

# National concessionary travel



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# Auditor General for Scotland

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# Summary



Scotland's National Concessionary Travel scheme for older and disabled people is widely used but there are lessons to be learnt from its implementation.



## About the audit

1. Scotland's National Concessionary Travel scheme for older and disabled people (NCT) was introduced in 2006. It provides unlimited free bus travel across Scotland on eligible services for older and disabled people. It builds upon earlier concessionary travel schemes operated by councils. Take-up of the scheme is high and in 2009/10 it cost just over £199 million.

2. Our audit examined the development and management of the NCT scheme and its impact and cost. The report is organised into two sections:

- Part 1 – the introduction and management of NCT
- Part 2 – the impact and cost of NCT.

3. The Scottish Government and Transport Scotland have undertaken reviews of NCT. These included an evaluation of the benefits of the scheme and a review of the reimbursement rate paid to bus companies for carrying concessionary passengers. We have not duplicated this work, but we have used the findings, as well as reports from internal and external auditors, to supplement our own audit work.

4. In addition to desk-based research and analysis, we interviewed staff within the Scottish Government Transport Directorate and Transport Scotland. We also met with the Confederation of Passenger Transport (CPT), which represents major bus companies; the Association of Transport Coordinating Officers (ATCO); and user representatives such as Bus Users UK and Mobility Access Committee Scotland (MACS).

## Key messages

- At the outset, there was not a clear statement setting out what NCT was expected to achieve although its general purpose was to provide opportunities and improve the quality of life of concessionary passengers. National guidance states that a full options appraisal should be carried out but this was not done. Parliament considered the proposals with only limited cost information available. Financial information covered only partial costs for the first two years of the scheme without any details of the long-term cost implications.
- In line with Scottish Executive plans, NCT was introduced in April 2006. Some basic management systems were in place, but robust systems were not in place to effectively administer and manage the scheme or to minimise the risk of error and fraud. Transport Scotland has since established systems to check the accuracy of bus company claims, but it has made slower progress in developing performance measures to assess the impact of the scheme.
- New technology, which was a key element of the design of the scheme, could not be introduced in the timescales set. Implementation is expected to take four and a half years longer than originally planned and cost more than four times the original budget. The technology used had not previously been used operationally and reliance was placed on advice from consultants as Transport Scotland staff did not have the necessary skills.
- The scheme is popular among users with a high level of take-up – around 80 per cent of over 60s in Scotland have an NCT pass. However, recent research shows that NCT has had only limited impact on improving social inclusion, improving health or promoting a shift from car to bus. The Scottish Government's own review said that there is insufficient evidence that NCT is achieving more than the previous local schemes that were in place.
- The cost of NCT (at 2009/10 prices) has increased each year, from almost £173 million in 2006/07 to just over £199 million in 2009/10. The costs of the scheme are expected to continue to increase. Based on current levels of concessionary journeys and a range of fare increases, we project the **uncapped** costs of NCT could reach between £216 million and £537 million a year by 2025.
- Since the introduction of NCT, the cost of concessionary bus travel has increased at a faster rate than the number of concessionary bus journeys recorded. The reasons for this are not fully understood by Transport Scotland or the Scottish Government, but are likely to include increases in bus fares, a more generous reimbursement rate paid to bus companies than under the previous schemes and the inclusion of national bus and coach travel.

## Recommendations

Our examination of the development and introduction of NCT identified weaknesses and highlighted important issues that are not unique to this scheme and need to be addressed in the development of all policies and initiatives. The Scottish Government should:

- provide robust and comprehensive financial estimates, including risk assessments, in support of all legislation that has significant financial implications
- ensure that all policies and initiatives are subject to appraisal as set out in the national guidance – in particular there should be a clear statement of the intended objectives, a full consideration of options to meet agreed objectives and an assessment of the costs, benefits and risks involved
- have clear processes for approving and recording the use of consultants and holding them to account for delivery
- ensure that timescales and budgets for the roll-out of IT developments are realistic. Staff with the necessary skills should be deployed to ensure the development is managed effectively.

