



Department
for Transport

Covid-19 Recovery Guidance

Concessionary Fares Funding

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Introduction

DfT remains grateful to those authorities that have continued to maintain reimbursement payments at pre-Covid levels, and those operators who are continuing to provide high service levels. The success of the Coronavirus Bus Service Support Grant ('CBSSG') provided by DfT has been dependent upon operators and authorities working together to meet the challenges presented in their local areas.

This spirit of co-operation between Local Transport Authorities (LTAs) and bus operators is echoed within the National Bus Strategy '*Bus Back Better*', published 15 March 2021, by the introduction of Enhanced Partnerships. These new Franchising partnerships depend upon this close collaborative approach continuing in the long run. The collaboration between LTAs and bus operators during the pandemic has demonstrated that this is possible, and this will assist in meeting the goals contained within the National Bus Strategy to deliver an ambitious vision for the bus sector.

However, we do recognise that concessionary reimbursement payments are an essential part of bus funding, while also being a significant share of wider local authority funding. LTAs therefore require a clear transition plan to allow them to return from paying out concessionary payments at pre-Covid levels, back down to paying out these payments to meet with actual concessionary patronage levels. Throughout engagement with LTAs and bus operators, we have heard that any transition plan must balance out the needs of bus operators against those of LTAs. We have also heard that the principles for reimbursement, including the reimbursement calculator, may no longer be fit for purpose in the current form due to the impact of Covid-19 on travel patterns. We have listened to these views and launched a closed, industry only, *Consultation: Call for Evidence* on 27 July 2021, which closed on 22 September 2021.

This exercise provided both LTAs and bus operators with the opportunity to contribute to DfT's proposed concessionary travel recovery strategy. It also invited them to set out their views on how DfT's reimbursement guidance, reimbursement calculator and appeals process may need to be improved, and how these areas can further support the close working partnerships developed between operators and authorities. DfT is grateful to all those who took the time to respond to this call for evidence.

Guidance to Section 151 Financial Officers

Concessionary travel reimbursement budgets

Funding for concessionary fares is included in the annual Local Government Finance Settlement (LGFS), and councils' core spending power rose by over £3 billion in 2021-22.

As part of this year's Spending Review, we have again worked closely with the Department for Levelling Up, Housing and Communities (formerly the Ministry of Housing, Communities

and Local Government) in order to ensure local government's funding requirements have been considered in the round, which includes funding for concessionary fares.

Importance of maintaining statutory concessionary travel reimbursement payments at pre-Covid levels until the end of 2021/22 financial year

A key element of the collaborative approach between LTAs and bus operators has been through LTAs providing additional funding to operators by maintaining concessionary fares funding at pre-Covid levels, despite the fall in passholder patronage. This has, in turn, allowed operators to maintain high service levels throughout the pandemic.

DfT has committed to continue to provide unprecedented financial support to the sector, through the £226.5 million Bus Recovery Grant (BRG), which was made available 1 September 2021 until the end of the current financial year ('the Recovery Period'). This has been designed to address the immediate financial challenges facing the sector. The success of this, however, is again dependent upon the spirit of close cooperation between operators and LTAs. More specifically, it is reliant on operators continuing to maintain high service levels, and therefore **we are asking LTAs to continue to pay concessionary fare payments to operators at pre-Covid levels, at least until the end of this current financial year.**

DfT expects that any LTA in receipt of LTA BRG will comply with the Department's ask of maintaining concessionary fares funding to bus operators at pre-Covid levels, until the end of this financial year, as detailed in the Memorandum of Understanding entered into between relevant LTAs and DfT.

Subsidy Control

In providing reimbursements to operators, LTAs will need to take account of and comply with subsidy control rules. LTAs will need to keep the current position under review as the circumstances evolve.

Approaches to calculating pre-Covid levels

In line with feedback from LTAs, DfT has not prescribed an approach for LTAs to calculate pre-Covid level reimbursement payments to operators. DfT instead confirmed that the term 'pre-Covid levels' should be agreed between LTAs and bus operators.

