

SECURITY BULLETIN**CONCESSIONARY FARES - £729,000 under recovery**

Four appeals following the changes to the English schemes in April this year have revealed under provision for the repayment of concessionary fares to the tune of over 30%.

1. Artificial limitation of authorities risk

The majority of schemes that are being appealed are "pot based", that is the authority allocates a fixed amount for concessionary schemes. The problem with this methodology, besides not meeting the 'objective' ... *of ensuring that operators are 'no better and no worse off'* is that you are unlikely to be able to establish whether or not it is the correct reimbursement.

The Travel Concession Schemes Regulations 1986 have not been repealed. Circular 1/86, paragraph 21 clarifies Regulation 9 stating that an authority: *"...must however ensure that the operator receives sufficient information to be able to calculate accurately his entitlement to reimbursement."* This has not been the case with schemes we have seen.

2. Estimation without recourse to actual results

Perhaps unavoidably, the schemes we have reviewed had been finalised before the end of the preceding Scheme Year and the "pot" for distribution had been calculated before all the relevant information was available. This would be acceptable if the schemes had a provision that guaranteed to correct the re-imbursement once actual data was to hand. They do not.

Regulation 9(4) provides that: *"...where payments are estimated or calculated on a basis other than that of a complete record of all journeys, these estimates or calculations must be adjusted if the information on which they are based can be shown to be inaccurate in any material respect."*

This means that even without appealing a scheme an operator should be able to ensure that an authority takes into account more up to date revenue data and a claim for actual additional costs in excess of any estimates. None of the schemes we have seen require any consideration or certification of the actual performance to compare with payments against estimate to correct any variances.

3. Compensation for commercial tickets made obsolete

Three operators had commercial discount tickets for 'seniors' which were not part of the half price schemes generally available through the local authorities. These were used by people who either didn't travel frequently enough to feel it worthwhile applying for a pass, or who took advantage of the existence of 'explorer' tickets to make longer journeys or several trips in a day. Since

these tickets were sold on a commercial basis they were not included in previous reimbursement claims and have been omitted from consideration by local authorities and their advisers.

As a result of the free scheme these tickets have either been withdrawn or the number of sales drastically reduced – replaced by free trips. Revenue received in 2005/06 for these tickets is revenue foregone in 2006/07.

4. Audit findings and experience

The English local authorities and their advisers are taking the All-Wales Free Concessionary Travel Scheme out of context when quoting the 2.5% allowance towards additional costs. One response to an appeal goes so far as to say that no operators in Wales have complained, so the additional cost element is obviously quite acceptable! This misses the whole point that it is the overall Reimbursement Factor that an Operator looks at - in Wales 73.6% of revenue foregone.

Our experience, in Scotland, raises an alternative level of additional costs, confirmed by the financial outcome. We assisted in the quantification and presentation of six claims (3 separate methodologies) under the free National Minimum Scheme. Under that scheme reimbursement was 62.5% of average fare (revenue foregone) plus additional costs calculated individually by operator. The results established a net additional cost, when calculated from first principles, of between 18% and 44% of the actual reimbursement. The Scottish Scheme Reimbursement Factor has now been revised to 73.6% of average fares including additional costs. The increase in the basic reimbursement is just under 18%, confirming our previous findings.

Looked at as a “package” the current Welsh and Scottish schemes are actually very similar, with the Welsh Reimbursement Factor of 76.1% made up of a Revenue Factor (73.6%) and Additional Cost factor (2.5%). Scotland has a Reimbursement Factor of 73.6% made up of a Revenue Factor (62.5%) and Additional Cost Factor (11.1%). In total both schemes are returning over 70% of the revenue foregone.

5. PVR and capacity issues

Any network is liable to review and variation as travel patterns change. Obviously the Peak Vehicle Requirement reflects the maximum capacity requirements which will vary throughout the day.

There are also longer term trends that ultimately result in decisions to increase or reduce the frequency or capacity of service provision. Some declining routes may be about to lose capacity when a change in the concessionary travel scheme generates an increase in patronage, to the extent that these cost cutting measures are shelved. The management action that was about to reduce costs can no longer be taken but the ongoing costs remain and the operator should be compensated. Worse still the extra concessionary passengers do not generate further revenue.

A further problem arises in that (particularly in the evening peak) buses are more obviously running to capacity, leading regular commuters to the conclusion that they would be better able to guarantee journey times and comfort by taking their cars. A disgruntled passenger who cannot board a bus may not result in the operator losing just one journey - the perception of crowded buses and standing room only will remain and upwards of 10 journeys a week could be lost through a single incident. Loss of disgruntled passengers is very hard to overcome and recover – there are simply not enough new or quality second-hand vehicles to buy at short notice across the country.

6. Additional Costs

There have been two common misconceptions of an additional cost claim following the introduction of the free scheme, firstly that the additional cost relates to the passengers generated by this new scheme, compared to the previous half fare scheme. It doesn't, the claim relates to the carriage of all generated passengers, including those generated by the previous scheme. The other misconception is that you have to introduce new vehicles to make a claim. This is not true either. If all concessionary travel schemes ended today what would the effect on your patronage be and how would this feed through to service levels? If a cut in services would occur, an additional cost claim might be justified within the provisions of the Travel Concessions Scheme Regulations 1986 – to be initiated by the operator (Regulation 12).

7. Recommendations

- 1. If you are running services within the English Schemes under the new rules you should ensure that all the aspects above have been properly taken into account.*
- 2. We do not subscribe to the concept of a 'cap' or 'shared pot' and any payments on an estimated basis should be subject to subsequent correction to 'actual'.*
- 3. Even if schemes do not require a formal certification it might help to arrange one to eliminate any understatement, and ensure you are receiving all monies due.*
- 4. Consider service levels required in the absence of any concessionary travel scheme, and formulate a claim for the cost of any additional capacity you are currently running.*
- 5. If the net re-imburement you receive doesn't amount to 70 / 75% of OAP travel value in total contact Edward Morris or David Lees at E P Morris & Company Limited.*

EPM/ DWL/JMP 11 September 2006