At the same time, there are other recommendations that are specific to NCT. The Scottish Government and Transport Scotland should:

- clarify the objectives of NCT and what contribution the scheme is expected to make towards the strategic objectives set out in the National Performance Framework

- consider whether the money spent on NCT and the impact it has is the best use of public resources at a time of budget restraints
- develop performance measures which allow it to assess the impact of NCT against clear objectives and the strategic objectives set out in the National Performance Framework
- work with councils to understand the reasons for variations in the take-up of disabled passes.

# Part 1. The introduction and management of NCT



There were weaknesses in the implementation of NCT.



## Key messages

- At the outset, there was not a clear statement setting out what NCT was expected to achieve although its general purpose was to provide opportunities and improve the quality of life of concessionary passengers. National guidance states that a full options appraisal should be carried out but this was not done. Parliament considered the proposals with only limited cost information available. Financial information covered only partial costs for the first two years of the scheme without any details of the long-term cost implications.
- In line with Scottish Executive plans, NCT was introduced in April 2006. Some basic management systems were in place, but robust systems were not in place to effectively administer and manage the scheme or to minimise the risk of error and fraud. Transport Scotland has since established systems to check the accuracy of bus company claims, but it has made slower progress in developing performance measures to assess the impact of the scheme.
- New technology, which was a key element of the design of the scheme, could not be introduced in the timescales set. Implementation is expected to take four and a half years longer than originally planned and cost more than four times the original budget. The technology used had not previously been used operationally and reliance was placed on advice from consultants as Transport Scotland staff did not have the necessary skills.

- Governance and performance management arrangements have been slow to develop. Transport Scotland has addressed weaknesses in governance arrangements, such as clarifying roles and responsibilities, but it has made slower progress in developing performance measures to assess the impact of the scheme.

## Concessionary travel in Scotland

**5.** Concessionary travel schemes provide free or reduced price travel on public transport for eligible people – usually older and disabled people. Scotland's National Concessionary Travel scheme for older and disabled people (NCT) was developed from previous concessionary travel schemes which councils had operated in one form or another since the late 1960s. Until 2002, it was up to each council to decide who was entitled to concessionary travel, when they could travel and how much contribution, if any, passengers would have to make. Individual councils also negotiated with bus companies to determine how they would be compensated for carrying concessionary passengers, this resulted in different levels of reimbursement across the country.

**6.** In 2002, the then Scottish Executive launched a national minimum standard of concessionary travel in Scotland, providing free off-peak, local bus travel for older and disabled people.<sup>1</sup> Some councils, however, decided to provide additional free, or reduced price, travel at peak times and, in agreements with neighbouring councils, subsidised travel across council boundaries. Overall, there were 16 different local schemes in operation.

**7.** In April 2004, the Scottish Executive announced its plan to standardise these arrangements by introducing a centrally administered

National Concessionary Travel scheme for older and disabled people (NCT). This would provide free local and national bus travel, at peak and off-peak times, to everyone over the age of 60 and to people with certain disabilities.

**8.** The basis of the scheme was set out in a 2004 agreement with bus companies which defined:

- the duration of the scheme – seven years with a major review after three years (this seven-year time limit has since been removed by an amendment to the legislation approved by the Scottish Parliament)
- the rate of reimbursement – 73.6 per cent of the adult single fare for each concessionary passenger (subsequently changed to 67 per cent from April 2010 to March 2013)
- a cap on costs – the maximum to be paid to bus companies for the first two years of the scheme would be £159 million in 2006/07 and £163 million in 2007/08. (Annual caps continue to be set – the caps for the three years 2010/11 to 2012/13 are £174 million, £180 million and £187 million respectively)
- eligible services – all local registered services and non-local scheduled services used by the general public. This excludes most community and voluntary transport services which are often targeted at isolated, frail or disabled people.

