

FREE TRAVEL FOR OLDER & DISABLED PEOPLE

BRIEFING NOTE 4 - ESSEX



Introduction

1. In Briefing Note 3 (BN3) we outlined the requirements and initial financial assessment arising from the Government's initiative to provide free local travel from 1 April 2006. This note provides details of developments since BN3 was issued together with an update of the financial assessment. We also provide some preliminary estimates of pass take up and travel growth.
2. We have not repeated here the content of BN3 that remains unchanged and it should be retained for reference purposes.

Developments

3. There have been 4 main developments since BN3 was circulated:
 - There has been a substantial lobby from London, the metropolitan authorities (PTAs) to reallocate the way in which the additional £350m promised by Government will be distributed
 - This lobby has found its way into the Consultation Document on the Formula Grant Distribution for 2006/07, issued by ODPM on 19 July 2005 (see Chapter 11) with 2 significant impacts:
 - a) Rather than being allocated to cover additional expenditure, the £350m is now being shared by London and the other Metropolitan authorities, which reduces what is available for the rest
 - b) There is a better (but by no means perfect) balance between urban and rural authorities
 - There has been a substantial awakening amongst the transport industry and a strong campaign is being mounted by the Confederation of Passenger Transport (CPT) to secure a somewhat rigid mechanism for reimbursement which, if adopted will add significantly to the level of cost estimates we have made;
 - In response to 3, the Department for Transport (DfT) have set up a working party.
4. Consultation on the allocation of funding ends on 10 October 2005. After this ODPM is expected to announce its decision during November and the resultant grant figures will be made known in December. We show the impact of the method now proposed later in this paper and any Council not satisfied with its allocation should lobby directly to ODPM and via the LGA. Briefing Note 5 provides further detail on the matter funding.
5. It is not yet clear when the DfT working party will deliver its output although it has indicated that it should be available "in the Autumn". This is likely to take the form of formal guidance on the revised statutory requirement (when the relevant order has been made) together with informal guidance on the matter of determining reimbursement and "best practice" in general. DfT are still strongly encouraging the operation of "countywide" schemes. Although any guidance in respect of

reimbursement is likely to be informal, it is widely thought that transport operators will be unlikely to agree to any arrangements which differ from the guidance. Whilst we do not argue that operators should be properly reimbursed, it may be necessary to lobby DfT to ensure that undesirable financial systems are not imposed upon us.

6. At this time we are left with 2 fairly significant unknowns. There is one thing we do know and that is that the revised scheme for 1 April 2006 has to be published by 1 December 2005 to meet the statutory requirement laid down in the Transport Act 2000. This scheme must therefore be prepared by best guessing the unknowns we currently face.

Financial Implications for the Countywide Scheme

7. We have updated the scheme cost estimates presented in BN3. These take account of:
 - Use of 2004/05 out-turn figures as the base (the estimates in BN3 were based on 2003/04 out-turn)
 - A more localised treatment of generated travel and other factors
 - More realistic estimates of administration costs for local schemes
8. We have also compared the resulting costs with the revised allocation of the £350m as presented in the ODPM Consultation Document, referred to above.
9. The revised figures will be found in Table 1 below. These are presented in a similar format to the equivalent Table in BN3 and relate to the continued operation of the countywide scheme as it is now.

Table 1
Financial Implications for Changing the Current Countywide Scheme to a Free Scheme

SCHEME/AUTHORITY	ESTIMATED NET* COSTS - 2006/07			ESTIMATED SHARE OF £350m 2006/07			
	CURRENT SCHEME	FREE TRAVEL SCHEME*	ADDITIONAL EXPENDITURE	Method 1 2005/06 EPCS	Method 1 SURPLUS/ (DEFICIT)	Method 2 ODPM 19 JULY 2005	Method 2 SURPLUS/ (DEFICIT)
ESSEX							
BASILDON*	£455,066	£1,221,632	£766,566	£1,156,768	£390,202	£1,136,314	£369,748
BRAINTREE	£254,057	£579,684	£325,627	£819,509	£493,882	£659,904	£334,277
BRENTWOOD*	£234,188	£439,003	£204,815	£414,549	£209,735	£294,059	£89,244
CASTLE POINT	£219,205	£568,909	£349,704	£509,197	£159,492	£458,961	£109,257
CHELMSFORD	£438,371	£1,150,272	£711,901	£928,013	£216,112	£520,002	-£191,899
COLCHESTER*	£407,658	£1,344,862	£937,205	£947,144	£9,939	£782,090	-£155,115
EPPING FOREST	£231,386	£637,415	£406,029	£760,007	£353,978	£582,233	£176,204
HARLOW*	£741,500	£1,327,995	£586,495	£549,328	-£37,166	£480,921	-£105,574
MALDON*	£113,409	£251,749	£138,340	£353,417	£215,077	£261,703	£123,363
ROCHFORD	£144,825	£423,381	£278,556	£439,146	£160,590	£323,285	£44,729
SOUTHEND-ON-SEA	£511,382	£1,095,088	£583,705	£1,098,177	£514,472	£1,192,154	£608,449
TENDRING	£431,325	£1,085,222	£653,897	£879,587	£225,690	£1,159,444	£505,547
UTTLESFORD	£76,480	£234,047	£162,235	£416,707	£254,472	£188,394	£26,159
SCHEME TOTAL	£4,258,851	£10,359,259	£6,105,075	£9,271,551	£3,166,476	£8,039,464	£1,934,389

