

<b>DECISION-MAKER:</b>	CABINET
<b>SUBJECT:</b>	CONCESSIONARY FARES REIMBURSEMENTS METHODOLOGY 2022/23
<b>DATE OF DECISION:</b>	19 JULY 2022
<b>REPORT OF:</b>	<b>CABINET MEMBER FOR TRANSPORT &amp; DISTRICT REGENERATION</b>

### CONTACT DETAILS

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### **STATEMENT OF CONFIDENTIALITY**

None

### **BRIEF SUMMARY**

A decision is required to amend the 2022/23 statutory concessionary travel reimbursement payments methodology to local bus service operators in line with Department for Transport (DfT) guidance but applying a local hybrid method. This follows updates to the Government's Concessionary Travel Recovery strategy for financial year 2022/23, which allows Travel Concession Authorities (TCAs) to transition towards making payments based on actual patronage levels rather than based on pre-Covid levels.

### **RECOMMENDATIONS:**

(i)	To agree the local hybrid reimbursement methodology for bus operators on Concessionary Travel in line with the Department for Transport Alternative Covid-19 Recovery Guidance for financial year 2022/23.
(ii)	To delegate authority to Head of Service Green City & Infrastructure to give notice to bus operators of variation to the 2022/23 Concessionary Fares scheme to confirm the extension of the £1 Evening Fare for a period to be determined following consultation with the Cabinet Member for Transport & District Regeneration and the Leader.

### **REASONS FOR REPORT RECOMMENDATIONS**

- Recovery from the Covid-19 pandemic has impacted on bus travel nationally and in Southampton. This includes the number of concessionary passenger journeys made. Overall, bus patronage in Southampton for March 2022 was 84% of pre-Covid levels (February 2020) so recovering relatively well, however concessionary travel passenger journeys are not recovering as well at 70% of pre-Covid levels. Government guidance for 2021/22 was that Travel Concession Authorities maintain concessionary fare reimbursement at adjusted pre-Covid levels. This was to enable support of vital local bus services and their role in our community after the pandemic.

2.	<p>In February 2022, the Department for Transport (DfT) provided its Alternative Recovery Guidance for Travel Concessionary Authorities to move to a phased approach for concessionary fare reimbursement. This would transition away from the adjusted (inflated) reimbursement levels based on pre-covid demand towards making payments based on actual concessionary passenger journeys made. This is intended to get bus services back on a sustained path to recovery alongside other Government funding (such as Bus Recovery Grant – which is due to end October 2022). Therefore, based on the overall patronage levels and trends and the DfT guidance, it is recommended that the Council reverts back to reimbursing operators based on actual patronage from April 2023 and applies an updated methodology for 2022/23 to manage the transition period.</p>
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**ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

3.	<p><u>Do Nothing</u></p> <p>Under this option, the Council would not provide any additional support to bus operators for concessionary travel other than the statutory free off-peak local bus travel reimbursement as set out by the Transport Act 2000 and Concessionary Bus Travel Act (2007). Payment based only on actual patronage would impact on the bus operator revenues and the ability for the bus network to gradually adjust to the post-Covid new normal which is expected to conclude throughout 2022/23. This would also deviate away from the DfT recommended approach and the need for LTAs to be “<i>sensitive to the financial needs of operators</i>”. The reduction in operator revenue would run the risk of significant service reductions, where some routes could disappear, both with implications for SCC having to intervene to safeguard lost services via direct subsidy, resulting in a potentially greater revenue pressure. See appendix 2 for financial summary of concessionary fares reimbursement based on actuals and summarised below in table 2.</p> <p><u>Maintain pre-Covid level payments for the duration of the 2022/23 financial year</u></p> <p>Under this option, the Council would retain the methodology that has been used in 2020/21 and 2021/22 whereby bus operators are paid 100% pre-Covid patronage rather than on actual patronage or a gradual return to payment based on actual. The advice is to use local data and circumstances to see if this is appropriate.</p> <p>Overall, Concessionary Travel in Southampton is recovering well – it is 70% of pre-Covid and increasing. This is in line with wider bus patronage in would continue with the adjusted scheme that has been in operation since 2020 for 2022/23. This would continue to pay operators 100% of value of concessionary travel based on pre-Covid patronage for the full financial year irrespective of actual patronage.</p> <p>This option has been rejected as local circumstances are indicating that concessionary travel is still below pre-Covid and recovering. Continuing with this would artificially pay operators and not reflect the actual situation and not support the transition plan to 2023/24 of paying on actuals as set by DfT. If patronage rose above pre-Covid levels then operators would be worse off, going against the principle that operators are ‘<u>no better and no worse off</u>’ by taking part in concessionary travel schemes. This would result in a risk of a reduction in bus services across the City. Any service reductions or route withdrawals would have the greatest impact on young people, older people and families from lower income households, disabled people, and women. All these groups rely more on bus services than the general population.</p> <p>The projected expenditure for this would be £3,855,436 based on 2021/22 outcomes as detailed in table 2. Please see Appendix 5 for detailed overall concessionary fare payments made during 2021/22.</p> <p><u>DfT Guidance</u></p>
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	<p>This option uses the DfT's default assumption that TCAs will follow a phased approach for transition back down to actual concessionary patronage levels. Under this approach the Council would steadily reduce their pre-Covid concessionary payments to operators in 5% bi-monthly reduction in payments from 90% of pre-Covid reimbursement level from July 2022 onwards, until actual patronage levels are reached. This reduction would only occur if the Council was paying at 100% of pre-Covid in April 2022. It does provide recovery support to bus operators while concessionary patronage is still suppressed.</p> <p>This option has been rejected as while it is the DfT's default option, concessionary reimbursements are lower than 100% therefore, the actuals would be reached earlier than March 2023. See appendix 3 for forecast costs of this option. And summary in Table 2 below.</p>
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**DETAIL (Including consultation carried out)**