**9.** Between 2004 and 2006, the Scottish Executive established a steering group and eight working groups to develop plans to take forward the introduction of NCT. This included establishing eligibility criteria, drafting legislation and planning for the introduction of Electronic Ticket

<sup>1</sup> The Scottish Executive existed between 1999 and 2007 when it was renamed the Scottish Government. When dealing with the earlier period this report refers to the Scottish Executive but in all other instances to the Scottish Government.



Machines (ETMs) on all buses. National Concessionary Travel for older and disabled people was launched in April 2006.<sup>2</sup>

**10.** National concessionary travel schemes also exist in England and Wales although they differ in eligibility and entitlement – these are outlined in [Appendix 1](#).

### Several public and private sector organisations are involved in delivering NCT

**11.** Several public and private sector organisations are involved in delivering NCT:

- The Scottish Government funds the scheme. Until August 2010, officials in the Transport Directorate advised ministers on the operation of the scheme and its impact. These staff were then transferred to Transport Scotland.
- Transport Scotland, a government agency, was created in January 2006 and took over responsibility for introducing and running the scheme.<sup>3</sup>
- Scottish councils are responsible for issuing NCT passes, and integrating these with a single entitlement card which can give access to council services such as libraries and leisure services as well as NCT.<sup>4, 5</sup>
- The bus industry provides the service. The bus industry in Scotland is diverse, with around 300 bus companies, 276 of which carry concessionary passengers. Many of these companies are small operators, in some cases with only one bus, and four per cent of companies in Scotland make up 95 per cent of the bus market. The Confederation of Passenger Transport (CPT)

represents the bus industry in negotiations with the Scottish Government.

### NCT was introduced without full consideration of objectives and long-term costs

**12.** The Scottish Public Finance Manual states that in proposing new projects or initiatives, objectives should be defined, options considered, and the costs, benefits and risks identified and quantified. Clear objectives were not set for NCT at the outset although its general purpose was to provide opportunities and improve the quality of life of concessionary passengers.<sup>6</sup> In September 2004, officials provided a briefing to ministers setting out three alternatives for taking forward the development of NCT:

- Keep the existing 16 schemes overlaid by a national journey entitlement.
- Reach an outline agreement with operators to introduce a national scheme with unlimited journeys.
- Announce the funding for the scheme and then work out the details with the operators at a later date.

However, the briefing did not adequately consider the risks and benefits of these alternatives in line with national guidance. The second alternative was selected.

### Parliament was not provided with full information on the costs of the scheme

**13.** Following a six-week public consultation exercise on the eligibility criteria and administrative arrangements, the Scottish Executive introduced NCT through two Scottish Statutory Instruments (SSIs)

under section 40 of the Transport (Scotland) Act 2005. The Parliament's Local Government and Transport Committee considered the draft legislation in February 2006 and took evidence from bus companies, representatives of service users and the Minister for Transport and Telecommunications. The Committee unanimously supported the legislation and the Scottish Parliament approved the SSIs in March 2006.

**14.** There was limited financial information provided in support of the draft SSIs, with only the reimbursement costs to be paid to bus companies in the first two years of the scheme being included (£159 million in 2006/07 and £163 million in 2007/08). These amounts were budgeted for after the 2004 Spending Review and were set before details of what the scheme would provide or how it would work were finalised. Information on the administrative costs of NCT and the costs of introducing the supporting technology – such as ETMs on buses – was not included.

### NCT was introduced on time but the roll-out of the supporting technology took significantly longer and cost significantly more than planned

**15.** The then Enterprise, Transport and Lifelong Learning Department was responsible for managing the transition from 16 local schemes to the national scheme between May 2003 and January 2006, when responsibility was transferred to the newly created executive agency, Transport Scotland. While most of Transport Scotland's staff were civil servants transferred from the Scottish Executive, no one involved in planning for the introduction of NCT was transferred to manage the scheme. However, a number of staff

<sup>2</sup> As part of NCT, island residents also receive two free return ferry journeys a year between their home island and the mainland.

<sup>3</sup> Since 2007, Transport Scotland also manages a national concessionary travel scheme for young people – this is outwith the scope of this audit.

