

Kent County Concessionary Travel Scheme

BUS TRANSPORT SELECT COMMITTEE

10TH OCTOBER 2016

The logo for MCL, consisting of the letters 'MCL' in a white, stylized font on an orange square background. This logo is positioned in the bottom right corner of the slide, above a thick orange horizontal bar that spans the width of the slide.

Outline of the presentation

- Introduction
- Legislation and statistics
- DfT Calculator, challenges and claims
- Any Questions

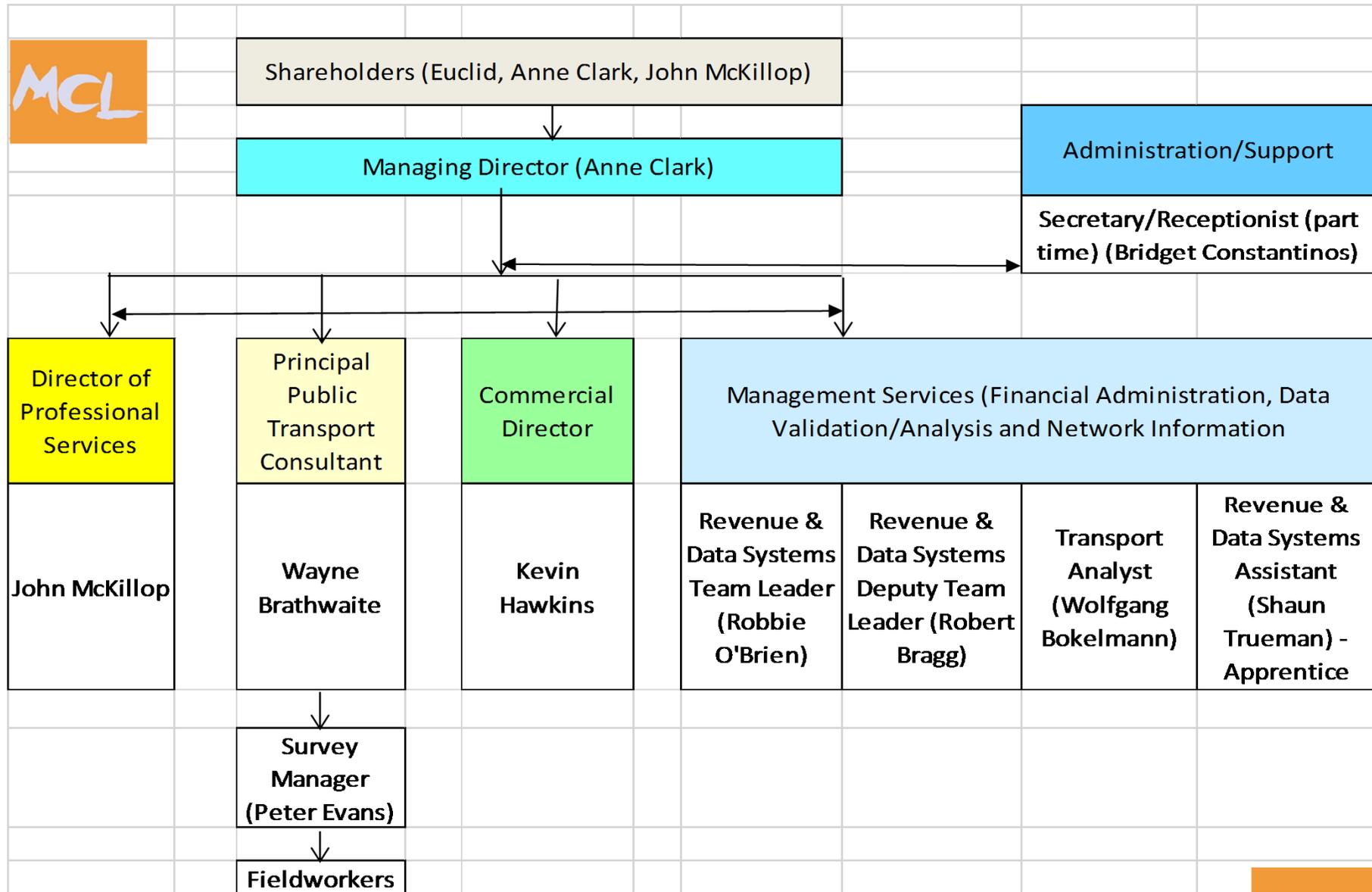
Introduction

Anne Clark – Managing Director, MCL

- Qualified Accountant (1977) FCCA
- Fellow of Chartered Institute of Logistics and Transport (1991)
- 15 years as Finance Director of municipally owned bus company including 1 year as Acting MD
- Joined MCL 2003
- Shareholder and MD since 2012



