

<b>Title:</b> <b>The Bus Service Operators Grant (England) (Amendment) Regulations 2011</b>  <b>Lead department or agency:</b> Department for Transport <b>Other departments or agencies:</b>	<b>Impact Assessment (IA)</b>
	<b>IA No:</b> DfT000108
	<b>Date:</b> 03/08/2011
	<b>Stage:</b> Final
	<b>Source of intervention:</b> Domestic
	<b>Type of measure:</b> Secondary legislation
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## Summary: Intervention and Options

### What is the problem under consideration? Why is government intervention necessary?

Since 2003, long distance coach operators offering older and entitled disabled people half price coach travel in England have been eligible to claim Bus Service Operators Grant (BSOG) from the Department for Transport (DfT). Coach operators are not required to provide concessionary travel, but when they do, they receive funding equivalent to the amount they would have received had the half price concession not been in place. As part of the Government's measures to reduce the budget deficit, it was announced in the Spending Review 2010 that long distance coach operators' eligibility to claim BSOG would be ended by October 2011. This cut forms part of a wider set of cuts to Department for Transport funding, including a cut of 20 per cent in the BSOG rate from April 2012.

### What are the policy objectives and the intended effects?

The Government's key priority for the Spending Review was reducing the budget deficit. As an outcome of the October 2010 Spending Review, Ministers announced that buses should take a share of the cuts and that these funding reductions would include a 20% cut to the BSOG rate from April 2012 and the ending of long distance coach operators' eligibility to claim BSOG. This change does not in any way affect the statutory national concession which offers free travel on local bus services throughout England, which the Government is committed to for the period of the Spending Review. Coach operators can continue to provide discounted travel for older and disabled people at their own discretion beyond October 2011, as was the case before 2003 when the concession was introduced.

### What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Do nothing - continue long distance coach operators' eligibility for BSOG.

Policy option 1 - remove the coach concession as announced by Government in the October 2010 Spending Review.

**Will the policy be reviewed?** It will not be reviewed. **If applicable, set review date:** Month/Year

**What is the basis for this review?** Not applicable. **If applicable, set sunset clause date:** Month/Year

**Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?**

Not applicable

**SELECT SIGNATORY Sign-off** For final proposal stage Impact Assessments:

***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) the benefits justify the costs.***

Signed by the responsible Minister: Norman Baker MP

Date: 10<sup>th</sup> October 2011

# Summary: Analysis and Evidence

# Policy Option 1

## Description:

Remove the coach concession as announced by Government in the October 2010 Spending Review.

Price Base Year 2010	PV Base Year 2011	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -£4m	High: -£7m	Best Estimate: -£5m

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0	£18.4m	£158m
High	0	£19.1m	£164m
Best Estimate	0	£18.7m	£161m

### Description and scale of key monetised costs by 'main affected groups'

Coach operators are reimbursed on a 'no-better-no-worse off' basis so are unaffected by the reduction in funding. There is a cost (£17.4m p.a.) to concessionary travellers who may no longer receive concessionary coach travel. Concessionary travellers who switch to car following the reduction in funding results in a small cost to society of around £1.4m p.a. This implies a total annual cost of around £18.7m p.a. in the central case.

### Other key non-monetised costs by 'main affected groups'

There are potentially non-monetised benefits such as reduced social exclusion and increased accessibility that result from concessionary coach expenditure. This implies any reduction in concessionary funding would reduce these benefits.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0	£17.9m	£154m
High	0	£18.3m	£157m
Best Estimate		£18.1m	£156m

### Description and scale of key monetised benefits by 'main affected groups'

The reduction in funding will save the Government around £17.4m a year. The potential increase in car traffic will also lead to higher indirect tax revenues estimated to be around £0.7m per year on average.

### Other key non-monetised benefits by 'main affected groups'

### Key assumptions/sensitivities/risks

Discount rate (%)

3.5%

Key assumptions underlying this analysis and taken from the Transport Research Laboratory (TRL) research report 'The demand for public transport' include:

1. Central short run fare elasticity is assumed to be -0.5 in the short run and -0.7 in the long run (it is assumed to be -0.3 in the short run and -0.5 in the long run in the Low scenario and -0.7 in the short run and -1 in the long run in the High scenario); and

2. 22% of concessionary travellers no longer using coaches decide to switch to car.

