

## Concessionary Bus Travel Passes Draft Regulatory Impact Assessment

### **Title of proposal**

1. This draft Regulatory Impact Assessment (RIA) considers the impact of four options under consideration for rolling out passes to be used for the proposed new national bus concession (to be introduced in England in April 2008). Regulations as to the form of passes are likely to be needed to implement options B to D. This RIA will be updated following consultation and as required.

### **Purpose and intended effect**

#### Objective

2. The proposed Regulations would specify a standard format for concessionary travel passes, which would be used to prove entitlement to the proposed new England-wide national bus travel concession from April 2008. This is necessary to allow bus drivers throughout England to be able to identify, at a glance, which people are entitled to concessionary bus travel, and therefore to help mitigate fraud.

#### Background

3. Under the Transport Act 2000, Travel Concession Authorities (TCAs<sup>1</sup>) are under an obligation to issue statutory travel concession passes, on request and without charge, to older and disabled residents. At present, TCAs are free to set their own specifications (format and appearance) for such passes.
4. The Transport Act 2000 currently places a statutory minimum requirement on bus operators to provide free off-peak travel to holders of such passes on local services within the area of the travel concession authority which issued the pass.
5. In London, under the Greater London Authority Act 1999, the London boroughs agree a concessionary travel scheme for older and disabled people annually with Transport for London (TfL) and are required to issue permits to eligible residents. This scheme includes the statutory local bus travel concession.
6. In the 2006 Budget, the Chancellor of the Exchequer announced that free off-peak local bus travel anywhere in England for people aged 60 and over and

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<sup>1</sup> Travel Concessionary Authorities are the authorities responsible for administering concessionary schemes. They are generally rural district councils, non-metropolitan unitaries and the Passenger Transport Executives.

eligible disabled people, resident in England, would be in place from April 2008. This will apply to travel from 9.30am to 11pm on weekdays, and all day at weekends and on bank holidays.

### Rationale for government intervention

7. Outside London, there are currently 291 TCAs which are responsible for issuing concessionary travel passes to their eligible residents. In London, concessionaires are issued with the Oyster<sup>2</sup>-compatible London Freedom Pass. As TCAs are free to issue passes to whatever design and specification they wish, there are many different types of passes currently in circulation, ranging from full smartcard passes in some areas to simple cardboard passes without photographs in others.
8. Because a pass issued by any TCA will be valid across England from April next year, a bus driver could potentially have to recognise up to 292 different passes (291 from TCAs outside London plus the London Freedom Pass). It is clearly impracticable for bus drivers to be able to recognise so many different passes from April 2008. Therefore, in order for bus drivers throughout the country to recognise those who are entitled to free bus travel, all passes will need to be produced to a single design and agreed standard.
9. This draft RIA does, however, consider alternative options, including a do nothing option.

### **Consultation**

10. The Department for Transport (DfT) has consulted widely on concessionary travel issues as the Bus Travel (CBT) Bill has been going through Parliament, and this consultation is continuing. DfT holds a monthly Concessionary Fares Working Group and has also established a series of taskgroups to help assess and advise on the practicalities of implementation. The groups consist of representatives from English local authorities, the Passenger Transport Executives, London Councils and the Confederation of Passenger Transport. In addition, we have a Stakeholders User Group, which meets twice a year, most recently in February, includes organisations such as Help the Aged, Age Concern, Disabled Persons Transport Advisory Committee, the National Pensioners Convention and Bus Users UK.
11. Before finalising the contents of the proposed regulations, DfT will carry out an 8-week formal public consultation on the proposals and this draft RIA. The results of the consultation will inform the final version of the regulations and the RIA. In addition, DfT will continue its extensive informal consultation with key stakeholders.

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<sup>2</sup> Oyster is the brand name of the proprietor-owned smart ticketing system used by Transport for London.