4.	<p>Southampton City Council, as a Travel Concession Authority (TCA), is required to reimburse operators of eligible local bus services for journeys undertaken by passengers holding English National Concessionary Travel Scheme (ENCTS) bus passes. Bus passes are issued to permanent residents who meet either the age criteria (currently pensionable age for women) or the disability criteria (based on DfT Guidelines). This is a statutory requirement under Transport Act 2000 and Concessionary Travel Act 2007. Bus operators participate in this scheme and are reimbursed by the Council compensating them for the revenue lost from passengers who would have travelled even if no concession existed (the lost fares revenue) and for the costs sustained by carrying the extra passengers (generated trips) as a result of the concessionary fare scheme. The objective of the scheme is to ensure that bus operators are 'no better or worse off' than they would be if the scheme did not exist. Payment is based on the number of concessionary journeys undertaken on each service per month as well as the average fare paid by adult non-concessionary passengers.</p>
5.	<p>The Covid-19 pandemic has had a significant impact on bus travel, particularly following government advice to avoid using public transport commencing in March 2020. Bus use initially dropped to around 5-10% of pre-Covid levels, it has since recovered and overall bus patronage in March 2022 was at 84% of pre-Covid (Feb 20). In 2020/21 and 2021/22 the Department for Transport (DfT) urged TCAs to continue to pay bus operators for concessionary fares at pre-COVID levels. Advice was provided through Public Procurement Notices PPN (Procurement Policy Note) 02/20 and PPN 04/20 were used to justify concessionary fares payments to bus operators.</p>
6.	<p>As the pandemic progressed and the imposition and removal of various restrictions the DfT published guidance for TCAs on how to calculate and provide pre-COVID concessionary payments. Guidance from November 2020 suggested considering the current local bus service mileage operated as well as the general decline in concessionary travel that had been experienced.</p> <p>The November 2020 guidance reiterated that TCAs continue to provide concessionary fare funding at pre-Covid levels for 2020/21 as part of the COVID-19 Bus Service Support Grant (CBSSG) Restart scheme. The budget, agreed with HM Treasury, for the CBSSG Restart scheme, including the Local Transport Authority (LTA) component, has been calculated on the basis that these concessionary reimbursement payments at pre-COVID levels continue to be made. In 2021/22, CBSSG was replaced with Bus Recovery Grant (BRG), payable to LTAs and bus operators as part of the Government's recovery from the pandemic, this was due to end in March 2022 but has been extended to October 2022 and is due to be replaced with a new funding stream – Local Transport Fund (LTF).</p> <p>Additionally in 2020/21 DfT maintained Bus Service Operator Grant (BSOG) payments to bus operators and LTAs at pre-COVID levels. These were planned to maintain bus services as</p>

close to pre-Covid levels of frequency and times as possible. If the mileage reduced below 90% these changes had to be agreed with the LTA.

These measures combined were the DfT's level of support to buses during 2020/21 and into 2021/22.

