

Strathclyde Concessionary Travel Scheme Joint Committee



Review of Strathclyde Concessionary Travel Scheme

Date of meeting 20 September 2019

Date of report 11 September 2019

Report by Treasurer/Secretary

1. Object of report

The object of this report is to:

- Provide the Committee with an update on the review of the Strathclyde Concessionary Travel Scheme (*hereinafter referred to as either the Scheme or SCTS*); and
- Recommend options for the Committee's consideration to ensure the sustainability of the Scheme in future years.

2. Background

- 2.1 Members will recall that at the last meeting of the Joint Committee in March 2019, the revenue budget paper¹ highlighted the continued financial pressures being experienced by the Scheme. These pressures are the result of similar funding pressures on partner local authorities and increasing participating operator reimbursement payments driven by a combination of demand growth and operator fare increases.
- 2.2 It was also highlighted that the Scheme, in its present format, is not financially sustainable in the long-term without an increase in funding from local authority partners or significant amendments to the Scheme's structure or the fares applicable.
- 2.3 As a result, it was agreed by the Joint Committee in March 2019, that officers undertake an internal review of the Scheme to ensure its affordability and sustainability going forward.

3. Outline of proposals

- 3.1 In light of the Committee's decision in March 2019, SPT officers have completed the agreed internal review of the Scheme, with a workshop being held on July 23rd comprising officers from SPT's Projects, Finance, Policy and Ticketing teams. Output from the workshop has formed the basis of initial findings, options for consideration and suggested next steps.

¹ http://www.spt.co.uk/documents/latest/SCTSJC080319_Agenda4sup.pdf

3.2 The review of the Scheme focussed on the following aspects:

- Scheme objectives
- Funding (including reserves) and current implications for the Scheme
- Patronage and reimbursement trends
- Journey patterns
- Participating operators' fares and potential impact of increases
- Population projections
- Possible emerging options

3.3 **Review Key Findings:**

Funding and Reserves

- 3.3.1 2018-19 saw a reduction in reserves of £0.290m and as at March 2019, the Scheme held reserves of £1.269m. Based on the current available funding from local authority partners and the current rate of drawdown on reserves (due to factors including increased demand and standard fare increases by participating operators), it is projected that the reserves balance at the end of the current financial year will be £0.735m. This means there is the likelihood that reserves will be extinguished within the next 1-2 years. The review therefore finds that immediate intervention is needed to secure the short-term future of the Scheme.
- 3.3.2 In 2019/20, local authority requisition for the Scheme is £4.039m representing a 1.22% reduction from the previous year and in line with an overall average reduction in the floor calculation for all local authorities in Scotland. The past 3 years have seen a 4.2% reduction in local authority requisition during which time patronage and participating operator fares have continued to increase.

Objectives

- 3.3.3 SCTS objectives were last updated as part of the last major review carried out in 2008/09. This latest review found that while the current Scheme objectives remain relevant and fit with national regional and local policy, it was appropriate that a further objective be added, namely: "to maintain Scheme affordability to constituent councils". Details of the current Scheme objectives can be found in Appendix 1. These objectives should continue to form the basis for appraisal of future Scheme development options.

Concessionary Travel Demand

- 3.3.4 Demand for SCTS concessionary travel remains strong and is increasing, with the number of journeys made now in excess of 5 million per annum. Since 2012/13, this equates to a 12% growth in patronage. This increased demand for SCTS travel appears in contrast to Scotland's bus concession patronage, which has declined by 5% and 7% in the past 1 and 5 years respectively and overall bus patronage which has declined by 20% over the past decade.
- 3.3.5 Scottish Transport Statistics² suggests there is evidence of a contraction in the bus industry with the number of vehicles in operators' fleets falling by 10% over the past five years, and a 2% fall in the number of staff employed in the industry over the same period. This contraction within the bus industry could be considered at least one factor behind SCTS growth as people seek alternative

² <https://www.transport.gov.scot/publication/scottish-transport-statistics-no-37-2018-edition/sct01193326941-05/#tb23a>

travel choices. It could also be considered that the current fare structure, which for many SCTS journeys offers significant discounts, is placing rising demand and financial pressures on the Scheme.