We also use external costs of additional car traffic from Webtag and assume the 'no better no worse off' principle applies. We have assumed coach operators withdraw the concession following reduced funding.

<b>Direct impact on business (Equivalent Annual) £m:</b>			<b>In scope of OIOO?</b>	<b>Measure qualifies as</b>
Costs: NA	Benefits: NA	Net: NA	No	NA

## Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?	England				
From what date will the policy be implemented?	01/10/2011				
Which organisation(s) will enforce the policy?	N/A				
What is the annual change in enforcement cost (£m)?	None				
Does enforcement comply with Hampton principles?	Yes				
Does implementation go beyond minimum EU requirements?	No				
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)	Traded: N/A		Non-traded: 0.004 pa		
Does the proposal have an impact on competition?	No				
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?	Costs:		Benefits:		
Distribution of annual cost (%) by organisation size (excl. Transition) (Constant Price)		< 20	Small	Medium	Large
Are any of these organisations exempt?	No	No	No	No	No

## Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
<b>Statutory equality duties<sup>1</sup></b> <a href="#">Statutory Equality Duties Impact Test guidance</a>	Yes	12
<b>Economic impacts</b>		
Competition <a href="#">Competition Assessment Impact Test guidance</a>	No	
Small firms <a href="#">Small Firms Impact Test guidance</a>	No	
<b>Environmental impacts</b>		
Greenhouse gas assessment <a href="#">Greenhouse Gas Assessment Impact Test guidance</a>	Yes	11
Wider environmental issues <a href="#">Wider Environmental Issues Impact Test guidance</a>	No	
<b>Social impacts</b>		
Health and well-being <a href="#">Health and Well-being Impact Test guidance</a>	No	
Human rights <a href="#">Human Rights Impact Test guidance</a>	No	
Justice system <a href="#">Justice Impact Test guidance</a>	No	
Rural proofing <a href="#">Rural Proofing Impact Test guidance</a>	No	
<b>Sustainable development</b> <a href="#">Sustainable Development Impact Test guidance</a>	No	

<sup>1</sup> Public bodies including Whitehall departments are required to consider the impact of their policies and measures on race, disability and gender. It is intended to extend this consideration requirement under the Equality Act 2010 to cover age, sexual orientation, religion or belief and gender reassignment from April 2011 (to Great Britain only). The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

# Evidence Base (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in **References** section.

## References

Include the links to relevant legislation and publications, such as public impact assessments of earlier stages (e.g. Consultation, Final, Enactment) and those of the matching IN or OUTs measures.

No.	Legislation or publication
1	Concessionary travel reimbursement guidance: <a href="http://www.dft.gov.uk/pgr/regional/buses/concessionary/informationlocalauthorities/travelscheme/">http://www.dft.gov.uk/pgr/regional/buses/concessionary/informationlocalauthorities/travelscheme/</a>
2	National Travel Survey: <a href="http://www.dft.gov.uk/pgr/statistics/datatablespublications/nts/">http://www.dft.gov.uk/pgr/statistics/datatablespublications/nts/</a>
3	Transport Research Laboratory (TRL) research report 'The demand for public transport': <a href="http://www.demandforpublictransport.co.uk/TRL593.pdf">http://www.demandforpublictransport.co.uk/TRL593.pdf</a>
4	Webtag guidance: <a href="http://www.dft.gov.uk/webtag/">http://www.dft.gov.uk/webtag/</a>
5	Equality Impact Assessment in respect of ending BSOG for long distance coaches: <a href="http://www.dft.gov.uk/adobepdf/165220-/concession.pdf">www.dft.gov.uk/adobepdf/165220-/concession.pdf</a>

+ Add another row

## Evidence Base

Ensure that the information in this section provides clear evidence of the information provided in the summary pages of this form (recommended maximum of 30 pages). Complete the **Annual profile of monetised costs and benefits** (transition and recurring) below over the life of the preferred policy (use the spreadsheet attached if the period is longer than 10 years).

The spreadsheet also contains an emission changes table that you will need to fill in if your measure has an impact on greenhouse gas emissions.

