consumed in operating eligible local bus services. We have estimated this by prorating the impact of changes in BSOG to reductions in reimbursement which are expected to occur as a result of the guidance⁵. Thus the effects are estimated as the change in reimbursement over the change in BSOG multiplied by the estimated change in services, trips and fares from the BSOG analysis. The estimated results do not take account of any second round effect on concessionary reimbursement as a result of increased fares or reduced with services. The results are summarised below.

⁵ Bus Subsidy Review: Impact Assessment (March 2008), DfT. This research estimated that removing BSOG would lead to a reduction in services of 7% and a fall in patronage of around 7%, and an increase in fares of around 7% .

Table 6 Impact of changes in reimbursement on net revenues and trips – England excluding London, £m pa 2008/09 prices, % change

	Change in :			Net effect £m	Trips %
	Reimbursement £m	Revenue £m	Costs £m		
Low estimate	-£54	£0	£44	-£10	-1.0%
Best estimate	-£77	-£1	£63	-£15	-1.4%
High estimate	-£100	-£2	£81	-£21	-1.8%

Source: DfT analysis (Negative number means increase in costs)

These results suggest that if operators seek to reduce the impact of lower reimbursement by raising fares and reducing services there will be a small fall in trips and services. This is likely to vary by area depending on the proportion of total trips made under the concessionary scheme and the sensitivity of passengers to increases in fares and reductions in services.

It is important to recognise that these estimates should be considered as indicative only as they assume that the impact of the savings in concessionary travel reimbursement of £54-£100 million pa would have a similar impact on the industry as a similar fall in BSOG. In practice the changes in incentives faced by bus operators will differ. Other important considerations when interpreting these results are that:

- Changes in reimbursement for the statutory scheme would only affect services outside the morning peak whereas changes in BSOG could potentially influence all services. This has implications for peak vehicle requirements.
- These estimates don't include the impact of TCAs stepping in to maintain socially necessary services. This will be decided at a local level although any increase in the tendered market would reduce the net financial savings to TCAs.
- The revised guidance is expected (on average) to lead to an increase in the relative importance of the additional costs element of reimbursement. These changes to incentives to run additional services at the margin may offset the impact of lower reimbursement overall.
- This analysis doesn't take any account of any increase in the clarity operators have about the arrangements for reimbursement over time. This greater clarity may provide operators with more confidence to invest in services.

The description of the possible operator responses to changes in reimbursement does not put a specific value on the impacts on passengers, but rather estimates an overall change in trips. The change in fare revenue is a transfer between passenger and operator, but there may be a net welfare effects due to changes in consumer surplus arising from a change in fares or a change in services.

5) Other Non-monetary effects

Changes in guidance will provide both operators and TCAs with greater clarity over reimbursement which should aid long term planning about services and budgetary provision. The benefits associated with this increased clarity have not been factored into the assessment.

Reduction in services or increase in fares may also have a knock on effect on levels of BSOG expenditure and cost of tendered services.

Whilst not formally assessed as part of this Impact Assessment it should be noted that the proposed changes to the reimbursement arrangements will assist in securing the long-term financial sustainability of the scheme thus protecting the associated benefits that it provides to older and disabled people.

6) Summary of impacts

The table below summarises the potential impact of policy option 2 on different groups.

Table 7. Impact of policy option 2 on different groups

Public sector	<ul style="list-style-type: none">- Saving from reduced level of reimbursement: £54 - £100 million per annum- Higher volume of appeals anticipated during the transition period at a cost of £0.3-0.6 million over two years to local and central government- Savings in the costs of appeals are anticipated in the longer term as the new guidance becomes established- If negotiation costs to TCAs were to fall by 5% as a result of the new guidance this would equate to a saving of £0.9 million per annum
Bus operators	<ul style="list-style-type: none">- Cost of reduced level of reimbursement: £54 - £100 million per annum- The revised incentives offered by a reduction in the reimbursement rate may have second-round effects which reduce these losses e.g. lower costs from fewer services and/or increased revenue from higher fares- Initial costs associated from increases in the number of appeals during the transition period potentially offset by fewer disagreements once the new guidance is established- If negotiation costs were to fall by 20% as a result of the new guidance this would equate to a saving of £0.9 million per annum
Bus passengers	<ul style="list-style-type: none">- No direct impact from changes in reimbursement guidance or regulations- Potential disbenefit from small reduction in services and/or higher fares if operators respond to lower reimbursement rates

Other policy options considered:

DfT considered options for a much more prescriptive reimbursement framework in discussions with the Reimbursement Working Group (which includes representatives of TCAs and bus operators). Options that were reviewed included:

- A single national reimbursement rate (similar to the arrangements in the Devolved Administrations);
- A table of reimbursement rates which vary by geography (e.g. regions) and/or trip characteristics (e.g. urban/rural);
- A table of payments per passenger which vary by geography and/or trip characteristics (e.g. urban/ rural);
- A flat payment per concessionary trip.

