

Concessionary Bus Travel Act 2007 and Transport Acts 2000 and 1985

The Leicestershire Concessionary Travel Scheme (LCTS) and the Leicester City Council Concessionary Travel Scheme

Notification of variation of scheme details and reimbursement arrangements effective from 1 April 2017

- i. The term “Leicestershire Concessionary Travel Scheme” refers to the scheme administered by Leicestershire County Council in Leicestershire. The term “Leicester City Council Concessionary Travel Scheme” refers to the scheme administered by Leicestershire County Council on behalf of Leicester City Council. The schemes are described in the appendix to this document.
- ii. Reimbursement arrangements are intended to ensure that operators are no better or worse off as a result of the existence of the concessionary travel scheme.
- iii. These arrangements cover the period 1 April 2017 to 31 March 2018.

Reimbursement for free travel by concession holders

- iv. Payment of reimbursement will be according to the formula:

Revenue forgone + Marginal operating costs + Marginal capacity costs* (if applicable)

Revenue forgone = Total concessionary journeys at free fare x Reimbursement factor x Discounted average fare**

Marginal operating costs = Total concessionary journeys at free fare x (1 - Reimbursement factor) x Marginal operating cost per generated journey

*Marginal capacity costs are to be negotiated between operator(s) and administering authority as applicable

** Discounted average fare is calculated by Discount fare method or Basket of fares method as described below.

- v. DfT has established two standard demand curves, relating reimbursement to a PTE-like area or a non-PTE area. Current DfT guidance relates this split to car ownership and suggests that journeys taken by Leicester City residents shall be treated as following the PTE-like demand curve.

In the event that it is not possible for an operator to distinguish journeys taken by Leicester City residents, as a proxy the presumption will be that services operated wholly within Leicester City shall be treated as following the PTE-like demand curve. Services operating wholly outside Leicester City shall be treated as non-PTE-like. In the case of services operating partly in Leicester City, services will be classified as PTE-like or non-PTE like on an individual

basis; generally urban services will be classified as PTE-like and inter-urban services as non-PTE like.

Average fare is calculated by one of the two published methods, Discounted Fare or Basket of Fares, discounted fare is the principal method, but less suitable where 60% or more of the operation is at a frequency of hourly or less. In the latter case, basket of fares will be chosen.

a) **Discounted Fare method**

This assumes that ticket products can be summarised into three generic ticket types:

- 'cash' fares which entitle the purchaser to make a finite number of journeys, i.e. include cash singles, cash returns and carnets (e.g. ten journey tickets, etc);
- daily tickets; and
- weekly tickets.

If this method is selected, a discussion would take place with each operator as to how to map individual ticket products onto the generic ticket types. Decisions are needed as to which tickets are in scope and which are deemed to be not relevant to the concessionary market (e.g. annual season tickets, peak period tickets, child tickets, etc).

Once the various products have been mapped onto the generic ticket types, data on total ticket sales and ticket revenue for each of the three ticket types would be used to derive the average price per journey.

Unless otherwise agreed the default journey numbers per ticket type are as shown below.

| Type of ticket | Assumed journeys per ticket |
|----------------|-----------------------------|
| Adult single | 1 |
| Adult Return | 2 |
| Daily Pass | 3 |
| Weekly Pass | 16 |

Average ticket price = Total revenue / Total number of journeys

In the cash fare category this may comprise tickets with a different number of journeys per ticket. For instance the total revenue for carnets of ten journeys will need to be divided by ten before the average revenue per journey for cash fares tickets is calculated.

The three average ticket prices are then input into the DfT Average Fare Calculator and the discount factor associated with that price structure is derived. It can then be applied to the average cash fare reported for the period to derive the fare that would have been paid in the absence of a scheme:

Average fare forgone = Average cash fare x (1 – Discount Factor %)

b) Basket of Fares Method

If this method is used, an estimated discount rate is calculated by using a weighted average fare per journey from assumed usage of different commercial ticket types. This requires the administering authority to make assumptions about the number of journeys that would have been taken with each ticket purchased and the proportion of total journeys that would have been taken by concessionaires holding each type of ticket. In the absence of evidence from the operator, the default values for assumed journeys per ticket will be 1 for single, 2 for return, 3 for day and 16 for weekly.

- vi. Reimbursement factor is calculated using the DfT calculator, applying one of the recommended methods, ensuring that the correct demand curve is selected.

The Reimbursement Factor derived will be equivalent to (**Estimated** journeys made in the absence of the free scheme) / (**Observed** journeys made at free fare). If the number of observed journeys made at free fares is known, the journeys that would be made by the market segment in the absence of the free scheme can then be derived using the DfT calculator.

Marginal Operating Costs

- vii. Marginal operating costs are the costs to a bus operator of carrying an additional passenger assuming a fixed level of service. The components of these costs comprise fuel, tyres and oil, maintenance and cleaning, insurance, information and additional time costs.

