

Division(s):

**CABINET – 15 NOVEMBER 2011
OXFORDSHIRE CONCESSIONARY FARES SCHEME**

Report by Deputy Director of Environment (Highways and Transport)

Introduction

1. On 1 April 2011 responsibility for administering the National Concessionary Fares scheme passed from the five Oxfordshire District councils to the County Council. Prior to this, in November 2010, Cabinet agreed the basic Oxfordshire Concessionary Fares Scheme, which set out how Concessionary Passes can be used and the basis for reimbursement of bus companies, with the Council adopting the revised central Government reimbursement guidance for 2011/12. The way this works is described in more detail in Annex 1.
2. In January 2011 Cabinet agreed the proposals for the scheme for the 2011/2012 financial year and that the issuing of passes would be delegated back to District Councils for this year. Officers were asked to report back on their experience of running the Scheme during 2011/2012 in order to agree the details of the scheme for subsequent years (including any possible changes) and the taking over of pass issuing by the County Council. On 20 September, Cabinet approved proposals for how pass issuing function should be delivered in-house from 1 April 2012. A Communications & Engagement Strategy is being developed to help manage the transition from District Councils and ensure we have answers to Frequently Asked Questions.
3. This report deals with the reimbursement of bus companies and the formal conditions of pass usage from the start of 2012/2013, in order that the proposed Scheme can be published by the beginning of December for consultation with bus operators, which is a statutory requirement.

Experience so far in 2011/2012

4. Reimbursement rates have been established with the operators (as described in Annex 1) so the final out-turn costs of operating the scheme mainly depends upon the amount of pass usage (though it may also be influenced by any major changes in fares or service levels). The figures for 2011/12 so far, which are based on the first few months of operation, show that the number of concessionary pass journeys in Oxfordshire continues to rise with the number of journeys around 4% higher than the previous year, in line with recent trends.
5. Despite this rise, initial financial results show the total cost of reimbursing operators is around 8% lower compared to the District Council spend on reimbursement in the equivalent period last year; equivalent to a saving of 11.5% in the cost per passenger journey. The forecast out-turn expenditure on operator reimbursement for 2011/12 is currently around £7.2m, compared with around £7.7m incurred in 2010/11. However there remains a level of

uncertainty in the likely outcome for 2011/12 and a number of variables outside the Council's direct control which could affect this figure. In particular the effects of the major change in services in Oxford arising from the Bus Qualifying Agreement introduced in July are not yet clear, and there may be other changes which would have some effect, for example fare increases – every 1% increase in fares increases concessionary reimbursement by the Council by about 0.8%.

6. The statutory national scheme has a 09.30 start time and 23.00 end time during the week. The introduction of a standard (Monday to Friday) start time of 0900 across the County, an enhancement to the minimum scheme, was welcomed by users and bus operators. Some pass holders have raised the issue that they are unable to use their passes after 2300 during the week: on Friday nights this is especially odd as passes can be used after midnight (i.e. Saturday morning) but not between 2300 and 2400. This will be covered later in the report.
7. The decision to allow free travel on Dial-a-Ride bus services for Concessionary pass holders, although not a legal requirement and therefore an enhancement to the statutory minimum scheme, was also welcomed by these users especially as they usually have mobility problems. The total cost of this concession is currently estimated to be £104,000 in 2011/12. This will also be covered later in the report.
8. The process of re-imbursing bus operators has been set up “from scratch” and a Concessionary Fares Officer appointed to manage the scheme and check the claims. This followed on from a lengthy project, using a specialist Consultant, who set up the re-imburement methodology with the bus operators. Different payments are made for commercial and subsidised bus services and, without doubt, the whole process is extremely complicated and bureaucratic. There are currently 35 operators, including Dial-a-Ride and Community Transport organizations, claiming reimbursement payments. Experience has shown that some operators delay sending in their monthly invoices and this makes budget forecasting more difficult and less accurate at any given time
9. A framework and methodology for validating operator claims has also been established: more details are provided in annex 1. The smartcard ticket machines purchased by the three major bus operators introduced as part of the new Oxford SmartZone scheme, also read the “chips” embedded in the Concessionary Passes and this has great potential to combat fraud. It also allows for a more accountable audit trail by these operators who, between them, carry most (around 85%) of the passengers across the County.

Possible changes to Operating Times and User Eligibility

10. *Start time.* It is not possible to precisely calculate the cost of adopting a 09.00 start as most pass holders would simply delay their journey by 30 minutes and would not be deterred from traveling. Bus operators in the areas which had a 09.30 start informed us that buses at this time were even more crowded than in areas with a 09.00 start. If a 0930 start were introduced it is possible that, at least in the City, additional buses may have to be provided to cope with a 09.30

“rush” and operators would be entitled to claim additional cost from the reimbursement scheme for putting these on. A change from the 09.00 start could result in an increase in cost, and it is therefore recommended that the 09.00 start is retained.