## Options

12. Four different regulatory approaches have been identified including “Do Nothing”.

### Option A - do nothing

13. Description: No national specifications for passes are introduced. Each TCA would continue to issue passes to its own specifications, although TCAs would still be required by the CBT Bill to issue a new pass which indicated the entitlement to the new concession, to any eligible person who applies for one.

### Option B - existing arrangements with a national logo

14. Description: TCAs would continue to issue passes according to their own specifications, but with the addition of a national logo to show entitlement to England-wide travel. The logo would be included on all newly-issued passes and would be retrospectively applied to existing passes via 're-stickering'.
15. The design and the size of the logo would be specified by DfT in regulations. TCAs would be required to ensure that it was easily visible on each pass, but the other design specifications would remain with the TCA.

### Option C - standardised national photopass

16. Description: DfT would require the introduction of a standardised design for all concessionary travel passes which bears, amongst other things, a photograph and the name of the concessionaire. The design would feature the national logo, an expiry date and some form of anti-fraud measure in its design.
17. An area on the pass would be reserved for local 'customisation' (in order to show entitlement to local add-ons above the statutory minimum), but, other than this area, the design on the front of the pass would be the same across the country. TCAs could include their own design on the back. TCAs would be expected to reissue existing passes in accordance with the new requirements.
18. In London, a restickering exercise is already planned for April 2008 which will allow existing passes to remain in effect until April 2010 when they are due to be replaced. DfT would therefore require the London Freedom Passes to be re-stickered with the national concessionary travel logo at the same time as they are restickered with the revised expiry date in April 2008. All London Freedom Passes would need to be re-issued to comply with the standard national specification when they were re-issued in 2010.

## Option D - standardised national smartcard with photograph

19. Description: As option C, but DfT would additionally require TCAs to issue concessionary travel passes in the form of ITSO<sup>3</sup> compliant smartcards.
20. ITSO is a standard for smart ticketing that has been developed in partnership with DfT and the transport industry. Not all existing smartcards are currently compatible with ITSO (for example the London Freedom Pass is not currently ITSO compatible). This option would therefore require those TCAs which currently issue non-ITSO compliant smartcards to adapt their systems to ensure that they were ITSO compliant.
21. However, due to the size and complexity of the task of making London compatible with ITSO, DfT would not require Freedom Passes to be replaced for April 2008. Instead, as in Option C, DfT would require existing London Freedom Passes to be re-stickered with the national concessionary travel logo for April 2008. All London Freedom Passes would need to be re-issued to comply with the standard national specification, including ITSO compliance, from 2010.
22. Under this option, DfT would *not* require all TCAs to implement full smart ticketing regimes in their areas by April 2008 (i.e. the installation of readers on buses and acquiring capability to record journeys from the smartcard etc). DfT would only require that all passes must be able to be used as smartcards in those TCA areas that have introduced smart systems. In areas without smart systems a smartcard pass would be used exactly as non-smartcard passes are used today – as ‘flashcards’ (i.e. shown to the driver on boarding the bus).

## **Cost Benefit Analysis**

23. For the purposes of this Cost Benefit analysis, the total costs of the options will be considered. Some of these costs will represent activities that the TCAs already undertake, others will be new burdens. The Department is committed to funding new burdens and so these will not represent additional costs to those currently incurred by TCAs.

## Option A - Do Nothing

### Benefits

24. Option A would bring no additional benefits. However, it may avoid the one-off additional burden on TCAs of issuing new passes to all their concessionaires for April 2008. This said, TCAs would still need to re-issue passes in the event that current ones indicated a local authority-only entitlement – the new statutory obligation will be for the TCAs to issue passes indicating the new cross-England entitlement.

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<sup>3</sup> ITSO is an organisation that maintains the ITSO Specification for Members and the Crown. The Membership of ITSO is broadly based and includes PTE's, Local Authorities, Passenger Transport Operators and Suppliers of equipment, systems and services.