### Annual profile of monetised costs and benefits\* - (£m) constant prices

	Y <sub>0</sub>	Y <sub>1</sub>	Y <sub>2</sub>	Y <sub>3</sub>	Y <sub>4</sub>	Y <sub>5</sub>	Y <sub>6</sub>	Y <sub>7</sub>	Y <sub>8</sub>	Y <sub>9</sub>
<b>Transition costs</b>	0	0	0	0	0	0	0	0	0	0
<b>Annual recurring cost</b>	18.2	18.4	18.5	18.6	18.7	18.9	19.0	19.0	19.1	19.1
<b>Total annual costs</b>	18.2	18.4	18.5	18.6	18.7	18.9	19.0	19.0	19.1	19.1
<b>Transition benefits</b>	0	0	0	0	0	0	0	0	0	0
<b>Annual recurring benefits</b>	18.0	18.0	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1
<b>Total annual benefits</b>	18.0	18.0	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1

\* For non-monetised benefits please see summary pages and main evidence base section

# Evidence Base (for summary sheets)

## Introduction

The Bus Service Operators Grant (BSOG) is a payment to bus operators which offsets a high proportion of the fuel duty cost they incur. It is currently paid at a rate of 43.21 pence per litre (ppl). The rationale for BSOG is twofold. Firstly BSOG makes bus travel more attractive relative to other modes as bus operators are able to charge a lower fare and / or offer a more attractive and more frequent bus service. This means there is a lower level of car traffic than there otherwise would be which reduces both carbon and congestion. Secondly, by enabling bus service levels to be more frequent and cheaper than they otherwise would be, there are potentially important accessibility and social inclusion benefits from BSOG.

The vast majority of BSOG is paid at a rate of 43.21ppl. However, a small proportion of it (£16.9m in 2009 out of a budget of around £430m in England) is paid to coach operators offering older and eligible disabled people half price coach travel in England. This payment of £16.9m (or £17.4m in 2010 prices) is not paid on the basis of fuel consumption. Instead, the payment reflects the revenue operators would have received from the people who use the coach but now pay only half the fare instead of the full fare. It also reimburses operators for the additional cost incurred from transporting travellers who would not have used the coach in the absence of the concession. These costs include wear and tear, additional fuel consumption etc. Therefore, the coach concession ensures operators are reimbursed on a 'no better no worse off' basis (this is discussed in detail below).

The draft Regulations would end the right of long distance coach operators to claim BSOG.

## Background

Since 2003, long distance coach operators offering older and eligible disabled people half price coach travel in England have been eligible to claim BSOG. In this context BSOG is paid to operators on a 'no better no worse off' basis.

The 'no better no worse off' principle means that operators should be reimbursed for the revenue they would have received from the concessionary travellers who now travel at a discounted rate. In other words, coach operators' profit margins should be unaffected by the removal of this funding. The 'cost to business' section of this Impact Assessment sets out in more detail how the 'no better no worse off' principle works and why coach operators should not commercially be benefiting from the scheme.

Currently, five long distance coach operators in England claim BSOG in respect of half price concessionary travel. One is a very large operator which claims over £15m for just under 3 million passenger journeys a year. The other four operators claim less than £2m for under 300 thousand passenger journeys between them. Total grant in 2009 to 2010 was therefore around £16.9m. The estimated number of concessionary coach journeys and reimbursement levels has been estimated by the DfT using estimated price elasticities of demand (the price elasticity of demand measures the sensitivity of bus journeys to changes in price). This approach is similar to the national concessionary travel scheme for older and disabled people. Full guidance on the approach taken to estimating concessionary travel reimbursement can be found at:

<http://www.dft.gov.uk/pgr/regional/buses/concessionary/informationlocalauthorities/travelscheme/>

The beneficiaries of the coach concession are people aged 60 and over and eligible disabled people. The eligibility is the same as for the statutory England wide concession which offers free travel on local bus services throughout England. The local bus scheme is not affected by

this change. There are over 11 million people eligible for concessionary travel and in 2009/10 around 3.2 million concessionary travel journeys were made on coaches in England. In contrast, around 1.6 billion concessionary journeys were made on local buses in England i.e. concessionary trips on coaches represent only 0.2% of total concessionary trips. It is not possible to accurately estimate the proportion of total coach trips made using the half price coach concession. The National Travel Survey suggests the figure is likely to be in the region of 10 per cent, although this estimate is based on a very small sample and should therefore be treated with caution.

The Government has decided that BSOG funding for long distance coaches should end by October 2011 as part of a contribution towards reducing the budget deficit. Coach operators have been given a year from the announcement in October 2010 to notify their passengers of the end of this scheme.

