

The Cost of Concessionary Travel

Introduction

1. This short paper commences by setting out the legal and financial principles by which concessionary travel schemes must operate. It then moves on to outline the approach taken to calculate reimbursement costs in most schemes administered by MCL.

The Legal Framework

2. People aged over the equivalent female retirement age¹ and disabled people² of any age are entitled to travel free on local bus services starting in England. The statutory minimum requires that free travel be allowed for journeys starting between 0930hrs and 2300hrs on normal weekdays and at any time on weekends and public holidays. To do so they must hold an English National Concessionary Travel Scheme (ENCTS) pass.
3. Travel Concession Authorities (TCAs) must issue passes to those of their residents who are eligible and are financially responsible for all concessionary journeys which start in their area, irrespective of which authority issued the pass.
4. Operators of local bus transport services³ are legally obliged to allow passholders to travel free of charge for journeys made at times during the statutory minimum period. There is no “opt-out” - it is a criminal offence to persistently refuse passholders their right to travel free at these times.
5. Both the County Council and TCAs have powers to provide and fund discretionary concessions. Hence it is possible to extend the times when concessionary travel is allowed or to include other services (e.g. community services). These are known as the discretionary elements of the scheme.
6. The cost of this statutory minimum requirement is supposed to be met from the funding provided by Central Government and is the responsibility of the TCAs. The cost of any discretionary extension must be met from local funding.

The costs that Local Authorities have to meet

7. The main element of the cost of concessionary is the reimbursement that has to be paid to the transport operators. This compensates them for the income they lose and the other costs they incur when passholders do not have to pay a fare.

¹From April 2010 the age of eligibility increased to the female state pension age. A look up of eligibility dates can be found at https://www.gov.uk/state-pension-age/y/bus_pass

²The legislation specifies particular types of disability which determine whether or not someone under the age of 60 is eligible on the grounds of disability.

³Essentially this covers all services for which transport operators are entitled to claim Bus Service Operators Grant (BSOG) but there are some exceptions (these were updated with effect from 1 April 2009).

8. Other costs which fall upon the Local Authorities include pass issue, reimbursement administration, support consultancy and, if appeals arise, further consultancy and legal fees
9. The law requires TCAs to reimburse transport operators such that they are neither worse, nor better off in comparison with a situation where there was no concessionary travel. This is a little more complicated than it sounds and to reimburse operators adequately we have to estimate what that situation would be.
10. It may be helpful to consider what would happen *IF* there was no scheme today and all the people concerned, the current passholders, have to pay normal fares. This effectively defines the situation against which we must measure the “no better, no worse” comparison:
 - Many of those people would still travel by bus and would pay the normal fare but would make fewer journeys, deterred by the cost of some fares.
 - Some of those people would no longer travel by bus and would walk or go by car and some may not make certain journeys at all
 - Bus operators would receive normal fares for all of the journeys made by bus
 - Bus operators would plan their services to meet this lower level of use (together with other fare payers)
11. If that situation is reversed and free travel is re-introduced, it is possible to identify the cost impacts that Local Authorities must⁴ take into account:
 - All of the income from those passholders who continued to make journeys by bus at normal fares is foregone (typically in the order of 20% of total income)
 - More journeys are made because they are free (typically over 100% more) and operating costs increase marginally because of the heavier passenger loads.
 - In some cases passenger overloads can occur and the operator has to deploy additional and/or larger vehicles (the net cost of running an extra bus is a valid claim and Operators are also entitled to receive a reasonable return on additional capital deployed)
12. The Regulations require transport operators to be reimbursed for the revenue they lose and the additional costs they incur. The 3 elements of reimbursement are therefore:
 - Fares income foregone
 - Marginal cost increases
 - Additional Capacity

⁴The Travel Concession Schemes Regulations 1986 set out the requirements upon Local Authorities in respect of Reimbursement

Calculation of the 3 Elements of Reimbursement

13. It is a legal requirement to publish a document that sets out how reimbursement payments are calculated. This is set out in the “Arrangements for Reimbursement”. A separate (in most cases) “Scheme Definition” sets down a more general description of the scheme which is also a legal requirement. The “Arrangements for Reimbursement” set out the following:

Fares Income Foregone

14. To estimate the fares income foregone, we need to estimate the number of actual journeys that would be made if there was no scheme. This is done by means of an economic analysis⁵ from which we derive a “Reimbursement Factor” which represents the proportion of the total number of free journeys that would be made if the people concerned had to pay the normal fare. We assume that the fares that would have been paid are the same as the fares paid by people who currently travel and pay a fare.