11. *End time.* There is a case for adopting a 24.00 cut off time for the acceptance of passes on Monday to Friday at minimum cost - it is likely that any increase in costs will be negligible, since the vast majority of journeys which might be made between 23.00 and 24.00 will be replacements for journeys currently made before 23.00, rather than ‘new’ journeys. This would make the scheme more easily understood by pass holders and bus drivers. It is recommended that this is included.
12. *Dial-a-Ride.* These services are costly to support, though there are benefits to the elderly and infirm that rely on them in provision being free at the point of use via inclusion within the Concessionary Travel scheme. Looking forward, the outlook for Dial-a-Ride will be influenced by reduced funding and by the opportunities being considered as part of the development of a new Community Transport Strategy for Oxfordshire. Given this, it is considered that Dial-a-Ride should be retained in the Concessionary Travel scheme for 2012/13, but for this to be reviewed as part of the development and approval of the Community Transport Strategy.

Potential Changes to Operator Reimbursement Calculations

13. There are two basic choices for the Council: to continue with a formula approach based on Government (or other) guidelines similar to the system currently used, or to move to some form of ‘fixed price’ reimbursement model (of which there are variants, touched on below). Use of the revised Government guidelines in the current financial year is likely yield a small saving but additional savings cannot be expected in 2012/2013 with costs likely to remain dependent to a large extent on passenger numbers.
14. It is believed that the Department for Transport may be about to release new guidance to Local Authorities on Concessionary Fares Schemes for 2012/2013 although nothing has yet been received. It is possible that any new guidance may have an effect on the recommendations below. Any update on this situation received before the meeting will be reported orally
15. New strategies being adopted by some County Councils are to either agree a fixed reimbursement payment for commercial bus services or a fixed pot of money to be divided up on a pro rata basis, or some other variant (which could include, for example, fixing payments within certain thresholds). These types of model would give greater certainty of out-turn expenditure compared to the Oxfordshire methodology (as described in Annex 1) and would considerably reduce the resource required to administer the function. However it would mean the loss of the direct link between number of journeys made and the funding received by the operator. The financial consequences of adopting such an alternative strategy will depend upon the outcome of negotiation with operators, and consequently cannot be accurately predicted in this report,

although initial indications are that Oxfordshire's main operators are likely to support this approach in principle.

16. Although concessionary pass holders are a relatively small proportion of the total carried on commercial bus services, there are a large number of smaller bus companies operating subsidised services: contracts for these services currently allow operators to claim for concessionary fares reimbursement. It is known that the administrative burden of making reimbursement claims in these small companies takes up a lot of their time and therefore there may well be an administrative saving for the operators as well as the Council if contracts were let on the basis of "no reimbursement". However, as operators take into account reimbursement revenue in their tender prices there would almost certainly be an increase in contract prices and this would have to be weighed with the decrease in reimbursement costs and administration.
17. Further work is needed to establish the best solution for Oxfordshire, but there are strong arguments to suggest that, with very significant further savings on current cost levels highly unlikely to materialize, some form of fixed price model which gives greater cost certainty will be a better financial solution.

Financial Implications

18. The budgeted cost for Concessionary 2011/2012 is £8.2 million, which includes costs of around £500,000 for meeting District Council costs for pass-issuing and costs involved in operating Customer Service Centre support for the project. The cost of the whole scheme significantly exceeds the central Government Grant received by the Council for this responsibility, which was around £4.2 million this year. Even if the possible savings in reimbursement identified earlier in the report do materialize, the Council is still looking at a shortfall of at least £3.5m for this area. There are risks in terms of accurate financial planning of the current reimbursement methodology, which a fixed price model should largely overcome.
19. Further costs (in the region of £50,000 per annum) would be incurred with the need for the Council to either procure its own (or buy into) a Host Operator Processing System (HOPS), which is required to support Concessionary Pass operation, when the free national HOPS system comes to an end in September 2012. The procurement costs and options for doing this are currently being investigated and options are proposed to be presented to the Cabinet Member for Transport for a decision in early 2012.

Equality Impact

20. Retaining eligibility of Concessionary Passes on Dial-a-Ride services would help protect the availability of affordable public transport for those in most need.

RECOMMENDATIONS

21. Cabinet is RECOMMENDED to:

- a) **Retain the 09.00 start time for the use of Concessionary Passes on Monday to Friday.**
- b) **Introduce a later cut off time of 24.00 Monday to Friday for the acceptance of Concessionary Passes.**
- c) **Retain the use of Concessionary Passes on Dial-a-Ride services for 2012/13, for review once the new Community Transport Strategy has been adopted.**
- d) **Give the Deputy Director, Highways and Transport, in consultation with the Cabinet Member for Transport, delegated authority to:**
 - i. **negotiate the most cost effective reimbursement scheme with the operators of commercial bus services;**
 - ii. **negotiate the most appropriate solution for reimbursement with operators of subsidised services, including Dial-a-Ride and Community Transport services, including considering the effect of the Council issuing tenders for subsidised bus services without any separate concessionary fare reimbursement.**

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Operation and management of bus company reimbursement in 2011/12.