<sup>4</sup> These arrangements are part of the National Entitlement Cards (NECs) scheme, supported by the Improvement Service, and Dundee City Council as lead council. The NECs are one element of the Improvement Service's Customer First programme.

<sup>5</sup> Strathclyde Passenger Transport issue NCT passes on behalf of the councils in its area.

<sup>6</sup> <http://www.scottish.parliament.uk/business/officialReports/meetingsParliament/or-04/sor1222-02.htm#Col13166>

with experience of operating the largest local scheme – Strathclyde – were transferred to the new agency. Transport Scotland’s internal auditors highlighted the limited audit trail and lack of knowledge transfer between the Scottish Executive and Transport Scotland.<sup>7</sup>

**16.** In line with Scottish Executive plans, NCT was introduced in April 2006. The agreement reached with the bus companies in 2004 on the operation and funding of the scheme was applied and some basic management systems were put in place. For example, there were systems to enable users to apply for NCT passes and processes to enable bus companies to submit claims and for Transport Scotland to reimburse them. However, the supporting ETM technology, a key feature of the scheme from the outset, was not in place. [Exhibit 1](#) outlines how NCT

works with, and without, the ETM technology.

**The roll-out of the supporting technology is expected to take four and a half years longer than planned**

**17.** The Scottish Executive planned that ETM technology would be fully operational by April 2006 for the start of the scheme. This technology was expected to make the scheme more efficient, less susceptible to fraud and easier to administer. Councils had issued NCT passes to existing concessionary passengers and new applicants by April 2006; however, the ETMs on buses and the necessary back-office systems were not in place. Since then Transport Scotland has been required to revise frequently the expected completion date. Roll-out of the ETMs on buses was completed in August 2010. Transport Scotland now expects the back-office systems to enable the automatic

transfer of bus operators’ claims to be fully operational by December 2010 – four and a half years later than originally planned ([Exhibit 2](#)).

**18.** An external review of the introduction of ETM technology highlighted a number of reasons for the delay in the roll-out:<sup>8</sup>

- The technology was groundbreaking and had not been used before.
- Weak contracting arrangements made the roll-out difficult to manage.

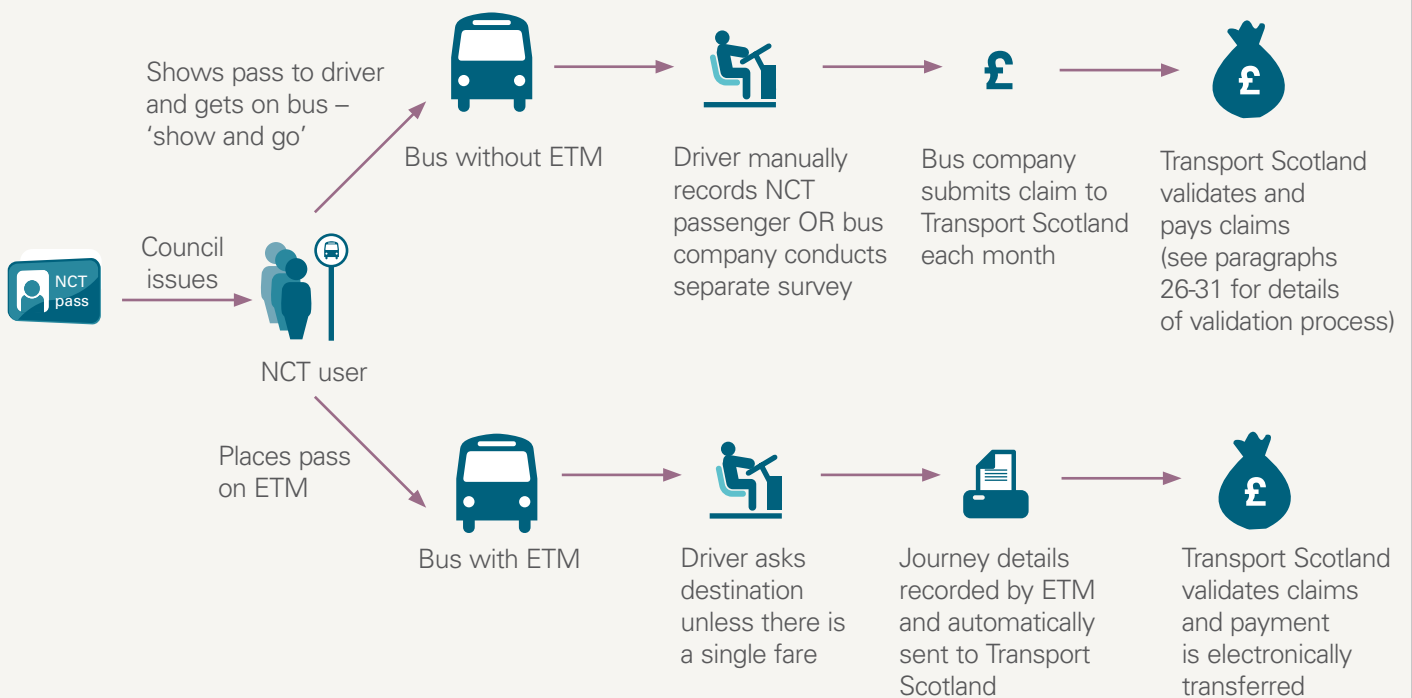
**The technology to support NCT had not been used before**