It is of course possible that coach operators may choose to continue to offer concessionary coach travel given that different bus passengers have different elasticities of demand (elasticities refer to the sensitivity of bus passengers to changes in the cost of travel). The numerous examples of discounts available to more price sensitive consumers might suggest there is a commercial case for continuing to offer the concession. However, as private companies coach operators will make such decisions on a commercial basis.

## **Rationale**

Since 2003, long distance coach operators offering older and entitled disabled people half price coach travel in England have been eligible to claim BSOG from the DfT. Coach operators are not required to provide concessionary travel, but when they do, they receive funding equivalent to the amount they would have received had the half price concession not been in place.

While the DfT recognises there are benefits from this policy – such as reduced social exclusion and wider external benefits - as part of the Government's measures to reduce the budget deficit, it was announced in the Spending Review 2010 that long distance coach operators' eligibility to claim BSOG would end by October 2011. This cut forms part of a wider set of cuts to DfT funding, including a cut of 20 per cent in the BSOG rate from April 2012.

## **Options**

(A) **Do nothing** – As Government has already announced the end to the concession as part of the Spending Review, the option to do nothing no longer exists. Doing nothing would require the Government to find an additional £17m a year to continue to fund the coach concession.

(B) **Change the eligibility Regulations** – In order to implement the Spending Review announcement that BSOG for coach concession would end, a change is needed to the eligibility Regulations. This change would simply remove long distance coach services from the definition of eligible services. It would have no wider impact.

## **Cost to business**

There is estimated to be no cost to business as coach operators are reimbursed on a 'no-better and no-worse off' basis. This is because the Government is required to comply with European regulations that prevent concessionary travel schemes being used to provide hidden subsidy (or state aid) to coach operators. The underlying principal which underpins reimbursement is therefore that coach operators should be left 'no better, no worse off' as a result of the existence of the half-price coach concession.

Let us assume that before the half-price coach concession existed there were 2.4m concessionary coach journeys eligible for the concession. Assuming each journey costs £10

the annual revenue to coach operators from these trips would be £24m (£10 x 2.4m). In this example, when the DfT introduced the half-price concession, each traveler would now pay £5 (rather than £10) meaning coach operators receive £12m (£5 x 2.4m) in commercial revenue from these people.

However, this reduction in price – as a result of the concession - will also increase the demand for coach journeys. We measure the responsiveness of passengers to changes in fares using price elasticities of demand (or fare elasticities). Our proposed central elasticities are -0.5 in the short run and -0.7 in the long run (please see 'Other costs' section for further details on why we have chosen these elasticities). In this context, a 100% reduction in fares leads to a 50% increase in demand in the short run (in the year the fare increase takes place) and a 70% increase in demand in the long run (after around 5 years). Demand is generally more elastic in the long run as people are better able to adjust their behaviour e.g. people could decide to buy a car or move house in the long run following a fare increase, but are more constrained in their transport choices in the short term.

Assuming a price elasticity of demand of -0.5, then a 50% reduction in price (£10 to £5) will increase demand by 25%. Therefore, the half-price concession increases demand for coach journeys by around 600,000 (2.4m x 25%). With each additional coach journey there is a £5 charge meaning the coach operator receives an additional £3m in revenue (£5 x 600,000). In the long run, demand increases by a further 240,000 (a 50% reduction in fares using a long run elasticity of -0.7 implies demand increases by 35% in total). This would imply coach operators receive an additional £1.2m in revenues (£5 x 240,000) that they would not have received had the concession not existed.

So in total, with the half-fare concession in place coach operators receive annual revenue of £16.2m (£12m + £3m + £1.2m) in the long run i.e. after around 5 years from the concession being put in place. This is lower than the coach operators would have received with no half-price concession in place by £7.8m (£24m - £16.2m), and therefore the DfT reimburses operators this amount so they are not worse off. The DfT also reimburses coach operators for any additional cost that may be incurred from the extra 840,000 journeys such as wear and tear on seats and higher fuel use but for simplicity we have ignored this in our example.

Therefore as this example illustrates, coach operators are 'no better no worse off' once the concession is introduced. The 'no better no worse off' principle means removing the concession would reverse the process described above, with passenger journeys falling back to 2.4m, and operator revenue falling back to 24m (2.4 x £10) in the long run. The operators would therefore find themselves in the same position as before the concession was introduced and would not be commercially affected by the removal of the concession.