MCL – the Team



MCL Territory



MCL – some facts

- We administer 14 ENCTS schemes in England
- We administer 4 Youth card schemes
- We administer 1 taxi voucher scheme
- We work with Euclid on 4 multi-operator smartcard/HOPS data schemes
- We work on a variety of consultancy and marketing projects
- In 2015/16 our claims team in respect of ENCTS:
 - Analysed 92 million journeys
 - Calculated over £100 million payments to operators
 - Liaised with 270 bus operators

History of Concessionary Travel

2001 – local half fare statutory scheme introduced

2003 – men included at the same age as women

2006 – extended from half fare to free local travel

2008 – became England-wide free travel and went SMART (6 months of temporary non-smart passes)

2009 – definition of eligible service reviewed

2010 – eligible age changed from 60 to state pension age and for men the same as a woman born on the same day

2011 – responsibility transferred to upper tier authorities (county and unitary) Prior to that Kent County Council was the co-ordinator for the Kent & Medway countywide scheme.

2011 – government funding wrapped up in formula grant

2011 – DfT Guidance and Calculator first introduced

UK Legislation

We work under 4 key Acts and 2 sets of Regulations. These also fulfil the requirements of the EU Regulations (Regulation 1370/2007):

- The Transport Act 1985
- The Transport Act 2000
- The Travel Concession (Eligibility) Act 2002
- The Concessionary Bus Travel Act 2007
- The Travel Concession Schemes Regulations 1986
- The Mandatory Travel Concession (England) Regulations 2011

The 1985 Act

- Comprehensive review of legislation to create a level playing field in preparation for deregulation;
- First over-arching legislation setting out how Travel Concession Schemes must be operated;
- Defined those eligible;
- Introduced the “no better, no worse” objective for reimbursement;
- **Still relevant today for discretions (out of statutory times, non-eligible services, companions)**

The 2000 Act

- Set a statutory minimum concession entitlement to ensure the availability of concessions in a small number of areas where previously they were not;
- Elsewhere a “non-event” as most 1985 Act schemes bettered the statutory minimum requirement;
- Created Travel Concession Authorities (at that time District, Borough and Unitary Councils).

The 2007 Act

- Extended the statutory minimum to off-peak travel from anywhere to anywhere in England;
- Dealt with the complexity of opening up London to people from elsewhere in England;
- Gave the Secretary of State powers to make wide ranging further changes (which he subsequently used to transfer responsibilities from Districts to Counties);

Statutory Minimum

- Elderly people (of female pensionable age) and disabled people of any age (but not companions);
- Travel on local bus services (not excursions, long distance services, etc.);
- Journeys anywhere in England;
- Limited to between 0930hrs and 2300hrs on normal weekdays and all day Sat/Sun and bank holidays;

Statistics for Kent ENCTS Bus Passes

- 287,788 older and disabled concessionary travel passes in 2015/16
 - 269,538 older (91%)
 - 20,977 disabled)
 - 5,534 companion) (9%)
- The total was an increase of 7,619 or 2.64% over the previous year
- 72.14% of the eligible population have ENCTS passes

Statistics for Kent ENCTS Journeys/Reimbursement

- Total concessionary bus journeys fell by 2.49% between 2014/15 and 2015/16 to a total of 17,116,194
- Travel Value increased by 0.24% to £32,865,395
- Average discounted fares increased by 2.79% from £1.87 to £1.92

Statistics for Kent ENCTS Statutory v. Discretionary

- Kent's only ENCTS discretions are:
 - Companion passes (estimated cost in 2015/16 £40,000)
 - A small number of Section 19 Community Transport Operators

No extension to statutory times are given (09.30 – 23.00 Monday to Friday, all day weekends and bank holidays).