It was hoped that the research commissioned by DfT from the Institute for Transport Studies (ITS) into the factors which influence reimbursement would deliver evidence which would enable the development of these options but one of the conclusions of the research is that the data currently available does not support a wholly deterministic approach.

Having a single national reimbursement rate would only work if the reaction to the concessionary travel scheme is the same across the country. Research suggests that this is not the case, for example the big growth in the number of pass holders outside Metropolitan areas after the introduction of free concessionary travel in 2005/06. A single national rate would not therefore be consistent with the principle of reimbursing operators on a no better no worse off basis.

A table of rates by region or area type is more plausible given the evidence of differences between area types. However there is no robust evidence on concessionary trips by detailed area type over a long enough period to calculate elasticities to that level of detail. In addition a table of rates would not on its own take account of differences in local fares and other factors (e.g. car ownership) that influence the

revenue reimbursement rate as well as the reimbursement calculation. Furthermore this approach could reduce the incentives on operators and/or local authorities to increase passenger numbers. A table of rates would also be difficult to apply to reimbursement for additional costs, where the incidence and level of those costs depend in part on local factors.

A disaggregated version of this approach has some desirable qualities and some of the area type variations found in the research have been incorporated in option 2. But given the extent and effect of local variations it is our view that option 2 can better meet the no better no worse off principle.

V) Risks and assumptions

The assessment of the impact of the preferred option is particularly sensitive to assumptions about how the new guidance is applied and the reaction of operators (in relation to fares and service levels) to changes in the level of reimbursement locally. Information on the average fare in 2005/06 is only available for 35 TCAs, so that limits the extent to which the actual reimbursement and the estimated reimbursement using the new guidance can be compared. The results are therefore sensitive the degree to which the experience in the 35 TCAs is similar to the rest of the country. The additional costs per generated passenger are also sensitive to the frequency elasticity and to other local inputs, including the local commercial fare, that is used in the additional revenue calculation.

There are a number of reasons why it is not possible to estimate the change in reimbursement brought about by the new guidance with certainty:

- The reimbursement guidance is not statutory and as such does not have to be adopted by TCAs and bus operators.
- Limited data on the relevant fare variable to calculate reimbursement
- There is insufficient data to estimate accurately the amount TCAs will pay in total additional costs per trip.
- There is very limited data to estimate accurately the number of situations where additional Peak Vehicle Requirement Costs might be paid
- There is limited evidence on the extent to which the use of fare discount factor will reduce fares.

This uncertainty has been reflected in the different scenarios tested in section 1. These scenarios vary the assumptions which are subject to the most uncertainty. The assumptions used when estimating the impact on reimbursement are summarised below.

Table 8 Assumptions

General assumptions	- ONS projections on population
	- Concessionary travel for young people and on other modes of transport excluded from the calculations
Revenue reimbursement rate	- Based on the ITS 'Single Demand Curve' framework
Average fare:	- Average fares based on the likely levels that will arise from the new methodology prescribed in the guidance.
Additional capacity costs:	- It is assumed that all TCAs will be pay out marginal operating costs of 7.2p.
	- It is assumed that all TCAs will pay out marginal capacity costs, but the rate per generated passenger is uncertain. This is tested in Scenario 2a
	- It is assumed that Peak Vehicle Requirement (PVR) will apply to 5 per cent of generated trips (peak demand) in the 30% of TCAs that had a capacity cost claim in 2008/09. This is tested in scenario 2b
Appeals:	- The cost of the appeal per case for central government is assumed to be £4,000.
	- The volume of appeals is assumed to increase by 50-100% in the two years after the changes are introduced. After that, the appeals received are assumed to return to 2010/11 base levels.

As noted in the main body of the impact assessment, it has not been possible to model the impact of changes to the concessionary travel guidance on service levels and fares which may occur in response to the lower level of reimbursement which is forecast. An indication of the scale of the potential impacts if operators do respond by changing services and/or fares has been provided based on analysis of the impact of BSOG. If operators did not respond by changing services and/or fares then the reduction in the level of reimbursement would represent simply represent a transfer from the bus operators to TCAs.

