Consultation Response

Business Rates Retention: Technical Consultation

Establishing the start up funding allocation and baseline funding levels

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Content

1. Introduction

1.1. ***pteg*** 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. The West of England Partnership, Leicester City Council, Nottingham City Council, Transport for London (TfL) and Strathclyde Partnership for Transport (SPT) are associate members of ***pteg***, though this response does not represent their views. The PTEs plan, procure, provide and promote public transport in some of Britain's largest city regions.

1.2. One of the PTEs' key responsibilities is to administer the English National Concessionary Travel Scheme (ENCTS), which currently represents over one third of the PTEs' total revenue expenditure. Although PTEs do not receive Revenue Support Grant directly from DCLG, our entire revenue funding comes from constituent districts via a levy based on population. We therefore have a keen interest in DCLG's proposed changes to the overall quantum of RSG funding as well as to the concessionary travel element of the EPCS block.

2. *pteg* response

2.1. Our response is limited to chapters 3 (Local Government Spending Control Total) and 4 (Concessionary Travel), of section 2 of the consultation document.

2.2. Question 1 of chapter 3 asks us whether we agree with the methodology for calculating the local government spending control total. From the perspective of PTEs, the key issue of interest is whether the proposed methodology will ensure a sustainable level of funding for the ENCTS. **As set out below, we believe that the current approach for calculating the local government spending control total, in particular in the way it impacts on the funding of the ENCTS, is not fit for purpose. In particular, the systematic cuts (both recent and planned) to the concessionary travel and EPCS sub-blocks risk undermining the financial sustainability of the scheme, when its costs are forecast to increase steadily over time.**

2.3. Chapter 4 (questions 3 and 4) asks us whether we agree with the proposed approach for updating the Concessionary Travel Relative Needs Formula (RNF). **As set out below, *pteg* is opposed to the proposed approach, based on three main objections**:

  • **The use of modelled, rather than observed, boardings;**

  • **The exclusion of disabled pass-holders from the estimation;**

  • **The lack of clarity over the statistical robustness of the analysis undertaken.**

Local Government Spending Control Total – ENCTS Funding Gap

2.4. The present consultation focuses on the allocation of available funding between local authorities, effectively assuming that the overall quantum of DCLG funding implicit in the Comprehensive Spending Review and the Budget are sufficient to meet local needs and local government responsibilities. We feel very strongly that this is not the case with regard to the ENCTS. In one PTE area[1], for example, it is estimated that the cost of operator reimbursement is 65% higher than the amount of funding nominally received for this purpose through the RSG.

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[1] Tyne and Wear

2.5. The ENCTS is a national entitlement which allows free bus travel across England after 9.30am for eligible elderly and disabled. It is up to local transport authorities (LTAs) to reimburse bus operators for revenue forgone and additional costs incurred as a result of the scheme. However, we should emphasise that local authorities have little or no control over the cost of the scheme given that this is a function of bus passenger numbers and commercial bus fares, based on a methodology set out by the DfT. Funding for the scheme comes through the Revenue Support Grant (RSG), in part through the County Level Environmental, Protective and Cultural Services (CL-EPCS) sub-block and in part through the Concessionary Travel (CT) sub-block.

2.6. We feel that the appropriate funding of ENCTS is an issue that has been systematically ignored by DCLG and DfT, despite our repeated efforts to raise its importance with both government departments and HMT. **Given that ENCTS reimbursement is a national statutory obligation on Travel Concession Authorities, we are keen to discuss with DCLG and DfT how we can ensure that an adequate level of central government funding in order to ensure the sustainability of the scheme.**

2.7. The overall cost of ENCTS is estimated at over £1bn per year, of which PTE areas represent around a third. Our analysis suggests that, in PTE areas, this is set to grow at around the rate of inflation over the next 10 years (see figure 1 below). The CT sub-block for 2012-13 amounts to £243m (or less than a quarter of the cost of the scheme), having suffered a significant, yet unexplained, cut relative to the previous year. It is our understanding that this is the amount DfT contributes to the RSG from its budget for the purpose of ENCTS reimbursement. We have serious concerns both at the cut in 2012/13 and the proposed cut in 2013/14 and would therefore ask that the control total for the concessionary sub-block (in money terms) be restored to the 2011/12 level.

2.8. When it comes to the CL-EPCS sub-block, local authorities have no visibility of how much funding is explicitly being fed in for the purpose of ENCTS reimbursement although from the records of previous local government settlements we believe this is likely to be far short of the level of funding required at present. Moreover, the allocation of the CL-EPCS control total between local authorities seems to bear no relationship to the CT sub-block Relative Needs Formula (RNF). In any event, the control total for this sub-block is also being reduced as the result of wider local government cuts. This will add to the cuts in the concessionary sub-block to further undermine the financial sustainability of the scheme.