Kent's other discretions under the 1985 Act are of course its Youth Schemes

Kent Youth Schemes, YPTP and 16+ Travelcard

Both schemes are *discretionary*, making use of the 1985 legislation, and conceived to assist young people and their families, promote choice in education and promote greater use of public vs private transport for peak movements in particular. Some particular features are:

- Reimbursement rates differ for peak (generally morning only) and other periods. Peak reimbursement rates in particular are high vs ENCTS
- Many services are technically open to the public but operate largely as school buses. These are classified as “special” whereby limits on the level of reimbursement per passholder are set, to avoid the dangers of artificially high value fares being used as the basis for payments
- Some peak-hour services to schools are not commercially viable, and the schemes arrange to hire capacity in such cases. The requirements to do so have reduced, but YPTP in particular still has to hire around 20 buses each schoolday.

Contrasts between YPTP and 16+ Travelcard

- The YPTP scheme has been limited to 6am to 7pm, weekdays only in view of escalating costs in early years. This has limited costs, but does retain the more expensive peak travel, so costs *per journey* have risen
- 16+ is a 24/7 scheme, but annual fees to users are higher at £400
- YPTP charges vary according to income and family circumstances of users, and those for 16+ Travelcard do not
- Currently there are around 24000 YPTP passes, 7100 16+ cards in circulation
- Last year around 7.5M journeys using YPTP, 2.1M using 16+ Travelcard

**Back to looking specifically at
ENCTS.....**

Principles of Reimbursement

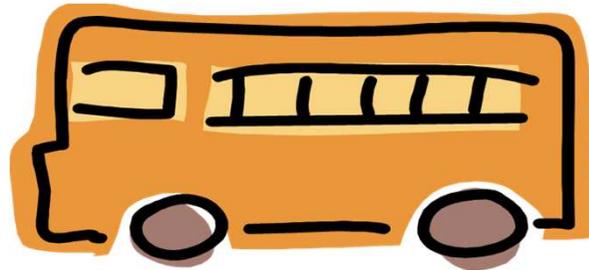
- Compensate for the “net financial effect” of meeting the obligation to allow free travel;
- Comparison between a situation where the obligation is met with one which would exist if it was not met (we know the former but need to estimate the latter);
- Avoid under-reimbursement (= Disputes);
- Avoid over-reimbursement (= State Aid).

Aim is to leave the operator no better and no worse off than if there were no scheme.

The “no better, no worse” maxim for reimbursement has to be a demonstrable objective but it is not an absolute duty;

Effects of free travel (1)

Without free travel people will use the bus

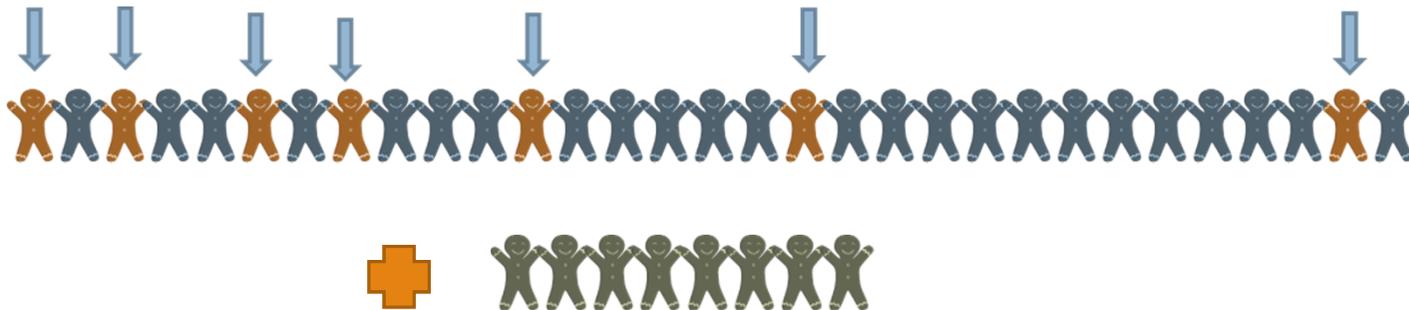


With free travel a number of these will travel but not pay



Effects of free travel (2)

- AND a number of extra people will travel because it is free –
- Known as GENERATED passengers



Effects of free travel (3)

The operator needs to be paid for those that would have travelled before – at the fare they would have paid



But he does NOT get paid the fare for the generated passengers, only the extra cost to him of carrying them – called marginal additional costs



Effects of free travel (4)

How do we calculate that in reality?

