

### **Concessionary fares reimbursement**

The introduction of the all England elderly and disabled free fares concession in 2008 opened up travel opportunities for many in rural areas. Operators are reimbursed for carrying “free” passengers locally, by their local transport authorities. These authorities are able to supplement the national scheme with their own local discretionary schemes, perhaps allowing free travel before 0930, or for companions of the mobility impaired. These additional local concessions can be particularly important in rural areas, where the first or only bus to the nearest town may well be before 0930 in order to optimise the use of resources by combining these services with local education transport.

For operators, the key principle, enshrined in the legislation as the “objective”, is that they are to be no better and no worse off as a result of the travel concession. This principle is to be applied both collectively and individually to each operator. In practice, local authorities sometimes take the view that operators should be reimbursed according to the available budget, rather than according to the objective. This has led operators making appeals to the Secretary of State for determination of reimbursement in accordance with the objective. These decisions to appeal are not taken lightly, given the legal costs of an appeal, the low chance of success, and ability of the authority to claw back any consequent increased reimbursement through other means.

Against this background a number of changes took effect from April 2011, each of which had an impact on bus operators, particularly rural ones.

First there was a review of the means by which reimbursement is funded. Moving from the district authorities holding the budgets for reimbursement, these were now to be the responsibility of county councils, passenger transport authorities and unitaries. This ought to lead to administrative cost savings for operators and authorities alike, but it was accompanied by a review of the funding formula used to allocate money to the authorities by central government.

A consultation was held on a great many new alternative formula options, each of which had a greater adverse effect on rural authorities than urban ones. The chosen method resulted in cases where local authorities found that their reimbursement budgets were cut from what they had before, even if there was no change in administering authority. This reduced the ability of the authority to offer local discretionary enhancements, or being forced to offer reduced reimbursement to the operators, reducing the viability of commercial services.

Revised guidance on concessionary reimbursement also took effect from April 2011, including a revised tool for local authorities to calculate the reimbursement due to operators. Typically this new model yielded a forecast reduction in reimbursement of some 26% across First’s rural operations. These reductions were greater in rural than urban areas, due to the formulae deployed within the model.

Therefore simple application of this model would leave operators considerably out of pocket. In order to maintain commercial operation of services, the actions required would be to either cause operators to increase fares, which would only be a short term solution as passenger demand fell in reaction to this imposition, or to cut services. Neither would help rural communities to maintain their communications links. The reductions in rural funding allocations just described exacerbated these impacts. Forecasts for local bus service networks in many rural areas were grim.

However in many areas, discussions between operators and local authorities led to a more pragmatic approach. The impact of the modelled reductions in concessionary reimbursement was assessed by operator and authority alike, with in many cases shared recognition that imposition of the modelled reimbursement would lead to unacceptable cuts in services for which the operators had no choice. Therefore many local authorities have worked hard with local operators to achieve mutually acceptable settlements, based on the principle of the operator remaining no better and no worse off, but not relying on the modelled reimbursement alone. In many cases, the authority, recognising that cutting reimbursement would lead to

potential pressure on its tendered service budget to reinstate withdrawn commercial services, has sought to agree with the operator that such negotiated reimbursement is accompanied by a commitment by the operator to maintain the existing commercial network, protecting the authority from such other financial pressures.

The net outcome has been that the forecast wholesale cuts in services in rural areas have not been realised, and many areas have managed to preserve a close semblance to the level of service which was provided before, with First's reduction in concessionary reimbursement in rural areas being only 8%. Operators are grateful to their local authority colleagues for taking such a pragmatic attitude, but all parties are concerned that the same situation may obtain in future years. Scope for negotiation and agreement will inevitably reduce as formulaic reimbursement declines. Operators and local authorities remain in dialogue with the Department for Transport to seek to ensure the adoption of more appropriate reimbursement guidance and models that meets the objective that operators are no better and no worse off.

### **Local authority spending cuts**

Following the Comprehensive Spending Review, local authorities have been forced to reduce their spending overall but the way in which they do so remains open to local interpretation. Some have preserved their budgets for supported local bus services. Others have implemented wholesale cuts, which leave operators with the choice to adopt commercial operation or to cease the service.

In many areas, operators have worked with local authority colleagues to minimise the impact of these funding cuts. An innovative approach to the operation of routes or journeys on the margins of commerciality, possibly taking a risk on any potential growth in revenue, can lead to the development of service proposals to fill gaps which would otherwise leave many communities isolated

For example, as a direct result of spending cuts being made by Somerset County Council, evening, Sunday and bank holiday services were due to be withdrawn on 26 routes from Sunday 17 April. However, First has done what it can to minimise the impact of the council cuts on local people and, where possible, it has taken on some of the previously supported bus journeys, opting to run them on a commercial 'Use it or Lose it' basis for a trial period. On six of the routes of the greatest importance to local people, evening and/or Sunday services have been retained on this basis.

We have publicly stated that "...if not enough people use these journeys then they may be lost altogether, as we, as a commercial company, cannot support loss making routes indefinitely."

But the longer term effect is that as the critical mass of services provided declines, the overheads of running a local bus company have to be borne by a smaller number of commercial services, and this can, in the absence of any other effects, eventually undermine this commercial operation leading to further cuts.

### **Other financial pressures**

As with all areas of local bus operation, rural operators are continuing to face increasing inflationary pressure on fuel and wages, and the impact of increasing traffic congestion in rural areas adds to costs, as additional resources are required to provide the same level of service. Against this background, the forthcoming cut of 20% in Bus Service Operator Grant, or BSOG in April 2012 is a further pressure that will make it harder for operators to sustain rural operations. Whilst the Confederation of Passenger Transport, representing over 90% of local bus service operators, responded to this challenge by stating that operators would do their best to maintain services in the light of this funding cut, there is only so much revenue reduction that can be accommodated before many services suffer from "death by a thousand cuts".

**What next?**

The industry is concerned that having survived significant potential reduction in concessionary revenue, local authority spending cuts and the forthcoming reduction of BSOG, there is a danger of failure to retain sufficient critical mass in many rural areas to enable ongoing provision of local bus services.

Local communities depend on buses to provide access to employment, to services, to shops, medical and leisure facilities. They act as a lifeline for these rural communities. Many of their users cannot drive, and in any event the Government's policies on climate change, the environment and sustainable development would be undermined by policy decisions which result in more car travel. There is a need to consider the future of rural public transport in a more holistic manner and, ensuring that policies do not result in its ongoing deterioration and disappearance.