

**Item 5**

**Concessionary Fares**

**Purpose of report**

For discussion and direction.

**Summary**

The Local Government Finance Settlement provides more detail about how funding for concessionary travel will be transferred from district councils to county councils, who take on responsibility from April 2011. The Government has also issued revised reimbursement guidance for Concessionary Travel Authorities (CTAs) to negotiate new schemes with bus operators for 2011/12. This paper updates Members on the key issues for councils and the LG Group's response and lobbying activity.

**Recommendation**

Members are asked to note the key issues for councils and comment on proposed lobbying activity.

**Action**

To be taken forward by officers as directed by Members.

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**Item 5**

## **Concessionary Fares**

### **Background**

1. Local councils are strong supporters of concessionary travel. However, there have been long-standing challenges with the funding of the scheme. Councils currently face two big challenges: managing the transfer of funding from district councils to county councils in two-tier areas, and delivering the statutory scheme with less funding from central government.
2. In advance of the Spending Review, the local government family – the LG Group, the County Councils Network, the District Councils Network and PTEG – argued that the best way to ensure that concessionary travel is funded at the level of the individual councils is to fund the entire scheme via Special Grant in the short term because this is the only way to give the necessary transparency. However, as has already been reported to the Board, the Government rejected this proposal. The local government family has also consistently impressed upon DfT and CLG in the strongest possible terms the importance of a transfer from districts to counties that was transparent and equitable so that no council was left out of pocket.

### **Local Government Finance Settlement**

3. Following the publication of the Local Government Finance Settlement we now know more detail about how funding for concessionary travel will be transferred from district councils to county councils. This is given in **Annex A**. This decision has created turbulence for local authorities at a time when they are already under unprecedented financial pressure and will not result in the fair and equitable transfer in funding that we argued for. This will potentially affect all types of local authority but for different reasons:

#### *District Councils*

4. Although the costs of delivering the scheme will be transferred to the county level, because some districts suffered a shortfall in grant funding for the scheme, extracting the funding on the basis of expenditure as proposed, will disproportionately affect those councils who were supporting the scheme using local tax payers money. The methodology used by CLG does not account for the fact that a number of districts were already subsidising the scheme locally or that many districts were choosing to supplement the statutory concession at their own discretion. Our initial analysis, based upon formal CLG figures,

**Item 5**

suggests that for a significant number of district the amount taken away is greater than their estimated spend in 2010/11.

5. In the run-up to the Settlement, we argued that if it was not possible to extract funding from districts in a way that accurately reflected the funding they had received, the Government should make available a top-up fund to deal with those local authorities who are significantly adversely affected. The section on "LG Group response" suggests how we might now take this forward.

*County Councils*

6. For county councils, who will be responsible for concessionary travel from April 2011, it is vital that the funding they receive from Government matches the cost of the scheme locally. Our initial analysis shows that all county councils are likely to receive less funding for concessionary fares than the sum spent in 2010/11 by districts in their area, and in some areas significantly less.

*Unitary Councils*

7. The vast majority of unitary authorities will receive less funding for concessionary fares even though their duties remain unchanged.

**Revised arrangements to reimbursement of operators**

8. The spending review identified that "significant savings" could be made to concessionary fares scheme, partly through revised arrangements for reimbursement of operators. DfT published revised guidance on reimbursement in December, but it remains to be seen how this will impact on the costs of the scheme, and indeed on local bus services. These issues are discussed further in **Annex B**.

**LG Group response and next steps**

9. This is a significant issue for the LG Group's member councils. We have quickly taken forward a number of lobbying actions in conjunction with the County Councils Network and District Councils Network to raise all types of councils' concerns with Government, with further actions imminent.
10. We are currently analysing the hugely helpful feedback we've had from councils and Cllr Peter Box will be writing to ministers at DfT and CLG to present our concerns. This will reiterate our earlier call for a top-up fund for districts who have been adversely affected, emphasise our on-going concerns that there will be further problems arising from a mismatch of funding between central government funding costs incurred locally by CTAs and pressing for unitaries to not be out of pocket. A copy of the letter will be tabled at the meeting.

**Item 5**

11. In addition:

- 11.1 Councillor Peter Box has written to the Leaders of both district and county councils to share some initial LGA analysis on the potential impact at the level of the individual council and to ask for further intelligence to inform our lobbying about how their councils will be affected by these changes because it is not possible to understand the full impact from the headline figures in the settlement;
- 11.2 Lead Members of the Economy and Transport Board will be representing councils' serious concerns to Ministers at the Bus Partnership Forum on 26 January;
- 11.3 Concessionary fares is given a high priority in the draft LG Group response to the Provisional Local Government Finance Settlement, which the Executive will be considering on 13 January;
- 11.4 The issues are also highlighted in the written evidence we have submitted to the Transport Select Committee Inquiry into bus services;
- 11.5 Officers have raised councils' concerns with DfT and CLG at a meeting of DfT's Funding and Admin working group in December;
- 11.6 We have kept our national networks of concessionary fares officers fully informed and will be providing a further update at the LG Group's buses conference on 11 January;
- 11.7 Officers have been responding to press enquires about funding for concessionary travel and proactive media work is planned to publicise evidence collected from councils and the impact on local bus services.

