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| London Councils’ Transport & Environment Committee |
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| Concessionary Fares 2015/16 Settlement and Apportionment (Revised) | Item no: | 10 |
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| **Summary** | This report informs the Committee of the outcome of negotiations with transport operators (Transport for London (TfL), the Association of Train Operating Companies (ATOC) and independent bus operators) regarding compensation for carrying concessionary passengers in 2015/16. It also seeks members’ approval to the proposed settlement and apportionment. |
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| **Recommendations** | The Committee is recommended to:1. Agree the TfL settlement of £327.922m for 2015/16.
2. Agree to the proposed extension to the existing ATOC agreement and the consequent settlement of £21.334m for 2015/16
3. Agree a budget for non-TfL bus services of £2.2m.
4. Agree the reissue budget for 2015/16 of £1.518m
5. Agree the borough payments for 2015/16 of £352.974m
6. Agree the payment profile and dates on which boroughs’ contributions are paid as 4 June 2015, 3 September 2015, 3 December 2015 and 4 March 2016.
7. Agree the 2015-2016 London Service Permit bus operators (non-TfL buses) Concessionary Scheme.
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Background

1. The Freedom Passscheme is the best concessionary fares scheme in the country, in terms of scope, benefits offered and quality of transport provided. The Freedom Pass gives free travel concessions 24 hours a day to eligible older and disabled residents on Transport for London (TfL) services and after 9.30am on National Rail and independently operated bus services in Greater London. This is largely funded by boroughs with grant support from Government. TfL fund the concession for older people in the weekday morning peak on TfL services (between 04:30 and 09:00) and this accounts for around 5% of the cost of the concession overall. TfL also fund the 60+ Pass which is available to people who have reached 60 but have not got to the Government set eligible age for Freedom Pass which is gradually moving in line with the women’s state retirement age.

Negotiations with Transport Operators

1. Each year negotiations take place between London Councils Transport and Environment Committee (on behalf of boroughs) and TfL for buses, tubes, DLR, Tramlink and London Overground to determine the cost of the scheme on the basis that both parties are neither better nor worse off. This is based on:
	* The revenue foregone by the operators (i.e. the revenue which if the concessionary fares scheme did not exist would be collected from the permit holders. This excludes fares income from generated travel); and
	* The additional costs to the operator (i.e. generated travel by permit holders for which operators receive no fares revenue but do receive the cost of increasing the service to allow for the extra trips made).
2. Each year the settlement is based on:

 a) The estimated average number of journeys made by freedom pass holders

 over the previous two years. The method estimating these journey volumes

 uses Oyster data, passenger surveys and automated passenger count

 information.

 b) The expected average fare per trip, which is the actual adult fare paid in the

 absence of the scheme taking into account fares increases. The 2015/16

 settlement for the first three quarters assumes a fare increase in line with

 the July 2014 RPI value of 2.5% as announced by the Mayor and for the last

 quarter it assumes 3.6% fare increase (1% above the forecasted July 2015

 RPI of 2.6%).

1. If the overall cost of the TfL elements of the scheme (regardless of whether there has been a change to any part of the scheme) is not agreed by the 31 December the reserve free scheme described in the GLA Act 1999 comes into effect in relation to TfL services.
2. Negotiations are also carried out with ATOC for the cost of the Freedom Pass usage on national rail services excluding the London Overground network which is managed by TfL. The Committee agreed in February 2011 to a four year deal with ATOC starting in 2011/12 and ending in 2014/15. This increased the settlement by 1.75% above the Retail Price Index (RPI) as at July of the previous year. This agreement has now been extended for another two years on the same basis, with a slight change to the year on year increase. This has been agreed to be in line with RPI and the actual fare change instead of a fixed fare change. This agreement expires at the end of March 2017.
3. Concessions are also offered on local bus services in Greater London outside the TfL bus network. The statutory entitlement is provided under the Transport Act 2000 as amended by the Concessionary Bus Travel Act 2007. The draft Scheme was published on London Councils website before the 1st of December 2014 to meet the statutory notice required to the bus operators. Though there is no change to the scheme, the reimbursement arrangements have to be agreed with bus operators and reimbursement is made in accordance with these arrangements. The reimbursement scheme was agreed by the TEC Executive Sub-Committee on 14 November 2013.