## Costs

### One-off Costs

25. The CBT Bill requires TCAs to issue a pass, to all eligible applicants, that indicates that the bearer is entitled to the national concession once it has come into effect. This applies to existing concessionaires who re-apply as well as new applicants. This will create costs for TCAs having to re-issue passes earlier than they would otherwise have done without the legislation. There may also be one-off costs relating to TCAs having to re-design their passes to indicate that the bearer is entitled to the national concession. These costs would represent a new burden on TCAs and so DfT would issue a grant to TCAs to cover this.

### Ongoing Costs

26. Doing nothing would create significant ongoing costs for all parties. Fraud is the most obvious cost. It is anticipated that fraudulent use of the passes would rise as the inherent value of the passes would increase when they become valid throughout England. At the same time, fraud would become significantly easier to commit as it is unlikely that bus drivers would be able to recognise up to 292 different types of passes. The likelihood of a fake pass from outside the local TCA area being detected would be low.

27. Once the national concession is in place, concessionary travel will be worth around £1 billion per year, so the potential for fraud is significant. If only 1% of the total journeys were fraudulently made the cost to TCAs could be around £10 million per year. Although the level of fraud is very difficult to predict, we would expect that it would be much higher than 1%. There would also be a cost to Operators through revenue lost by fares paid at commercial rates as a result of improper use of passes.

28. Whilst the opportunity for an increase in fraudulent use would result from the introduction of the national concession, rather than the specification of the pass itself, option A would do nothing to address this issue.

29. In addition to the cost of fraud, there would be considerable costs for bus operators. Since drivers would be faced with up to 292 different types of passes, they would have to inspect them much more closely to seek to establish validity. This delay in boarding could lead to slower journey times for passengers and higher operating costs.

30. Passengers would also be affected by slower journey times. Concessionary passengers could also face additional costs if a driver did not accept their pass, and so did not allow them free bus travel.

31. In TCA areas where a smart system has already been introduced, passes issued outside the area would be used as flash passes, and so the data for that journey would not automatically be captured. This could lead to an increase in boarding time and drivers would have to record the trip manually.

It could also lead to additional disputes about the level of re-imburement and an increase in administrative costs for both bus operators and TCAs. Option A would do nothing to address this.

## Option B – National Logo

### Benefits

32. Under option B, all bus drivers throughout England would be able to see clearly whether a pass held the national logo and whether its holder was therefore entitled to national concessionary travel in England. Bus drivers would be able to identify this entitlement much more quickly than under option A and so this should not lead to increased journey times. There would also be a reduced likelihood of 'platform conflict incidents' caused by disputes about pass validity compared to option A. These benefits would also be felt by all passengers.
33. Introducing a national logo would help to reduce the scope for fraud, though not to a significant degree.

### Costs

#### One-off costs

34. There would be additional one-off costs for TCAs to re-sticker existing passes. A large proportion of these costs would represent a new burden on TCAs and so DfT would issue a grant to TCAs to cover the new burdens. Based on work undertaken by an external consultant in January 2007, DfT estimates that the cost associated with re-stickering each pass would be up to around £1.55, mainly arising from administrative expenses associated with validation and processing. DfT estimates that there are 11 million people eligible for the new concession and that around 10 million concessionaires will take up the new passes. This would therefore lead to a total one-off cost of around £15.5 million.

#### Ongoing costs

35. As there would be no national requirement for passes to include a photograph of the concessionaire, nor an expiry date, TCAs which currently issue passes without a photograph would continue to be able to do so. These passes would then be valid for travel anywhere in England, and bus drivers would be required to accept them. In the absence of a photograph, such passes could in principle be used by anyone, whether eligible for concessionary travel or not. And without an expiry date, they would remain "valid" indefinitely. This option would therefore do little to address the potential for fraudulent use.
36. As with option A, option B would do nothing to address the additional administrative costs in TCA areas where a smart system had already been introduced and passes issued in other TCAs were being used as flashcards.