1. The law requires bus companies throughout England to carry at no charge all holders of a valid concessionary bus pass, irrespective of which English local authority issued the pass. This legal duty applies on all 'registered local services' – buses available to the general public which run to a regular timetable and which have stops less than 15 miles apart – between 09.30 and 23.00 on Mondays to Fridays, and all day Saturday and Sunday. The Travel Concession Authority (TCA) – which since 1 April 2011 has been the County Council – is obliged by law to reimburse the bus companies for every free journey which starts in the Authority's area.
2. This reimbursement must be on the basis that the bus company should end up no better and no worse off than it would have been had no travel concession scheme existed. The methodology for calculating this reimbursement takes into account the fact that many concessionary passengers would not have travelled by bus (or would have travelled much less frequently) had they had to pay full fare for each journey. The way in which this should be calculated was the main thing which was changed in the most recent Government guidance; the methodology is complicated – and the result varies to some extent between individual bus companies - but essentially, in Oxfordshire, it comes out with just under 60% of concessionary journeys which are assessed as being 'generated' – ie would not have been made had the passenger had to pay full fare.
3. The bus operator therefore receives reimbursement of the fare for only around 40% of the 'free' journeys. In order to calculate the fare reimbursement, the bus companies are required to tell us each month, on each route, the average fare paid by fare-paying passengers, and they are reimbursed on the basis of that fare. The destination of the journey made by concessionary passholders is therefore irrelevant; the only information which needs to be collected on concessionary journeys is the number of journeys made (and, on routes which cross the county boundary only, where the passenger boarded). Indeed, from the Council's point of view it is irrelevant whether a ticket is issued at all to concessionary passengers.
4. It is recognised that the bus company does incur some extra costs for carrying the 60% of 'generated' passengers, so a payment is made in recognition of this. The total payment made, per concessionary passenger, is thus 40% of the average fare paid by fare-paying passengers on that route, plus 60% of the average extra cost to the bus company of carrying an extra passenger.
5. The above arrangements apply to the main commercial services – which account for around 86% of a passenger journeys made in Oxfordshire. Simpler arrangements apply for very infrequent (once a day or less) services, services run by voluntary organisations, and dial-a-ride services – they simply get 100% of the fare the concessionary passenger would have paid. For subsidised services, the estimated extra cost is not paid for generated passengers – on the basis that these costs are already covered within the terms of the subsidy contract – but an alternative arrangement is offered for established subsidy contracts, under which operators receive a fixed reimbursement amount equal to the amount which they received from the relevant district councils in the first year of the contract. Most operators have chosen to take advantage of this alternative, which (once established) greatly simplifies administration of these contracts.
6. In negotiating the Scheme the following principles were followed:
 - i. Use of the revised Government guidance in a way which maximises potential savings compared to the previous District Council practice (rather than negotiate a "no change from last year" fixed price arrangement as some authorities did);

- ii. Take a 'hard line' in those cases where there has been scope for interpretation within the guidance; subject to ensuring that subsidised services are not adversely impacted in a way which might lead to increases in subsidy prices;
 - iii. Establishing a system of fixed price reimbursement for subsidised services which ensures certainty of funding for these services, and minimises management workload during the year;
 - iv. Requiring reimbursement claims to be submitted monthly to enable close monitoring of expenditure patterns in the initial year;
 - v. Requiring submission of the fullest possible information in support of each claim by operators, to maximise the likelihood of anomalies being spotted.
7. The reimbursement process is managed by the Council's Bus Services Team, who has an established expertise in dealing with bus services and has the best possible chance of spotting anomalies or errors in claims. Fare levels and passenger numbers claimed are assessed on a month-by-month basis against other known information and officers' extensive experience of the numbers and patterns of use of bus services. In addition comparisons are undertaken with previous years' data from districts; any anomalies identified are immediately queried with operators. County Council officers have also visited the main operators and ensured that the methodology for recording passenger journeys which each is adopting is sound and likely to lead to accurate claims. The recent introduction of smartcard readers by all of the three biggest operators in Oxfordshire provides the potential to give a much more rigorous record of passholder journeys made – once initial teething problems with reliability have been fully resolved.
 8. This framework which has been established is believed to provide the best possible basis for controlling and minimising costs during the financial year. A full strategy has been produced which lays down the month-by-month arrangements for monitoring.
 9. The month-by-month practice has, in addition, been assessed by auditors from Deloitte, who identified a number of detailed issues to be improved (whilst finding no major shortcomings). These issues are progressively being addressed, to further ensure a system of claims monitoring in which there can be full confidence.