VI) Summary and preferred option with description of implementation plan

Policy option 2 is preferred because it will simplify the current system, enable more accurate reimbursement (which could generate significant savings for Government) with scope for local variation where appropriate and reduce the scope for dispute between TCAs and Operators. This is the policy option that best reflects the latest research evidence available to the Department.

In terms of implementation, the changes come into effect for schemes commencing on the 1st April 2011. As TCAs have a statutory obligation to publish their schemes 4 months before this date, they will need to take the changes into account when they publish their schemes and proposed reimbursement arrangements on 1st December 2010. Therefore we will be aiming to publish the final version of the guidance as quickly as possible after the end of the consultation period and before 1st December.

VII) Specific Impact Tests

1) Statutory Equalities Duties

The extent to which the preferred option would have an impact on different groups will depend on how operators respond to the new reimbursement arrangements. As discussed above (section 4) it is possible that bus operators would respond to a reduction in reimbursement by increasing fares and/or reducing services. This could have a slight negative impact on concessionary passholders and other bus passengers. Local authorities already have powers under existing legislation to secure socially necessary services if these are not provided by the commercial market. This provides TCAs with the flexibility to address any specific issues which arise when implementing the new guidance in rural areas.

We are aware from the National Travel Survey that women have higher passholding and bus trip rates than men and that bus trip rates by ethnic minorities are higher than by white British people. Therefore women and ethnic minorities could potentially experience a greater impact from reduction in services made as a consequence of the changes in the reimbursement arrangements.

The concessionary travel scheme is targeted at disabled people and those who have attained female state pension age (regardless of whether they are male or female). The proposed changes to the reimbursement arrangements between TCAs and bus operators (Option 2) are designed to facilitate more accurate levels of reimbursement and as such will assist in securing the long-term financial sustainability of the scheme thus protecting the associated benefits that it provides to older and disabled people.

2) Competition Assessment/Small Firms Impacts

Policies that restrict competition can be expected to lead to an economic cost while some policies – such as removing regulations – can stimulate greater competition and economic benefits. The Office of Fair Trading (OFT) guidance in relation to the Competition Assessment (CA) is designed to identify these costs and benefits, and ensure they are taken into account in the overall Impact Assessment (IA). This guidance includes several questions:⁶

In any affected market, would the proposal:

⁶ See http://www.offt.gov.uk/shared_offt/reports/comp_policy/oft876con.pdf

1. Directly limit the number or range of suppliers? This is likely to be the case if the proposal involves:
 - the award of exclusive rights to supply;
 - procurement from a single supplier or restricted group of suppliers;
 - the creation of a form of licensing scheme;
 - a fixed limit (quota) on the number of suppliers;

2. Indirectly limit the number or range of suppliers? This is likely to be the case if the proposal significantly raises the costs:
 - of new suppliers relative to existing suppliers;
 - of some existing suppliers relative to others;
 - of entering or exiting an affected market;

3. Limit the ability of suppliers to compete? This is likely to be the case if the proposal:
 - controls or substantially influences;
 - o the price(s) a supplier may charge
 - o the characteristics of the product(s) supplied, for example by setting minimum quality standards
 - limits the scope for innovation to introduce new products or supply existing products in new ways;
 - limits the sales channels a supplier can use, or the geographic area in which a supplier can operate;
 - substantially restricts the ability of suppliers to advertise their products;
 - limits the suppliers' freedoms to organise their own production processes or their choice of organisational form;

4. Reduce suppliers' incentives to compete vigorously? This may be the case where a proposal:
 - exempts suppliers from general competition law;
 - requires or encourages the exchange between suppliers, or publication, of information on prices, costs, sales or outputs;
 - increases the costs to customers of switching between suppliers;

The key groups affected by the proposed change are bus operators and the public sector with the change in reimbursement effectively a transfer from bus operators to the public sector given the 'no better no worse off' principle. To our best judgement, the answers to each of the above questions are no for the proposed reform. As the changes in the new Guidance will apply to all firms, both small and large, it is not thought that the proposed option (2) would raise significant competition issues or have a disproportionate impact on small firms.

As the aim of the new Guidance is to make reimbursement calculations simpler and clearer and to minimise the data required, the measure is likely to be conducive to competition as the proposed change will help lower costs and therefore barriers to entry. The result of the measure will be a simplification with respect to the current practice and procedures. This is likely to improve competition as small firms – who traditionally have fewer resources to produce data and analyse it - will have, under the new proposals, lower administration costs.

