

Final Business and Regulatory Impact Assessment

Title of Proposal

The National Bus Travel Concession Scheme for Older and Disabled Persons (Scotland) Amendment Order 2017

Purpose and intended effect

- **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. 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. Arrangements for 2013/14 and 2014/15 were agreed with CPT in 2013 (set out in SSI 2013/114) and for 2015/16 and 2016/17 in 2015 (set out in SSI 2015/133).

In January 2017, agreement was reached with CPT on new reimbursement terms for 2017/18. This Order is to put these into effect.

- **Objective**

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 2017/18 by setting out the reimbursement terms for bus operators carrying concessionary passengers. The new rate of reimbursement will be 56.9% in 2017/18. Total payments will be capped at £196.16m in 2017/18.

- **Rationale for Government intervention**

The National Bus 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 and no worse off from doing so. The reimbursement rates to ensure this are informed by an economic model and negotiation with the main industry trade body on key assumptions on fares growth and future journey numbers.

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 bus operators. Transport Analytical Services have supported negotiations with the bus industry and updated the economic model and provided forecast information to ensure these were reflected in the agreement reached. Finance colleagues have been consulted about relevant budgeting and elements of forward planning for resources and cost of the scheme.

- **Public Consultation**

As the proposal extends the scheme for a further year, without altering eligibility for a bus pass, no changes are proposed to the scheme which might have an impact on the general public. However, we will be engaging with stakeholders in the coming months on options to ensure the continuing sustainability of the Concessionary Travel Scheme. The potential for changes in the reimbursement rate to have a wider impact on bus companies and their commercial services has been taken into account in selecting reimbursement rates, which meet the scheme aim of leaving bus operators "no better and no worse off".

- **Business**

Negotiations have taken place with the Confederation for Passenger Transport "(CPT)", which represents about 80% of the bus industry in Scotland in terms of numbers of journeys. A one year agreement has been reached, consistent with the economic model discussed in 2012/13 with CPT. At the time, the model and agreement was discussed with a wide range of smaller bus operators, not represented by CPT. In addition Transport Scotland officials met over 70 small bus operators across Scotland between April and June 2016 to discuss a number of issues including the reimbursement rate.

The agreement includes a budget cap to limit the risk to Scottish Government budgets. The cap is unwelcome to the industry though set at a level which is believed to be consistent with the aim to leave the bus operators no better and no worse off as a result of carrying concessionary passengers.

All bus operators participate in the scheme, and have received written information about the extension of the scheme for the next year. A review of this model is planned to take place in the coming year, when further consultation with the industry will be undertaken.

Options

Option 1 – Do nothing, total reimbursement remains as in 2016/17.

In the absence of uprating of the scheme reimbursement rate and budget cap as proposed in the amendment Order, the government would face criticism that the scheme did not meet the condition of leaving bus operators "no better and no worse off" and operators would suffer commercial losses which could affect services. This

would risk being out of line with EU state aid requirements.

Benefit: this option would damage the reputation of the National Concessionary Bus Travel Scheme and the economic performance of bus service providers.

Cost: £212million in 2017/18

Option 2 – Agree new reimbursement rates by updating the economic model agreed in January 2013 using assumptions for annual growth in fares claimed and journey numbers of 2.16% and 0.23% respectively.

Update the agreed model as follows (agreed with industry): (i) uprate indices for inflation and cost increases taking into account current economic forecasts, forecasts of industry costs and general inflation; and (ii) assume annual fares growth of 2.16% and annual journey growth of 0.23%, based on historical changes. This results in the proposed reimbursement rates of 56.9% in 2017/18 and a concessionary travel budget cap to £196.16 million and is in keeping with the agreed economic model, using agreed indices for inflation and cost increases.

Benefit: this option extends for one year the duration of the scheme with agreement of bus operators, is consistent with the agreed economic model and allows a realistic budget to be set. Older people and those with disabilities will continue to benefit from free bus travel. Bus operators will benefit from stability with no change to the reimbursement rate from the previous year, and one year of funded concessions.

Cost: £196.16 million in 2017/18.

Option 3 – Agree reimbursement rates as in option 2 but based on analysis and forecasting by CPT consultants, which includes using “Triple Lock” indexation and higher forecast fares and journeys for 2016-17.