By LTAs and operators agreeing funding, routes and service levels between themselves, they are also essentially defining what pre-Covid levels mean locally. DfT applied this logic for the duration of the provision of funding pursuant to the Covid-19 Bus Services Support Grant (CBSSG), and continue this logic throughout the Bus Recovery Grant period (until the end of this financial year 2021/22) and the Concessionary Travel Recovery period (beginning next financial year 2022/23).

Within the Concessionary Travel Supplementary Guidance (20 November 2020), we suggested LTAs may consider several principles when developing their methodology to calculating pre-Covid reimbursement payments:

1. **Seasonality of services** – (some authorities have adopted approaches to cover this, for example, averaging two lower winter and two higher summer payment methods)
2. **Decline in concessionary patronage** - (total concessionary bus journeys fell by 2.5% in England in 2018/19, however, this may vary across local areas)
3. **Decline in patronage as a whole**
4. **Operators may have ceased trading/some services**
5. **Operators may have started trading/new services**
6. **Operators may have varied their services to increase/decrease the frequency/length of journey**

LTAAs may also take into consideration any other factor they consider to be significantly relevant in calculating pre-Covid level payments, however, the above six principles should create the framework for producing the methodology required. How this funding is calculated should be determined by the LTA, and DfT does not have a preferred methodology for this.

We remind LTAs that proposal (6) allows LTAs to match pre-Covid concessionary payments to the level of service they are receiving from an operator. This will allow LTAs to make savings where operators have reduced service levels, given the pressures that are being faced locally.

However, until the end of this financial year, operators are required to provide a minimum service level of 90% of pre-Covid mileage baseline, to receive BRG. Whilst we recognise that exceptional circumstances, such as a driver shortage, may require temporary reductions in service levels, **we therefore expect that LTAs following proposal (6) do not drop their pre-Covid concessionary payments below 90% to a specific operator before the end of this financial year, should that operator be in receipt of BRG and maintaining at least 90% service levels.**