EXAMPLE

Add the 7 passengers who paid before but now travel free to the 8 new passengers

The total number of concessionary passengers is 15

But we are only paying for 7 of those

So we pay the fare for 7/15 or 47% of the total (**the Reimbursement Factor**)

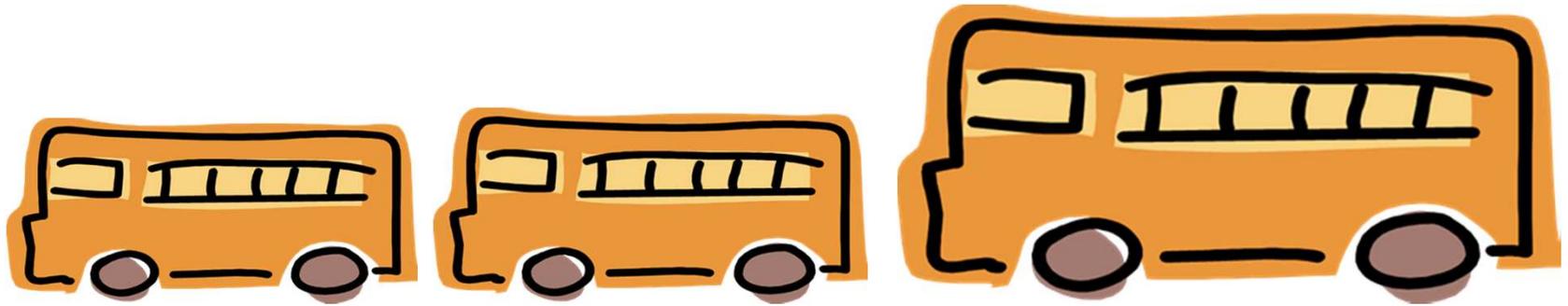
And we pay marginal additional costs only for 8/15 or 53% of the total

Effects of free travel (5)

But what if the bus is now overloaded because of the extra passengers?

The operator is entitled to be paid for the cost of putting on a larger bus or an extra bus

This is an Additional Capacity Cost Claim



Net Financial Effect

Revenue Foregone

+

Marginal Additional Costs

+

Additional Capacity Costs:

- Net of any cost reductions
- Net of any additional income generated
- Plus a reasonable profit (defined as return on additional capital deployed)

What drives the cost?

The extent to which passes are used;

The consequent duty to reimburse bus operators in respect of that use;

But remember:

- If the “no better, no worse principle is applied correctly, reimbursement is NOT a subsidy to the bus operators;
- It is a subsidy to the passholders – it is they who benefit.

It is a legal requirement to pay the bus operator, so budget restrictions cannot be a factor in calculating reimbursement.

Revenue Foregone

How to calculate the revenue that the operator would receive if there was no scheme;

This requires us to know:

- The number of journeys made
- The average fare per trip that would have been paid
- This gives us the Gross Revenue Foregone
- To this is applied the Reimbursement Factor
- To this is added
 - Marginal Additional costs
 - Marginal Capacity Costs (if appropriate)

Journey Numbers

- Taken directly from Electronic Ticket Machine (ETM) data using a Data Capture Module (DCM) which is a piece of software sitting on the operator's back office.
- In Kent, 6 small operators send manual data returns.
- Data is sent in by operators each month and triple checked for continuity, within time period and geographical area.
- Non-acceptable journeys "dumped"
- "Dump file" investigated and adjusted if appropriate after consultation with operator (e.g. new routes)
- Journeys are surveyed randomly by MCL surveyors to an agreed number of hours per year.

Fares

- The average fare paid by adult single and return fare paying passengers by route by day is taken directly from the Electronic Ticket Machine (ETM) at the same time as collecting the journey numbers.
- This is used as a dynamic part of the reimbursement calculation
- A Fares Discount Factor (FDF) is applied to each operator to reflect the discounted tickets sold by them. This data is sent monthly and is accumulated to produce the factor for the next year. It is published at the start of a year and does not change.
- The DfT Guidance recommends using only daily and weekly tickets to calculate the FDF, although in certain circumstances a “basket of fares” can be appropriate.

Gross Revenue Foregone

- Also known as Travel value

A total for all routes of

Journeys

X

average fare

X

Fares Discount Factor

Net revenue Foregone

The Gross revenue Foregone needs to be adjusted to reflect the generation

(remember the people?)