## Option C - Standardised National Photopass

### Benefits

37. Issuing a national standard photopass, with an expiry date, would have the benefit of significantly reducing the potential for fraud compared to Options A and B. Introducing a national photopass with anti-fraud features and an expiry date would make it significantly more difficult for an ineligible person to gain access to concessionary travel.
38. This option is likely to save TCAs substantial sums per year in fraud reduction compared to options A and B. Every 1% reduction in fraud leads to savings of about £10m per year.
39. There would also be savings for bus operators and passengers from reduced disputes over the eligibility of passengers compared to options A and B.

### Costs

#### One-off costs

40. There would be an increased administrative burden on the TCAs as they would need to re-issue passes to all their existing and new concessionaires, in accordance with the new specification. The majority of these costs would represent a new burden on TCAs and so DfT would issue a grant to TCAs to cover the new burden.
41. Based on work undertaken by an external consultant in January 2007, DfT estimates that the cost associated with printing and issuing each pass would be around £1.92 to £2.52, including administrative costs. This would lead to a one-off cost of £19.2 - £25.2 million.

#### Ongoing costs

42. By requiring photopasses, TCAs which currently issue passes with no photograph will have an additional cost for all future passes issued to new concessionaires. TCAs which currently have no expiry date on their passes will also have additional ongoing costs in replacing all passes as they reach their expiry date.
43. Although significantly more effective in preventing fraud than options A and B, specifying a national photopass would not stop all fraudulent travel. There would still be fraudulent use which would impose costs on TCAs, but at a considerably reduced level compared to options A and B.
44. As with options A and B, option C would do nothing to address the additional administrative costs in TCA areas where a smart system has already been introduced.

## Option D standardised national smartcard with photograph

### Benefits

45. Introducing smartcards to a standard national design would yield additional anti-fraud advantages over option C. In areas where TCAs had introduced ITSO compliant smart readers on buses they would be used as smartcards with the added protection that smartcards can be de-activated when they expire and when they are reported lost or stolen. Fake cards would not, of course, work on the recorders.
46. In areas which had not introduced a smart system, the passes would be used as flash-passes in exactly the same way as non-smart passes would be used. However, even in non-smart areas, smartcards may be able to be read by inspectors readers to detect fake or de-activated cards.
47. Option D would therefore reduce fraud to a significantly greater extent than options A, B or C.
48. The accurate recording of passenger journeys in smart areas would be a major benefit for TCAs and bus operators in those areas by helping to ensure that re-imbusement arrangements were as accurate as possible.
49. Since the main advantages of smartcards would be realised in areas with fully smart systems, option D would represent a significant incentive for TCAs and bus operators to introduce smart systems. Although TCAs and operators in non-smart areas would have to purchase the smart readers, the total cost of introducing a fully smart system would be reduced as they would already have issued passes in smartcard form and so will improve the business case for investment in fully-operational smartcard systems.
50. Over time as smart ticketing became more prevalent, wider benefits for bus travel would be realised. These include better and more accurate data, faster boarding and simplify elements of negotiations between TCAs and operators.
51. By requiring all passes to be ITSO compliant, option D would be a major step towards fully embedding the UK standard, as all concessionary pass holders (who undertake nearly a third of all bus journeys in some areas) would have an ITSO compliant smartcard. Encouraging such a standard would benefit bus operators, TCAs and passengers. Passengers would benefit from seamless travel between TCAs and other modes equipped with ITSO compliant technology. Bus operators, particularly those operating in more than one TCA area, would benefit from consistency of smart readers. TCAs would also benefit from the existence of an established standard during procurement of smart readers because of increased competition.
52. TCAs would also be free, over time, to add additional products to the pass such as library cards and other enhancements.

53. The introduction of smartcards would also pave the way for UK wide pass recognition, if wanted, in the future and ease the introduction of integrated ticketing and operator commercial ticketing.

