

## Reimbursement Arrangements for the Concessionary Bus Travel Scheme in England

### Consultation response form

#### **PART 1 - Information about you**

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Company Name or Organisation (if applicable)	Passenger Transport Executive Group ( <b>pteg</b> )
Please tick one box from the list below that best describes you /your company or organisation.	
<input type="checkbox"/>	Small to Medium Enterprise (up to 50 employees)
<input type="checkbox"/>	Large Company
<input checked="" type="checkbox"/>	Representative Organisation
<input type="checkbox"/>	Trade Union
<input type="checkbox"/>	Interest Group
<input checked="" type="checkbox"/>	Local Government
<input type="checkbox"/>	Central Government
<input type="checkbox"/>	Police
<input type="checkbox"/>	Member of the public
<input type="checkbox"/>	Other (please describe):
<p>If you are responding on behalf of an organisation or interest group how many members do you have and how did you obtain the views of your members:</p> <p><b>pteg</b> represents the six English Passenger Transport Executives (PTEs) in England which between them serve more than eleven million people in Tyne and Wear, West Yorkshire, South Yorkshire, Greater Manchester, Merseyside and the West Midlands. Our joint response has been developed in full consultation with the six PTEs through email exchanges and workshops over the past three months.</p>	

If you would like your response or personal details to be treated **confidentially** please explain why:

**PART 2 - Your Comments**

<p><i>1. Is the new guidance fit-for-purpose, i.e. is the advice provided on how to calculate reimbursement clear and relevant and have practical implementation issues been appropriately addressed? If not, please make suggestions as to how the guidance could be improved?</i></p>	<p>Yes <input type="checkbox"/></p>	<p>No <input checked="" type="checkbox"/></p>
<p>Please tell us your suggestions or add any additional comments you wish to make:</p> <p>While <b>pteg</b> fully supports the overarching methodological approach to reimbursement proposed in the draft Guidance we have some significant concerns in three main areas:</p> <ul style="list-style-type: none"> <li>- Adjustment for underlying trends;</li> <li>- Conceptual rationale and implementation of average commercial fare calculation;</li> <li>- Calculation of additional capacity costs.</li> </ul> <p>Our views are explained in detail in our full response attached where we make some suggestions on how these elements of the Guidance could be improved. In summary:</p> <ul style="list-style-type: none"> <li>• We believe that there is no conceptual rationale or empirical support for the principle and scale of the proposed adjustment of reimbursement factors for underlying trends. We therefore conclude that such adjustments are theoretically unsound, practically very difficult to implement and could therefore have a number of unintended negative consequences.</li> <li>• We feel that the proposed degeneration approach as part of the Discount Factor method lacks a clear conceptual rationale and results in an unnecessarily complex calculation. In addition, we have found internal inconsistencies between the Guidance and the reimbursement calculator in the way trips using discounted tickets have been degenerated. Finally, we also call on the DfT to acknowledge that the allocation of trips to ticket types should be based on the “average equivalent single fare” (AESF) rather than the average fare paid by passengers travelling on cash fares. This is to reflect the fact that trip lengths are typically higher for passengers using discounted tickets.</li> <li>• With respect to additional costs, we believe that the draft Guidance fails to provide a suitable methodology for quantifying additional capacity requirements and also fails to provide a justification for the deviation from the use of the marginal unit costs estimated by ITS. Just as worrying is the fact that there seems to be an internal inconsistency both within the Guidance and with respect to the reimbursement calculator, which we fear invites operators to put forward spurious claims. In addition, we have found a further inconsistency in the reimbursement calculator whereby non-generated concessionary passengers appear to be excluded from the calculation of revenue due to additional capacity. We also find it very worrying that the results of the calculator seem to be excessively sensitive to small deviations from default network parameter values. Finally, we feel that the Guidance fails to provide a convincing justification for the deviation from the marginal unit costs estimated by ITS.</li> </ul>		

