

London Councils' Transport & Environment Committee

Concessionary Fares 2016/17 Settlement and Apportionment

Item 08
no:

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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 2016/17. It also seeks members' approval to the proposed settlement and apportionment.

Recommendations

The Committee is recommended to:

1. Agree the TfL settlement of £333.94million for 2016/17.
2. Agree to the ATOC settlement of £18.520 million for 2016/17
3. Note that in May 2015, a number of services in north and east London transferred from TOCs to TfL.
4. Agree a budget for non-TfL bus services of £1.7 million.
5. Agree the reissue budget for 2016/17 of £1.518 million
6. Agree the borough payments for 2016/17 of £355.678 million
7. Agree the payment profile and dates on which boroughs' contributions are paid as 9 June 2016, 8 September 2016, 8 December 2016 and 9 March 2017.
8. Agree the 2016-2017 London Service Permit bus operators (non-TfL buses) Concessionary Scheme.

Background

1. The Freedom Pass scheme 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.

2. Freedom Pass 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). 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

3. Each year, negotiations take place between London Councils Transport and Environment Committee (on behalf of boroughs) and TfL for buses, tubes, DLR, Tramlink, London Overground and TfL Rail 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.
4. The resulting settlement is based on:
 - a) The estimated average number of journeys made by Freedom Pass holders over the previous two years. In estimating these journey volumes; Oyster data, passenger surveys and automated passenger count information are used¹.
 - 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 2016/17 settlement for the first three quarters assumes a fare increase in line with the July 2015 RPI value of 1% and for the last quarter it assumes 2.2% fare increase (no fare increase above the TFL projected July 2017 RPI) .
5. 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.
6. Negotiations are also carried out with ATOC for the cost of the Freedom Pass usage on national rail services excluding the London Overground and Crossrail network which is managed by TfL.
7. This year, the negotiations with ATOC were relatively straightforward, as 2016/17 is the second year of a two year deal, which allows for a year on year increase in line with the July 15 RPI index and the actual fare change.

¹ For the purposes of calculating the value of services transferred to TfL in 2016/17, three months data was used and uplifted for a full year.

8. Nevertheless, members are asked to note that in May 2015 a number of services transferred from Greater Anglia to TfL. The value of these services represented 14.05% of the ATOC settlement. Consequently, a reduction will be made to the ATOC settlement and an increase made to the TfL settlement (covered in more detail between paragraphs 12 and 21).
9. 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 2015 to meet the statutory notice required to the bus operators. Though there is no change proposed to the scheme, the reimbursement arrangements have to be agreed with bus operators as reimbursement is made in accordance with these arrangements².
10. Overall, the 2016/17 settlement represents a below inflation increase of 0.8% see Table 1. Settlement Overview (below). This is made up by an increase of 1.8% for TFL, which accounts for nearly 94% of the total cost, and a decrease of 13.2%³ and 22.7% on ATOC and LSP respectively, which together account for 5.7% of the total. The reissue cost remains the same. Further explanation of each element is provided below.

Table 1. Settlement Overview

Operator	2015/16 (£million)	2016/17 (£million)	2015/16 weight	2016/17 weight	Change
TfL	327.92	333.94	92.9%	93.9%	1.8%
ATOC	21.334	18.520	6.0%	5.2%	-13.2%
LSP	2.2	1.7	0.6%	0.5%	-22.7%
Reissue	1.52	1.52	0.4%	0.4%	0.0%
Total	352.974	355.678	100%	100%	0.8%

Settlement with Transport for London for 2016/17

11. The TfL settlement is £333.94 million which is a 1.8% increase on 2015/16. The main drivers for growth in the settlement are TfL network expansion and inflation, as well as some growth in journeys on the underground, DLR and overground. These have been, to a small extent, offset by decreasing journey volumes on buses and trams, which have led to an overall reduction in journey volumes, however the pattern across modes is not uniform.

Network expansion

12. From 31st March 2015 TfL is operating two new services previously run by Greater Anglia as part of the London Overground network and have transferred a third as part of the Crossrail project:
 - Liverpool Street station to Enfield town and Cheshunt via Seven Sisters (Overground)

² LSPs have the right to challenge this scheme until April 2016.

³ Net decrease inclusive of inflation.