**Settlement with Transport for London for 2015/16**

1. The TfL settlement is £327.922m which is a 2% increase on 2014/15. The main drivers of the settlement are fare increases and journey volumes. The Mayor has determined that fares increases for 2015 are based on RPI, which is 2.5%, using the July RPI figure. Journey volumes were down by 0.34%. Another factor offsetting the fares inflation increase of +2.5% is a -0.16% rebate relating to the 2014/15 settlement.
2. The settlement estimates that journey volumes were down by 0.34% Within this, there is around a 0.8% decrease on buses (which accounts for 73% of TFL journeys), a 2.4% increase on the Underground (which counts for 23% of TFL journeys), 1.2% increase on Tramlink (1.4% of TFL journeys), a 2.2% increase on London Overground and 18.7% increase on the Dockland Light Railway, which account for 1.1% of TFL journeys. The overall change in journeys remains down due to the 73% weighting of the buses.
3. Although there is an overall 0.34% reduction in journeys, there has been a small growth in the number of passes in circulation (0.2% between June 2013 and May 2014). This reflects the change in age eligibility as younger pass holders are more likely to travel compared to existing holders who tend to use their passes less frequently as they get older.
4. The cost of the English National Concessionary Travel Scheme (ENCTS) in 2015/16 on the London bus network managed by TfL is included with the cost of the TfL settlement and is not separately identified.
5. The TfL settlement is made up as follows:

**Table 1 – TfL settlements 2015/16 and 2014/15**

|  |  |  |
| --- | --- | --- |
|   | 2015/16 (£000) | 2014/15 (£000) |
| Bus | 239,806 | 237,667 |
| Underground | 75,443 | 72,172 |
| Tram | 4,490 | 4,360 |
| DLR | 3,780 | 3,221 |
| Overground | 4,403 | 4,176 |
| Total | 327,922 | 321,596 |

**Settlement with ATOC for 2015/16**

1. The settlement in respect of the Association of Train Operating Companies (ATOC) for 2015/16 is £21,334,350 million. This represents an increase of £520,350, or 2.5% on the £20.814million settlement for 2014/15. The 2.5% increase is the lowest seen in the last 5 years. This is due to positive negotiations with ATOC, whereby they have agreed to extend the existing 4 year deal by another 2 years with an annual increase of inflation plus actual national fares increase.

**Settlement with other bus operators for 2015/16**

1. Bus companies operating eligible services outside the TfL bus network have to seek reimbursement under an agreed scheme. Since the proposed scheme for the 2015/16 remains unchanged in principle from the 2014/15 scheme, the estimated cost proposed in the budget report elsewhere on this Committee’s agenda is based on the assumption of no change to the 2014/15 scheme. Under the Transport Act 2000 provisions it is not possible to agree in advance with those bus operators the actual cash sums they will receive.
2. A budget of £2.2 million for payments to non-TfL bus operators for local journeys originating in London is proposed. The 10% increase is based on a 6.5% increase in journey volumes and 5.65% increase in fares.
3. As this element of the settlement cannot be cash limited in year, members are recommended to agree the budget of £2.2 million for 2015/16 and for this to be kept under review in the light of the level of claims being made.

**Administration**

1. The total cost of the administration of the freedom pass is estimated to be £371,899 in 2015/16 compared to the subsidised £315,989 in 2014/15. This equates to £11,270 per borough. However, after determining the overall financial position of the Committee through the range of charges proposed, this allows for this charge to remain at the 2014/15 reduced level of £8,674 per borough. This amount covers London Councils costs in negotiating the annual settlements and managing the relationships with transport operators and contractors. This is billed separately as part of the subscriptions and does not form part of the settlement apportionment.
2. The budget for the survey and pass issuing costs has been adjusted as detailed in Table 2 below:

**Table 2 – Survey and Reissue Costs budget 2015/16**

|  |  |
| --- | --- |
|  | £000 |
| **2015/16 base budget** | **1,350** |
| Plus increase for the 2016 renewal exercise of up to 200,000 passes  | 168 |
| **Total budget** | **1,518** |

1. The increased cost of survey and reissue costs of £168,000 is offset by the estimated income collected from the £10 charge to replace lost and damaged passes. It is estimated that up to £500,000 may be collected from this charge in 2015/16.
2. Any annual surplus arising from both the freedom pass issuing costs budget of £1.518 million and replacement freedom passes income budget of £500,000 will be transferred to a specific reserve to accumulate funds to offset the cost of the next large-scale pass reissue exercise scheduled for 2020. This process will be reviewed on an annual basis and may result in a bespoke annual contribution from boroughs being reinstated at a later stage in order to ensure a sufficient fund is accumulated for the 2020 reissue.

**Summary of settlement to be apportioned**

1. Taking the figures above into account, the 2015/16 settlement to be apportioned is as follows:

**Table 3 Settlement to be apportioned**

|  |  |
| --- | --- |
|  | 2015/16 (£000) |
| TfL | 327,922 |
| ATOC | 21,334  |
| Non TfL Bus | 2,200 |
| Reissue Cost | 1,518 |
| Total Cost | 352,974 |

The total estimated cost payable by boroughs towards the scheme in 2015/16 of £352.974m compares to £345.555m payable for 2014/15, an increase of £7.419m or 2.15%.