**19.** The Scottish Executive took advice from consultants, MVA, and decided to use a technical specification called Integrated Transport Smartcard Organisation

## Exhibit 1

### How NCT works

NCT operates with and without ETM technology.



Source: Audit Scotland, 2010

<sup>7</sup> In August 2010, the Scottish Government Transport Directorate transferred into Transport Scotland.  
<sup>8</sup> *Review of smartcard programme national concessionary fares scheme*, PriceWaterhouseCoopers, 2009.

(ITSO) as the platform for ETM technology.<sup>9</sup> ITSO was intended to form the basis of bus company claims by allowing information to be passed securely between different operators and Transport Scotland. The Scottish Executive’s decision to introduce ITSO was ambitious, but it did represent a risk. The technology had not been used before and so there was no experience to learn from. The decision tied NCT to technology that is still evolving today.

**20.** The Scottish Executive, and MVA, wrongly assumed that all ITSO equipment would integrate automatically. However, as ITSO provides a general framework for multi-operator ticketing and is not wholly prescriptive, individual ETM suppliers interpreted the ITSO specification differently. This meant that NCT passes which had been used on one supplier’s ETM would not work on another supplier’s machine. Transport Scotland had to develop an ITSO ‘integration’ specification to solve this problem. Similarly, Transport Scotland assumed that each enhancement to ITSO would be compatible with previous enhancements but this was not always the case. Transport Scotland estimates that these factors added around three years to the roll-out of ETM technology.

**Weak contracting arrangements made the roll-out difficult to manage**

**21.** Contracts for the roll-out of ETM technology were awarded by the Scottish Executive, with advice from consultants, in autumn 2005.<sup>10</sup> Transport Scotland now manages contracts with six companies for:

- the supply of ETMs (Almex, ERG, Parkeon)
- the supporting back-office system (Logica and Fujitsu – Logica has subcontracts with a further four companies for different elements of the back-office system)
- consultancy and support services (Logica advise on the testing for integration and MVA advise on general validating and testing).

**22.** During this audit, Transport Scotland and the Scottish Government were unable to explain to us the process by which the contracts were awarded in 2005. In 2009, the external review identified weaknesses in the process, concluding that the contracts did not transfer appropriate risks to the suppliers and, despite the ETM technology being critical to the prevention of fraud, no timescales for its introduction were set with the suppliers. The reviewers also concluded that the contractual

position was complicated which made it difficult for Transport Scotland to manage, and left the agency responsible for ensuring the whole system worked.

