

Director Transport Policy

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George Mair
Director
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30 January 2013

Dear George,

Agreement on National Concessionary Travel arrangements for 2013/14 and 2014/15

This letter concludes our discussions on the National Concessionary Travel scheme arrangements for the next 2 years (2013/14 and 2014/15).

I am very grateful for CPT's patient and constructive engagement, not least in the difficult research work that underpins our discussions.

The model

We have been discussing the use of a model to simplify future calculation of the reimbursement rate.

We agreed on the use of such a model; that the sources of data needed to be properly documented and agreed, where that is not already the case; and that this would be an effective way of minimising future uncertainty for both the Industry and Transport Scotland.

We agreed that the model would require annual calibration using contemporary data; and that the use of the model would not exempt us from annual discussions around some of the key data and "uprating assumptions" (such as future inflation and patronage rates).

We agreed that such a model would also require periodic, formal review (at least every 5 years).

- I therefore propose that we continue to refine the model and its calibration in the course of this year.
- I also propose, subject to such calibration, that we make use of the model for the setting of future reimbursement rates and associated Transport Scotland budgets.

Reimbursement rates for 2013/14 and 2014/15

Our respective consultants have come close to agreement on the parameters to be used in calculating reimbursement rates for the next two years. This convergence of data and analysis is very encouraging.

We have agreed what the reimbursement rates should be for the next two years as part of a wider package described below.

- I therefore propose that we assume a baseline reimbursement rate of 59.2% for 2012/13, based on Period 9 data up to December 2012. This would serve to generate reimbursement rates of 58.6% and 58.1% in 2013/14 and 2014/15.
- I also propose a phased reduction in the reimbursement rate, which would result in actual rates of 60% in 2013/14 and 58.1% in 2014/15.

Transitional arrangements

We agreed that there would be an economic impact arising from this reduction in the reimbursement rate.

As part of a two year agreement, and in order to mitigate that impact and provide reasonable timescales for the sector to adjust, we also therefore agreed to phase-in the reduction and provide additional transitional aid.

- For 2012/13, we will make an ad hoc payment of £10m to bus operators in early March. This will be paid via BSOG but based on projected Period 13 payments under the concessionary fares payments methodology.
- For 2013/14, we will use a reimbursement rate of 60% rather than 58.6% (equivalent to an uplift of £2.5m on projected expenditure).
- For 2014/15, we recognise that an agreed reimbursement rate of 58.1% implies a required budget of £192m (equivalent to an uplift of £5m on the current, indicative budget of £187m).

Budget implications

The fact that our respective data and analysis have converged means that we can have much greater confidence that the model and our budget calculations are accurate. We therefore agreed that the model, appropriately calibrated, should be used as the basis for setting future reimbursement rates and associated Transport Scotland budgets.

For 2013/14, Transport Scotland's proposed budget stands at £187m. That is consistent with the model output and requires no adjustment.

For 2014/15, Transport Scotland's indicative budget also stands at £187m and will require adjustment. The Scottish Government's draft budget for that year will be presented to Parliament in autumn 2013 and we agree to revise the indicative budget figure of £187m in line with the current model output of £192m.

In line with that undertaking, we intend to set out the reimbursement rates and associated budget limits of £187m and £192m for the next 2 years in the Statutory Instrument we will be laying in Parliament in February.

Review

The refinement of the model will require us to discuss future arrangements periodically. We agreed the need for a range of formal and informal discussions; and we agreed that any significant changes (as on eligibility, patronage, and scheme costs) should be discussed in the context of the model.

- I propose a formal review of the model within 5 years; and an annual meeting to review the operation of the model, without prejudice to more regular informal discussions.
- I propose that the first such formal meeting should be in the context of discussing arrangements for 2015/16, following the end of this two year agreement.

Next steps

The arrangements need to feature in secondary legislation and we will provide you with a draft Statutory Instrument in the near future.

I should be grateful for confirmation that this letter also reflects your understanding of our agreement.

Yours Sincerely,

Donald

Handwritten signature in black ink, appearing to read "D.B. Currie". The signature is written in a cursive style with a horizontal line under the name.