We have also cross-checked the estimated impact on demand with the estimated impact of the half-fare concessionary bus scheme. Estimated impacts suggest that around 74% to 77% of concessionary journeys may have been made in the absence of the half-fare concessionary travel bus scheme (see 'Concessionary travel for older and disabled people: guidance on reimbursing bus operators (England), 2010, p37). The above analysis implies around 75% of concessionary coach journeys (2.4m out of 3.2m concessionary journeys) would have taken place in the absence of the concession. The above numbers are therefore broadly consistent with estimated impacts of the half-fare concessionary bus scheme.

## **Other costs**

The decision to travel by a particular mode is determined by the generalised cost of a trip. The generalised cost of a trip is a weighted average of the monetary cost of the trip – such as the coach fare or car fuel costs – and the time cost of the trip – how long the journey takes. The existence of the coach concession reduces the generalised cost of travelling by coach and

therefore provides a benefit to concessionary travellers who now travel at half fare. Therefore, removing the concession will result in a cost to these travellers and increase the generalised cost of travelling by coach. As a consequence, concessionary travellers will now incur an additional financial cost (and possibly experience a less frequent coach service if the higher demand resulting from the concession has encouraged operators to increase services). Given the £16.9m (or £17.4m in 2010 prices) of funding is paying directly for the consumer benefit of half-price coach travel for people aged 60 and over, the loss in consumer welfare from removing this funding (the consequent increase in fares) must therefore also equate to £17.4m (2010 prices).

To an extent, some travellers who no longer use the coach as a result of the removal of the concession will decide to switch to car travel instead. Increased car use could potentially lead to increased congestion and higher carbon emissions. However, while recognising this possibility, we believe this to be marginal for the following reasons:

1. Concessionary coach trips make-up an extremely small proportion of total concessionary trips (0.2%);
2. Of those concessionary travellers who make concessionary coach trips, only a small proportion are likely to own a car and are therefore switch to car travel. For example, National Travel Survey (NTS) data suggests that in 2009 only 54% of people aged 70 and over have a full car driving license versus 72% nationally (though 78% of people aged 60-69 had a full driving licence);
3. Coach trips are likely to be inter-urban as opposed to urban trips. In rural areas congestion is relatively small meaning there would only be a marginal impact on congestion from this change; and
4. For commercial reasons, it is possible that coach operators decide to continue to offer discounted coach travel;

However, we have quantified the external impact and the key assumptions are given below.

As per Transport Research Laboratory (TRL) research report 'The demand for public transport' (<http://www.demandforpublictransport.co.uk/TRL593.pdf>), we have assumed a short run fare elasticity of -0.5 and a long run elasticity of -0.7 (table 6.19, p56). As discussed in the previous section, fare elasticities measure the sensitivity of bus passengers to changes in fares.

We have used the cited elasticity for shire areas as this would be best represent where coach travel takes place (as opposed to urban areas). As the estimates of elasticities vary by area and by study, we have also adopted a range in our elasticity assumptions. In the above TRL (2004) publication (Table 6.54, p69) there is a range given for off-peak fare elasticities. The range of estimates is from -0.3 in the short run to -1.0 in the long run. Our sensitivity analysis therefore uses a short run elasticity of -0.3 in the Low scenario and a long run elasticity of -1.0 in the High scenario. (For the purposes of this sensitivity analysis we have also used -0.5 as the long run elasticity in the Low scenario and -0.7 as the short run elasticity in the High scenario).

We also use TRL assumptions on diversion factors to quantify the external impact of the reduction in funding. Diversion factors tell us the proportion of travellers who switch to car following a rise in fares or the proportion of travellers who switch to coach following a coach fare reduction. The TRL car diversion factor for coaches is around 22% ('The demand for public transport' (2004), p105). This implies that following the introduction of the coach concession, 22% of the increase in demand is from people who previously used the car. Of course not all the car journeys will be car driver trips as some people will car share. We have therefore assumed (based on NTS data) that the average occupancy of each car journey is 1.6 persons (NTS data does not break this data down by age group).



There are two approaches to assessing the impact on demand. We can either analyse how demand changed as a result of the introduction of the concession or we can analyse how demand changes if we remove it. The latter is complicated by the fact that the price elasticity of demand varies along the demand curve. This effectively means that consumers are more price sensitive at lower fare levels which means the assumed elasticities given above may not be appropriate. We therefore propose to analyse the impact of introducing the concession and therefore how much demand might change from its removal.

