



# Concessionary Travel

## The funding timebomb for PTEs

Briefing

The ENCTS has been highly successful in giving older and disabled people the freedom of free off-peak bus travel. But the costs of the scheme are rising fast while funding for the scheme is falling. This financial 'timebomb' will lead to severe cuts in other frontline transport services unless a sustainable funding solution can be found.

### The English National Concessionary Travel Scheme (ENCTS)

From April 2008, residents in England, aged 60 and over, or with an eligible disability - around 11 million people - became entitled to free, off-peak travel on local buses, anywhere in England. Equivalent concessions are also provided to residents of Wales, Scotland and Northern Ireland under separate schemes. For London residents, the scheme also allows free all day travel on bus, tube, boat and local rail. From 2010, the age of eligibility has started to increase in line with State Pension Age and will reach 66 by 2020.

The ENCTS has proven very popular. By spring 2008, 83 per cent of older people were aware of the new concessionary fare scheme and, by 2010, 77 per cent of those eligible had received a new pass.<sup>1</sup> The PTE areas have been no exception. In the four PTEs that did not already offer free concessionary travel, concessionary journeys have increased by 40 per cent on average between 2005/6 and 2008/9.

The scheme's popularity demonstrates its value to older and disabled people. These groups are more likely than the general population to live on a low income and often do not have access to, or can no longer drive, a car. Free travel enables them to retain independence, access shops and services and visit friends and family without having to be concerned about, or restricted by, the cost of getting there. This freedom is essential for both physical and mental health and wellbeing. Recent research<sup>2</sup> has found free bus travel to have resulted in significant health benefits amongst the eligible population. Moreover, our analysis suggests that trips by concessionary passengers generate economic benefits of £670m per year, in PTE areas alone.<sup>3</sup> This is more than twice the cost of the scheme.

***'ENCTS is already under-funded and the gap is only likely to widen further over time'***



*PTEs are faced with a concessionary timebomb—which will drastically reduce funding for other services.*

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### Funding for the scheme

Funding for the ENCTS comes from the Department of Communities and Local Government's (DCLG) Formula Grant which is paid to Districts, Shires and Unitary Authorities.

Unfortunately, the total quantum of funding provided by DCLG does not have a direct relationship with the costs that PTEs and other Travel Concession Authorities actually incur from reimbursing bus operators for carrying pass holders. **Although the cost of the ENCTS is on an upward trend, between 2010/11 and 2014/15 DCLG will have reduced funding for the scheme by 27%.<sup>4</sup>**

In addition, the formula used by DCLG to allocate the money available between authorities inevitably leads to winners and losers as it is based on proxies rather than actual patronage or reimbursement costs. For the losers, the combination of these two effects (funding that does not reflect the overall cost of the scheme and allocation formulae which are a poor reflection of variations in the cost of the scheme between different areas) could lead to severe financial strain in the near future. For an explanation of how the scheme is administered see the box on page 5.

### The concessionary timebomb

Based on current forecasts (and assuming commercial bus fares will continue to increase at their recent pace) the cost of the scheme is likely to rise at least at the rate of inflation. Yet, DCLG funding for the scheme is set to fall by more than a quarter in the next two years alone. This, in the context of LGA estimates that local authority income more generally is set to decline by close to 15% over the next 5 years.

The government has argued that changes in the age of eligibility alongside recent administrative changes should have led to savings in the cost of the scheme. Our analysis suggests that the trend in commercial bus fares and the increase in disabled pass-holders far outweigh any impact of eligibility changes.

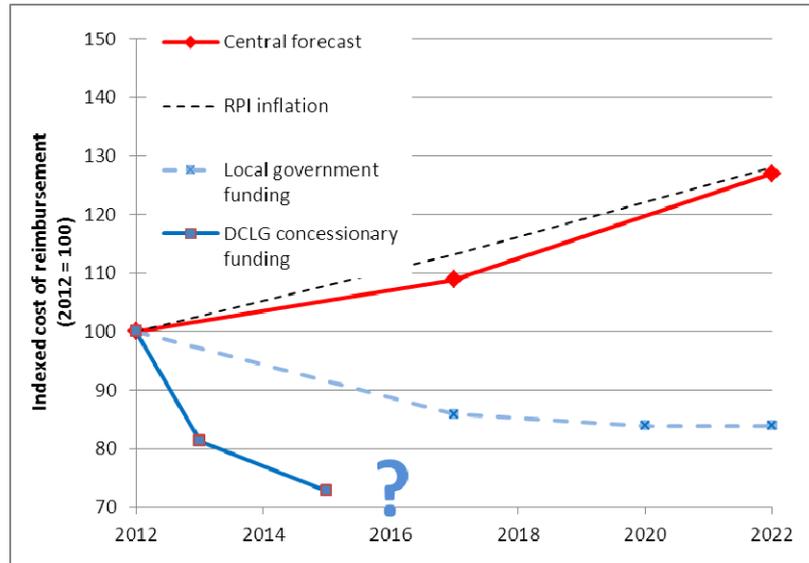
The diagram below illustrates the growing disparity between the cost of the scheme and central government funding. This means that PTEs are faced with a concessionary timebomb. As costs rise and funding falls the amount of money available for other services drastically reduces. This will have a severe impact on other services, such as lifeline social bus provision; concessions for children and young people; funding for active travel measures like cycling; public transport information provision; maintenance of bus stops, shelters and interchanges, and security staff.