7. In August 2021, the DfT wrote to all TCAs asking them to continue to contribute towards the successful working partnerships created between operators and authorities during the pandemic, by maintaining concessionary fare payments to operators at pre-Covid levels, until the end of the current financial year 2021/22. The letter also said that the budget agreed with HM Treasury for BRG has been calculated on the basis that these concessionary reimbursement payments would continue to be made at pre-Covid levels. The DfT letter went on to explain that government aims to implement a concessionary travel recovery strategy at the start of the "next" financial year (2022/23). This will allow TCAs to transition away from paying out concessionary payments at pre-Covid levels, back to making these payments to meet with actual patronage levels, at a rate that will not adversely affect other funding streams or bus services across the country.

8. The DfT letter went on to explain that government aims to implement a concessionary travel recovery strategy at the start of the 2022/23 financial year. This will allow TCAs to gradually return from paying out concessionary payments based on pre-Covid patronage to making payments based on to meet with actual patronage levels.

9. In October 2021, and revised in February 2022, the DfT published its Concessionary Travel Recovery Strategy setting out the importance of continuing support for bus operators while gradually reducing the pre-covid reimbursement payments as patronage levels improve. In October, the DfT recommended that from April 2022, TCAs pay bus operators at 90% of the pre-Covid reimbursement level and that they should make a subsequent reduction of 5% every two months until actual patronage levels are reached. The point when this happens will depend on the rate that concessionary patronage levels recover to pre-pandemic levels.

The emergence of the Omicron variant and other restrictions impacting on concessionary patronage recovery led DfT to delay the start of the recovery period to July 2022. Through an Alternative Concessionary Travel Recovery Strategy this recovery period ends in April 2023.

The phased transition in reduced reimbursement is shown in Table 1 comparing the original and revised DfT strategy.

	2022									2023			
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
DfT Recovery Strategy (original)	90%	90%	85%	85%	80%	80%	75%	75%	70%	70%	65%	65%	
DfT Revised	100%	100%	100%	90%	90%	85%	85%	80%	80%	75%	75%	70%	70%

Table 1 – DfT Concessionary Travel Recovery Strategy - Payment Transition

To calculate the pre-Covid levels, the Guidance proposed this approach:

*Within the Concessionary Travel Supplementary Guidance (20 November 2020), 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*

	<p>6. Operators may have varied their services to increase/decrease the frequency/length of journey</p> <p>The Alternative Strategy subsequently state:  <i>“For the remainder of the 2021/22 Financial Year, DfT’s ask remains that LTAs should continue to pay out at pre-Covid levels if they are able and, in the 2022/23 Financial Year, choose which is the most appropriate method of continuing these payments, from the options DfT has or will provide in the near future. To be clear, an LTA may choose to:-</i></p> <ol style="list-style-type: none"> <li>1. <i>Reduce their pre-Covid level payments in line with the Recovery Strategy (published October 2021). <b>This is the DfT’s default assumption.</b></i></li> <li>2. <i>Maintain pre-Covid level payments for the duration of the 2022/23 financial year, should they deem local circumstances require this.</i></li> <li>3. <i>Adopt their own approach to pre-Covid concessionary reimbursement for the 2022/23 financial year, however, we urge LTAs to be sensitive to the financial needs of operators, and balance this against any alternative reduction in concessionary fare payments, as any sudden reduction can lead to immediate negative impacts to operators and service levels.</i></li> <li>4. <i>Follow any alternative or supplementary recovery guidance that DfT may issue.”</i></li> </ol>
10.	<p>These Strategies have provided the framework for assessing options for the methodology the Council in setting the Concessionary Travel reimbursement budget for 2022/23.</p>
11.	<p><b>Proposed Reimbursement Methodology Preferred Option for 2022/23</b></p> <p>For 2022/23 the DfT’s Alternative Strategy advises that TCAs can use their own discretion to decide on which methodology to follow from their menu of options.</p> <p>Alternative options have been reviewed and not recommended for proceeding with as set out in paragraph 3. SCC is recommending to apply a local hybrid methodology as detailed below.</p>
12.	<p><u>Recommended Option: Hybrid Methodology - based on actual bus patronage trend</u></p> <p>This option takes principles 1, 3 and 4 from the February 2022 Guidance to build a local bespoke reimbursement methodology.</p> <p>As shown in Appendix 5, in 2021/22 average actual concessionary travel levels were at 61% of adjusted 19/20 levels. For last quarter of 2021/22 the Council was paying an average of 43% level of support rather than higher levels seen previously. Before the disruption caused by the Omicron variant, actual concessionary travel in December 2021 was at 70% of pre-Covid. This indicates that the recovery in concessionary travel is growing – although lower than the overall recovery in bus patronage.</p> <p>DfT notes that when considering current patronage levels and average forecast levels, it is predicted that reimbursement levels will align with actual patronage levels by early 2023.</p> <p>As noted above it is unlikely that Southampton’s concessionary travel levels will continue to be suppressed in April 2023. As SCC is currently paying to a total of 95% of 19/20 any 5% reduction in support would come into effect from September 2022. Given the trends seen in second half of 21/22 for concessionary travel it is likely that actual concessionary fare travel will reach 19/20 levels in Autumn 2022. From this point payments would be based on actual patronage rather than actual plus support, however if patronage is still below pre-Covid SCC may need to continue making support payments.</p> <p>Appendix 4 sets out the hybrid approach. Payments to operators will be based on 2019/20 adjusted actuals (adjusted by 7.5% to represent the acknowledged national decline) with a further adjustment tapering the additional support from the Council to nil. This tapering of support will continue in April at 95% (reducing this down by 5% in line with DfT guidance until November 2022 when additional support will cease, and concessionary fares reimbursement will continue based on actual patronage only. If at any point between April 2022 and October</p>