A summary of the demand impacts given the above elasticities is given in the table below. The following few paragraphs explain how the numbers in the table have been derived. If there are currently around 3.2m concessionary coach trips made per year, then in our Central case prior to the concession there are estimated to have been around 2.4m annual concessionary coach trips made. This is because the price elasticity of demand in the long run is -0.7 which suggests that the 50% reduction in fares from the concession increased demand in the long run by 35% ( $3.2m / 1.35 = 2.4m$ ). In the short run (in the year the concession was introduced), with an elasticity of -0.5 the 50% reduction in fares is estimated to have increased demand by 600,000 to 3m ( $2.4m \times 1.25 = 3m$ ). Please note figures are rounded for simplicity.

We can adopt the same methodology for the Low and High scenarios. In the Low scenario, we are assuming a short run elasticity of -0.3 and a long run elasticity of -0.5. Therefore, if there are currently around 3.2m concessionary coach trips made per year, then prior to the concession there are estimated to have been around 2.6m annual concessionary coach trips made. This is because the price elasticity of demand in the long run in the Low scenario is -0.5 which suggests that the 50% reduction in fares from the concession increased demand in the long run by 25% ( $3.2m / 1.25 = 2.6m$ ). In the short run, the 50% reduction in coach fares is estimated to have increased demand in the first year by around 400,000 to 3m ( $2.6m \times 1.15 = 3m$ ). Please note figures are rounded for simplicity.

In the High scenario, we are assuming a short run elasticity of -0.7 and a long run elasticity of -1. Therefore, if there are currently around 3.2m concessionary coach trips made per year, then prior to the concession there are estimated to have been around 2.13m annual concessionary coach trips made. This is because the price elasticity of demand in the long run in the High scenario is -1 which suggests that the 50% reduction in fares from the concession increased demand in the long run by 50% ( $3.2m / 1.5 = 2.13m$ ). In the short run, the 50% reduction in coach fares is estimated to have increased demand in the first year by around 750,000 to 2.9m ( $2.13m \times 1.35 = 2.9m$ ). Please note figures are rounded for simplicity.

**Table 1: Estimated changes in coach demand following the introduction of the coach concession.**

	<b>Low</b>	<b>Central</b>	<b>High</b>
Short run elasticity	-0.3	-0.5	-0.7
Long run elasticity	-0.5	-0.7	-1.0
Change in demand in short run	+15% (0.4m coach trips)	+25% (0.6m coach trips)	+35% (0.75m coach trips)
Change in demand in long run	+25% (0.6m coach trips)	+35% (0.8m coach trips)	+50% (1.1m coach trips)

The above analysis is based on the impact of introducing the concession. We have adopted this approach because it allows us to use the above elasticities. An alternative approach would be to analyse how demand changes following the removal of the concession. This would involve analysing how demand changes following a 100% increase in coach fares. However, the difficulty is that elasticities vary along the demand curve meaning we would need to use different (and disputed) elasticities for concessionary travellers. Nevertheless, the approach should yield the same answer because of the 'no better no worse off principle'. This means we

are effectively analysing “what we buy” with the £16.9m and therefore “what we lose” from removing it.

This analysis would therefore suggest that removing the coach concession will reduce demand for coach travel by 0.6m trips in the short run and by 0.8m coach trips in the long run in our Central scenario. In our Low scenario, this analysis would therefore imply that the removal of the coach concession would be expected to reduce demand by around 0.4m coach trips in the short run and by 0.6m coach trips in the long run. In our High scenario, this analysis would therefore imply that the removal of the coach concession would be expected to reduce demand by around 0.75m coach trips in the short run and by 1.1m coach trips in the long run.

To the extent that the reduction in coach trips is reflected in increased car journeys there will be an external cost to society in the form of higher congestion and pollution. In our Central case, if 22% of the 800,000 coach journeys reduced result in car journeys (0.18m car journeys), then assuming an average occupancy of 1.6 people per car implies an increase in car driver trips of around 0.1m (0.18m divided by 1.6). The same methodology can be applied for the Low and High scenarios which use different elasticities. A summary of the key changes is given in the table below.