The guidance also contains provisions that should help small operators, for example separate calculation of additional costs for bus operators with less than 25 vehicles. This is to allow for the difficulty that small operators have in spreading costs of additional services across a small fleet and follows advice in the research

In the consultation responses concern was expressed about the effect of applying the draft guidance to the calculation of reimbursement for small operators. Some responses said that there would be significant reductions in services and that some small operators could go out of business. Changes to the guidance will have some effect on the calculated reimbursement⁷. It is anticipated that small

⁷ Replacement of current level of fare with change in fare to calculated reimbursement; marginal capacity costs applied in all cases; low frequency services taken off model and subject of local negotiation

operators will on average have an increase in reimbursement (compared with the draft guidance that was the subject of consultation) as a result of these changes. However, it is possible that some small operators will find that even with the new guidance that they experience a reduction in reimbursement compared to the reimbursement they received in previous years. Small operators may not be in a position to average out changes in reimbursement as would be the case for larger operators. Thus any reduction in reimbursement is likely to affect their business model more than larger operators.

Overall given the large variation in existing reimbursement arrangements and the variation in importance of different sizes of operators in different places it is not possible to predict the detailed incidence of changes on different types of operators.

3) Sustainable Development/ Greenhouse Gas/ Wider Environmental Impact Assessment

The extent to which the preferred option would have an impact on sustainable development will depend on how operators respond to the new reimbursement arrangements and how passengers respond to potential changes in fares and/or services. As discussed above (section 4) it is possible that bus operators would respond to a reduction in reimbursement by increasing fares and/or reducing services, and this could lead to a change in trips (of up to around 2%). Associated changes in individuals' travel behaviour are difficult to predict but would be likely to include not travelling at all, and switching to alternative modes of transport. There could therefore be an increase in car journeys although the extent to which this would have net environmental costs will depend on the size of the reduction in emissions associated with running fewer bus services. Under some circumstances (e.g. low load factors on services which become no longer commercially viable) the net impact could be positive.

4) Social Impacts

4.1) Health and well-being

The concessionary travel scheme as a whole has a positive impact on the health and well-being of older and disabled people. The concession recognises the importance of public transport for older people and the role access to transport has to play in tackling social exclusion and maintaining well-being e.g. by providing access to healthcare and other essential services, as well as allowing people to visit family and friends and contributing to improved mental health from increased social interaction.

The preferred option could potentially have an impact on health and well-being if operators respond to the new reimbursement arrangements by reducing services and/or increasing fares and passengers respond to changes in fares and/or services. Well-being of passengers (including concessionary passengers) could be potentially adversely affected by a decrease in trips. On the other hand, there could be health benefits if passengers switch from bus travel to modes such as walking/cycling.

4.2) Human rights

There are no human rights implications associated with the proposals.

4.3) Justice system

Bus operators have a right to apply to the Secretary of State for Transport for modification of the proposed reimbursement arrangements offered by a Travel Concession Authority (TCA). Bus operators are also able to seek redress through arbitration or the courts if appropriate, for example in respect of payment of additional capacity cost claims. The changes to the reimbursement arrangements (Option 2) are designed to enable more accurate reimbursement and reduce the scope for dispute between TCAs and bus operators. The impact on HM Courts Service from the current arrangements is not known, however it is anticipated that the changes will reduce any potential burden on the local courts.

In recent years bus operators have sought permission to judicially review a number of appeal decisions made on behalf of the Secretary of State for Transport by independent decision makers. The Secretary of State has successfully defended these decisions in the High Court. It is anticipated that the changes to the system could increase the number of appeals to the Secretary of State and judicial reviews before the High Court in the short term; however it is expected that these will reduce in the medium term and may fall below current levels given the reduced scope for disagreement.

4.4) Rural proofing

As noted in the main body of the impact assessment, it has not been possible to directly model the impact of changes to the concessionary travel guidance on services and fares. Therefore, in assessing the potential impact of the guidance on rural areas we have considered statistics on the importance of the concessionary travel scheme in rural areas.

