

Report to: **Resources Scrutiny Committee**  
Report of: **Director of Finance and Corporate Services**  
Date: **24 June 2008**  
Subject: **Value for Money-Concessionary Fares Scheme**

## **1.0 Purpose of the Report**

- 1.1 To report on the value for money aspects of the concessionary bus fares scheme.

## **2.0 Consultation**

- 2.1 The Head of Financial Management and the Principal Revenues Officer have considered the report and it was circulated to the Management Team for comment.

## **3.0 Background**

- 3.1 In a report to Resources Scrutiny Committee last September the programme of reviews outlined in appendix 1 was agreed. This included the concessionary bus fares (CBFS) scheme. This report considers the value for money issues which are defined as the optimum combination of whole life costs and benefits to meet the customer requirements. It was traditionally known as the 3 E's whereby:

- Economy is the price paid for providing the service. (Staff, materials, assets and buildings).
- Efficiency is the measure of how much you get out (the results) from what is put in. Could be the number of bus passes issued.
- Effectiveness can be a measure of whether citizens are happy with the results. For example whether participants in the scheme are happy with the service in terms of their experience.

In simple terms value for money is achieved when: -

- Costs are relatively low
- Productivity or performance is high.
- Outcomes are successful and satisfaction levels are relatively high.

- 3.2 In terms of cost it is accepted that for a number of reasons the cost of services could be high, for example where council have prioritized problem areas or where local circumstances dictates the need for more resources in a service area. Where such circumstances occur it is important for the council to be aware of the situation and why it has occurred.

- 3.3 At this stage it is important to note that when CBFS was selected for inclusion in the value for money programme it was based on cost comparisons of the scheme that was in place in April 2006. Since then the Districts in the County have implemented a national scheme effective from April this year and renegotiated the contract for a further 2 years. Although now a national scheme, Districts have continued to work on a county-wide basis and the scheme has discretionary elements such as off-peak travel. Although costs have varied since then, our costs are still comparatively high. This report reflects the 2008/9 estimated costs albeit they are still subject to appeal by the bus companies.

#### 4.0 Position Statement

- 4.1 The overall reimbursement cost of the scheme is currently apportioned to districts on a basis agreed in March 2006 where the contract with the bus operators was for 2 years, the amount being fixed and increased by transport inflation. The 2007/8 and 2008/9 estimated funding shares are set out in tables 1 & 2 where members will note the disparities in terms of shares and unit costs across the Durham districts.

**Table 1: Based on Costs reported to Executive – April 2008**

| Authority         | Current Cost Share 2007/8 | % Share       | Cost Share from April 2008 | % Share       |
|-------------------|---------------------------|---------------|----------------------------|---------------|
| Chester-le-Street | £797,000                  | 10.07         | £757,000                   | 9.23          |
| Derwentside       | £1,605,000                | 20.27         | £1,414,000                 | 17.24         |
| Durham City       | £1,221,000                | 15.42         | £1,205,000                 | 14.70         |
| Easington         | £1,966,000                | 24.84         | £2,044,000                 | 24.92         |
| Sedgefield        | £1,324,000                | 16.73         | £1,409,000                 | 17.18         |
| *Teesdale         | £107,000                  | 1.35          | £280,000                   | 3.42          |
| Wear Valley       | £897,000                  | 11.32         | £1,091,000                 | 13.31         |
| <b>Totals</b>     | <b>£7,917,000</b>         | <b>100.00</b> | <b>£8,200,000</b>          | <b>100.00</b> |

**Table 2: Based on Costs reported to Executive – April 2008**

| Authority         | Estimated Passes Issued | Current Cost Share 2007/8 | Unit Cost per Pass    | Cost Share from April 2008 | Unit Cost per Pass    |
|-------------------|-------------------------|---------------------------|-----------------------|----------------------------|-----------------------|
| Chester-le-Street | 10810                   | £797,000                  | £73.73                | £757,000                   | £70.02                |
| Derwentside       | 17283                   | £1,605,000                | £92.87                | £1,414,000                 | £81.81                |
| Durham City       | 15395                   | £1,221,000                | £79.31                | £1,205,000                 | £78.27                |
| Easington         | 16793                   | £1,966,000                | £117.07               | £2,044,000                 | £121.71               |
| Sedgefield        | 16174                   | £1,324,000                | £81.86                | £1,409,000                 | £87.11                |
| *Teesdale         | 2695                    | £107,000                  | £39.70                | £280,000                   | £103.89               |
| Wear Valley       | 12077                   | £897,000                  | £74.27                | £1,091,000                 | £90.33                |
| <b>Totals</b>     | <b>91277</b>            | <b>£7,917,000</b>         | <b>Average £86.73</b> | <b>£8,200,000</b>          | <b>Average £89.83</b> |

\*Teesdale District Council offers a variable scheme which slightly distorts the figures.