* Net of expected income where charges apply in respect of existing free travel passes under current scheme

Financial Implications of Other Options

10. For those schemes that currently offer an “all day” concession, we feel that the option of an equivalent “Off-peak” scheme might have to be considered. An off-peak scheme would restrict the availability of concessionary fares to after 0930hrs on weekdays (excl public holidays) with, perhaps the exception of certain routes where the only feasible departure was before this time (a list of exceptions would therefore be prepared and maintained).
11. We have also calculated the cost of a statutory minimum (STATMIN) scheme for each authority, including an appropriate estimate of additional administration costs that each council would have to bear. This would also be an off-peak scheme as described above but with the added limitation that concessionary fares would only be available for journeys wholly within each council’s administrative area.

Table 2
Cost of Other Options

Authority	Final Estimate STATMIN	Final Estimate Countywide (Off-peak)
Basildon	£1,113,246	£1,221,632
Braintree	£506,217	£579,684
Brentwood	£411,707	£439,003
Castle Point	£494,990	£568,909
Chelmsford	£1,109,517	£1,150,272
Colchester	£1,375,575	£1,344,862
Epping Forest	£625,962	£637,415
Harlow	£1,364,658	£1,327,995
Maldon	£245,693	£251,749
Rochford	£350,864	£423,381
Tendring	£1,051,092	£1,085,222
Uttlesford	£204,035	£234,047
Essex County Total	£8,853,556	£9,264,171
Southend-on-Sea	£1,151,907	£1,095,088
Scheme Total	£10,005,463	£10,359,259

All figures above include an allowance (see below) for additional costs and administration

Cost Estimates – Further information

Reimbursement

12. The process by which the estimates have been calculated is set out in Appendix A.

Additional Cost Payments to Operators

13. This is perhaps likely to be one of the major issues and further discussion will be needed on this subject. For the time being, we have adopted the assumption used in Wales and increased the value of revenue foregone by 2.5% in the context of the countywide option; higher in respect of STAMIN option because of additional administration costs that this option will impose upon operators.

Administration

14. As we pointed out in BN3, there will be additional, one-off costs associated with the change to free travel (including consultations with transport operators, preparation of final cost estimates, preparation of revised scheme documentation, leaflets, etc., the possibility of needing new pass stationery and consequent write off of existing stocks, software updates and preparation of revised administration systems). These costs have now been notified to the coordinating authority and they will be contacting participating authorities with regard to how these costs will be met.
15. There will clearly be increases to ongoing administration costs. These will include provision for:
- The increase in stationery requirement (passes, leaflets, etc);
 - Additional survey requirements;
 - Added analytical complexity.
16. The increased central administration charges are included in the estimates shown in this note.
17. Following the issue of BN3 and the discussions resulting from it, there was a general consensus that we had made insufficient provision for the true cost of administering a statutory minimum scheme locally. We have therefore reviewed these estimates, based on the agreed assumption that the methods deployed in running a local scheme would be similar to those used in running the countywide scheme, hence enabling like-for-like comparison.
18. The trade-off in this context is really between lower administration cost and the likelihood of higher reimbursement costs (because of less scrutiny) and vice versa. It is generally felt that the methods deployed in connection with the countywide scheme offer the right balance.

Take-up and Use

19. In BN3 we did not attempt to make any estimates of the impact on the number of people taking up passes nor on the number of journeys that would be made. We have now made preliminary estimates of these important factors.

The Impact on the Number of Passes Issued

20. The more generous concession will clearly mean that more people will be likely to claim their concessionary travel entitlement. There will also be an additional transfer

where alternative concessions (eg tokens) exist and in cases where free travel is already available but where there is an issue charge made. Our estimates are shown in Table 3.