Whilst passengers will be unaffected by the first-round impact of a reduction in reimbursement rates, they may experience a disbenefit if operators reduce services and/or increase fares. This is more likely to occur in areas where concessionary travel accounts for a higher proportion of journeys, and by implication a higher proportion of the revenue of bus operators. Table 9 shows the percentage of trips made in each area type under the concessionary scheme. The data are based on an area type definition of each local authority, using the "Urban Settlements" method. The Urban Settlements classification utilises the settlement population threshold of 10,000 people. If a settlement has greater than 10,000 population it is categorised as "urban" and if less than 10,000 population "rural" (this is in line with the English and Welsh rural and urban settlement definition). The count of population living in settlements of less than or greater than 10,000 people is then aggregated for each local authority to enable a majority rules formula to be applied which classifies these local authorities into the seven categories. The rules applied to create these classifications are as follows:

- Major urban: greater than 90% urban population
- Urban: 80% to 90% urban population
- Mixed urban & rural: 70% to 80% urban population
- Rural: 40% to 70% urban population
- Very rural: up to 40% urban population

Greater London and the Passenger Transport Executive areas are taken out of this classification and identified separately.

One implication of this approach is that rural areas within local authorities that are mainly urban are not classified as rural. The data indicates that local authorities defined as rural and very rural have a higher percentage of concessionary journeys than urban areas.

Table 9
Concessionary passenger journeys as a percentage of total passenger journeys by area, 2008/09, England

	% of trips that are concessionary
London	30
PTEs	35
Major urban	30
Urban	34
Mixed urban rural	34
Rural	36
Very rural	39

Source: DfT analysis of the Public Service Vehicle Survey

The potential impact on rural communities of measures which affect the bus market will also depend on the importance of bus services to these areas. Data from the National Travel Survey and reproduced in table 10 indicates that bus trips account for a smaller proportion of total trips and distance in rural areas than in Metropolitan areas and large urban areas, but a similar proportion in medium sized and small urban areas.

Table 10 Trips and distance per person per year (2008/09)

	Trips per person per year by main mode		Distance per person per year by mode	
	Trips by Bus	% of total	Miles by Bus	% of total
London	139	17%	526	10%
Metropolitan	92	9%	413	8%
Large urban	71	7%	296	5%
Medium urban	50	5%	224	3%
Small medium urban	39	4%	258	4%
Small urban	35	3%	248	3%
Rural	29	3%	246	3%
<i>All areas</i>	66	7%	310	5%

Source: National Travel Survey tables NTS9903 & NTS9904

The NTS definition of area type is based on where respondents to the survey live. These are classified as follows:

- London boroughs - the whole of the Greater London Authority
- Metropolitan built-up areas - the built-up areas of former metropolitan counties of Greater Manchester, Merseyside, West Midlands, West Yorkshire, Tyne and Wear and Strathclyde (excludes South Yorkshire)
- Large urban - self-contained urban areas over 250,000 population
- Medium urban - self-contained urban areas over 25,000 but not over 250,000 population
- Small/medium urban - self-contained urban areas over 10,000 but not over 25,000 population
- Small urban - self-contained urban areas over 3,000 but not over 10,000 population
- Rural - all other areas including urban areas under 3,000 population

Whilst the figures above use slightly different definitions of rural areas, the statistics above suggest that any given reduction in services that occurs as a result of these proposals will not affect those living in rural areas significantly more than other areas. However, bus passengers in rural areas may be affected more than bus passengers elsewhere in the country because concessionary revenue makes up a higher proportion of bus operator's revenue.

A number of consultation responses said that the effect of the draft guidance on reimbursement to operators in rural areas would be disproportionate. These responses also said that the reduction in reimbursement would have significant adverse effects on bus services in rural areas. The revised guidance addresses this issue in three ways:-

- The recommended method of calculating the reimbursement factor is to use the change in average fare between 2005/06 and now rather than the current absolute fare. This change will tend to increase the reimbursement factor for services with high fares. Fares in rural areas are on average higher than in urban areas.
- Marginal capacity costs will be paid in all circumstances.
- Reimbursement for low frequency bus services (defined as one bus a day or less) can be treated separately from the model calculator in the guidance.

All of these factors, but depending on local circumstances, will tend to increase reimbursement for services in rural areas compared with the approach in the draft guidance, and therefore any adverse effects on fares and services will be reduced. However, it is possible that in some places where the existing rate of reimbursement per trip is high, use of the methodology in the guidance would imply a reduction in the level of reimbursement, and therefore a potential effect on services and fares. Because of the variation in current reimbursement practice it is not possible to provide an overall assessment of the effect on rural areas. If local authorities have good evidence that the approach in the guidance is not suitable for their area, and in particular does not meet the no better no worse off principle, then they may consider an alternative approach that does meet that principle.

