

ADDITIONAL CAPACITY COSTS - PRINCIPLES

Background

Generated travel gives rise to additional costs. In most instances these will be marginal operating costs (driver's time, fuel, wear and tear, insurance, information services, etc – see separate technical note). These costs are normally dealt with by means of a small payment per generated trip (eg £0.13), calculated as follows:

$$\text{Total concessionary trips} \times (1 - \text{reimbursement factor}) \times \text{rate per trip}$$

There will, however, be some cases where additional capacity has to be provided to carry all of the generated concessionary journeys and all other journeys. This may involve larger vehicles and/or more vehicles. It follows that the greater the number of generated journeys, the greater the likelihood that additional capacity will be required.

In the same way that the amount of generated travel is assessed on a theoretical basis, so the level of service against which additional capacity must be measured is also to some extent theoretical.

The reimbursement factor is, in effect, the proportion of total concessionary journeys that would be made if there was no concessionary travel scheme. In assessing the additional capacity provision inherent within the current network of services, operators are justified in comparing this with a network of services that they would provide if there was no scheme (ie where they only had to cater for the journeys that would be made if there was no scheme). In doing so, it is also reasonable that they base the number of journeys that would be made at commercial fares by current concessionary passengers on the scheme's reimbursement factor. They must also take into account the additional commercial journeys that the currently higher service level attracts.

The Regulations state that "*Provision shall be made for additional reimbursement payments where an operator demonstrates to the authority that he has necessarily incurred costs additional to basic operating costs and attributable to an increase in the number or the capacity of the vehicles used in providing services on which concessions are available in order to meet the extra demand created by the availability of those concessions....*"

To comply with the Statutory Regulations, operators must be entitled to make claims on the basis outlined above. It is perfectly legitimate for such claims to be assessed so that the Authorities can be sure that they are valid. However, once validated in whole or in part, there is a statutory obligation to pay the validated amount.

The "No Scheme" Service Level

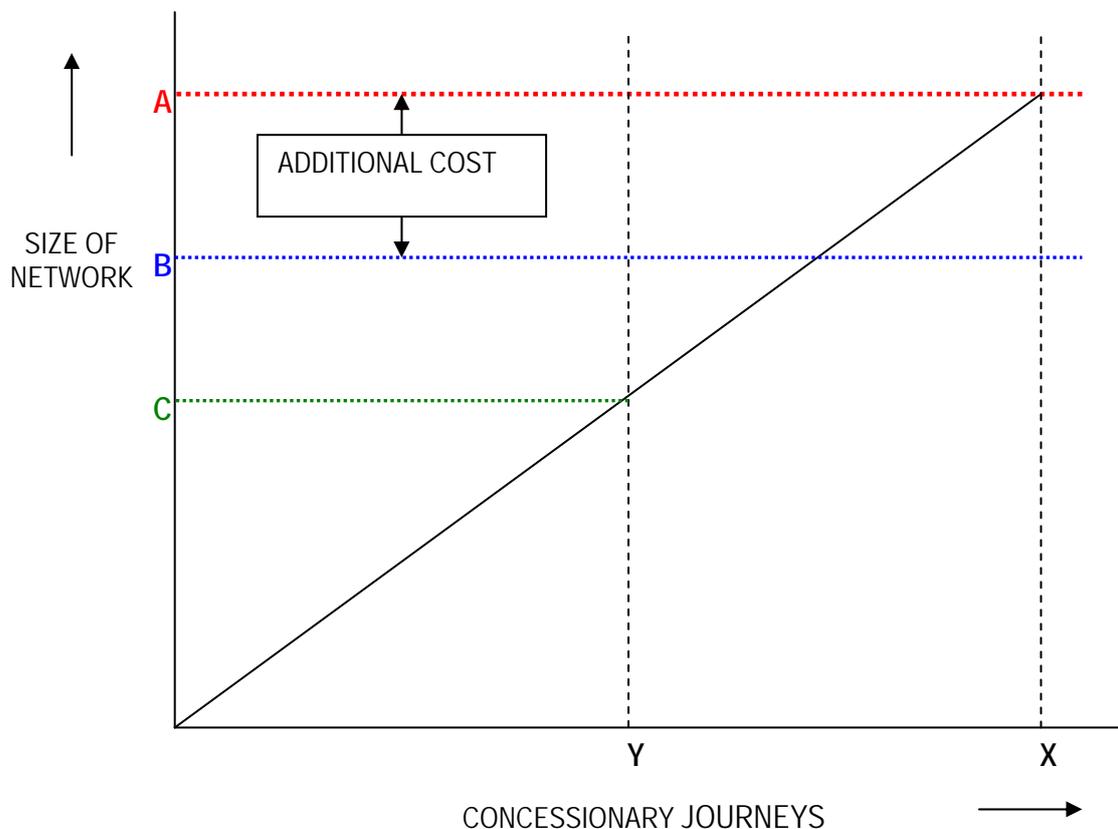
With free travel concessions the number of concessionary journeys stands at X in the graph below. If there were no scheme, based on a reimbursement factor in the order of 50%, the generated journeys would cease to be made and the number of concessionary journeys will drop to Y.

At X journeys the required network size is A. Commercial (all non-concessionary) traffic, together with the number of concessionary journeys that would be made if they too paid commercial fares justifies a

smaller scale network of size B and the additional costs are therefore the difference between the costs of network B and network A. There is no argument about this.

The balance between concessionary and non-concessionary journeys is a critical factor, particularly at route level. A high proportion of concessionary journeys relative to total journeys should be a reasonable indicator of the likelihood of a valid case for additional costs. However, in some cases the proportion of concessionary journeys will be low and in these cases the level of service is likely to be dictated more by the level of commercial traffic.

If commercial journeys are not properly taken into account there is a danger that the network size could be reduced to a lower level, shown as C in the graph below, if the specification of this network level of services is influenced mainly by the removal of generated concessionary journeys. This would result in a substantial increase in additional costs (ie the difference between network C and network A, rather than network B and network A).



The commercial viability and "reality" of any network (or level of service in the case of an individual route) that is proposed as the preferred option in the absence of a concessionary travel scheme need to be tested against the number of commercial journeys plus any residual "no scheme" concessionary journeys. Commercial revenue generated by the higher level of service must also be taken into account.

The Additional Capacity Cost payment due is:

Cost of Service level A – Cost of Service Level B – Commercial revenue generated by Service Level A