**Table 2: Estimated changes in coach demand, car journeys and car driver trips for the Central, Low and High scenarios**

	Central		Low		High	
	Short run	Long run	Short run	Long run	Short run	Long run
Reduced coach trips	0.6m	0.8m	0.4m	0.6m	0.75m	1.1m
Increased car journeys	0.13m	0.18m	0.08m	0.14m	0.16m	0.23m
Increase in car driver trips	0.08m	0.11m	0.05m	0.09m	0.1m	0.15m

We can then convert the potential increase in car driver trips into car distance travelled. NTS data suggests that the average non-local bus journey in 2009 was around 97 miles (or 156 kilometres). Assuming the distance travelled of each additional car trip is equal to the average non-local bus journey (a proxy for coach trips) then this would imply an increase (in the short run) in car miles of around 7.9m miles (12.7m kilometres) in the central scenario (97 miles multiplied by 0.08m car driver trips). The change in car driver miles and kilometres for all scenarios in the short and long run is given in the table below.

**Table 3: Estimated change in car driver miles and kilometres**

	Central		Low		High	
	Short run	Long run	Short run	Long run	Short run	Long run
Increase in car driver miles	7.9m	11.1m	5.1m	8.5m	9.9m	14.2m
Increase in car driver kilometres	12.7m	17.8m	8.2m	13.7m	16.0m	22.9m

The increase in car driver miles (or kilometres) can then be converted into external impacts (congestion, carbon etc) by using Webtag values. See: <http://www.dft.gov.uk/webtag/documents/expert/unit3.13.2.php>.

As coach trips will tend to operate predominantly on inter-urban corridors, we have assumed the Webtag rural motorway external costs apply to the potential increase in car trips following the reduction to concessionary coach funding. We have uplifted the Webtag values so they are in 2010 prices. This implies the following external costs per car kilometre increased in 2011 (note

figures will be different for the other forecast years in the appraisal period). Webtag values are in kilometres for simplicity we use car kilometres in the analysis below:

- **Congestion:** 5p per car kilometre;
- **Local air quality:** 0.3p per car kilometre;

We have separately calculated the impact on **greenhouse gas emissions** to reflect new Department for Energy and Climate Change (DECC) carbon values. We have done this by converting the change in car driver trips in the table above into estimated greenhouse gas emissions using the Department for the Environment, Food and Rural Affairs' (DEFRA) recommended value of 0.24kg per car kilometre of unknown fuel (see Table 6e of 2011 Guidelines to DEFRA / DECC GHG Conversion Factors for Company Reporting). We have also adjusted the 0.24kg assumption overtime to reflect forecast improvements in car fuel efficiency using recommended Webtag values. See table 13 of:  
<http://www.dft.gov.uk/webtag/documents/expert/unit3.5.6.php>.

There will also be relatively small external costs in terms of noise, accidents and damage to road infrastructure which we have also accounted for in this analysis (note we have not cited the precise individual figures above because their impacts are each less than 0.05p per car kilometre).

We multiply each of the Webtag external cost figures by the change car kilometres in Table 3 to estimate the external costs of the reduction in coach concessionary funding (as discussed above, the impact on greenhouse gas emissions is carried out separately).

**Table 4: Potential increase in external costs following reduction to coach concessionary funding (note long run refers to impact in 2016/17)**

	Central		Low		High	
	Short run	Long run	Short run	Long run	Short run	Long run
Congestion	0.6m	1.2m	0.4m	0.9m	0.8m	1.5m
Local air quality	0.04m	0.05m	0.03m	0.04m	0.05m	0.06m
Other (noise, infrastructure, accidents)	0.01m	0.02m	0.01m	0.02m	0.02m	0.03m
Greenhouse gas emissions	0.2m	0.2m	0.1m	0.2m	0.2m	0.3m

Although the impacts are relatively small, Table 4 indicates there could be a potential increase in greenhouse gas emissions as some people will now make car trips when before they used the coach. The above impacts assume that 22% of concessionary travellers no longer making coach trips as a result of the reduction in funding decide to make a car trip instead. However, as discussed previously, this is probably an upper estimate given the 22% is an average figure for all people and concessionary travellers car driver licensing is less than average (for people aged 70 and over). Nevertheless, with this assumption there is a small increase in greenhouse gas emissions. We have set out the potential annual impact on greenhouse gas emissions in the annual profile of costs and benefits spreadsheet on page 4.

