

## Business and Regulatory Impact Assessment

### Title of Proposal

The National Bus Travel Concession Scheme for Older and Disabled Persons (Scotland) Amendment Order 2013

### Purpose and intended effect

- **Objectives**

The purpose of this Order (“the amendment Order”) is to enable the National Bus Travel Concession Scheme for Older and Disabled Persons (Scotland) (“the Scheme”) to continue into 2013/14 and 2014/15 by setting out the reimbursement terms for bus operators carrying concessionary passengers. The new rates of reimbursement will be 60% of the adult single fare in 2013/14 and 58.1% in 2014/15. Total payments will be capped at £187 million in 2013/14 and £192 million in 2014/15.

- **Background**

The Scheme was introduced on 1 April 2006 by the National Bus Travel Concession Scheme for Older and Disabled Persons (Scotland) Order 2006 (“the 2006 Order”). This followed an agreement reached by the then Scottish Executive and the Confederation of Passenger Transport (CPT), on behalf of bus operators, for the delivery of an unrestricted free national bus travel scheme for eligible passengers at agreed levels of payment to the industry. There was also a commitment by both parties to maintain the Scheme for seven years. The reimbursement arrangements were originally set out in SSI 2006/107. In 2010, new arrangements were agreed with CPT covering 2010/11 to 2012/13 and set out in SSI 2010/140. Agreement was reached with CPT on new reimbursement terms for 2013/14 and 2014/15. This order is to put them into effect.

- **Rationale for Government intervention**

The National Concessionary Travel Scheme for Older and Disabled Persons provides an entitlement to free bus travel for people over 60 or meeting certain disability related criteria. This is believed to deliver social and health benefits by enabling people more easily to access services and visit friends and relatives. In line with EU rules relating to transport state aids, operators can be reimbursed for the costs of participating in such a scheme so as to leave them no better or no worse off from doing so. The reimbursement rates to ensure this are informed by detailed independent economic analysis and negotiation with the main industry trade body.

Through the Scottish Government national performance framework, concessionary travel contributes to national outcomes: we live in well-designed, sustainable places where we are able to access the amenities and services we need and our public services are high quality, continually improving, efficient and responsive to local people's needs.

### Consultation

- **Within Government**

We have consulted with colleagues in Transport Scotland who administer the scheme, and who are in regular contact with the bus operators. Transport Analytical Services commissioned the independent analysis of the reimbursement parameters, taking forward technical discussions with CPT, with the aim of finding preferred reimbursement rates. The technical discussions were highly influential in bringing about a fair and agreeable rate. Both Transport Scotland and Scottish Government Finance colleagues were consulted about reimbursement rates and broader impacts of any changes to the

scheme.

- **Public Consultation**

Due to the nature of the changes being proposed there has been no direct consultation with the general public. Nevertheless, the potential impact of the change in the reimbursement rate and its implication for local bus services formed part of the general consideration for sustainability of the scheme.

- **Business**

Negotiations have taken place with CPT, which represents approximately 80% of the bus industry in Scotland in terms of volume. There has been extensive discussion of the economic research informing the negotiations, which has been taken into account in the final research report. A two year agreement has been reached, consistent with the findings of the research but allowing for a transition towards the reduced reimbursement rate to allow operators time to adjust. The agreement includes budget caps to limit risk to Scottish Government budgets. These are unwelcome to the industry though set at levels which are believed to be consistent with the research findings and reasonable assumptions on future fares rises. The agreement provides for continuing discussions, including annual reviews and a formal review of the economic model within five years. Further discussions with smaller operators, many of who are not members of the CPT, will take place during February and March 2013, partly with a view to establishing better arrangements for future engagement.

## **Options**

A number of potential options were discussed with CPT during negotiations based on the economic research carried out by MVA/ Minnerva, published on the Transport Scotland website.

**Option 1** “Do Nothing” Option - Unchanged reimbursement rate (67%) and budget caps increasing ahead of inflation due to above inflation increases in the adult single fare.

*Benefit:* Scheme as agreed with CPT in 2010.

*Cost:* If the reimbursement rate remains unchanged, cost of the scheme rises, in 2013/14 to £211m and in 2014/15, to £222m. This option is not supported by the economic research which states that operators have been over-compensated under the scheme. Increasing cost of the scheme has been due to increasing adult single fares (the shadow fare). The Scottish Government could be criticised for over-compensating bus operators.

**Option 2** Reimbursement rates of 58.6% in 2013/14 and 58.1% in 2014/15. These rates are those recommended in the reimbursement research. Budgets would be capped at levels as a consequence of these reimbursement rates at £184m in 2013/14 and £192m in 2014/15.

*Benefits:* aims to achieve a no better – no worse reimbursement for bus operators, at preferred rates found through detailed economic research.

The greatly reduced reimbursement rate would cause some hardship within the bus industry, most particularly for smaller operators whose cash flow might suffer. There would be a risk that some passengers (both concessionary and commercial) would feel the impact of this, in bus service de-registrations, leading to a loss of services.