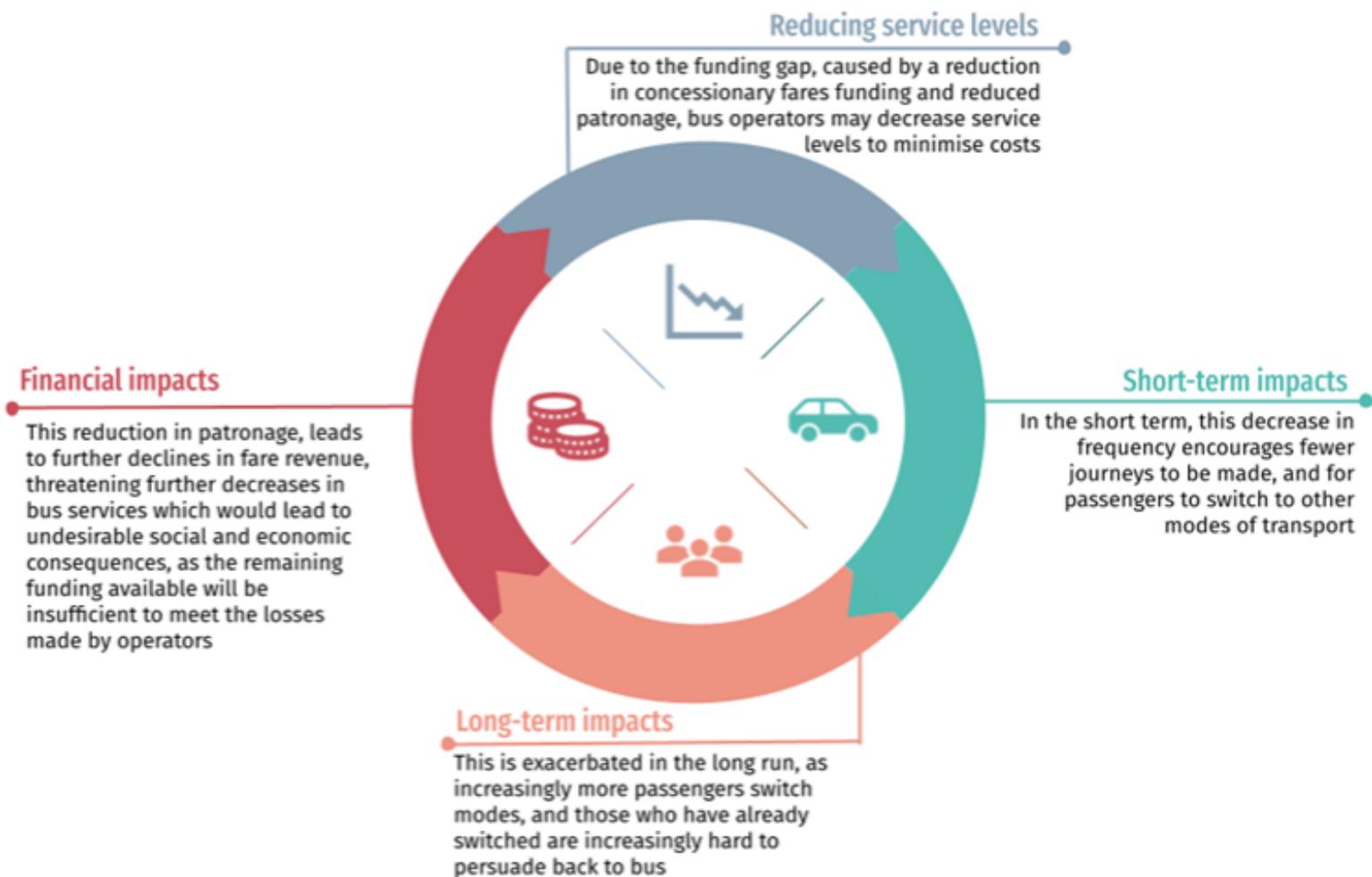
The 'Concessionary Travel Recovery period' will begin at the start of next financial year (2022/23), of which the detailed approach is contained further within this document. The Concessionary Travel Recovery period will begin at this time to avoid the potential impacts which may occur if the pre-Covid concessionary payments are cut too early. Additionally, we were grateful to find that the *Consultation: Call for Evidence* responses indicated most LTAs would continue to pay out concessionary payments at pre-Covid levels, at least until the end of the financial year. DfT are also aware that due to current engagements with additional National Bus Strategy requests, LTAs and operators may have limited resources and we therefore want to avoid putting stakeholders under unnecessary pressure to attempt to implement a recovery strategy mid-way through this current financial year.

Impact of cutting pre-Covid concessionary travel reimbursement payments early

The National Bus Strategy reaffirmed the importance of the bus sector in connecting communities, providing access to jobs, services, opportunities, and boosting economic growth and inclusion. The Strategy also highlighted the ambitious plans to better support the delivery of the Government's key objectives, such as levelling up and decarbonisation, by enabling the provision of better bus services off existing main bus routes, improving the connectivity of isolated rural communities and those with infrequent and unreliable services. The investment and changes to how the bus sector works will aim to drive improvements for passengers.

Analysis indicates that it may take some years for patronage to recover to pre-Covid levels, due to the constant decline in demand for bus services in recent years. This means that any deficit in concessionary fares funding could lead to long-term economic scarring that would have a significant impact in demand and service levels, in both the short and long term. This directly contrasts the positive cycle of growing patronage and service levels that the Strategy wishes to create.

This negative cycle follows the following steps:-



1. Reducing service levels to improve commercial viability

- There is a risk that bus operators may be forced to reduce costs quickly. Operators have indicated to DfT that the first cost they would look to reduce would be through a reduction in service levels. It is understood that many service level reductions could be made on routes in areas the Government wishes to level up. This would have a significant impact on the ability of Government in achieving its ambitions through the National Bus Strategy of levelling up and protecting bus services.