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The growing disparity between funding and the cost of the scheme

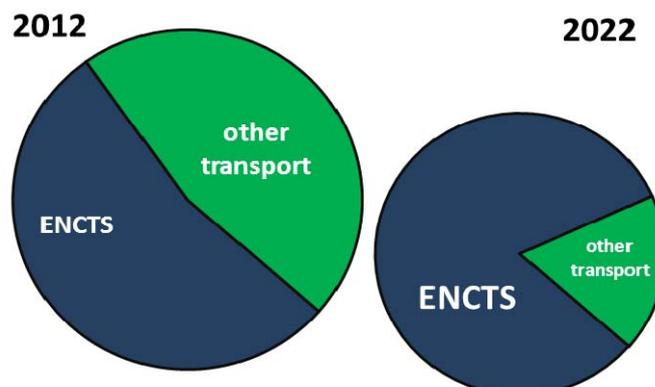


*‘Costs are rising as demand increases and operators’ fares rise, while funding is being cut.’*

The concessionary fares ‘timebomb’ is particularly destructive for PTEs. This is because PTEs only do transport—whereas elsewhere local authorities are the concessionary travel authority, and therefore the cost of ENCTS reimbursement is only a fraction of their total budget which covers not just transport but also housing, social services and so on. Not so for PTEs where any budget cuts can only be made to discretionary spend on other frontline transport services.

Coupled with the forecast rise in the costs of ENCTS this could lead to a real terms reduction in PTE discretionary spend of around 74%<sup>5</sup> by 2022.

## PTE Revenue Squeeze





**‘...to ensure the financial sustainability of the scheme an appropriate level of central government funding needs to be provided’**

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### What needs to be done?

The ENCTS is of great value to older and disabled people, giving millions the opportunity for greater freedom and independence through free off-peak travel. However with funding falling and demand rising concessionary travel is a financial ‘timebomb’ which if not addressed will mean drastic cuts in the future to socially necessary services and local transport provision.

PTEs have already been forced to introduce, or are considering, changes to child concessions and tendered bus networks. Regrettably, this will hit the pockets of low income families who depend on the most of these services.

It is therefore essential to ensure the financial sustainability, and continuing success of the scheme, that an appropriate level of central government funding is provided.

<sup>1</sup> National Statistics Omnibus Survey and National Travel Survey

<sup>2</sup> Webb, E. et al (2011), Free bus passes, use of public transport and obesity among older people in England

<sup>3</sup> PTEG (forthcoming), Case for Bus

<sup>4</sup> Based on provisional local government funding settlement 2012

<sup>5</sup> This figure is based on the assumption that overall PTE funding will fall in line with the reduction in overall local government funding based on the latest LGA assumptions and an increase in ENCTS reimbursement costs roughly in line with inflation based on *pteg*'s own forecasts



## How the concessionary travel scheme is administered

The ENCTS is a national policy set out in primary legislation. However it is the responsibility of Passenger Transport Executives (PTEs) and other Travel Concession Authorities (TCAs) elsewhere (shire counties and unitary authorities) to reimburse operators for the cost incurred. This is because reimbursement depends on a number of specific local factors which local TCAs are best placed to understand and monitor.

Fundamentally the key cost drivers relate to the number of people using the scheme and fare levels on local bus services, neither of which PTEs are able to influence.

Travel Concession Authorities are required to reimburse bus operators for:

- The commercial revenue forgone as a result of the free concession, and
- The additional costs required to carry the passenger trips generated by the concessions.

The appropriate amount of reimbursement is determined by DfT guidance, but depends on local parameters, in particular the average commercial bus fare and the number of trips made. As commercial fares and ENCTS trips rise the more expensive the scheme becomes. The cost of the scheme is therefore essentially beyond the control of local authorities and PTEs. Over the past 10 years, bus fares in PTE areas have increased by around 3% above inflation year on year. If this trend continues, then ENCTS could become a cash-cow for private bus operators at the expense of other services funded by PTEs.