We have assumed that the short run impacts apply in year 1 only (2011/12) and that the long run impacts impact 5 years later (in 2016/17). We have assumed a linear change in the intervening years i.e. a linear increase in the elasticity from -0.5 in year 1 to -0.7 in year 5 for the central case. From 2017/18 to 2020/21 (the end of the appraisal period) the impacts increase in line with the increase in the published Webtag external costs and DECC carbon values. The table below summarises the key impacts up to 2016/17. The external impact is defined as the

sum of the change of all external impacts including congestion, infrastructure, greenhouse gas emissions, local air quality, noise and accidents.

**Table 5: Summary of key impacts in 2010 prices and 2011 values**

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
BSOG payment	£17.4m	£17.4m	£17.4m	£17.4m	£17.4m	£17.4m
External impact (central)	£0.9m	£1.0m	£1.1m	£1.2m	£1.3m	£1.5m
External impact (low)	£0.6m	£0.7m	£0.8m	£0.9m	£1.0m	£1.1m
External impact (high)	£1.1m	£1.2m	£1.4m	£1.5m	£1.7m	£1.9m

The removal of the concession – assuming coach operators do not continue to offer the concession – will potentially reduce accessibility and social inclusion for people aged 60 and over and disabled people. These are non-monetised costs. However, the main travel concession for people aged 60 and over and disabled people for local bus services is unaffected by this policy.

We also recognise that changes to concessionary travel may impact differently on different people. We have therefore undertaken and published an Equality Impact Assessment in respect of ending BSOG for long distance coaches. It is available on our website at: [www.dft.gov.uk/adobepdf/165220-/concession.pdf](http://www.dft.gov.uk/adobepdf/165220-/concession.pdf)

### **Benefits to business**

The ‘no better no worse off’ principle means there will be no benefit to business from the change in the concession.

### **Other benefits**

There are estimated to be no benefits to consumers, though Government will no longer incur the cost of providing the concession (£17.4m per year in 2010 prices). In transport appraisal, it is also important we calculate the impact on indirect tax which Webtag suggests is around -5p per car kilometre removed. This indirect tax figure is important because when making a decision to travel, an individual will weigh up all the costs they perceive in making the trip. This will include the monetary cost of a trip – inclusive of all indirect tax – and the time cost of a trip (the weighted average of these costs is the generalised cost).

In many markets, a change in indirect tax revenue as a result of a change in consumption would be offset by an equal and opposite change in indirect tax revenue elsewhere in the economy. However, within the transport market, indirect tax rates are significantly different from the economy average, so a change in consumption usually leads to a significant change in indirect tax revenue overall. Therefore, the indirect tax figure is negative because fuel is taxed relatively highly compared to the average rate of indirect tax in the economy. This means an increase in car traffic will result in a net increase in revenue to the Exchequer.

The potentially small increase in car traffic from the removal of the coach concession will increase indirect tax revenues to the Government as fuel is taxed relatively highly compared to the average rate of indirect tax in the economy. In the short run, this estimated to be equal to around £0.6m in the Central case (5p multiplied by 12.7m car driver trips) rising to £0.8m per year in 2016/17. In the Low and High scenario, there is estimated to be an increase in indirect

tax revenues of £0.4m and £0.8m respectively in the short run, and £0.6m and £1.0m respectively in the long run.

### **One In One Out**

This proposal is out of scope of OIOO as it is a spending decision regarding grants. According to the OIOO methodology, these types of measures are out of scope.

## Annexes

Annex 1 should be used to set out the Post Implementation Review Plan as detailed below. Further annexes may be added where the Specific Impact Tests yield information relevant to an overall understanding of policy options.

### Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. If the policy is subject to a sunset clause, the review should be carried out sufficiently early that any renewal or amendment to legislation can be enacted before the expiry date. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

<p><b>Basis of the review:</b> [The basis of the review could be statutory (forming part of the legislation), i.e. a sunset clause or a duty to review , or there could be a political commitment to review (PIR)];</p>
<p><b>Review objective:</b> [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?]</p>
<p><b>Review approach and rationale:</b> [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach]</p>
<p><b>Baseline:</b> [The current (baseline) position against which the change introduced by the legislation can be measured]</p>
<p><b>Success criteria:</b> [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives]</p>
<p><b>Monitoring information arrangements:</b> [Provide further details of the planned/existing arrangements in place that will allow a systematic collection systematic collection of monitoring information for future policy review]</p>
<p><b>Reasons for not planning a review:</b> [If there is no plan to do a PIR please provide reasons here] There are no plans to review this decision as it was a 2010 Spending Review decision made and agreed by the Government.</p>

Add annexes here.