- 3.3.6 Concessionary reimbursement (not including administration costs) now exceeds £4million per annum. Rail accounts for two-thirds of total operator reimbursement. Continued strong demand for concessionary rail travel and standard operator fare increases have contributed to sustained rising Scheme costs overall.
- 3.3.7 In addition to the demand and operator cost pressures outlined above, figures published by National Records of Scotland³ project a 10% increase in the over 60s age group living in Strathclyde over the next 5 years, and by 2029 this will increase by 19%. This increase over the next 5 years represents 55,000 additional over 60s living in Strathclyde. By comparison, the working age population in Strathclyde is projected to decrease by 3% over the next 5 years.
- 3.3.8 Latest SPT figures show that over the last 12 months, there has been a 4.6% increase in the number of valid National Entitlement Cards in Strathclyde with just under 600,000 cards now in circulation. Such increases in the older population along with a rising number of National Entitlement Cards will result in further increased demand for concessionary travel.

Operator Fares

- 3.3.9 The review noted regular annual standard fare increases on rail services. The annual regulated rail fares increase is calculated by ScotRail under the formula RPI (Retail Price Index) plus 0% for peak fares, and RPI minus 1% for off-peak fares. The impact of linking rail fares with RPI means standard fares tend to increase on an annual basis. In August 2019, it was announced that peak rail fares would rise by 2.8% and off-peak fares by 1.8% from January 2020. The Scheme reimburses ScotRail based on off-peak fares.
- 3.3.10 Analysis of submitted rail operator data highlights that around two-thirds of SCTS rail journeys are less than 10 miles and where a median standard fare on these routes is in the order of £3.40 single and £5.30 return.
- 3.3.11 Since 2015, ferry fares on all CalMac routes operating within Strathclyde have been linked to road equivalent tariff (RET)⁴. In general terms, this means fares are linked to the cost of travelling an equivalent distance by road. The RET formula is reviewed on an annual basis by Transport Scotland and because it is linked to the generalised cost of motoring, it is more difficult to predict fare changes but to date RET fares have not increased on a regular basis. For example, between March 2015 and March 2018, standard ferry fares remained frozen; however, they have been subject to two separate fares increases since March 2018 resulting in an overall increase of 7%.
- 3.3.12 Analysis of operator data highlights that around 85% of SCTS ferry journeys are made on Clyde ferry routes and where journeys are typically less than 10 nautical miles. Only the Ardrossan-Brodick Clyde ferry route is over 10 miles

³ <https://www.nrscotland.gov.uk/statistics-and-data/statistics/statistics-by-theme/population/population-projections/sub-national-population-projections/2016-based/detailed-tables>

⁴ <https://www.transport.gov.scot/public-transport/ferries/road-equivalent-tariff/>

and where the fare charged is twice the basic concession. Standard return fares on these ferry routes range between £2.40 and £9.40 with SCTS discounts offering current typical savings of between 65 and 80%. On some of the longer distance Inner-Hebrides ferry routes, standard return fares are as high as £21.80, meaning in instances, SCTS provides discounts of up to 86%.

- 3.3.13 Subway fares are typically priced lower than other modes due to the relative short journey distances involved and the flat fare structure (currently £1.55 single and £3.00 all day based on smartcard prices). This means that existing discounts are already limited and that any future SCTS fare increases are likely to make SCTS travel on Subway a less attractive offering. Return journeys currently account for 68% of SCTS Subway travel.
- 3.3.14 The review also highlighted that, historically, SCTS fares have not increased in line with other modes, resulting in significant greater financial pressures being placed on the Scheme especially as this has been compounded by growing demand.