- 4.2 Table 1 above confirms that the Council's share is much higher than other Districts and consequently this is reflected in table 2 where the cost per pass again is significantly higher at £121.71 compared to the district average of £89.83,. The number of passes issued is based on 2007/8 estimates and it should be noted that as the contract is 'substantially' fixed for 2 years if take up increases unit costs will reduce.
- 4.3 Based purely on the above the Council's costs could be judged as high and therefore not delivering value for money.

### ***Why are the Council's costs higher than other districts in the County?***

- 4.4 The main reason for the disparity relates to the government's last revision of the scheme in 2006 when this council received around 25% of the grant distributed in County Durham. At the time the grant distribution was heavily weighted towards elderly persons in receipt of benefit.
- 4.5 Prior to April 2006 the elderly and disabled were required to pay half the cost of journeys and the districts shared the overall costs of the County-wide scheme on the basis of passes issued. At the time revenue grant in relation to the CBFS was minimal and lost in the overall grant settlement.
- 4.6 Changes to the scheme in April 2006 allowed the elderly and disabled to travel free within individual District boundaries. However to limit travel within district boundaries would be a significant reduction in service when compared to the county-wide scheme which allowed travel across the north east region including Teesside and the cities in Tyne and Wear. It became clear that unless the grant was pooled the County-wide scheme would be unaffordable for the majority of the Districts and after due consideration agreement was reached with other districts to pool grant thereby sustaining the County-wide scheme.
- 4.7 As the main recipient of grant the Council bears the greater share of costs and this is also reflected in the cost for each pass. However the cost has to be compared to the benefits of the scheme where the County wide scheme is recognised as having one of the better schemes nationally. Pooling, together with the negotiation of a fixed price plus inflation agreement with the bus companies is also seen as good practice.

### ***Disparity of grant distribution and discretionary costs***

- 4.8 Sustaining the county-wide scheme highlighted issues around the distribution of grant in County Durham, where Easington received around 25% of grant issued despite not incurring that level of costs under the old scheme.
- 4.9 Table 3 below shows the position in relation to government grant supporting the travel scheme and the discretionary or non-grant funded element. Although grant was pooled there were still disparities in terms of the % of the scheme supported by grant and the residual or discretionary cost. Ignoring Teesdale the level of grant supporting the scheme ranged from 61.6% for Durham City to 90.9% for Wear Valley. Unit costs ranged from £74.39 for Wear Valley to £117.20 for this Council.
- 4.10 The government distributed further grant for 2008/9 to implement the national scheme and for County Durham this amounted to £1.5m. The Durham County Chief Financial Officers agreed that in order to determine a more accurate position all grant allocated since 2006 would be pooled and this is reflected in table 4. Although there is still a disparity in costs we can see that each District now has 92.3% of the costs funded by grant. In terms of value this Council stills bears the greatest share because it receives grant to the value of £1.887m, almost 25% of the total allocated.
- 4.11 It is disappointing that the government has not funded the whole cost of the scheme but given there are discretionary elements in the county-wide scheme it seems reasonable. In terms of discretionary costs we can see that for County Durham they have fallen from

£1.941m to £629k. In Easington it has reduced from £334k to £157k and this reduction has been ploughed into other services such as extending the green waste service.

**Table 3- Estimated Cost Comparisons - 2007/8**

| Authority         | Estimated General contributions to Scheme | Grant             | Discretionary Cost | % Funded by Grant | Passes Issued 2007/8 (Est) | Unit cost of Pass |
|-------------------|---|-------------------|--------------------|-------------------|----------------------------|-------------------|
| Chester-le-Street | £797,000                                  | £530,000          | £267,000           | 66.5              | 10460                      | £74.76            |
| Derwentside       | £1,605,000                                | £1,070,000        | £535,000           | 66.7              | 17121                      | £91.99            |
| Durham City       | £1,221,000                                | £752,000          | £469,000           | 61.6              | 16762                      | £71.47            |
| Easington         | £1,966,000                                | £1,632,000        | £334,000           | 84.6              | 16458                      | £117.20           |
| Sedgefield        | £1,324,000                                | £1,085,000        | £239,000           | 83.5              | 17081                      | £76.10            |
| Teesdale          | £107,000                                  | £180,000          | 0                  | 170.0             | 2732                       | £38.43            |
| Wear Valley       | £897,000                                  | £800,000          | £97,000            | 90.9              | 11830                      | £74.39            |
| <b>Totals</b>     | <b>£7,917,000</b>                         | <b>£6,049,000</b> | <b>£1,941,000</b>  |                   | <b>92,444</b>              |                   |
| <b>Average</b>    |   |                   |                    | <b>77.9</b>       |                            | <b>£84.04</b>     |