**23.** While the review gave credit to Transport Scotland for the progress made in the circumstances it faced in the early stages of the scheme, it found that its staff did not have the appropriate capacity or experience of large-scale, complex technological projects to manage and deliver the roll-out of ETM technology to best effect. As a result, Transport Scotland relied on the advisers, Logica and MVA, to provide the necessary expertise. However, Logica is also contracted to provide supporting back-office systems. The external reviewers concluded that this provided Logica with too much influence over the management and delivery of the scheme.

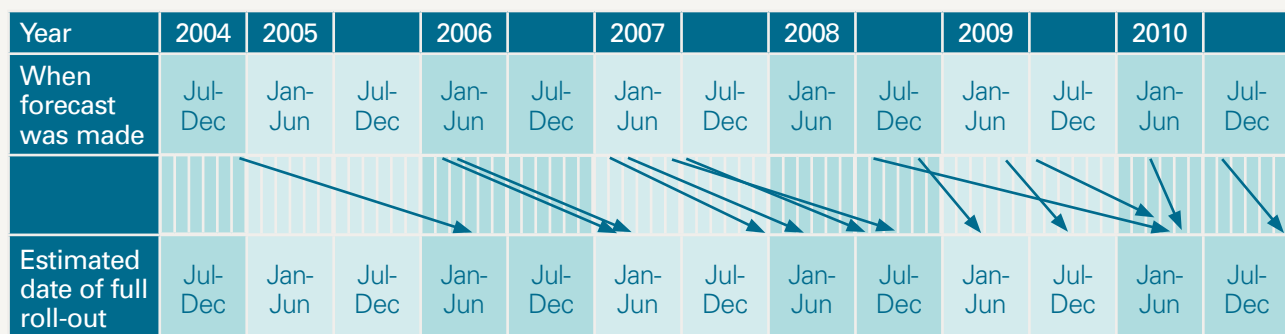
**The set-up cost of ETM technology has increased from £9 million to £42 million**

**24.** The original budget set by the Scottish Executive for the introduction of ETM technology in 2004 was £9 million, although it is not clear how this was calculated or what cost factors were included. A year later, it realised that this budget was unrealistic – it was not enough to buy

**Exhibit 2**

**Estimated completion dates for the roll-out of ETM technology**

The expected completion date has changed repeatedly since 2006.



Source: Audit Scotland, 2010

9 ITSO is a UK Government-backed technical specification which allows for multi-operator ticketing.

10 MVA and Anite consultants advised the Scottish Executive on the contracts for the roll-out of the ETM technology. Anite provided project management advisory services between 2005 and 2008.

an ETM for every bus in Scotland, let alone pay for the back-office systems. In August 2010, Transport Scotland estimated that the total set-up cost of implementing the ETM technology would be £42 million, with additional ongoing running costs of around £3 million each year (Exhibit 3).

**25.** It is left to bus companies to decide which ETM supplier they want to use and to decide what additional functionality – such as vehicle trackers – they would like included. The chosen ETM supplier and bus company then decide when the technology will be installed and tested. Transport Scotland is responsible for paying for the costs of installing the basic ETMs, bus companies must pay for any additional functionality.

### There were limited systems to check bus companies' claims in the first year of NCT but improvements have since been made

**26.** By April 2008, only 11 per cent of buses had ETMs and used them to submit claims. A year later, nearly 50 per cent of buses used ETMs and by August 2010, all buses used the technology. Transport Scotland estimates that systems will be in place to allow for the automatic transfer of bus company claims by December 2010. The considerable delays in introducing ETM technology left the NCT scheme potentially more vulnerable to error and fraud.

**27.** For the first four years of the scheme, bus companies were permitted to calculate their claims for reimbursement under NCT in one of three ways:

- In the absence of ETM technology, the bus company surveyed passengers when they got on and off the bus to determine the proportion that were in possession of an NCT pass. The

### Exhibit 3

#### Total set-up costs of the ETM technology

Total set-up costs of the roll-out of the technology will reach more than four times the original budget.