2. Short-term impacts of reduced service levels

- This will cause significant disbenefits to passengers, who may find that their travel options have been substantially reduced, or in some cases removed. This could lead to passengers accepting the reduction and continuing to travel by bus, choosing to make the trip by an alternative mode, or choosing not to make the trip at all. Evidence suggests that this reduction in service levels could lead to a modal shift to cars, which directly contradicts the environmental aims of the National Bus Strategy, and the Government's wider objectives of achieving net zero by 2050.

3. Long-term impact of reduced services on patronage

- Long-term, passengers are more likely to switch away from bus travel, and evidence indicates that once consumers have made this change away from bus, it becomes more difficult to encourage them to return to buses in the long-term, particularly if they are now travelling by car. This is likely to lead to increased traffic congestion, damaging the economic recovery from Covid-19 and causing an increased pollution risk.

4. Financial impact of reduced bus demand

- In the short term, a reduction in patronage levels could cause fare revenues to further decline, which reduces the savings made by operators cutting service levels. Evidence indicates that, in the long run, the impact of a short term decrease in service levels on patronage and fare revenue may cause a significant funding gap. This funding gap may push operators to choose whether to absorb the losses in the short term if they expect patronage to return, or to permanently reduce services if they do not expect patronage to recover.
- Analysis indicates that it could take a number of years for patronage to recover to pre-Covid levels. Smaller operators may not be able to absorb these losses, and therefore may leave the market by default, as has been the pattern in recent years following reductions in demand. For instance, the number of bus operators fell by almost 20% between 2013 and 2016. This means that operators are unlikely to decide to maintain high service levels at a loss. This would effectively create a cycle of shrinking patronage and operators having to cut services.

Minimising service disruption

DfT committed to providing £226.5m by way of BRG, to continue to fund the bus sector, and to minimise service disruption to avoid the long-term economic scarring effect detailed above. This assistance is also required at a local level, through the close co-operation of LTAs, by continuing concessionary fares payments at pre-Covid levels, and of bus operators, by maintaining high service levels. Maintaining concessionary fares funding at pre-Covid levels is a fundamental component of ensuring that the bus sector remains viable, allowing it to sustainably recover from Covid-19, and to assist in achieving the National Bus Strategy ambition of a more frequent and reliable service.

Should an LTA prematurely stop paying out concessionary fares funding at pre-Covid levels, it would risk undermining the £2 billion of CBSSG and £226.5 of BRG provided by DfT, and recovery attempts made by those same LTAs and operators to maintain service levels throughout the pandemic and recovery period.

Additionally, as detailed in the above section, cutting pre-Covid concessionary fares funding would also likely have a significant impact on the National Bus Strategy ambition to transform the bus sector. This is because we would likely see a consequential reduction in bus services and increase in ticket fares caused by any LTA's cuts to pre-Covid concessionary fares funding. As a result, the impact of the £3 billion committed by the Prime Minister to achieve the economic and environmental objectives of the National Bus Strategy would not be felt immediately. This is because it is likely this funding would need to be spent on attempting to recover the bus industry to pre-pandemic levels of profitability, rather than its intended transformational purpose. Consequently, the likely reduction in service levels and impact on bus patronage caused by the lack of pre-Covid concessionary fares funding could mean the implementation of the Strategy will be much less effective.

Concessionary Travel Recovery Strategy

DfT are grateful that the majority of LTAs who responded to the *Consultation: Call for Evidence* confirmed they had budgeted to continue to pay out concessionary payments at pre-Covid levels until the end of the financial year and would continue with this approach because of this.

The objective of the concessionary travel recovery strategy is to provide LTAs with a cost-effective way of reducing their pre-Covid concessionary payments whilst avoiding any sudden widespread reduction in these payments. This is because any sudden reduction could lead to a significant impact on operator service levels, and consequently to an effect on demand levels. We want to ensure that any reduction in pre-Covid concessionary payments is done at a rate that will not adversely affect other funding streams, the viability of the bus market, or impact the objectives and ambitions of the National Bus Strategy as detailed above.

Within the *Call for Evidence* feedback, there was a clear divide between LTAs and operators when asked about the timings for the recovery strategy. The final below concessionary travel recovery approach has been developed through the consideration of both LTA and operator feedback, estimation of operator forecast patronage levels and the cost effectiveness for LTAs.