**Table 4 – Estimated Cost Comparisons for 2008/9**

| Authority         | Estimated General contributions to Scheme | Grant             | Discretionary Cost | % Funded by Grant | Passes Issued 2007/8 (Est) | Unit cost of Pass |
|-------------------|---|-------------------|--------------------|-------------------|----------------------------|-------------------|
| Chester-le-Street | £757,000                                  | £699,000          | £58,000            | 92.3              | 10460                      | £76.95            |
| Derwentside       | £1,414,000                                | £1,306,000        | £108,000           | 92.3              | 17121                      | £94.73            |
| Durham City       | £1,205,000                                | £1,113,000        | £92,000            | 92.3              | 16762                      | £73.62            |
| Easington         | £2,044,000                                | £1,887,000        | £157,000           | 92.3              | 16458                      | £120.73           |
| Sedgefield        | £1,409,000                                | £1,301,000        | £108,000           | 92.3              | 17081                      | £78.33            |
| Teesdale          | £280,000                                  | £258,000          | £22,000            | 92.3              | 2732                       | £39.53            |
| Wear Valley       | £1,091,000                                | £1,007,000        | £84,000            | 92.3              | 11830                      | £76.58            |
| <b>Totals</b>     | <b>£8,200,000</b>                         | <b>£7,571,000</b> | <b>£629,000</b>    |                   | <b>92,444</b>              |                   |
| <b>Average</b>    |   |                   |                    | <b>92.3</b>       |                            | <b>£86.53</b>     |

## **5.0 Conclusion**

- 5.1 In terms of value for money it is clear from the above that if the Council had not agreed to pool grant in 2006, even though it was not earmarked, then the county-wide scheme would have been in difficulty. Although the national scheme now allows travel on local bus services to any destination the county-wide scheme is slightly better in that it allows off peak travel in the North East. In terms of effectiveness the grant has been used to maintain and improve the service and although a formal customer satisfaction survey has not been conducted feedback in 2006 suggested the elderly and disabled are satisfied with the scheme albeit felt local bus services could be improved.
- 5.2 The financial data shows that Easington has the highest share of the cost as it has received 25% of the grant. However pooling has helped sustain the county-wide scheme and in terms of procurement has enabled the Durham Districts to collaborate and negotiate contracts until the end of March 2010, although subject to appeal by the bus companies. As the latest contract may only be subject to transport inflation the negotiation has given some financial certainty over that period albeit transport costs are adversely affected by rising fuel costs. The government intends reviewing the scheme from 2010/11.

## **6.0 Implications**

### **6.1 Policy**

None.

### **6.2 Financial**

None. .

### **6.3 Legal**

None

### **6.4 Risk**

There are no risks associated with this report.

### **6.5 Communications**

Value for money is an issue identified by residents and it is suggested that results could be included in Infopoint.

### **6.6 Local Government Review**

This report is not directly affected by the review however members may wish to consider the benefit of continuing the value for money programme.

Members will recall that a 3 year value for money programme outlined in appendix 1 was agreed last year however this was prior to the confirmation of the government's decision to restructure local government in Durham which in effect creates a new unitary council from April 2009 with the Durham districts being abolished.

With the implementation date less than 10 months away a significant amount of work is being undertaken by Council officers in readiness. Given the pressure on officers and the fact they are attempting to transfer good practice to the new authority, members may wish to consider whether continuation of the value for money programme is beneficial given the

amalgamation of District and County services from April 2009 and the fact that the Council's officers are spending a significant amount of time in the process.

**6.7 Corporate Plan and Priorities**

The approach adopted has strengthened the way in which the council manages value for money and is designed to give assurance that resources are effectively used to improve performance and customer satisfaction and develop capacity within the organisation.

**Priority: Striving for Excellence in the workplace**

**SFE2:-** That the Council provides Value for Money

**6.8 E Government**

None.

**6.8 Procurement**

None.

**6.9 Equality and Diversity**

None

**7.0 Recommendations**

7.1 Members are asked to consider the above report in the context of value for money.

7.2 To discuss whether continuation of the programme is beneficial given the implications of the local government review.

**Background Papers**

Report to Executive: Use of Resources - Value for Money – 16<sup>th</sup> July 2007.

Report to Resources Scrutiny Committee - Use of Resources - Value for Money Programme – 16<sup>th</sup> September 2007.

Report to Executive Committee – Revised Concessionary Fares Scheme from April 2006. - 4<sup>th</sup> April 2006.

Report to Executive Committee – Revised Concessionary Fares Scheme from April 2008. – 18<sup>th</sup> March 2008.

## Appendix 1

| <u>2007/8</u>       | <u>2008/9</u>                          | <u>2009/10</u>                           |
|---------------------|--|--|
| Horticulture        | Homelessness                           | Commercial and Environmental enforcement |
| Revenues-           | Customer Services                      | Asset Management                         |
| Concessionary fares |  |  |
|                     | East Durham Business Service           |  |
|                     | Community safety                       |  |
|                     | <b>Shared Service Options Reviews.</b> | <b>Shared Service Options Reviews</b>    |