21. It is possible to “model” a rational reaction to these changes. However, we know from recent experience when the statutory half fare scheme was introduced that the market can behave in a totally irrational manner. Hence there could be wide variations from the estimates shown here. We consider our overall cost estimates to be far more robust and although we show the consequent pass cost values in Table 3, these will vary considerably if there is any variation in actual take-up.

Table 3
Impact on Pass Take-up, Pass Cost and Journeys made

Authority	Base Passes (2004/05)	Take-up Growth	Projected Pass Take-up	Projected Countywide Pass Cost	Growth in Concessionary Journeys
Basildon	10821	15.00%	12444	£98.17	25.78%
Braintree	5499	35.00%	7424	£78.09	40.04%
Brentwood	3440	36.00%	4678	£93.84	23.11%
Castle Point	6409	26.00%	8075	£70.45	41.44%
Chelmsford	10849	26.00%	13670	£84.15	43.71%
Colchester	10049	25.00%	12561	£107.06	41.54%
Epping Forest	6655	26.00%	8385	£76.02	38.72%
Harlow	5969	64.00%	9789	£135.66	7.06%
Maldon	3523	35.00%	4756	£52.93	39.95%
Rochford	7076	29.00%	9128	£46.38	44.85%
Tendring	16898	29.00%	21798	£49.78	38.72%
Uttlesford	2179	35.00%	2942	£79.56	43.04%
Essex County Total	89367	29.41%	115651	£80.10	30.83%
Southend-on-Sea	13596	26.00%	17131	£63.92	32.00%
Scheme Total	102963	28.96%	132782	£78.02	30.95%

Increase in Journey Numbers

22. Free travel is going to generate a significant increase in the number of journeys made by passholders, new and old. Our estimates of the increase in the number of journeys likely to be made can be seen in Table 3.
23. It is important to put this growth in context however and to see it in relation to total patronage. Typically concessionary travel accounts for in the order of 20% of all travel and the level of growth we are estimating for concessionary travel is therefore unlikely to result in overall growth of more than 10%. This growth is likely to be biased towards the off-peak period. It is the overall growth figure that must be considered in the context of service capacity and the likelihood of additional costs claims arising.

Smart Cards

24. Smartcards will assist in the process of measuring revenue foregone but nowhere near as much as they would have done in the context of a half-fare scheme. This was explained more fully in BN3. Although smart cards might obviate the need for apportionment surveys, the free travel scheme brings in the need for additional

surveys, with or without smart cards. Having regard to the likely capital cost of smart cards, we cannot see that their introduction can be justified for concessionary travel alone.

The story so far - Conclusion

25. We hope this paper will provide the necessary input to assist the Administering Authorities of the scheme to reach a consensus over the future direction of the scheme and the change to free travel. In view of the level of funding that would appear to be available from Government, those “countywide” schemes that wish to remain in place should be able to do so without the need for additional funding.

What Happens Next?

26. At the last meeting there was a general consensus that authorities wished to keep the countywide scheme together and avoid the need to set up their own statutory minimum scheme, if at all possible. Whilst there remains doubt over the availability and allocation of additional funds from Government, it is vital that we move forward. As we have said above, schemes must be published by 1 December 2005 and consultations with bus operators may well be protracted. Pass stationery will need to be ordered by the end of November. The publicity and information “machinery” needs to be set up well in advance too.

27. We are currently working on the following, with a view to circulating this further material before the end of August 2005:

- Recommended Financial Arrangements for the Free Travel Scheme;
- Proposals for the concession options to be provided under the scheme, dealing with time of availability, options for charging for discretionary enhancements and detailed matters such as companions;
- A proposed task plan and programme.

28. Once these have been circulated and once this note has been considered, a further meeting will need to be called to establish whether or not there has been any change in position on the part of any authority regarding the countywide scheme and, if so, how this might impact on the countywide scheme. It is fully accepted that this will have to be on an “informed best guess” basis on the part of officers.

29. If the officers’ “best guess” is that their authority is likely to withdraw from the Countywide scheme, it will be necessary to consider operational implications and whether or not it wishes to operate its local scheme “under the wing” of the countywide scheme.

30. Assuming the countywide scheme is to continue it will be necessary to agree at the same meeting:

- The concession options to be made available by the scheme and whether or not any chargeable options will be included (time of availability, treatment of companions, availability on community transport, etc);

- Any changes likely to arise in the availability of other concessions (so that this can be taken into account when final cost and take-up estimates are made);
- A programme of action on the part of each authority to ensure further inputs can be provided within the requirements of the overall programme of work;
- Contingency arrangements should any authority be forced to change its position.