	<p>2022 operator actuals fall above the scheduled payment based this methodology, then actuals will be paid.</p> <p>This hybrid methodology fulfils the objective of DfT's Alternative Concessionary Travel Recovery Strategy that it is an effective way of reducing the level of additional support SCC provides to make 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 bus service levels, and consequently to an effect on demand levels. In line with the DfT guidance, 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.</p>
13.	<p><i>Evening Bus Fare Support</i></p> <p>Cabinet determined on 18 October 2021 to support a promotional £1 Evening Bus Fare that was introduced by the bus operators from 5<sup>th</sup> September 2021. This was part of a package of activities to support Southampton's night-time economy to recover from the Covid pandemic.</p> <p>Funding for the scheme initially ran to 31<sup>st</sup> March 2022 under a variation of the 2021/22 Concessionary Fare scheme.</p> <p>Both bus operators have continued with the scheme since end of March and have approached the Council requesting further support to continue the fare offer into the Summer.</p> <p>Officers have continued to have discussions with the bus operators following the requests to continue through 2022/23, and the support would initially be extended to September 2022 depending on uptake and operation extended to 31<sup>st</sup> March 2023.</p> <p>The value of the support will be capped at an agreed determined level based on the difference between evening bus patronage prior to the introduction of the free evening parking charges in July 2021.</p>

## RESOURCE IMPLICATIONS

### Capital/Revenue

15.	The budget for concessionary fares in 2022/23 is £4.68M after an in-year a saving of £0.35M has been applied														
16.	<p>The three options for reimbursement of concessionary fares are</p> <ul style="list-style-type: none"> <li>• Reimburse on actual patronage</li> <li>• Reimburse using the current DfT model for Concessionary Fares Recovery issued in February 2022</li> <li>• Reimburse using an alternative model taking account of local recovery trends (proposed model)</li> </ul> <p>These options compared to the budget are set out in table 2 below,</p> <p>Table 2</p> <table border="1"> <thead> <tr> <th>Reimbursement Method</th> <th>Concessionary Fares Reimbursement Forecast</th> <th>Concessionary Fares Budget</th> <th>Potential Budget Underspend</th> </tr> </thead> <tbody> <tr> <td>Actual Forecast Patronage</td> <td>£2,855,961</td> <td rowspan="3">£4,684,000</td> <td>£1,828,039</td> </tr> <tr> <td>Dft Model for Concessionary Fares Recovery</td> <td>£3,486,064</td> <td>£1,197,936</td> </tr> <tr> <td>Alternative hybrid Model (proposed model)</td> <td>£3,436,954</td> <td>£1,247,046</td> </tr> </tbody> </table>	Reimbursement Method	Concessionary Fares Reimbursement Forecast	Concessionary Fares Budget	Potential Budget Underspend	Actual Forecast Patronage	£2,855,961	£4,684,000	£1,828,039	Dft Model for Concessionary Fares Recovery	£3,486,064	£1,197,936	Alternative hybrid Model (proposed model)	£3,436,954	£1,247,046
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17. Table 2 shows that the proposed model forecasts an underspend of £1.25M will be achieved against budget for 2022/23. Should Concessionary Fares recovery exceed the forecast in this model, then reimbursement will be made on actual patronage which will reduce this underspend. Budgets will be monitored monthly to ensure a robust forecast is reported.

18. Additional financial support has been included in the models which don't reimburse solely on actual patronage. The forecast value of this support is shown below in table 3.