The DfT recommended value will be used as a base, 6.1p per generated journey (at 2009/10 prices), plus a 0.5p allowance for Leicestershire administration. Adjusted value = $6.1 + 0.5 = 6.6$ at 2009/10 prices

The marginal operating cost figures are at 2009/10 prices. To update to 2017/18 for the purpose of calculating reimbursement the actual or forecast GDP Deflator index shall be used (HM Treasury website)*. $6.1p \times 1.1321221 = 6.9p$ for 2017/18, plus 0.5p for Leicestershire administration = 7.4p.

*: where 2015 = 100.00, 2010 = 92.818 and 2018 = 105.081.

- viii. The marginal operating cost per additional concessionary passenger is based on an average journey length of 3.9 miles. If operators have good evidence that the journey length in their area is greater than the average default value, then a change may be negotiated using evidence of the local journey length instead and apply the following formula to calculate a marginal operating cost:

Marginal operating cost = $6.1p \times [\text{Average Journey Length (in miles)} / 3.9]$
All in pence 2009/10 prices

Evidence may come from surveys of passengers, observation of boardings and alightings or interpretation of ticket sales data. Evidence on the length of all concessionary journeys is sufficient.

- ix. In the event that an operator believes that its additional marginal costs are significantly different to those listed above, it should send evidence to the administering authority as proof. Such evidence should demonstrate how additional marginal costs have risen since 2005/2006.
- x. In cases where a different value is agreed by the administering authority and operator in respect of one of the component items of overall additional marginal costs, then the base overall marginal operating unit cost (6.1p) shall be adjusted by a proportion using the relationship below:

Adjusted Marginal Operating Cost = $6.1p \times [\text{Agreed item unit cost minus Default item unit cost}] / 5.0$ (see paragraph 7.14 of the DfT guidance on reimbursement).

Marginal Capacity Costs

- xi. These are the costs to a bus operator of carrying additional passengers and allowing the capacity of bus services to increase, by using the existing bus fleet more intensively to provide that additional capacity through increased frequency. Marginal capacity costs should be net of the additional revenue generated from commercial journeys that arise from increased frequency. These costs are additional to the marginal operating costs.
- xii. Any claims for marginal capacity costs must be supported by evidence. Such evidence shall include all that detail within the published DfT guidance (details available from the administering authority on request). Alternatively operators may notify the TCA that the default values may be used in calculating the claim.
- xiii. Claims for marginal capacity costs shall be treated on a network basis (using DfT guidance to obtain weighted values) wherever possible, calculations on a route-specific basis shall be used in all other cases.
- xiv. As a general rule, but subject to local evidence, the administering authority would not expect claims for marginal capacity costs to be submitted if excess capacity (1 - average load as a proportion of average seating capacity) is higher than two thirds. Operators that run buses with significant excess capacity on average are assumed to have minimised their costs as far as they can and, given that revenue will be no different with and without a scheme, there will be no reason to change capacity.
- xv. Where the service is secured through Minimum Subsidy or Net Cost tender, the authority is determining the capacity it wishes to see provided so that additional capacity costs are covered through the tender process. However,

in this case the operator should be reimbursed for the marginal operating cost of carrying additional passengers on that secured capacity.

- xvi. When marginal capacity costs apply, the cost model in the DfT Reimbursement Calculator shall be used to derive an estimate in pence per journey. For avoidance of doubt, reimbursement for marginal capacity costs should only apply to the subset of operations for which the operator has provided data that suggests that required capacity would be lower without the concessionary fares scheme.

Over or underpayments

- xvii. The Councils have a duty to meet any claims in respect of additional marginal operating or capacity costs if they agree that they have been incurred as a result of participation in the scheme. Settlement of claims will be made without undue delay.
- xviii. Claims for additional marginal operating or capacity costs will only be considered from the time the claim is first raised and not retrospectively in respect of earlier scheme years.
- xix. Monies that are agreed as due following a claim for additional marginal operating costs above the standard rate or a claim for additional capacity costs will be offset against any overpayment of revenue reimbursement that becomes apparent following any end-of-year review that is conducted.

Notice and Reviews

- xx. Changes to reimbursement methodology will be subject to statutory or scheme notice rules as applicable.
- xxi. In April 2018 an end of year review using outturn data may be conducted and as a result of this it may be necessary to make an adjustment to the payment made to an individual operator; such an adjustment may result either in an extra payment to the operator or the recovery of an overpayment.

Supply of information by operators

- xxii. Leicestershire County Council and Leicester City Council intend in future to extract electronic data from the HOPS (see para xxv below) in order to determine journey numbers for reimbursement of operators for free travel. When this method of determining journey numbers is introduced, operators should verify the HOPS data and provide details of any manual transactions involving concession holders and numbers of journeys per calendar month made by concession holders starting in the area of each individual participating council (Leicestershire County Council and Leicester City Council). It is expected that operators will do this by collating information by fare stage of boarding. Each council's liability will thus consist of reimbursement for journeys across a number of whole routes and segments of routes. It is necessary only to supply the monthly aggregate figure for

each Council, but to retain the supporting information to the monthly claim for examination as necessary.