The reimbursement rates are influenced by forecasts of fare growth and journey growth, as well as inflation forecasts, such as RPI or CPI. Using fares growth of 2.16% and an increase in journeys of 0.23%, as above, but coupled with using the Triple Lock (the indexation applied to state pension increases, ie the rate of increase being the highest rate between CPI, the average increase in earnings, or 2.5%) would result in a budget of £197.57 million in 2017/18 and a rate of 57.3%. While the Triple Lock may be a close comparison with the increasing rate of pensioner incomes, this does not take account of NCTS users aged below the current pension age, and does not form part of the economic model used in the NCTS, so would require a change to the agreed scheme.

Benefit: Cost of the scheme would rise in line with bus industry forecasts, but would be unlikely to offer the “no better and no worse off” position required.

Cost: £197.57 million in 2017/18.

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 and no worse off as a result of their participation in the scheme.

Costs

	2017/18	
Option 1	£212m	Risk not meeting requirement to be “no better and no worse off” for bus operators.
Option 2	£196.16m	“No-better and no-worse off” preferred option.
Option 3	£197.57m	Based on bus industry forecasts of increases to fares and journeys, and “Triple Lock” indexation. Represents a material change to the economic model, which has not been agreed.

Scottish Firms Impact Test

There are around 220 bus operators in Scotland participating in the Scheme. Due to regular contact between Transport Scotland 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 agreement made following confidential 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 operators’ views on the scheme are taken into account, and information has been shared with all participant operators. Maintaining the existing reimbursement rate is likely to be welcomed to avoid the need to make adjustments to business models.

Competition Assessment

The Scottish Government does 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 likely that it will limit the ability of suppliers to compete or reduce suppliers incentives to compete vigorously. Furthermore, given the local nature of services being supplied by the bus industry, there will be no impact on competition within the UK or elsewhere.

Test run of business forms

No changes will be made to forms as a result of this 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 Scheme for Older and Disabled Persons (Scotland) Order 2006 (see legislation.gov.uk).

Implementation and delivery plan

The amendment Order is subject to affirmative resolution procedure and will require to be approved by the Scottish Parliament. The amendment Order will detail the capped level of funding underpinning the Scheme, £196.16m in 2017/18 and maintains the existing reimbursement rate of 56.9% in 2017/18. The amendment will be effective from 1 April 2017.

- **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 benefits of the National Concessionary Bus Travel Scheme. A review of the reimbursement model in the light of any proposed changes to the scheme has been agreed with CPT and will take place in the coming year.

Summary and recommendation

In summary, the preferred option (Option 2) agrees a one year settlement with bus operators, with a new reimbursement rate of 56.9% in 2017/18 and capped budget of £196.16m. This enables the Scheme to continue to provide free bus travel, at any time of day, over any distance, for eligible cardholders, for the next year.

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

- **Summary costs and benefits table**

Option	Total benefit per annum: - economic, environmental, social	Total cost per annum: - economic, environmental, social - policy and administrative
1	- Key social benefit to older and disabled people. - Risk of being unaffordable if costs – fares and journeys – rise more than forecast in year.	- Cost of up to £212m in 2017/18 - Greater risk of failing to meet the aim of the scheme to leave bus operators no better and no worse off for carrying concessionary passengers

2	<ul style="list-style-type: none"> - Agreement based on updating model agreed with the industry in January 2013 - Updated for current inflation, fuel cost and other costs to the industry - Maintains sustainable benefit to older and disabled people - Renews the National Concessionary Travel Scheme as key part of the social wage 	<ul style="list-style-type: none"> - Cost of up to £196.16m in 2017/18 - As agreed with bus industry - Meets aim of the Scheme to leave bus operators no better and no worse off for carrying concessionary passengers - Based on realistic assumptions of 2.16% fare rises per annum and 0.23% journey growth, consistent with historic industry trends - Reflecting recent economic forecasts for inflation and costs to the industry.
3	<ul style="list-style-type: none"> - not likely to be agreed due to material changes to the economic model - does not provide stability to the National Concessionary Bus Travel Scheme. 	<ul style="list-style-type: none"> - cost of £197.57m in 2017/18. - increased reimbursement rate of 57.3% - based on industry-derived forecasts for fare rises journey growth and historic trends which are not agreed with Transport Scotland - based on "Triple Lock" indexation of costs to the industry, which represents a material change to the agreed economic model.

Declaration and publication

I have read the Business and Regulatory 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.

Signed:

Date:

**Humza Yousaf
Minister for Transport and the Islands**

Tom Davy
0131 244 0840