So, to continue the equation:

A total for all routes of

Journeys X average fare X Fares Discount Factor

X

Reimbursement Factor

Reimbursement Factor

- Individual to each operator
- Calculated using the DfT calculator which reflects the operators increase in fares between 2005/06 and the year in question
- If 2005/06 fares are not known or no longer relevant to the network of services, we can use the National Bus Fares Index to 2009/10 and change in fares from 2010/11.
- If a new operator, or the method is not appropriate at all, we use the scheme average
- The scheme average is used for contracted services to avoid changes if contracts change hands

Marginal Additional Costs

3 types of Marginal Additional Cost:

1. Administration
2. Marginal Operating Cost
3. Marginal Capacity Cost

Administration Cost

- Administration costs are those costs to the operator from the scheme such as publicity, timetables etc.
- DfT Guidance does not prescribe the method of calculation – simply states enter local value
- MCL schemes pay at the rate of £0.002 per generated journey
- This has not changed and is the same across all MCL schemes

Marginal Operating Cost

- These are the additional costs to the operator for carrying one additional passenger assuming a fixed service level and include fuel, tyres and oil, maintenance etc.
- The Calculator for 2016/17 gives £0.070 per generated journey using the default trip length of 3.9 miles. This default value can be challenged by operators
- If, for example you used an actual trip length of 5 miles, this would increase to £0.072
- The rate used by MCL schemes in 2015/16 is £0.075 reflecting to some extent the longer journey length in rural areas, and has not changed for several years

Marginal Capacity Cost

Marginal Additional Capacity Costs are the costs to the operator of carrying additional passengers and allowing the additional capacity of the bus to increase by using the existing fleet of buses more intensively to provide increased frequency.

The Calculator is pre-populated with a number of defaults but with the ability to change most of them to local values.

There is a clear warning that a mixture of defaults and local values must not be used as they are inter-related and any changes have a very significant effect on the end result

Marginal Capacity Cost Variable Elements

1. Cost per vehicle hour
2. Cost per vehicle mile
3. Speed
4. Mean Vehicle Occupancy (passengers per bus mile)
5. Mean journey length
6. Mean route length
7. Average commercial fare
8. Commercial journeys as a %age of total

Marginal Capacity Cost Variable Elements - conclusion

Unless an operator provides local values, we use a DEFAULT MCC

-When child fares were first introduced into the equation in 2012/13 a default value of £0.10 was agreed by all TCAs

The latest Calculator shows that by inputting a reasonable average fare, adjusted down to include child fares, the value of £0.10 is still a fair default payment.

Unless this is challenged this does not change, but it must be noted that this is a prime area for challenge.

Reimbursement

So, to continue the equation:

A total for all routes of

**Journeys X Average Fare X Fares Discount
Factor X Reimbursement Factor**

+

Marginal Additional Costs

Peak Vehicle Requirement (PVR) Costs also known as Additional Capacity Cost Claims

These are the costs associated with the requirement to run additional or larger vehicles in the peak period due to generated concessionary travel, where the operator supplies information for a claim for additional peak vehicle costs.

Historically, when the Calculator was introduced in 2011/12 and reimbursement rates dropped significantly, it was expected that operators would “make up the difference” by submitting these claims. This has certainly been the case.



ACC/PVR – “No better, no worse”

- (DfT)..“In order to meet the principle of “no better, no worse off” bus operators should be reimbursed for the additional costs incurred as a result of the concessionary travel scheme...
- DfT provides limited guidance on the procedure for calculating the amount of additional cost...outlines a recommended approach, describes the unit values to be applied, and when and where to apply those values”

MCL Recognises 2 types of ACC Claims

1. Incremental Capacity Cost

My service is overloading because of the scheme and I cannot address this using my existing fleet. I need to provide an additional / different vehicle and the costs are £X

2. Decremental Capacity Cost

My service operates with a higher frequency/larger vehicles than I would operate were it not for the scheme. Here is what I would operate without generated patronage, and this is how much less it would cost me.

In both cases, net of additional commercial revenue!



Additional Capacity Cost Claims Summary

MCL aims to produce an unbiased assessment of the maximum claim value that can be justified in a given set of circumstances, using an evaluation method assisted by a template that has been developed with operators.

This is the point at which the process of negotiation typically begins, a process that may be influenced by:

- Relationship with the operator , e.g. contracts for supported services
- Desire to maintain the network
- Budgets

In the end we hope the Authority and the operator will reach an acceptable settlement.



Final payment

So, to finish the equation:

A total for all routes of

**Journeys X Average Fare X Fares Discount Factor X
Reimbursement Factor**

+

Marginal Additional Costs

+

Additional Capacity Costs

QUESTIONS