<p>2. <i>There is scope in the guidance to introduce local variation or take account of local circumstances in some elements of the calculations. Do you think that the balance between simplicity and local flexibility is right?</i></p>	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
<p>Please explain your reasons or add any additional comments you wish to make:</p> <p><b>pteg</b> welcomes the recognition in the draft Guidance that local circumstances and greater data availability may allow some TCAs (in particular, PTEs) to build on the proposed approaches to additional costs and average fares. However, we are very concerned that the proposed adjustment for underlying trends introduces an element of flexibility which may give rise to significant conflict between TCAs and operators, especially given the fact that it lacks a valid conceptual rationale or the support of robust empirical evidence.</p> <p>In our full response (attached) we have put forward what we feel are robust proposals for variations from the default DfT methods with respect to average fares and additional capacity costs, rooted on empirical evidence available to PTEs.</p>		

<p>3. <i>The methods outlined in the guidance are based on extensive new research into the factors that affect reimbursement. Do you have additional robust evidence which supports or contradicts the findings of the research and the guidance's methodological framework?</i></p>	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
<p>Please provide us with the evidence that you have and explain how it supports or contradicts the research finding and the guidance's methodological framework. You can also use this space to add any additional comments you wish to make:</p> <p><b>pteg</b> fully supports the core reimbursement methodology proposed by DfT, which is based on the key premise that the so-called single demand curves (one for PTE areas and one for non-PTE areas) represent the best available evidence on how concessionary passenger demand varies in response to changes in fare. It therefore provides the best basis for estimating how concessionary passenger demand would diminish in the absence of the concessionary fare, all other things being equal.</p> <p>However, we have some significant concerns over the methodological framework and empirical evidence (or lack thereof) with respect to three other elements of the proposed approach to reimbursement:</p> <ul style="list-style-type: none"> <li>- Adjustment for underlying trends;</li> <li>- Conceptual rationale and implementation of average commercial fare calculation;</li> <li>- Calculation of additional capacity costs.</li> </ul> <p>Our views are explained in detail in our full response attached where we put forward additional evidence and alternative methodological approaches. In summary:</p> <ul style="list-style-type: none"> <li>• We have argued from first principles that there is no conceptual rationale for the proposed adjustment for underlying trends. We also make reference to initial analysis in PTE areas which suggests that the proposed approach would lead to wide variations in reimbursement from one year to the next, which would be largely due to mergers, acquisitions and service de-registrations rather than any fundamental</li> </ul>		

changes to the bus product.

- We have provided empirical evidence and worked examples to support the use of the “average equivalent single fare” as part of the Discount Factor method, to highlight an inconsistency in the DfT’s approach to degeneration and to support the simpler approach to degeneration we have put forward.
- We have provided a methodological approach to calculate additional capacity requirements, which we have illustrated using data from PTEs. Crucially, the results from this work suggest a much lower Mohring factor than that put forward by the DfT as default.

<p><i>4. In particular do you have further robust evidence/suggestions as to whether and how local circumstances could be taken into account in the calculation of the Reimbursement Factor?</i></p>	<p>Yes <input checked="" type="checkbox"/></p>	<p>No <input type="checkbox"/></p>
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Please explain your suggestions and/or provide relevant evidence here. You can also use this space to any additional comments you wish to make:

As stated above, the PTEs feel that the so-called single demand curves (one for PTE areas and one for non-PTE areas) represent the best available evidence on how concessionary passenger demand varies in response to changes in fare.

However, it is accepted that the evidence from which the single demand curve parameters have been derived may not be fully representative of all circumstances, in all areas of England. In particular, the choice of "PTE" and "non-PTE" curves may be too harsh, since many non-Metropolitan urban areas are likely to have characteristics that are more similar to PTE areas than the "non-PTE" areas in the reference data sets. TCAs should have the choice of "PTE" and "non-PTE" parameters, and flexibility about how to apply them to the characteristics of their own area.

We would also encourage the DfT to develop further the evidence base on how aggregate concessionary passenger behaviour varies as a function of local socio-economic and transport network factors (e.g.: car ownership, income level, bus network density, bus mode share, bus trips per head).

<p><i>5. Is the reimbursement calculator easy to use? If not, please make suggestions as to how it could be improved?</i></p>	<p>Yes <input type="checkbox"/></p>	<p>No <input checked="" type="checkbox"/></p>
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Please tell us your suggestions or add any additional comments you wish to make:

Our overall impression is that the reimbursement calculator is far more complex and difficult to operate than need be. Reimbursement is driven by a small number of key factors, which, in our view, could be easily expressed in a single spreadsheet. The level of complexity of the calculator makes it difficult to audit and understand which is likely to hinder implementation of the Guidance.