## Costs

### One-off costs

54. The administrative costs would be the same as for option C.

55. Based on work undertaken by an external consultant in January 2007, DfT estimates that the cost associated with requiring passes to be ITSO compliant smartcards would be around £2.64 – £3.59 per pass, including administrative costs. This would lead to a one-off cost of around £23.7 – £32.3 million. This would include existing ITSO schemes re-issuing their smartcards to the national design. A large proportion of these costs would represent a new burden on TCAs and so DfT would issue a grant to TCAs to cover the new burden.

56. Outside London, this cost would fall in 2007-08. In London, given that the requirement to issue new passes to the new national standard would not come into effect until April 2010, this cost (around £2.9 million) would fall in 2009-10.

57. The necessary re-stickering exercise in London in 2008 would coincide with a planned re-stickering exercise. Adding the national logo to this exercise would therefore result in no new costs.

58. A small number of TCAs have introduced non-ITSO compliant smartcard systems. They will face additional costs in ensuring that their systems become ITSO compliant although the majority are already working towards this end. We will discuss this requirement with those TCAs before we finalise this RIA.

### Ongoing costs

59. There is an ongoing cost for ITSO compliance, through membership fees and data handling costs. These costs have been included in the price per card and are estimated at 50p per card, spread over a four year cycle.

60. Where TCAs do not currently issue smartcard based passes, there would be an additional cost for each future pass issued to new concessionaires. TCAs which currently issues passes without an expiry date will also have additional ongoing costs in replacing all passes as they reach their expiry date.

## Summary of Costs and Benefits

| <b>Benefits</b>  |  |   |   |
|--|--|---|---|
| A - Do Nothing   | B – Re-Sticker   | C – Photo Pass  | D – Smartcards  |
| <p>No additional burdens on TCAs where re-issue of passes not needed</p> | <p>Reduction in platform disputes compared to “do nothing” option</p> <p>Reduction in journey times compared to “do nothing” option</p> <p>Slight reduction in scope for fraud</p> | <p>Reduction in fraud experienced by TCAs and Operators in all TCA areas compared with options A and B.</p> <p>Reduction in journey times and platform disputes compared to Options A and B</p> | <p>Reduction in fraud experienced by TCAs and Operators in all TCA areas compared with options A and B with significant reductions compared with option C in areas with smartcard systems in place</p> <p>Saving for TCAs and bus operators in administration of re-imbursement schemes in areas with smartcard systems in place</p> <p>Reduction in journey times and platform disputes compared to Options A, B and C</p> <p>Significant incentive for TCAs and bus operators to move to smart systems and enjoy full benefits of smartcards</p> <p>Helps to embed ITSO as the national standard for smartcards throughout England bringing benefits for all users through standardisation</p> <p>TCAs free to add other products over time</p> |

| <b>Costs</b>   |   |   |   |
|--|---|---|---|
| A - Do Nothing   | B – Re-Sticker  | C – Photo Pass  | D – Smartcards  |
| <p>DfT to pay grant to TCAs for one-off costs for pass re-design and issuing</p> <p>Scope for large increase in fraud. Concessionary travel in England is worth approximately £1 billion per year, so 1% fraudulent use equates to £10 million per year</p> <p>Increased journey times due to increased platform disputes due to difficulties in drivers checking asses</p> <p>Smart areas would be obliged to accept non-smart passes</p> | <p>One-off costs of £1.55 per pass = £15.5m</p> <p>Scope for increase in fraud (though less than for Option A)</p> <p>Smart areas would be obliged to accept non-smart passes</p> | <p>One-off costs of between £1.92-2.52 per pass = £19.2m - £25.2m</p> <p>Additional TCA costs in issuing passes to new concessionaires and re-issuing passes when they reach their expiry date</p> <p>Scope for increase in fraud (though less than for Options A and B)</p> <p>Smart areas would be obliged to accept non-smart passes</p> | <p>One-off costs of £2.64 – £3.59 per pass = £23.7 – £32.3m</p> <p>Increase in costs for small number of already smart TCAs having to become ITSO compliant</p> <p>Scope for increase in fraud (though less than for options A, B and C, although considerably less in smart areas)</p> <p>Potential ongoing additional costs for non-smart TCAs relating to need for ITSO license and data management</p> <p>Additional TCA costs in issuing passes to new concessionaires and re-issuing passes when they reach their expiry date</p> |

### **Small Firms Impact Test**

61. Smaller bus operators may be less well-placed than larger firms to invest in smartcard reader equipment on their buses. This may mean that they are less able to take advantage of improvements in concessionary travel data made possible by the new technology. However, these regulations do not require bus operators to invest in smart readers.