Table 3

Reimbursement Method	Forecast Actual Value Concessionary Fares	Additional Support	Concessionary Fares Reimbursement Forecast
Actual Forecast Patronage	£2,855,961	£0	£2,855,961
Dft Model for Concessionary Fares Recovery	£2,855,961	£630,104	£3,486,065
Alternative hybrid Model (proposed model)	£2,855,961	£580,994	£3,436,955

19. Table 3 shows that the proposed model will provide a forecast value of additional support to operators of £0.58M. This additional support will reduce should the actual patronage reimbursement value exceed the reimbursement value of this model.

20. Details of each model are shown in appendix 2 – 5.

21. The cost of the Evening Bus Fares Support will be met from a one-off budget saving from the Concessionary Fares 2022/23 budget. The estimated funding envelope to end of September 2022, is £104,000, or £168,000 to March 2023. Claims by bus operators will be capped at a level, to be agreed in advanced, based on patronage levels prior to the removal of evening parking charges.

**Property/Other**

22. There are no property or other implications

**LEGAL IMPLICATIONS**

**Statutory power to undertake proposals in the report:**

23. Concessionary Fares are governed by the Transport Acts of 1985 and 2000, and the Concessionary Fares Act of 2007. If it were to be agreed that the future that no enhancements over and above the statutory minimum will be offered, then the 1985 Act does not apply as all local enhancements are made under the Concessionary Fares Act 2007.

**Other Legal Implications:**

24. The Transport Act 2000, as amended by the Concessionary Travel Act 2007, and the Mandatory Travel Concession (England) Regulations 2011, provides a statutory basis for free off-peak travel for older and disabled people (resident in England outside London) on all local buses anywhere in England from 0930 until 2300 on weekdays and all day at weekends and on Bank Holidays. A Southampton adjustment means that Southampton residents who are concessionary pass holders are entitled to free travel on all local buses within Southampton between 0900 and 0000.

25. Bus passengers are subsidised for concessionary travel via the bus operator and under normal circumstances there is no subsidy paid to the service providers. Any bus operator

	accepting an ENCTS pass for travel should be left 'no better off and no worse off' as a result. The operators are reimbursed by the TCA for revenue forgone and additional costs incurred such as extra resources to meet increased demand from passholders and administrative costs. There is no legal requirement to reimburse more than is sufficient to cover the revenue foregone and additional costs associated with the concessionary passengers carried.
26.	In putting forward the recommendations set out in this report an Equalities Assessment has been carried out to ensure the proposals accord with the Authorities duties under the Equalities Act 2010, including the implications of reduced funding resulting in withdrawal of services and the nature of the passengers most affected by that possibility.
<b>RISK MANAGEMENT IMPLICATIONS</b>	
27.	Once the scheme starts on 1st April bus operators then have 56 days to appeal to the Secretary of State on the proposed reimbursement rates. This could impact on the final reimbursement rates if the bus operators were to win an appeal. The risk of this is managed by the Council Scheme being consistent with the DfT Concessionary Fares guidance.
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
28.	The provision of concessionary travel accords with the policy direction of the City's adopted Local Transport Plan (2019) by helping the Council meet its targets for increasing the use of sustainable transport modes (and bus travel in particular) and increasing accessibility and promoting social inclusion.

<b>KEY DECISION?</b>	Yes	
<b>WARDS/COMMUNITIES AFFECTED:</b>	Not applicable	
<u>SUPPORTING DOCUMENTATION</u>		
<b>Appendices</b>		
1.	<a href="#">Concessionary Fare Scheme 2022/23</a>	
2.	Forecast cost of reimbursing operators on actual patronage basis	
3.	Forecast cost of reimbursing operators using DfT Concessionary Fares Recovery Method	
4.	Alternative reimbursement model - assuming actual patronage will be reimbursed from November 22	
5	Concessionary Fare Payments 2021/22	
<b>Documents In Members' Rooms</b>		
1.		
2.		
<b>Equality Impact Assessment</b>		
<b>Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA (Equality Safety Impact Assessment) to be carried out.</b>		<b>YES</b>
<b>Data Protection Impact Assessment</b>		
<b>Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.</b>		<b>No</b>



**Other Background Documents****Other Background documents available for inspection at:**

<b>Title of Background Paper(s)</b>	<b>Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)</b>
1.	<a href="#">Concessionary Fare Scheme 2022/23</a>
2.	Forecast cost of reimbursing operators on actual patronage basis
3.	Forecast cost of reimbursing operators using DfT Concessionary Fares Recovery Method
4.	Alternative reimbursement model - assuming actual patronage will be reimbursed from November 22
5	Concessionary Fare Payments 2021/22