2.9. Based on the latest LGA analysis, which takes into account the trajectory set out in the Comprehensive Spending Review as well as the latest Budget figures, we expect local government income to decline by almost 15% over the next 5 years, even before inflation is taken into account. In contrast, our forecasts suggest an increase in ENCTS reimbursement in PTE areas of around 9% over the same period (see figure 1). This is based on two key factors: a steady increase in the disabled population (in part due to the fact that around a quarter of 60-65 year olds, who will be losing their eligibility due to changes in the State Pension Age, are likely to qualify as disabled) and an above inflation increase in bus fares (which forms the basis for reimbursement).

2.10. Bearing in mind the funding shortfall that we believe exists already, by 2017 there could be a funding gap for ENCTS running into the hundreds of millions of pounds. **For some PTEs, where reimbursement represents more than half of current expenditure, this could mean the ENCTS can no longer be funded.**

2.11. It is important to emphasise that this funding gap is not something that can be resolved through local funding prioritisation or the introduction of efficiencies in service delivery. The terms of the ENCTS entitlement are set by government in statute and reimbursement of operators is a statutory obligation of Local Transport Authorities. Moreover, the cost of reimbursement is entirely beyond the control of LTAs as it depends essentially on demographic trends and commercial bus fares determined by private operators.

Figure 1. Forecast changes in ENCTS patronage and reimbursement costs in PTE areas (current prices)
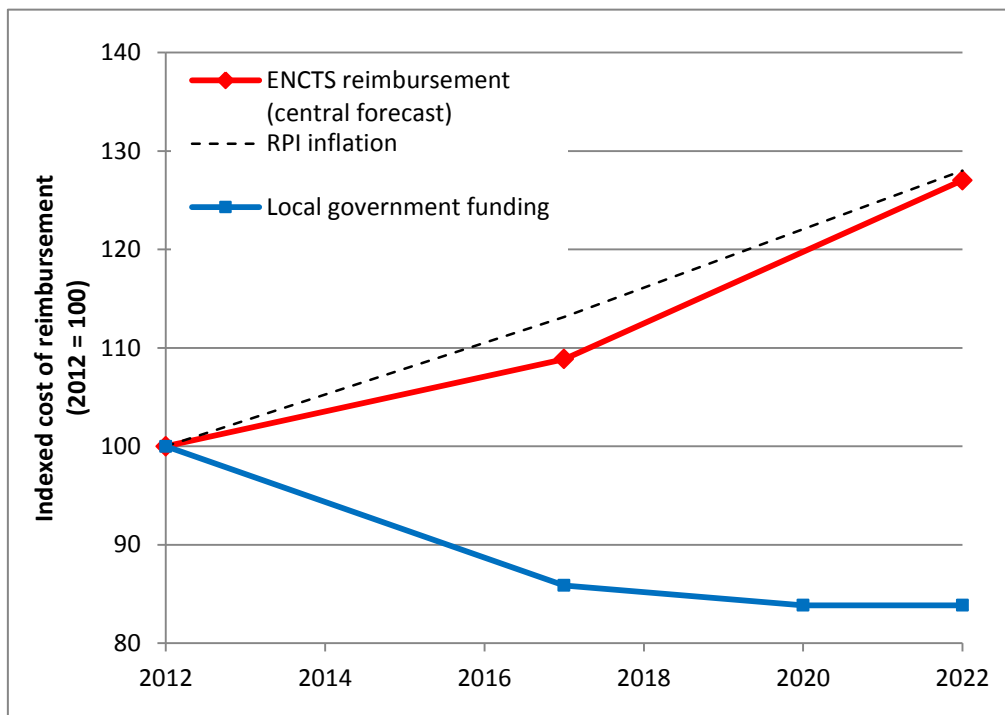
Sources: *Local government funding based on LGA (2012) forecasts; ENCTS reimbursement costs estimated by PTEG based on ONS demographic forecasts, DfT's TEMPRO car ownership forecasts, National Travel Survey data for 2008-2010, PTE data on bus fares and DfT's concessionary reimbursement guidance.*

Concessionary Travel Relative Needs Formula (RNF)

2.12. At present, the RNF is a function of the population benefitting from incapacity benefit and severe disablement allowance, the total population aged 60 and over with no access to car or a van and population sparsity for people aged 60 and over. Regrettably, the consultation document provides no explanation as to how the weightings on each of these variables were obtained or how well this formula reflects actual expenditure on the English National Concessionary Travel Scheme. We should note that, without this information, it is difficult to objectively answer the question of which formula best reflects relative needs.