[If there are 1,000,000 free travel journeys and our reimbursement factor is 55% and the average normal fare is £1.80, the fares income foregone is $1,000,000 \times 0.55 \times 1.80 = £990,000$]

Marginal Cost Increases

15. From the above example, we can see that only 55% of the current number of journeys would be made if there was no concessionary travel scheme. This means that 45% of the current journeys are generated by the scheme. The number of journeys involved has an impact on operational costs:

- Heavier passenger loads result in lower fuel efficiency and greater wear on vehicles;
- More passengers results in increased boarding times and more resources being needed to keep the service at the published level;
- More insurance claims, increased demands for information, etc.;
- Increased administration costs (processing of data, etc.).

16. Whereas the marginal costs are covered by the fare when someone pays a fare, there is no additional income from the additional concessionary journeys. A marginal cost rate is therefore calculated and this rate is then applied to the additional journeys (i.e. those that have been generated by free travel).

[Using the figures from the example above and a marginal cost rate of 12p per extra passenger, the marginal cost increase would be $1,000,000 \times (1 - 0.55) \times 0.12 = £54,000$]

⁵This uses the DfT Calculator, published each year which in turn uses “before” and “after” data around the change from half-fare to free travel in 2006 to calculate the price elasticity (i.e. the relationship between the number of journeys made and the fare paid). From this we can estimate the proportional effect of paying the normal fare level, relative to zero fare and, hence the Reimbursement Factor that applies in respect of free travel.

Additional Capacity

17. Additional capacity costs can only be assessed effectively on a case-by-case basis. No one situation is the same. If an operator claims that he has needed to provide additional capacity, the need for this would be assessed and the reasonableness of the cost he claims would be compared with industry standards. If the case is satisfactorily demonstrated, the additional reimbursement must be paid.

Disputes between Authorities and Operators

18. There are 2 contentious factors in the above and these have led to numerous appeals against the terms of reimbursement applied across the country:
 - The method of calculation and the value of the Reimbursement Factor give rise to major disagreements. Whilst DfT have provided Guidance and a Calculator, this requires a number of assumptions to be made over which there are conflicting opinions and the resulting defaults can be challenged with “local values” to obtain a more relevant factor for an individual operator.
 - The critical part of the additional capacity cost assessment is to determine what level of service he would have operated with fewer concessionary passengers. This is frequently a matter of dispute with operators.
19. Appeal outcomes were somewhat inconsistent and, although many were dismissed, they did not always produce a reasonable outcome. Appeals are rare these days as both operators and TCAs prefer to negotiate a settlement and use the appeal process as a last resort.

Data gathering

20. When a pass holder boards a bus they present their pass to either the smartcard reader or the driver such that a journey is recorded under a special code on the on board electronic ticket machine. In some cases the driver may also issue a ticket and this may contain a destination and a nominal value. However, this is not necessary and has no effect on the level of reimbursement the bus company will receive.
21. The journey data collected is downloaded by the operator and periodically passed to the Scheme Administrator, together with data in respect of commercial fares. The data is identified by route, time and boarding stage. Boarding stages are assigned to Local Authority areas so it becomes possible to identify in which area a journey starts.
22. The Scheme Administrator processes and checks the incoming data, identifying the number of concessionary journeys that have been made and the normal fares that should apply to those journeys. They then calculate what reimbursement is due to the operator as a result. The accuracy of the data is also checked by means of a system of on-board “audit” surveys carried out by the Scheme Administrator over the year. The claim can then be adjusted in light of the accuracy of the data so checked.

23. The Scheme Administrator then calculates the reimbursement due to each operator and this is paid to them by the TCA.

Risk

24. It will be clear from the above description that payments which are based on actual journey numbers and fares can vary considerably across the year means that there can be considerable variation from budget estimates and hence considerable financial risk.

25. The number of journeys and the scale of cost are such that relatively small proportional variations in journey numbers caused by such factors as the weather, or an event somewhere, can have a significant financial impact. This variability is not only an issue for TCAs but also for the Transport Operators. Both parties can benefit by bringing some stability into the equation and this is sometimes achieved by negotiating a fixed scheme cost for a year which is apportioned to operators on the basis of the data they provide, or by negotiating a fixed payment to an individual operator.

26. The provision of additional capacity is another area of uncertainty and as Reimbursement Factors tend to go down, the incidence of such claims is increasing.

27. For the some TCAs, funding has been a serious concern. The allocation of the “Special Grant” in 2008/09 and, particularly, the additional RSG in 2006/07 has led to some TCAs being severely under-funded. RSG is changing in 2019/2020 and TCAs will retain 100% of business rates which, as an alternative funding mechanism, will produce its own challenges to some Authorities.

28. There are therefore serious financial concerns and risks involved in the administration of concessionary travel.