62. We are already consulting with representatives of bus operators of all sizes on an ongoing basis.

### **Competition assessment**

63. Within the bus industry there is unlikely to be any significant impact on market structure. The regulations would impact bus operators equally.

## **Enforcement, sanctions and monitoring**

64. Travel concession authorities in England outside London are required under the Transport Act 2000 to issue travel concession permits to eligible residents upon application. London authorities are required to do this under the Greater London Authority Act 1999. The Concessionary Bus Travel Bill amends the 1999 and 2000 Acts to give the Secretary of State the power to specify the form of the permits in regulations. An authority which failed to comply would be open to judicial review.

## **Conclusions**

### **Option D – smartcards – is recommended.**

65. Option D offers significantly greater benefits than Options A, B or C. This option gives greatest protection against fraud and the shortest journey times. It also produces more accurate data for TCAs and bus operators, reducing administrative costs where TCAs have moved to ITSO compliant smartcard systems, thereby reducing administrative costs.

66. In addition to these benefits Option D is the only option to offer TCAs a significant incentive to introduce fully smart systems. It also has the significant benefit of helping to establish ITSO as a national standard for smartcards in England, which will bring significant benefits for TCAs, bus operators and passengers. These are very significant benefits that Options A, B and C cannot offer.

67. While offering the greatest benefits, it is recognised that Option D does also create the largest costs. However, the marginal costs are not as significant as the marginal benefits.

68. Option D would only need to prevent 3% of fraudulent travel compared to doing nothing in order to recover the one-off costs. We estimate that an ongoing reduction of fraud by less than 1% would comfortably recover the ongoing costs of Option D.

DfT Contact:

Peter Laslett  
Concessionary Travel Division  
Email: [CBTBill@dft.gsi.gov.uk](mailto:CBTBill@dft.gsi.gov.uk)

Annex A – Breakdown of one-off costs

|  | <b>Option B - adhesive logo</b> | <b>Option C - Plastic non-smart card</b> | <b>Option D - smart card</b> |
|--|---------------------------------|--|------------------------------|
| <b>Type</b>  | Flashcard                       | Flashcard                                | Proximity smartcard          |
| <b>Validation cost</b>                             | c.75p+                          | c.75p+                                   | c.75p+                       |
| <b>Data acquisition</b>                            |                                 |  |                              |
| <b>Processing cost</b>                             | c.75p                           | c.75p                                    | c.75p                        |
| <b>Data entry cost</b>                             |                                 |  |                              |
| <b>Card issue costs</b>                            | 0p                              | 0p-32p                                   | 0p-32p                       |
| <b>Base cost per card</b>                          | <5p                             | 10p                                      | 40-65p                       |
| <b>Personalisation i.e. print photo, name etc.</b> | N/A                             | 32p-60p                                  | 32p-60p                      |
| <b>Basic card costs</b>                            | c.<£1.55                        | c.£1.92-£2.52                            | c.£2.22-£3.07                |
| <b>ITSO compliance</b>                             | N/A                             | N/A                                      | 42p-52p                      |
| <b>Total card costs</b>                            | <b>c.&lt;£1.55</b>              | <b>c.£1.92-£2.52</b>                     | <b>c.£2.64-£3.59</b>         |
| <b>Life span</b>                                   | N/A                             | 5-10 years                               | 5-10 years                   |

Source: Deloitte report commissioned by Department for Transport January 2007