- Liverpool Street station to Chingford (along with services between Romford and Upminster); and
 - Liverpool Street station to Shenfield
13. These new services account for an increase of £3.77 million (1.1 of the 1.8 percentage point increase) in the TfL settlement. However, this is to a large extent offset by a notional £3.03 million decrease in the ATOC settlement⁴. The remaining £0.74 million increase is due to the higher average fares on these lines, now they are within the ambit of TfL (in large part, as a result of TfL services using an expanded Oyster zone, which reaches beyond zone 6) as well as more accurate journey data.

Inflation (fare increases) and journey volumes

14. Overall, the fare increase across TfL modes for 2016/17 is 1%, in line with the July 2015 RPI figure. However, journey volumes across all modes (excluding those transferred) were down by 0.3%, which account for 0.7 percentage points of the 1.8 percent increase in the TfL settlement. In the absence of transferring services, the settlement would have been 0.3% below inflation.
15. Beneath these headline figures, the picture on journey volumes is slightly more complex. Whilst, total journey volumes across the five TfL modes (bus, London Underground, Tram, Docklands Light Railway and London Overground) were down by 0.33%, within individual modes there were significant variations.
16. Buses continue to account for the significant majority of journeys (83%) and were down 0.66% on the previous year. Anecdotally, TfL believe they have been affected by the level of works across key parts of the London road network. Tram journeys were also down (2.2%).
17. Nevertheless, journeys were up across three modes; underground, DLR and overground. Approximately, one percentage point of observed increase can be explained by the effect of the accounting periods used by TfL on these modes. Unlike, buses and overground, where journeys are accounted for in quarter years, for these three modes, journeys are accounted for in weeks.
18. This means that over approximately a five year period, for accounting purposes, a week would be lost in the absence of an adjustment that adds an additional week to the accounting year every five years⁵. This year is such a year. In future, TfL will adjust in year to account for this additional week.
19. Almost all of the increase in journeys on the underground can be explained by the additional week. Larger percentage increases were seen on the DLR and London Overground 4.56% and 7.48% respectively. Anecdotally, these can be explained by service improvements and population growth and movement in the areas served. A full breakdown of the year on year change and relative percentage weights against overall journeys is shown in table Table 2. TfL Modes (below).

⁴ The year on year decrease is £2.81 million when inflation is taken into account.

⁵ The true length of a year is 365.25 days (hence a leap year every four years) over a period of five years there are 1826.25 days (365.25 x 5). In a true year, the length of a true week is 7.02 days (365.25 ÷ 52). As TfL accounts for these services on a standard weekly basis (i.e. seven day); over five years (in which there are 260 weeks), in the absence of an adjustment there would be 1820 days, a difference of 6.25 days. These 6.25 days make up the additional week.

Table 2. TfL Modes

Journeys in million	2015/16	2016/17	% change	Weight of the journey volumes
Bus	299.002	297.028	-0.66%	83%
London Underground	50.13	50.674	+1.09%	14%
DLR	3.722	3.892	+4.56%	1%
Tramlink	4.965	4.855	-2.22%	1%
London Overground	3.224	3.465	+7.48%	1%
Total	361.113	359.914	-0.33%	100%
Crossrail	-	1.537	-	-
Greater Anglia	-	0.885	-	-
	361.113	362.336	+0.34%	

20. The effect of the factors described above on the settlement is shown in Table 3 TfL Settlement (below):

Table 3 TfL Settlement

Mode	Settlement 2015/16 (£m)	Settlement 2016/17 (£m)	% change
Bus	239.806	240.965	+0.5%
London Underground	75.443	76.270	+1.1%
DLR*	3.780	3.716	-1.7%
Tramlink	4.403	4.746	+7.8%
London Overground	4.490	4.475	-0.3%
Total	327.922	330.172	+0.7
Crossrail	-	2.392	
Greater Anglia	-	1.376	
Total	327.922	333.940	+1.8%

*Note: The final DLR settlement includes a £0.264 million rebate for prior years (14/15 and 15/16) where 60+passes were included in the estimation for the concessionary journeys