Timing

The Concessionary Travel Recovery Period will commence on 06 April 2022 and will officially end on 05 April 2023.

LTAs will be unable to provide pre-Covid levels of concessionary reimbursement payments after this date, due to the expiration of the temporary Statutory Instrument which officials are considering extending to achieve the continued provision of enabling LTAs, in principle, to make pre-Covid level payments, during the Concessionary Travel Recovery Period. This is

discussed in more detail below – see Mandatory Travel Concession (England) Regulations 2021.

Approach

From 06 April 2022, DfT will introduce a phased approach for the transition back down to actual concessionary patronage levels. DfT will ask LTAs to steadily reduce their pre-Covid concessionary payments to operators in accordance with the below table.

Table 1: Table showing the scale down of LTA pre-Covid concessionary reimbursement payments

Month	% scale down of LTA pre-Covid concessionary payment
06 April 2022	90%
01 May 2022	90%
01 June 2022	85%
01 July 2022	85%
01 August 2022	80%
01 September 2022	80%
01 October 2022	75%
01 November 2022	75%
01 December 2022	70%
01 January 2023	70%
01 February 2023	65%
01 March 2023	65%

From **06 April 2022**, DfT suggests those LTAs who have continued to pay out concessionary fare payments at 100% of pre-Covid levels, should lower these payments to **90% of pre-Covid levels**.

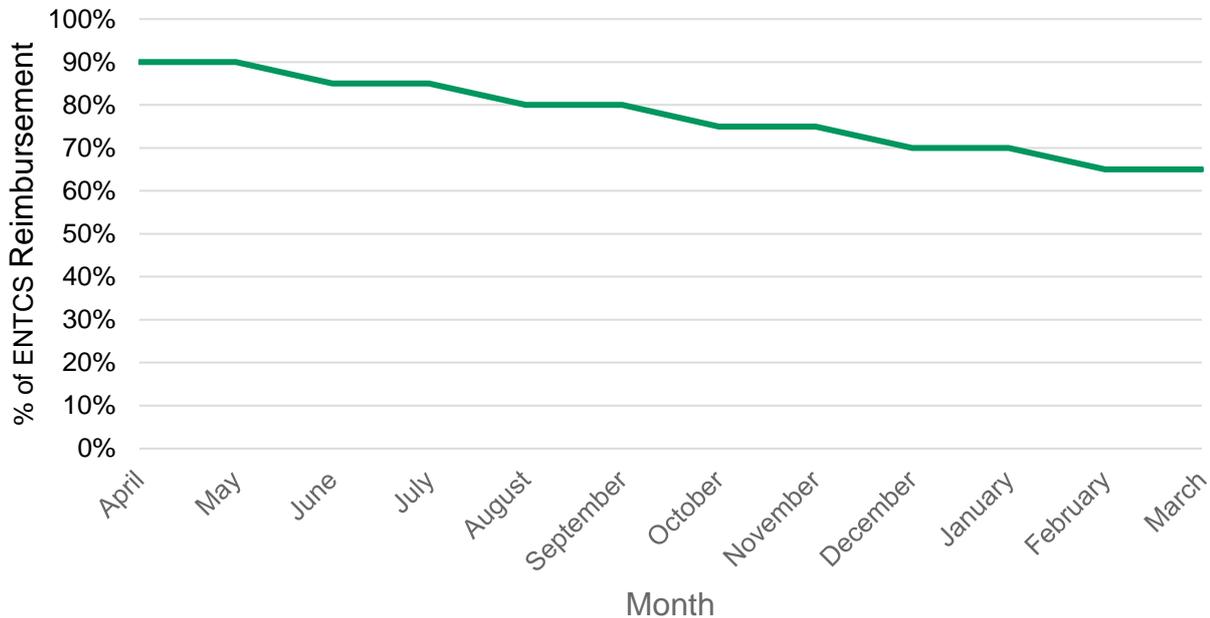
One condition of BRG, which is currently scheduled to end on 05 April 2022, is that an operator should be providing a minimum of 90% of pre-Covid service levels. This 10% initial reduction at the start of the concessionary travel recovery period will provide those LTAs who have continued to pay out at 100% of pre-Covid concessionary payments, despite a decrease in operator's service levels, with an immediate funding reduction.