**Apportionment of 2015/16 costs between boroughs**

1. London Councils has been able to obtain usage data from TfL for bus, underground, DLR and tram for two years (2012/13 and 2013/14). This has been averaged as required by the 2008 Arbitration Award. For bus and underground nearly 100% of the concessionary journeys are captured electronically (oyster data recorded on the gates or bus readers), which gives an accurate apportionment of these costs to the boroughs. It is important to note that the cost on buses and underground accounts for 96% of the total concessionary cost. On DLR and Tramlink modes only about 11% of concessionary journeys are captured for the purpose of the apportionment and from Overground and National Rail 51% and about 70% are captured respectively. This is mainly because there is no requirement for Freedom Pass holders to touch in on the readers when using these modes. However, the profile of journeys shown by the usage data is in line with what would be expected – that is the residents of the boroughs nearest to tram and DLR services use them more than residents of boroughs far from these services.
2. TEC agreed in December 2012 that there should be a transition for the introduction of usage apportionment for the National Rail and London Overground elements of the Freedom Pass settlement from 2014/15 onwards when the 2-years of usage data became available for these journeys. Owing to the significant distributional effects of moving these elements to usage apportionment therefore the approach adopted is as happened with the implementation of the original 2008 Arbitration Award, where it was phased in over three years (the so-called 40:30:30 approach - 40% by usage and 60% by Formula Funding in year 1 (see paragraph 23 below), 70% by usage and 30% by Formula Funding in year 2 and 100% by usage in year 3). 2015/16 is the second year of this transition, where 70% of the apportionment uses journey data and 30% uses the previous funding formula.
3. The apportionment of costs between boroughs for the 2015/16 settlement is at Appendix 1. Although overall the year-on-year increase of the amount to be apportioned is 2%, there is a reasonable variation between boroughs (min 0.25% max 5.44%) The main reason for this is differences in usage between borough residents

**Payment dates and profiling**

1. The payment dates and profile of payments are agreed as part of the apportionment. The proposed payment dates on which boroughs’ contributions are paid are 4 June 2015, 3 September 2015, 3 December 2015 and 4 March 2016. The proposed profile for the TfL element is 24.78% of the total for the first three quarters and 25.67% for the final quarter, the higher figure for the last quarter reflects the assumption of a 3.6% (RPI+1) increase of fares in January 2016. The proposed profile for ATOC, the non-TfL operators and other charges e.g. re-issue, is equal instalments of 25% each quarter. Appendix 2 shows the apportionment per borough by quarter.

**Financial Implications**

1. The financial implications arising from the Freedom Pass settlement negotiations for 2015/16 have been commented upon in detail in the proposed revenue budget report for 2015/16, which is subject to a separate report to this Committee.

**Legal implications**

1. There is a legislative requirement as set out in this report for London boroughs to fund concessionary travel for eligible London residents on the TfL network and eligible residents of England on buses in Greater London. Failure to agree a settlement with TfL by 31 December in any year would enable TfL to invoke the free reserve scheme and to set the cost of this scheme for each borough.

**Equalities implications**

1. Concessionary fares schemes as exemplified by London’s Freedom Pass scheme provide a major economic benefit to eligible older and disabled people by meeting the cost of their use of local bus services. In London this benefit is substantially enhanced as a consequence of the additional modes available in the scheme.

**Recommendations**

The Committee is recommended to:

1. Agree the TfL settlement of £327.922m for 2015/16.
2. Agree to the proposed extension to the existing ATOC agreement and the consequent settlement of £21.334m for 2015/16
3. Agree a budget for non-TfL bus services of £2.2m for 2015/16.
4. Agree the reissue budget for 2015/16 of £1.518m.
5. Agree of the borough payments for 2015/16 of £352,974m
6. Agree the payment profile and dates on which boroughs’ contributions are paid as 4 June 2015, 3 September 2015, 3 December 2015 and 4 March 2016.
7. Agree the 2015/16 LSP Bus Reimbursement Scheme

**Appendices**

Appendix 1: 2015/16 apportionment by mode and borough

Appendix 2: 2015/16 apportionment by quarter and borough

**Background papers**

## Transport & Environment Committee: 12 December 2013: Item 12 - Concessionary Fares Settlement Apportionment from 2014-15

Transport & Environment Executive Sub Committee: 13 November 201: [Item 7 - Draft Revenue Budget & Charges 201](http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=4633)5/16