**Option 3** To phase in the reduced reimbursement rate, preferred in the research, to 60% in 2013/14 and 58.1% in 2014/15. The consequential capped budgets would be £187m in 2013/14 and £192m in 2014/15.

*Benefits:* Option 3 would mitigate against the sudden reduction in reimbursement of bus operators,

through a transitional rate in 2013/14. The preferred reimbursement rate (58.1%) would apply from April 2014. The capped budget as a consequence of this rate, £192m in 2014/15, depends on assumptions of average fare increases of 5%, and a level rate of passenger journeys across the two years. However, the demand-led nature of the scheme means that the claims may not match this projected cost. The cap on the budget leaves no doubt about the overall cost of the scheme to the Scottish Government.

- **Sectors and groups affected**

The sectors most affected by the changes in the amendment Order are the bus industry and bus passengers (both concessionary and commercial).

- **Benefits**

The nature of the scheme means that bus operators are left no better or no worse as a result of their participation in the scheme.

- **Costs**

	2013/14	2014/15	
Option 1	£211m	£222m	Risk of high annual cost increases
Option 2	£184m	£192m	No-better and no-worse preferred option  Risk of impacts on bus operators
Option 3	£187m	£192m	Mitigates against changes in reimbursement rate

### **Scottish Firms Impact Test**

There are around 225 bus operators in Scotland participating in the scheme. There is no difference between the do-nothing option and the other options being proposed in terms of the numbers of bus operators participating in the scheme.

Due to the regular contact between Scottish Government and participating bus operators since the outset of the scheme in 2006, consideration of potential impacts on the bus industry are a key part of any negotiations. Therefore the Scottish Firms Impact test was not carried out. This would have been impractical following the agreement made following confidential technical discussions and subsequent negotiations with CPT, the trade industry body. CPT acts on behalf of member operators which provide between them 80% of the local bus services in Scotland. Smaller operator's views on the scheme have been taken into account, and further discussions of the two year agreement are to take place across Scotland.

- **Competition Assessment**

The Scottish Government do not consider that the proposed changes in the amendment Order will have any impact on competition. It is not considered likely that the proposals will directly or indirectly limit the range of suppliers and neither is it considered likely that it will limit the ability of suppliers to compete or reduce suppliers incentives to compete vigorously. Furthermore, given the local nature of

the services being supplied by the bus industry, there will be no impact on competitiveness within the UK or elsewhere.

- **Test run of business forms**

No changes will be made to forms as a result of the Order.

### **Legal Aid Impact Test**

Legal Aid does not apply to these regulations.

### **Enforcement, sanctions and monitoring**

Transport Scotland is responsible for the administration of the scheme and compliance with the requirements as detailed within the amendment Orders and SSI 2006/107, the National Bus Travel Concession for Older and Disabled Persons (Scotland) Order 2006 (see [legislation.gov.uk](http://legislation.gov.uk)).

### **Implementation and delivery plan**

The amendment Order is subject to affirmative resolution procedure and will require to be approved by the Parliament. The amendment Order will detail the capped level of funding underpinning the Scheme, £187m for 2013/14 and £192m 2014/15 and introduce the new reimbursement rates of 60% in 2013/14 and 58.1% in 2014/15. The amendments will be effective from 1 April 2013.

- **Post-implementation review**

The Scottish Government will continue to monitor the evidence for determining the reimbursement rate. Discussions will take place with CPT and key stakeholders to ensure any future reimbursement rate can be agreed with the industry representatives to sustain the benefits of the concessionary free bus travel scheme.

### **Summary and recommendation**

- **Summary costs and benefits table**

In summary, the preferred option agrees a two year settlement with bus operators, with new reimbursement rates of 60% in 2013/14 and 58.1% in 2014/15, and capped budgets of £187m and £192m respectively. This enables the concessionary travel scheme to continue to provide free bus travel, at any time of day, over any distance, for eligible card holders, for the next two years.

We now wish to introduce regulation to amend the National Bus Travel Concession for Older and Disabled Persons (Scotland) Order 2006 and introduce fair and sustainable rates of reimbursement for the scheme.

Year	Cost	Benefit
2013-14	£187m	Key benefit is to elderly and disabled people accessing travel by bus across Scotland.  Two year agreement offers some stability to the bus industry.  Phasing in the lower reimbursement rate to
2014-15	£192m	

		mitigate against cash flow difficulties.  The capped budget provides the Scottish Government with necessary clarity on projected expenditure over two years.
<p><b>Declaration and publication</b></p> <p><b>I have read the impact assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs. I am satisfied that business impact has been assessed with the support of businesses in Scotland.</b></p> <p><b>Signed....</b></p> <p><b>Date...</b></p> <p><b>Nicola Sturgeon</b></p> <p><b>Deputy First Minister and Cabinet Secretary for Infrastructure, Investment and Cities</b></p> <p>Tom Davy Transport Scotland 0131 244 0840</p>		