Settlement with ATOC for 2016/17

21. The settlement in respect of the Association of Train Operating Companies (ATOC) for 2016/17 is £18.53 million. This represents a £2.8 million decrease on 2015/16, which can be explained by the transfer of Greater Anglia Services to TfL. In the absence of this change, the final settlement would have been £21.55 million. The true increase to the remaining services is 1%, in line with July 2015 inflation.
22. Members are asked to note that there are a number of factors that could add a degree of volatility to ATOC (and by extension TfL) settlements beyond 2016/17. The first factor is further transfers of services from TOCs to TfL, as part of rail devolution plans. As seen in the 2016/17 settlement, such transfers are likely to reduce the ATOC settlement and increase the TfL settlement in respect of London Overground services. However, due to ticket price and zoning differences, the reductions and subsequent increases are unlikely to be pound for pound and could result in net increases. TfL and London Councils estimate that should rail devolution plans be fully implemented, annual increases between £1 and £2 million could be expected.
23. The second factor, which will solely affect the ATOC settlement, is the negotiation of a new deal with ATOC. The 2016/17 year represents final year of a two-year fixed deal. One of the key components of this deal is an estimate of actual journeys, which at present, is based on a study conducted in 2010 which used survey and usage data to arrive at a negotiated settlement. In future, it is likely to be based on actual usage derived from Oyster clicks and on the elasticity of demand. At this stage it is not possible to accurately estimate the impact of this change. However, it could lead to an increase in costs in respect of ATOC services.

Settlement with other bus operators for 2016/17

24. Bus companies operating eligible services outside the TfL bus network have to seek reimbursement under an agreed scheme. Since the proposed scheme for the 2016/17 remains unchanged in principle from the 2015/16 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 2015/16 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.
25. A budget of £1.7 million for payments to non-TfL bus operators for local journeys originating in London is proposed. This is based on a prudent 6.3% estimated increase on the projected spend of £1.6 million in the 2015/16 financial year. The 6.3% increase is made up from 2.3% on fares and 4% increase on journeys.
26. The assumptions regarding fares are made based on inflation estimates towards the upper end of Bank of England forecasts and account for volatility in oil prices, which, whilst currently low, are a significant driver of fare increases.
27. The assumptions regarding journeys are based on expected expansion of timetables and new services that have been signalled by a number of the bus operators, which could lead to increased patronage.

28. As this element of the settlement cannot be cash limited in year, members are recommended to agree the budget of £1.7 million for 2016/17 and for this to be kept under review in the light of the level of claims being made.

Administration and re-issue costs

29. The total cost of the administering the freedom pass is estimated to be £386,816 in 2016/17 compared to the subsidised £371,899 in 2014/15. This equates to £11,772 per borough. However, after determining the overall financial position of the Committee through the range of charges proposed and taking account levels of replacement card income, for 2016/17 a nil charge is recommended (to be kept under review annually).
30. 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.
31. The budget for the survey and pass issuing costs has been adjusted as detailed in Table 2 below:

Table 4 Administration and Re-issue Cost Budget 2016/17

	£m
2015/16 base budget	1.518
Total budget	1.518

32. Any annual surplus arising from both the Freedom Pass administration and issuing costs budget of £1.518 million and replacement freedom passes income budget of £500,000 (net of administration costs) 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 annual contribution from reserves at a later stage in order to ensure a sufficient fund is accumulated for the 2020 reissue.

Summary of settlement to be apportioned

33. The 2016/17 Freedom Pass Scheme settled cost to be apportioned is as follows:

Table 5 Settlement to Be Apportioned

	2016/17 (£m)
TfL	333.940
ATOC	18.520
Non TfL Bus	1.700
Administration and Reissue Cost	1.518
Total Cost	355.678

34. The total estimated cost payable by boroughs towards the scheme in 2016/17 of £355.678 million compared to £352.974 million payable for 2015/16, represents an increase of £2.717m or 0.8%, 0.2% below inflation at 1%.

Apportionment of 2016/17 costs between boroughs

35. In order to apportion costs between boroughs, London Councils has obtained usage data from TfL on the various transport modes; bus, underground, DLR, tram and London Overground. This is supplemented by usage data from ATOC on the rail network.
36. The following paragraphs set out how this data is used when apportioning costs to boroughs. They also consider in more detail the impact of using London Overground and ATOC usage data as well as how to treat services that transfer from TOCs to TfL when apportioning costs. Further detail is provided at Appendices 1 and 2.