Local authorities already have powers under existing legislation to secure socially necessary services if these are not provided by the commercial market. This provides TCAs with the flexibility to address any specific issues which arise when implementing the new guidance in rural areas.

Annexes

Annex 1: Post Implementation Review (PIR) Plan

Basis of the review: Policy review within three years of implementation.

Review objective: To review the extent to which the revised guidance and tools have been adopted by local authorities and bus operators in their reimbursement negotiations, the impact their adoption has had on the quantum of reimbursement payable and any practical implications which have occurred from the use of the guidance and tools.

Review approach and rationale: To conduct a survey of Travel Concession Authorities seeking information on their reimbursement arrangements and the extent to which they have made use of the DfT guidance and tools.

Baseline: The DfT carried out a survey of Travel Concession Authorities' reimbursement arrangements in the summer of 2010 which can be used as the baseline position in addition to data on bus operator appeals submitted to the Secretary of State.

Success criteria:

- More accurate reimbursement of bus operators.
- Reduced number of appeals to the Secretary of State.

Monitoring information arrangements:

DfT also regular engagement with local authority and bus operator representatives through its concessionary travel working groups and we will use these forums to assist us in reviewing the success of the policy.

Information will also be available to the DfT through bus operator appeals to the Secretary of State.

Reasons for not planning a PIR: N/A

Annex 2: Real Savings per year from changes in reimbursement

Modelling of reimbursement was only applied to England outside London as the guidance covers London only for the purposes of reimbursement of non-London Bus Network Services. Due to lack of information only 35 TCAs were included in the calculation. Results from this calculation were grossed up assuming that the same percentage saving applied to all TCAs.

The calculation of the reimbursement using the new guidance was carried out as follows:-

Data

Concessionary trips by TCA in 2008/09 (from DfT survey)
Concessionary reimbursement by TCA in 2008/09 (from DfT survey)

Revenue forgone

Proportionate change in real fare used for reimbursement between 2005/06 and 2008/09 (nominal fares from DfT survey where available and deflated by the Consumer Price Index)

Change in real fare applied to appropriate Single Demand Curve relating fare to demand and derived from research findings to calculate proportion of existing trips that would be made in absence of a concession (reimbursement factor).

Average fare in 2008/09 adjusted for applying discount fare method by 5% (outside PTEs). Note the unadjusted 2008/09 fare is used for comparison with 2005/06 fare

Calculated reimbursement factor multiplied by observed number of concessionary trips and the adjusted 2008/09 fare to give an estimated revenue reimbursement in 2008/09 for each TCA using guidance methodology.

Additional costs

Proportion and number of generated trips in 2008/09 calculated as the inverse of the reimbursement factor for each TCA.

Marginal operating costs of 7.2p per generated trip applied in all cases (based on ITS research)

Marginal capacity costs of 7p, 12p and 17p per generated trip applied in all cases (based on ranges in ITS research) to ascertain range of likely costs.

Additional Peak Vehicle Requirement costs applied in some TCAs (based on ITS research finding that PVR costs likely to apply exceptionally) Assessed at £2m pa when grossed up across all TCAs but applied only in scenario 2b

Total additional costs calculated as number of generated trips times (marginal operating costs + marginal capacity cost) plus where relevant additional PVR costs.

Total revenue reimbursement added to total additional costs to get estimate of total reimbursement.

Total estimated reimbursement compared with actual reimbursement to estimate change in reimbursement.

Scenario 2a: a range of unit costs per generated passenger was applied to all TCAs to reflect uncertainty and variation in local conditions.

Scenario 2b: a rate of 17p per generated passenger was applied to all TCAs, plus peak vehicle requirement costs applied to 5% of generated trips that are assumed to occur in the peak hour for 30% of TCAs that had cost claims in 2008/09.

Scenario 2a: All Local Authorities receive claims for additional capacity costs (£m 2008/09)

	2011/2	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	NPV over 10 years
7p	£102	£102	£102	£102	£101	£101	£101	£100	£97	£96	£836
12p	£77	£76	£76	£76	£76	£76	£76	£75	£73	£72	£627
17p	£58	£57	£57	£57	£57	£57	£57	£56	£55	£54	£470

Average savings per year in scenario 2a (£m 2008/09)

7p	£100
12p	£75
17p	£56

Scenario 2b: All Local Authorities receive claims for additional capacity costs; some PVR costs (£m 2008/09)

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	NPV over 10 years
17p + PVR	£56	£56	£55	£55	£55	£55	£55	£54	£53	£52	£454

Average saving per year in scenario 2b is £54m.