Concession Schemes Elsewhere

- 3.3.15 The review examined concession Schemes elsewhere in Scotland, highlighting variations in types of Scheme and levels of discounts offered. Only four out of the 20 non-Strathclyde councils offer a concessionary travel option on rail.
- 3.3.16 The most comparable rail Scheme is operated by West Lothian Council. The Scheme offers concession rail fares of £2 single and £4 return between the 11 stations within the council area and between selected stations within adjoining council areas along the Airdrie-Bathgate and Shotts rail lines. The council Scheme also allows rail travel to select stations outwith the West Lothian council area with half the standard rail fare applied. It should be noted that the SCTS does not permit travel outwith the Strathclyde area, as it is considered that the SCTS area covers an already extensive area and enables people to access to all services, facilities and social networks without the need to travel beyond Scheme boundaries.
- 3.3.17 A number of local authorities, for budgetary reasons, have recently taken the decision to withdraw their locally funded concession rail Schemes. These include Falkirk Council (2014), Highland Council (2017) and Angus Council (2017).
- 3.3.18 As regards the wider ferry network, the Scottish Government's Ferry Concessions Scheme, entitles residents of the Western Isles, Orkney and Shetland, who have a National Entitlement Card, to receive two free return ferry journeys to the mainland each year. In contrast with the SCTS where a fare is charged for ferry journeys, it should be noted that the number of ferry journeys that can be made under the SCTS is unlimited.
- 3.3.19 The review found SCTS to be favourable in terms of its coverage, fares and mode choice offering.

3.4 Options

- 3.4.1 In light of the review's findings, it was considered necessary to analyse options to ensure the short-term future sustainability of the Scheme. This examination considered both fare and non-fare options.
- 3.4.2 As part of the review, an exercise was undertaken in order to estimate the potential savings that could be achieved by increasing SCTS fares. Six test scenarios were run ranging from a 10p increase to the basic concession to a half fare being introduced across the modes. The findings from this exercise estimate that savings of between £25k and £1.4M could be achieved⁵. Results of tests along with potential estimated savings can be found in **Appendix 2**.
- 3.4.3 The review also explored several non-fare related options. These options so far have been considered as follows:
- Do nothing
 - Increase in council funding requisition
 - Amend age eligibility criteria
 - Impose a cap on reimbursement
 - Review the SCTS reimbursement\generation factor formula
 - End the Scheme
- 3.4.4 Should the Committee consider that any or all of the above six non-fare options require to be further examined; the option of commissioning a further detailed study of each option and their impact(s), both on users and on the future viability of the Scheme, should be considered. Any such commission would require to address, in detail, the issues outlined below.
- 3.4.5 On current projections, the reserves balance will be exhausted within the next 1-2 years. Action is therefore required to guarantee the short-term future of the Scheme. As such, the "do-nothing" option is not seen as viable.
- 3.4.6 The review further noted the on-going pressures on councils' funding, with this reflected in current SCTS budgets. Given the overall average reduction in the floor calculation for local authorities, it is unlikely that an increase in SCTS requisition would be affordable, particularly in the short-term. As a result, the review found that other potential cost saving options should be investigated. However, given the contribution that SCTS can make to the achievement of wider policy goals around health, poverty and inclusive growth, consideration should be given to undertaking further detailed work to quantify this benefit and, where appropriate, prepare a business case for further investment.
- 3.4.7 Currently, SCTS age criteria mirrors the criteria used for the National Entitlement [bus] Scheme; however, the review has given consideration to increasing the qualifying age eligibility of the Scheme. A phased approach, similar to that undertaken when modifying the free national bus Scheme in England, could be considered.
- 3.4.8 Members are reminded of Transport Scotland's 2017 consultation on free bus travel for Older and Disabled People and Modern Apprentices, where the

⁵ Based on Test Scenario 4 (see Appendix 2)

overwhelming majority of responses stated a preference for the bus pass eligibility age to remain at 60. At the time, the Joint Committee's response echoed these views, referring to the need to understand more about the wider social impacts of introducing changes to age eligibility.

3.4.9 Imposing a cap and / or reviewing the reimbursement formula could also be considered. The generation factor on rail, ferry and Subway could be reviewed in order to examine the "no better, no worse" position of the operator. This would form one part of a range of the wider considerations within any commissioned review of the Scheme.

3.4.10 All options being considered, including the option to end the Scheme, would need to be considered as part of an Equality Impact Assessment and consideration against current RTS outcomes and wider Scottish Government policies, including the Fairer Scotland Duty and the Islands (Scotland) Act.