2.13. The proposed approach expresses RNF as a function of population and employment by age and gender, type of area (rural/urban area classification), car ownership, bus patronage and bus network density (bus services per head). In the consultation, this function is expressed as '**modelled boardings'**. The weightings on the variables above are obtained through a statistical estimation procedure which attempts to identify the most robust mathematical

relationship between these variables and bus trips rates by elderly pass-holders. The statistical estimation is based on an un-specified sample of elderly individuals who have responded to the National Travel Survey in 2009 and 2010. Based on the average overall NTS sample we assume that the sample of elderly individuals used in the estimation is no more than 15,000 but probably closer to 10,000.

2.14. *pteg* is opposed to the proposed approach, based on three main objections:

- The use of modelled, rather than observed, boardings;
- The exclusion of disabled pass-holders from the estimation;
- The lack of clarity over the statistical robustness of the analysis undertaken.

2.15. Should these objections be taken into consideration, we would reserve the right to review our position at a later date.

Actual versus observed boardings and expenditure

2.16. While the DCLG recognises that passenger boardings are the main driver of concessionary reimbursement expenditure, it chooses to disregard local boardings data in favour of an estimated figure based on an infinitesimal national sample. Given that all authorities are required to have local figures for the number of concessionary passengers, in order to ensure bus operators are left "no better and no worse off"[2] as a result of the reimbursement process[3], it seems odd not to use this information as the basis for assessing relative need.

2.17. We recognise that, in some areas, boardings are estimated from a sample of trips rather than being based on full records[4]. We also accept that there are likely to be inaccuracies in the recording of bus trips where more conventional methods (such as electronic ticket machines) are used. However, it's important to put this into context as the small sampling errors that could well exist in local data are likely to pale in comparison with the statistical error that will result from estimating boardings based on a sample that can't be greater than 0.0003%[5].

2.18. Given that there are likely to be a number of un-observed local factors which could drive the cost of reimbursement away from the estimated figure, the proposed approach will undoubtedly result in a windfall gain in some areas and a shortfall in others, relative to an approach based on observed boardings. We would therefore call on the DCLG to re-consider its decision not to use actual boardings as the measure of relative need.

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[2] Source: The Mandatory Travel Concession (England) Regulations 2011

[3] In the consultation document, DCLG states that this information is "not complete". While we are aware that some authorities choose not to respond to the DfT reimbursement survey, they are still legally required to compensate operators on a no better and no worse off basis. We find it difficult to believe that this could be done without an accurate estimate of ENCTS boardings.

[4] In PTE areas, this would be typically based on a 0.3% sample of trips

[5] This is based on 5493 OAP bus trips recorded in the 2009 and 2010 NTS surveys (based on PTEG analysis of NTS) divided by 1.5 billion annual ENCTS bus trips (based on DfT statistics).

Disabled pass-holders

2.19. Although we would agree that the structure of the proposed boardings model is largely sensible within the constraints of available data[6], we find it completely unacceptable that it excludes disabled pass-holders from the analysis. Based on NTS data we estimate that disabled pass-holders make 10% of all ENCTS trips in PTE areas. Moreover, we would expect this number to vary significantly between areas, based on incapacity benefit and severe disablement allowance statistics[7]. We also know from local data that disabled pass-holder trip rates tend to be much higher than for elderly pass-holders (typically by a factor of 50%[8]). National demographic forecasts also suggest that disabled pass-holder trips will follow an increasing trend, in contrast with elderly pass-holder trips[9].

2.20. We therefore believe that the proposed approach will unduly discriminate between areas with different proportion of disabled residents and would call on the DCLG to review the proposed model accordingly.

Statistical analysis

2.21. We find it surprising that little technical information is provided in the consultation document or in the technical papers to Baseline Working Group. For example, there is no information on sample sizes, overall goodness of fit measures of estimated models (such as the R^2) or the statistical significance of individual parameter estimates. It is therefore very difficult to objectively assess whether the proposed model parameters are sensible or robust. We believe this is essential in order to ensure the decision making process followed by DCLG is clear and transparent.

2.22. But even without this information, it is plain to see from the analysis provided that the proposed approach will continue to result in a large number of winners and losers. In that respect, observed boardings would seem like a much more equitable approach.

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[6] Which is not to say that there isn't a large statistical error in the estimation results. In other words, there may well be other important sources of variation between areas which the model does not capture.

[7] This data shows the proportion of disabled benefit recipients to vary between less than 2% and more than 11%.

[8] Source: PTEG analysis of Greater Manchester data

[9] Source: ONS population forecasts