12. Members are asked to comment on these actions and identify other lobbying opportunities.

**Financial Implications**

13. The above actions can be delivered within the existing work programme and budget.

**Item 5**

**Annex A**

**Further information about concessionary fares from the Provisional Local Government Finance Settlement (extract from LG Group on the day briefing)**

Revenue funding from Department for Transport for local transport, which includes funding for concessionary fares, will reduce by 28% over the spending review period. The Special Grant has been abolished and all funding for concessionary fares will be through Formula Grant.

As previously announced the concessionary fares function will be transferred from districts to counties in two tier areas. There will be a new sub-block within the Environmental, Protective and Cultural Services Block of the Relative Needs Formula.

The amount of special grant being put into Formula will be reduced by £20m from 2012/13.

*LG Group View*

- This decision is likely to produce significant winners and losers.
- Problems with funding for concessionary fares are likely to continue as a result of the lack of transparency about whether funding matches the costs of the statutory duty.
- The LG Group will continue to argue that no council should be left out of pocket as a result of the transfer of funding from districts to counties. It is not clear how the savings will be delivered when the costs of the scheme are expected to raise due increase in bus operating costs. The LG Group's proposals for a single subsidy pot for bus subsidies would provide a simpler and cheaper way to administer the scheme.
- The LG Group will be working with affected authorities to assess the full impact of the changes to the concessionary fares scheme.



**Economy and Transport  
Programme Board**  
20 January 2011

**Item 5**

**Item 5**

**Annex B**

**Further information on the new reimbursement guidance and potential impact on bus services**

County councils taking on responsibility for concessionary travel from April 2011 and other CTAs are currently negotiating statutory concessionary travel schemes with operators based on the revised reimbursement guidance issued by DfT in December. This will impact upon the cost of the scheme locally. The aim of the guidance is to ensure operators are left “no better or no worse off” for carrying concessionary passengers.

The spending review identified “significant savings” would be made from among other factors the new reimbursement guidance. However, as funding for the national concession will now be included in the unhyphenated Formula Grant, it is meaningless to seek to identify a figure for the cut to funding.

The LGA has always challenged the assumptions on which this level of savings can be delivered, particularly in the light of LGA projections of expenditure on concessionary travel in England from 2008-09 to 2013-14 which suggests that reimbursement costs could increase by 20% in real terms over this period.<sup>1</sup>

Initial feedback from councils suggests that the revised guidance will result in lower payments to operators for carrying concessionary passengers, though still exceeding the funding councils receive. However, it is likely that in the face of reduced reimbursement, operators will seek to test the fairness of the new guidance through the appeals system. In the past a number of appeals have found in operators favour and resulted in the local authorities being required to increase payments to operators. It may be some time, therefore before the effectiveness of the new guidance in terms of reducing the cost of concessionary fares schemes is known.

Because CTAs are receiving less funding for concessionary travel, if reimbursement to operators does not reduce as a result of the revised guidance, a number of councils will face significant shortfalls in funding for the statutory scheme. This is likely to reduce funding available for public transport, including supported services, which will lead to a reduction in services.

On the other hand, if operators receive less funding for concessionary fares as a result of the new reimbursement guidance, the commercial network will reduce,

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<sup>1</sup> This is based upon demographic change plus a 3% increase per year in commercial fares and a 1.5% increase per in operating costs). This seems likely to be the most realistic of the scenarios that we have examined, given historic experience. (This assumes that there is no underlying trend in the volume of concessionary passenger journeys relative to the estimated 2008-9 level.)

20 January 2011

### **Item 5**

particularly in rural areas where services tend to carry a higher proportion of concessionary passengers and there is little opportunity to generate income from other fare payers. In addition, the cost of councils' supported networks will increase as operators seek to compensate for loss of income from concessionary passengers by increasing the price for running supported services.

As a result of shortfalls in funding for the national concession, it is unlikely that councils will be able to continue to fund additional discretionary concessions at local level, such as extension to off-peak hours, travel tokens, etc. These schemes are highly valued locally and will mean a reduction in service for those who currently benefit from them.

Revised reimbursement guidance for the statutory national concessionary travel scheme will help councils contain the historic inflation in the cost of the scheme. Of course, operators warn that if they receive less funding for concessionary fares, the commercial network will reduce.

#### **Next steps on reimbursement**

In addition, but related to, LG Group lobbying in response to the issues arising from the Finance Settlement, we will also continue our lobbying activity on reimbursement in support of councils who are currently negotiating schemes with local bus operators. Through our national networks we will continue to gather feedback on the estimated impact of the new guidance on costs locally and will take forward appropriate lobbying actions in response to ensure that the scheme is fully funded at the level of the individual council. Future reports to the Board will keep Members fully informed.