3.4.11 Depending on the outcomes of this current stage of the review, further engagement may be required with regard to specific demographic groups \ geographical communities and groups representing specific equalities interests.

3.5 Recommendations:

- In the short-term, and in order to reflect the reduction in council contribution, consideration should be given to a realistic fare increase in order to sustain the Scheme in the short and medium-term.
- As part of a budget setting process, an increase of the order of 50p minimum to the basic concession fare* from April 2020 could maintain the Scheme's short-term viability prior to the findings of any commissioned review, such an increase should be considered. **Appendix 3a** outlines the projected position of reserves and hence scheme affordability if no changes are made i.e. the scheme in its current format will become unaffordable after 2020/21. **Appendix 3b** outlines the projected position of reserves and hence scheme affordability if a 50p fare increase is implemented in 2020/21 i.e. the scheme in its current format will become unaffordable after 2021/22.
- Consider the impact of the proposed minimum fare increase specifically as regards Subway travel discounts.
- It is recommended that a more in-depth and independent review of the Scheme be commissioned, setting out the criteria for its future viability in a robust and accountable manner and in a way that protects continued access to services and social networks that users need.
- Any in-depth review should engage and seek the views of relevant stakeholders including Transport Scotland, Abellio ScotRail and CalMac.
- Consider the impact on specific demographic groups \ geographical communities, including rural and island communities and groups representing specific equalities interests.
- Until such times as an in-depth review is carried out, consideration should be given to introducing annual minimum SCTS fare increases in line with participating operator fare increases.

** (rail journeys over 10 track miles would continue to be charged half the standard rail fare; and, ferry journeys over 10 nautical miles would be charged twice the basic concession fare)*

4. Conclusions

4.1.1 The review formed part of an on-going process to ensure the Scheme provides a continuing service for many of our most vulnerable residents while ensuring this is done in manner that ensures the sustainability of the Scheme and demonstrates best value. In summary, the internal review found that:

- SCTS is not sustainable in its current form with only 1-2 years' worth of reserves remaining.
- Council requisitions levels no longer cover SCTS reimbursement costs meaning greater use of dwindling reserves is needed in the short-term.
- Not increasing fares regularly, and in line with other modes, puts greater pressure on SCTS.
- Nominal and irregular fare increases are no longer sustainable.
- Population projections for the over 60s age group over the next 5 years means there will be significantly greater demand for concessionary travel, particularly given current evidence that many people are now living longer, healthier and more active lives.
- The proposed increase to the basic SCTS concession fare will continue to offer substantial travel discounts whilst helping sustain the Scheme in the short-term.

5. Committee Action

The Committee is asked to note the contents of this paper and to consider the options highlighted regarding a fares increase and decide on the commissioning of an in-depth review in financial year 2020/21. Thereafter, and dependent on the decision made regarding a review including engagement with operators and funding partners, a paper will be presented to the next Committee with recommendations on the next steps to be taken.

6. Consequences

Policy consequences	SCTS continues to meet national and regional policy objectives.
Legal consequences	None directly.
Financial consequences	As outlined in this report, without intervention, the Scheme is likely to become unaffordable.
Personnel consequences	None directly.
Equalities consequences	None at present, however impact assessment should be undertaken prior to any changes.
Risk consequences	Without action, the Scheme is likely to become unaffordable, placing the future operation of the Scheme at risk.

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Strathclyde Concessionary Travel Scheme Joint Committee

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APPENDIX 1: Strathclyde Concessionary Travel Scheme Objectives

SCTS Key Objective:

Allow older and disabled people improved access to services, facilities and social networks by offering discounted rail, ferry and Subway fares within the Scheme boundary, and so promote greater social inclusion. The Scheme also acts, through sub-objectives:

SCTS Sub-objectives:

- to improve and facilitate access to services, facilities and social networks for the older and disabled in urban and rural locations;
- to improve health by promoting a more active lifestyle for older and disabled people;
- to promote modal shift from private car to public transport;
- to maintain a “no better, no worse off” position for public transport operators as a result of their participation in the Scheme;