Those LTAs who have already lowered their payments to 90% of pre-Covid levels or lower, should not reduce the amount they are paying out to operators.

From **01 June 2022**, LTAs who continue to pay out concessionary fare payments at 90% of pre-Covid levels should then lower their concessionary fare payments to **85% of pre-Covid levels**. Again, LTAs who's pre-Covid level payments are below 85% should not reduce the amount they are paying out to operators.

This approach should continue, with **LTAs lowering their concessionary fare payments by 5% at the start of August, October, December 2022, and February 2023**. However, when taking into account current patronage levels and average forecast patronage levels, it is expected that concessionary reimbursement payments will revert to actual patronage levels by the end of 2022, if not before.

Graph 1: Graph showing the scale down of LTA pre-Covid concessionary reimbursement payments



Throughout the Concessionary Travel Recovery Period, DfT will provide clear and early direction on the amount of pre-Covid concessionary fare payments we are asking an LTA to pay out to an operator each month, in accordance with the above. During this period, DfT may be required to amend the percentage of pre-Covid concessionary fare payments LTAs are making to operators. In the event of further Covid-19 restrictions being put in place, for example, this percentage may have the potential to increase.

In accordance with regional variations and to take account of local flexibility and circumstances, during the Concessionary Travel Recovery Period an LTA may choose to continue to pay out a higher rate of pre-Covid concessionary payments, than the percentage suggested by DfT. However, LTAs are reminded that they will be unable to continue to pay out concessionary payments at pre-Covid levels from 06 April 2022, due to the expiration of the temporary Statutory Instrument on 05 April 2022.

Reasoning

This approach is slower than the initial proposed recovery strategy, of a reduction of 5% every month, as contained within the *Consultation: Call for Evidence*.

After careful consideration of stakeholder feedback, a reduction in 5% every other month will provide operators with further additional support for longer whilst patronage is still repressed. This means the approach is less likely to impact on service and demand levels, aligning with the National Bus Strategy objectives of delivering a better bus service of growing networks and improving routes. However, this approach also aims to balance out operators' needs against the needs of LTAs, as it still enables LTAs to reduce their concessionary reimbursement payments throughout the next financial year, allowing them to create savings whilst providing a slow and steady transition back to actuals.

This method also provides operators across the country with a consistent transition approach, as they are likely to cover various LTAs. Should LTAs approach the recovery phase differently, this would have the potential to result in local capability and consistency issues. We therefore urge LTAs to reduce their concessionary payments in line with the above recovery approach.

Example

Whilst in receipt of BRG, **Operator (A)** has reduced their service levels to 90% of pre-Covid service levels. During the BRG period, and following DfT Guidance, **LTA (A)** took the decision to reduce concessionary reimbursement payments to 90% of pre-Covid levels, to match with the operator's service levels.

The Concessionary Travel Recovery period begins on 06 April 2022, and DfT suggests LTAs who continue to pay out at 100% of pre-Covid level concessionary payments should lower their payments to 90% of pre-Covid levels. **LTA (A)** should not change their level of payment and should continue to pay out at 90% of pre-Covid levels.

From 01 June 2022, DfT suggests LTAs who continue to pay out at 90% or above of pre-Covid levels should lower their payments to 85% of pre-Covid levels. Although **Operator (A)** continues to provide 90% of service levels, **LTA (A)** may lower their pre-Covid concessionary payments in line with DfT guidance, to 85% of pre-Covid levels.

LTA (A) may then continue to lower their pre-Covid concessionary payments in line with DfT guidance, until their payments re-align with actual patronage levels.

Alternatively, should local circumstances require it, **LTA (A)** may continue to pay out concessionary payments at a higher pre-Covid level than DfT suggests. However, **LTA (A)** should ensure their concessionary payments have re-aligned with concessionary patronage prior to 06 April 2023.