- xxiii. Operators should also supply details of numbers of journeys split between those taken by Leicestershire pass holders and those taken by Leicester City pass holders, if this information can reasonably easily be derived.
- xxiv. Operators should also supply sufficient information to enable calculation of average fare: as a minimum, the revenue taken from sales of adult single, adult day return and adult “day anywhere” tickets and the numbers of those tickets sold during the calendar month.
- xxv. Leicestershire County Council and Leicester City Council intend in future to base reimbursement calculations on HOPS (electronic smartcard system message processing centre) data, plus an allowance of no more than 2% for transactions recorded manually by drivers where smart ticketing has not functioned correctly. Any exceptions to this requirement, for instance where operators do not use smart ticketing or have encountered significant difficulty in recording all transactions using smart ticketing, will be solely at the discretion of the councils. Operators who believe they should be exempt from this requirement and have not previously agreed an exemption with Leicestershire County Council should contact the County Council on 0116 305 7249.
- xxvi. It is not expected that commercially determined fare stages should be adjusted to coincide exactly with authority boundaries. In cases where there is doubt about the authority to which particular journeys should be allocated, the County Council as scheme administrator will provide guidance on request.
- xxvii. Any additional costs of data analysis and processing necessary to meet the above requirements for information will be met, provided these are fully explained by way of comparison between costs before and after the introduction of general free travel, and in the authority’s opinion are reasonable and justifiable.

Fixed payment alternative

- xxviii. The provisions outlined in paragraphs iv to x may be replaced by a fixed reimbursement payment for 2017/2018 if an individual operator and affected Council(s) agree to do so. The Councils reserve the right to require information as specified in paragraphs xxii to xxiv above from an operator with whom the Councils or the administering authority have entered in to a fixed payment agreement.

Ticket issuing when concessionary journeys under the scheme are made

- xxix. It is a requirement that operators should issue a ticket on each occasion when a concessionary pass is presented for travel at half fare or flat fare. The ticket should as a minimum indicate the fare stage at which the pass

holder boarded. There is no longer a requirement to issue zero value tickets where a free concessionary journey is taken, but such journeys must be recorded by the operator's smart ticketing system if such a system is in use. Operators who wish to continue issuing zero value tickets in these circumstances can do so as a matter of preference. Any operator beginning or ending the practice of issuing zero value tickets must provide adequate publicity to concession holders in advance of the change and notify the Councils of the arrangements for publicity that are being made.

Reimbursement for half fare travel by concession holders

- xxx. Operators will be reimbursed for half fare journeys at a rate of 0.6 x half fare collected, sufficient to ensure that the operator receives in total for the journey 0.8 x full fare, i.e. 25% generation.

Minimum cost contract services

- xxxi. Services operated for Leicestershire County Council or Leicester City Council on a minimum cost contract basis are outside the scope of these arrangements, as operators in any case receive the full difference between revenue collected and the agreed operating costs. The record keeping requirements in respect of journeys made by the scheme's pass holders on minimum cost contract services will be separately notified.

Payment schedule and auditing

- xxxii. Reimbursement will be paid to operators monthly, subject to receipt of information sufficient to identify travel by concession holders for each route commencing in each Council area and to enable payment due to be calculated in accordance with the scheme's terms.

All payments made by Leicestershire County Council will be on standard 30 day terms. It is intended that payments will be made to operators at the mid point of each month and to achieve this, each month's payment will be based on an estimated figure, being the actual amount of reimbursement due for the preceding month but one, plus or minus a reconciliation for the difference between that actual amount and the previous estimated payment for the same period (e g the estimated payment for June will consist of the actual amount due for April with a plus or minus adjustment as appropriate to allow for the difference between the actual April figure and that previously estimated for April).

- xxxiii. The councils reserve the right to conduct surveys and audit records and accounts in respect of services of participating operators at any reasonable time. Information obtained from operators will not be disclosed to any third party without consent.

APPENDIX A – SCHEME DETAILS

Leicestershire Scheme in 2017/18

- (i) English National Concessionary Travel Scheme.

The following additional discretionary concession:

- (ii) A charge of £1.00 per day on all Leicester Park and Ride services after 09.30 on Mondays to Fridays and all day Saturdays, Sundays and bank holidays.

Leicester City Scheme in 2017/18

- (i) English National Concessionary Travel Scheme.

The following additional discretionary concessions:

- (ii) Free travel between 23.00 and 23.59 Mondays to Fridays for journeys starting in Leicester, for Leicester City pass holders;
- (iii) A charge of £1.00 per day on all Leicester Park and Ride services after 09.30 on Mondays to Fridays and all day Saturdays, Sundays and bank holidays;
- (iv) Free travel at all times for disabled pass holders (orange stripe passes) for all journeys starting in Leicester and Leicestershire except for Park & Ride services which will be charged at £1.00 per day at all times(see (iii) above);
- (v) Travel Aid scheme, offering half fare travel for City residents seeking employment and showing relevant authorisation and identity;
- (vi) Half fare travel for holders of older persons' travel passes (blue stripe) issued by Leicester City Council, for pre 9.30 am journeys on Mondays to Fridays starting within the Leicester City boundaries.