APPENDIX 2: Scheme Potential Fare Options⁶

Scenario 1	Base	Estimated Potential Annual Saving
Test 1	10p increase to basic concession	-£190k
Test 2	10p increase single, 20p increase return	-£300k
Test 3	20p increase single, 20p increase return	-£375k
Test 4	30p increase single, 30p increase return	-£575k
Test 5	50p increase single, 50p increase return	-£895k
Test 6	Half Fare	-£1.54M

Scenario 2	Scenario 1 + Impact of fare increase⁷	+£185k
Test 1	10p increase to basic concession	+£14k
Test 2	10p increase single, 20p increase return	-£125k
Test 3	20p increase single, 20p increase return	-£195k
Test 4	30p increase single, 30p increase return	-£370k
Test 5	50p increase single, 50p increase return	-£730k
Test 6	Half Fare	-£1.5M

Scenario 3	Scenario 2 + 1% Growth in patronage forecast	+£225k
Test 1	10p increase to basic concession	+£55k
Test 2	10p increase single, 20p increase return	-£80k
Test 3	20p increase single, 20p increase return	-£150k
Test 4	30p increase single, 30p increase return	-£330k
Test 5	50p increase single, 50p increase return	-£685k
Test 6	Half Fare	-£1.45M

Scenario 4	Scenario 2 + 2% Growth in patronage forecast	+£280k
Test 1	10p increase to basic concession	+£110k
Test 2	10p increase single, 20p increase return	-£25k
Test 3	20p increase single, 20p increase return	-£95k
Test 4	30p increase single, 30p increase return	-£270k
Test 5	50p increase single, 50p increase return	-£630k⁸
Test 6	Half Fare	-£1.4M

(**Bold** denotes estimated potential Scheme saving)

⁶ Assumes that rail journeys over 10 track miles would continue to be charged half the standard rail fare and for ferry journeys over 10 nautical miles, would continue to be capped at 2 x basic concession.

⁷ Fare increase assumptions: Rail average fare = +2.5%, Subway = +3%, Ferry = +3%

⁸ Minimum recommended fare increase to sustain the Scheme in the short-term.

APPENDIX 3a and 3b: Budget Projections with/without April 2020 recommended fare increase

Appendix 3a

SCTS - Long Term Financial Strategy Sept 2019 Update - Status Quo						
	Actual 2018/19 £000	Budget 2019/20 £000	Estimate 2020/21 £000	Reserves Expired - Unsustainable Deficit		
				Estimate 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000
Payments to Operators Administration & Overheads	4,106 297	4,269 322	4,397 325	4,529 328	4,665 332	4,805 335
Total expenditure	4,403	4,591	4,722	4,857	4,997	5,140
Interest received	(24)	(18)	(7)	(0)	0	0
Net Budget	4,379	4,573	4,715	4,857	4,997	5,140
Requisition	4,089	4,039	3,990	3,941	3,893	3,845
	4,089	4,039	3,990	3,941	3,893	3,845
Surplus/(Deficit)	(290)	(534)	(725)	(916)	(1,104)	(1,294)
CTS Reserves	1,269	735	10	(907)	(2,010)	(3,305)

Appendix 3b

SCTS - Long Term Financial Strategy Sept 2019 Update - 2020/21 Fare Increase (Modelled on Scenario 4, Test 5)						
	Actual 2018/19 £000	Budget 2019/20 £000	Estimate 2020/21 £000	Estimate 2021/22 £000	Reserves Expired - Unsustainable Deficit	
					Estimate 2022/23 £000	Estimate 2023/24 £000
Payments to Operators Administration & Overheads	4,106 297	4,269 322	3,767 325	3,880 328	3,996 332	4,116 335
Total expenditure	4,403	4,591	4,092	4,209	4,328	4,451
Interest received	(24)	(18)	(7)	(10)	0	0
Net Budget	4,379	4,573	4,085	4,199	4,328	4,451
Requisition	4,089	4,039	3,990	3,941	3,893	3,845
	4,089	4,039	3,990	3,941	3,893	3,845
Surplus/(Deficit)	(290)	(534)	(95)	(258)	(435)	(606)
CTS Reserves	1,269	735	640	382	(54)	(660)