Usage data – general principles

37. On the bus and underground, there is a very close match between total usage data derived from Oyster clicks and the total number of estimated journeys outlined in the paragraphs above. On these modes, which largely require customers to tap their passes on readers, 95% of the concessionary journeys are captured electronically. This gives officers a high level of confidence regarding the accuracy of apportionment of costs to boroughs for these two main modes, which account for 89% of the total concessionary fares costs.
38. On the other modes, the proportion of journeys captured electronically is lower, either because there is no requirement for Freedom Pass holders to touch in on the readers and/or because there are still ungated stations. On London Overground, 60% of journeys are captured, on National Rail the figure is 55% and for the DLR and tram modes only about 11% of concessionary journeys are captured.
39. Nevertheless, officers closely scrutinise the profile of journeys shown by the usage data that is available and are confident that it is sufficiently robust i.e. in line with expected observations, to be used for the purposes of apportionment. In simple terms, for example, the data shows that residents of boroughs nearest to tram and DLR services use these modes more than residents of boroughs who reside far away from these services.

ATOC usage data

40. 2016/17 is the third and the last year of the transition arrangements for apportioning costs method on London Overground and ATOC modes agreed by TEC in December 2012 that there should be a transition for the introduction of usage apportionment for the ATOC 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.
41. Owing to the significant distributional effects of moving these elements to usage apportionment, 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, 70% by usage and 30% by Formula Funding in year 2 and 100% by usage in year 3).

42. The effect of these changes on individual boroughs varies and can be both amplified and dampened depending on journey patterns on other modes within individual boroughs. However, in the final analysis, twenty-one boroughs will see increased costs in 2016/17. The range of these increases is +0.02% (Wandsworth) to +4.98% (Croydon). Twelve boroughs will see a reduction in costs. The range of these reductions varies between -0.06% (Enfield) and -3.64% (Westminster).
43. The boroughs in which increases will occur, are as expected, those more extensively served by the rail and overground networks. Correspondingly, those boroughs less well served by the rail and overground networks will in general observe decreases.
44. The cost of the two new TfL modes (London Overground/Greater Anglia and Crossrail) is apportioned in the same way as for ATOC services where two years of journey data are available.

Future apportionment issues

45. In future years, the way in which transferring services are apportioned will pose some methodological challenges. TfL has indicated that currently, its systems will not be able to separate out journeys taken on transferred lines. This means that it will not be possible to undertake a like for like, two year comparison of journeys on newly acquired TfL services with the journeys on the same routes when they were under control of ATOC operators.
46. This problem is likely to be compounded, should TfL take over the running of more TOC operated lines between now and 2019 as suggested. London Councils proposes to conduct some more work on this issue, possibly with the support of external consultants, and will bring a proposal to TEC by the summer of 2016 on how future costs will be apportioned.

Payment dates and profiling

47. 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 9 June 2016, 8 September 2016, 8 December 2016 and 9 March 2017. The proposed profile for the TfL element is 24.863% of the total for the first three quarters and 25.411% for the final quarter, the higher figure for the last quarter reflects the assumption of a 2.2% (RPI) increase of fares in January 2017. 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

48. The financial implications arising from the Freedom Pass settlement negotiations for 2016/17 have been commented upon in detail in the proposed revenue budget report for 2016/17, which is subject to a separate report to this Committee.

Legal implications

49. 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

50. 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 £333.94million for 2016/17.
2. Agree to the ATOC settlement of £18.520 million for 2016/17
3. Note that in May 2015, a number of services in north and east London transferred from TOCs to TfL.
4. Agree a budget for non-TfL bus services of £1.7 million.
5. Agree the reissue budget for 2016/17 of £1.518 million
6. Agree the borough payments for 2016/17 of £355.678 million
7. Agree the payment profile and dates on which boroughs' contributions are paid as 9 June 2016, 8 September 2016, 8 December 2016 and 9 March 2017.
8. Agree the 2016-2017 London Service Permit bus operators (non-TfL buses) Concessionary Scheme.

Appendices

Appendix 1: 2016/17 apportionment by mode and borough

Appendix 2: 2016/17 apportionment by quarter and borough

Background papers

Transport & Environment Committee: 11 December 2014: Item 10 - Concessionary Fares Settlement Apportionment for 2015-16

Transport & Environment Executive Sub Committee: 13 November 2014: Item 7 - Draft Revenue Budget & Charges 2015/16