In our full response, we have made a specific suggestion on how the average fare calculation could be improved to make it more transparent and easier to follow. We have also separately submitted to DfT officers a sample spreadsheet which, we feel, provides a much more transparent structure for the additional cost calculation.

6. Do the proposed regulatory changes adequately support the new reimbursement framework set out in the guidance?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
<p>Please explain your reasons or add any additional comments you wish to make:</p> <p><b>pteg</b> strongly supports the changes to Regulations proposed in the consultation paper. Please see our full response attached for more detailed comments and suggestions.</p>		

7. Are there any other changes to the regulations that you would find helpful?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
<p>Please explain your reasons, tell us your suggestions or add any additional comments you wish to make:</p> <p>We have set out some fairly detailed technical comments on the Regulations in our full response attached. We have thought these were best left out of the form, where we have tried to concentrate on matters of substance and principle.</p>		

8. Which of the options (A-D) above are worthwhile pursuing and what are the benefits / drawbacks of each option?				
Please use the table below to compile your answer. And the space below can be used to add any additional comments you wish to make:				
Option:	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>
Description:	a single national reimbursement rate	a table of reimbursement rates which vary by geography and/or trip characteristics	a table of payments which vary by geography and/or trip characteristics	a flat payment per concessionary trip
Is the option worthwhile pursuing?:	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Benefits:	None	None	- Substantially simpler reimbursement methodology - Scope for greater control of cost of reimbursement	Substantially simpler reimbursement methodology - Scope for greater control of cost of reimbursement
Drawbacks:	- Not consistent with No Better No Worse Off	- Not consistent with 'No Better, No Worse Off'	-Completely inconsistent with No Better No	-Completely inconsistent with No Better No

	principle - Potential for cost escalation	principle - Potential for cost escalation	Worse Off principle	Worse Off principle
If you have a preferred option please let us know <i>(Please mark one box only)</i> :	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please add additional comments here:

It is our view that the further one gets from the 'no better no worse off' principle the more negative the impact on the local bus market is likely to be. We therefore feel that none of these options would lead to fairer reimbursement than the methodology proposed in the draft guidance. The least harmful of the options presented is, in our view, option B, although we consider this to be a backward step from the approach the Department now proposes to introduce from April 2011.

**9. What evidence would be required to support each option and how could that be best sourced?**

Please tell us your suggestions or add any additional comments you wish to make:

A comprehensive analysis of these options would require evidence on average fares and trip lengths for a representative sample of operators from across the country. Ideally, this should be obtained for a period of several years to understand the longer term implications of these proposals. Although PTEs have access to some of this evidence, we are usually bound by confidentiality agreements with operators which prevent full disclosure of this information to third parties. Permission from operators would therefore be required.

**10. If the Department were to develop more radical options, over what timeframe should any further changes be introduced?**

Please tell us your suggestions or add any additional comments you wish to make:

We feel that, at this point in time, radical change is not a good idea both because of recent changes in government funding, in administrative arrangements for NCTS reimbursement and the introduction of new Guidance in April 2011. In addition, many PTEs have attempted to arrive at longer term reimbursement agreements with operators, which it is felt, have contributed towards greater stability in terms of bus networks and fares. Any sudden changes in reimbursement rules or the possibility of such changes taking place in the near future could put such agreements under threat.

If you have any other general comments that you would like to make concerning this consultation, please give them here:

Given the complexity of this issue, we have felt that it would be most helpful to focus on key matters of substance and principle in this form while setting out our full technical arguments and evidence in a separate set of documents.

The answers in this form are therefore meant to be read in conjunction with our full response attached, which includes five annexes supplied as separate digital documents.

Please send this completed form to:

Concessionary Travel  
Department for Transport  
3/21 Great Minster House  
76 Marsham Street  
London, SW1P 4DR  
Tel: 0207 944 5427  
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The deadline for responses is: **5.30pm on 11 November 2010.**