	£ million						Totals
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	
General programme	0.76	0.03	0.29	1.85	0.17	1.99	5.09
Consultancy and support services	0.65	0.89	0.90	0.71	0.59	0.18	3.92
ETMs and back-office equipment	1.24	4.20	7.99	6.52	6.64	6.67	33.26
<b>Total</b>	<b>2.65</b>	<b>5.12</b>	<b>9.18</b>	<b>9.08</b>	<b>7.40</b>	<b>8.84</b>	<b>42.27</b>

Source: Transport Scotland, 2010

company's claim was calculated from the estimated number of concessionary bus journeys made per fare stage based on the survey results. Only First Glasgow – the biggest bus company – used this system. Transport Scotland agreed the format and frequency of the survey but First Glasgow was allowed to choose the bus routes where it was applied.

- In the absence of ETM technology, the bus company had ticketing equipment or other information systems that allowed it to determine the number of concessionary journeys as a proportion of total journeys and the total number of travellers per fare stage. Calculation of the claim assumed that concessionary travellers were in the same proportion as total travellers for each fare stage.
- Either the bus company had ETMs installed or its own ticketing equipment allowed it to determine the number of concessionary travellers for each fare stage. Unlike the other methods,

claims were based on actual concessionary journey information rather than estimates.

**28.** From April 2010, all bus companies were required to calculate claims using actual data of the number of concessionary travellers and distance travelled. Prior to April 2010, even when bus companies had ETMs installed they could still submit claims based on estimates.

**29.** In 2007, Transport Scotland's internal auditors reported that the decision to introduce the NCT scheme on a 'show and go' basis (ie, without the technology), coupled with the different ways bus companies calculated their claims, meant there was a substantial risk of claims being incorrect.<sup>11</sup> The auditors noted that systems and staff to validate the claims in the absence of the technology were limited and concluded there was a major risk of money being fraudulently claimed, or claimed in error. The extent of this cannot be assessed.

**30.** Within 18 months from the start of the scheme, annual audit work by Audit Scotland found that Transport Scotland had improved the systems for checking and validating bus company claims (*Exhibit 4*).<sup>12</sup> Those systems revealed that in 2009/10 over £700,000 of inaccurate claims had been rejected. Transport Scotland is currently developing a model to quantify the value of inaccurate claims identified through its validation processes on an ongoing basis.

**31.** Transport Scotland developed a fraud policy and fraud strategy which was introduced in February 2009. This is intended to provide an improved

framework for dealing with instances of suspected fraud and gives clear guidance on gathering evidence and deterrent options. Transport Scotland pursues instances of suspected fraud and, in 2009/10, claims of four bus companies were under investigation, with two companies charged with fraud (*Case study 1, overleaf*). The NCT unit in Transport Scotland is able to report suspected fraud directly to the Crown Office and Procurator Fiscal Service.