31. It will be necessary to hold this meeting in late August/early September.

32. Although the date for the AGM has been fixed, we feel this should now be postponed until November to enable the necessary follow-up to the earlier meetings to be concluded and to allow time for any requirements from DfT, due "in the Autumn" (we are told late October) to be taken into account. At the AGM we will be presenting for agreement:

- Final cost estimates;
- A revised statutory "Scheme Description";
- A revised statutory "Arrangements for Reimbursement";
- Proposals for pass stationery and quantities to be provided;
- Proposals for publicity including a new scheme leaflet;
- Outline details of any administrative changes;
- A final programme of actions (including pass stationery printing and distribution which will become a critical action during November if supplies are to be available by the end of January).

Calculating Initial Revenue Foregone Estimates for Free Travel

1. Operators must be reimbursed such that they are no better off nor any worse off in terms of their total income compared against a situation where there was no travel concession scheme (ie everybody paid the “full” fare for the journeys they would make at that fare).
2. People will make fewer journeys and/or shorter journeys if they have to pay “full” fare compared with paying half fare, a flat fare or not having to pay at all and vice versa.
3. To get to the “no better/no worse” reimbursement target, we therefore have to know or make an assumption about the additional travel generated by the lower concessionary fares.
4. If an operator carries 120 units of travel under a half-fare concessionary travel scheme and we assume the amount of travel generated by the half-fare “discount” is 20%, then we would expect him to carry 100 units of travel if there was no scheme. If we say that one unit of travel costs £1 at “full” fare, the operator could expect to receive £100. This is the reimbursement target figure.
5. As the operator only charges half fare, he collects £0.50 in his fare box for each unit of travel. For all 120 units of travel, this brings him in £60. We then have to reimburse him with a sum to bring his revenue up to £100, ie £40.
6. If the half fare scheme is replaced by a free scheme, the amount of travel generated will increase because the discount increases from 50% to 100%. Assume it goes up to 50%.
7. There will now be 150 units of travel undertaken but the operator will not receive any income in his farebox because no fares are charged. However, we still only have to reimburse the operator for 100 units of travel, ie the amount of travel that would have been undertaken had there been no scheme. In this case we have to reimburse £100.
8. In this example the reimbursement due in respect of free travel (£100) is 2.5 times the reimbursement due in respect of half-fare travel (£40). This illustrates why free travel reimbursement is not simply a case of paying “the other half of the fare”.
9. The target reimbursement value is a constant irrespective of the actual concession being offered. Clearly the amount that is actually reimbursed will be influenced by the value of that concession as this will influence the amount of cash taken in the operator’s farebox. Hence we can state a simple, generalized formula:
10. **Farebox + Reimbursement = Constant** (ie the target reimbursement level)
11. For all the current schemes we know exactly what the values of **Farebox** and **Reimbursement** are and, hence, we can calculate the **Constant** value. This is the amount we have to reimburse in respect of free travel. The assumed level of generated travel arising from free travel does not really

12. matter once we know this base value. Whatever it is, we can add it on but we then take it off again. Clearly it is an important factor in terms of the additional number of journeys that will be made but it is effectively irrelevant in the financial context as long as we know the **Constant** value, which we do.
13. Note - for an authority that offers more than one option (eg a local flat fare scheme and/or a countywide half-fare pass), we simply add the resulting constant values for each option together.
14. This is how our estimates of the reimbursement cost of the free travel scheme have been established, subject to two, relatively minor complications, which are:
15. The impact on those who currently have no concession, in spite of being entitled, and who currently pay "full" fare. The offer of free travel may entice them to take a pass and the value of their travel has to be added in. This is not a great amount as if they were inclined to use public transport a lot, they would already have a half-fare pass.
16. The impact on those who currently opt for a "cash value" concession (eg tokens or vouchers) if these are available. Unless these people are acting irrationally at present and using most of their tokens or vouchers for bus travel, we do not see a major impact from this group. They have the choice of a bus pass at present and most do not exercise it because they use their tokens or vouchers for other purposes (eg taxi or rail travel).
17. The Constant values have been calculated from 2004/05 out-turn values and factors representing the small level of growth from 1 and 2 above have then been added. Inflation factors have then been applied to calculate 2006/07 estimates.
18. An important point arises in connection with inflation in the context of free travel. In the case of a half fare concession, a fares increase that averages 7% gross is only likely to increase the reimbursement requirement by about 5% because there will be some resistance to the increase even from people who only pay half fare. In the case of free travel concessions, pass holders are protected from fares increase and it will have no impact on them. Therefore the full effect of the gross fares increase will impact on reimbursement.