Appeals during the Concessionary Travel Recovery Period

Bus operators should financially be "no better and no worse off". However, as a result of TCAs providing concessionary fare reimbursement payments at pre-Covid levels, it can be argued that bus operators are "better off" in this respect.

Although legislation allows operators to appeal, DfT continues to encourage operators to take a pragmatic approach to such appeals while LTAs continue to provide funding at pre-Covid levels throughout the Concessionary Travel Recovery Period, particularly in light of the slower recovery strategy than originally proposed.

DfT expects operators to be in regular engagement with their LTA, particularly with the introduction of Enhanced Partnerships which depend upon this close collaborative approach. Any issues connected to the operation of services should therefore be discussed and resolved between the operator and the LTA. Operators should note that if LTAs are incurring time and money dealing with appeals which do not have any real prospect of success, this could affect the ability of the LTA to continue to provide funding in accordance with current and future recovery levels.

Mandatory Travel Concession (England) Regulations 2021

LTAs previously had concerns that paying out concessionary fares at pre-Covid levels was not compatible with the provisions of the Mandatory Travel Concession (England) Regulations 2011. In response to these concerns, DfT secured the necessary agreement across Government and laid a Statutory Instrument (SI) in March 2021 to temporarily change the legislation (Regulation 6(a) of the Mandatory Travel Concession (England) Regulations 2011) to temporarily remove the requirement that travel concession arrangements should aim not to leave an operator financially better off as a result of providing a concession. The Mandatory Travel Concession (England) Regulations 2021 therefore allow LTAs, in principle, to pay concessionary fares funding to operators at a higher level than due through actual journeys by pass-holders (although, as noted above, LTAs will need to take account of and comply with subsidy control rules in making such payments).

This amendment will cease to have effect at the end of the 2021/22 financial year. Accordingly, officials are now exploring laying a further temporary SI to achieve the continued provision of enabling LTAs, in principle, to make pre-Covid level payments, during the Concessionary Travel Recovery Period.

Consultation: Call for Evidence Response

Reimbursement Guidance and Calculator

The majority of respondents to the *Consultation: Call for Evidence* agreed that the Reimbursement Guidance and Calculator require updating, and regularly. There was specific focus on the need to update these due to the age of the demand data (2005/06) which respondents cite as no longer appropriate due to the impact of Covid-19 on travel patterns and the general increase in bus fares since 2005/06. However, the lack of in-depth technical feedback to these areas of the *Consultation: Call for Evidence* suggests the Reimbursement Guidance and Calculator needs to be simplified and made more accessible for smaller operators. This was echoed within the responses.

Strong feedback also stated that although it was clear travel patterns had been and are still severely impacted by Covid-19, it was unclear on what precise effect these changes will have on the reimbursement data and inputs. Although we have considered whether we can update the inputs into the Calculator to account for changes in travel patterns post-Covid, it is apparent that any changes may significantly impact the reimbursement outcomes and the LTA funding requirement. This was echoed by LTA feedback which expressed the need to delay this update to allow for proper consideration of post-Covid travel patterns.

The annual updated Reimbursement Guidance and Calculator will therefore be published shortly. There are no material changes in either for this year, as further extensive research will be required to update them.

Applications to the Secretary of State- 'appeals process'

Although under half of respondents agreed the appeals process requires improvement, 50% of respondents did not express a view. Responses indicated that notable areas for

improvement included introducing and setting stricter timeframes to deal with an appeal to reduce administrative burdens, and, as with the Reimbursement Guidance, ensuring the guidance is clear. Respondents also indicated that various sections of the Reimbursement Guidance, such as guidance on Peak Vehicle Requirements, should provide further clarity, to alleviate the need for an appeal in the first instance.

However, respondents also expressed the view that the recovery strategy should take precedence over any update to the appeals process. DfT therefore aims to review the appeals process alongside the extensive review of the Reimbursement Guidance, to enable us to address stakeholder concerns simultaneously.

Should you have any queries, please contact the team at concessionaryfares@dft.gov.uk.