### Governance and performance management arrangements have been slow to develop

#### Transport Scotland has addressed weaknesses in governance arrangements

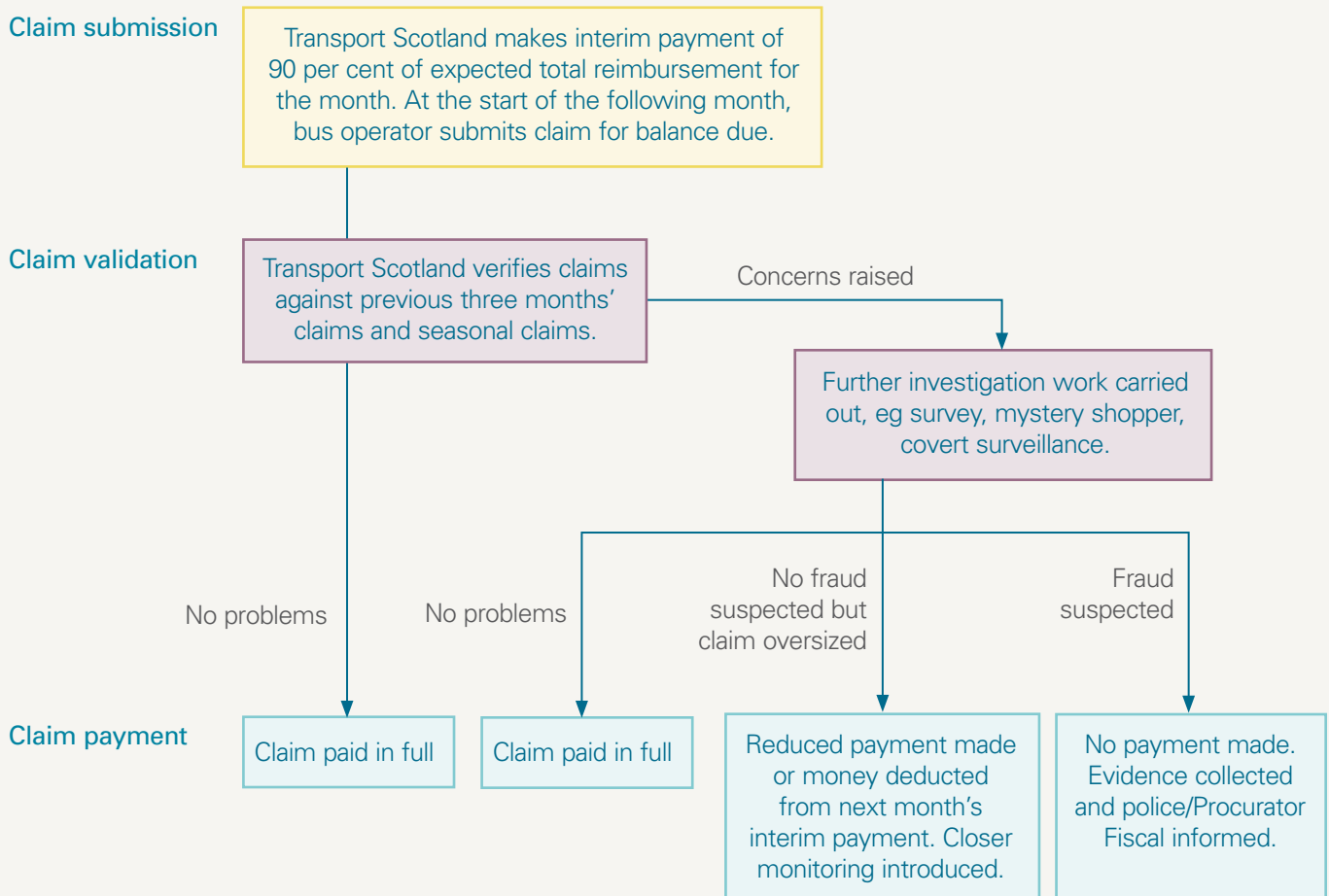
**32.** In 2007, Transport Scotland's internal auditors were critical of the governance arrangements for NCT and recommended that:

- roles and responsibilities should be more formally defined
- there should be formalised systems to monitor and report progress

## Exhibit 4

### Checks on bus company claims

Transport Scotland has a system of checks in place to validate bus company claims.



Source: Audit Scotland, 2010

## Case study 1

### Transport Scotland uses a range of measures to investigate suspected overpayment and fraud

During validation, Transport Scotland considered claims for an operator on a busy urban route to be high. This service was newly registered and despite having only operated for a few weeks, the number of concessionary passengers claimed already appeared to be far in excess of what might reasonably be expected.

Transport Scotland conducted a survey and passenger numbers were much lower than those claimed by the operator. Transport Scotland reduced the operator's interim payments to recoup the calculated over-claim. The operator ceased to trade.

Transport Scotland calculated the outstanding overpayment was £247,000 and debt recovery action was put in place.

Source: Transport Scotland, 2010

- there should be arrangements for the effective use of risk management and financial information.

The report noted there was evidence that some of these arrangements had been in place when NCT was first introduced, but that they had become less clear and less formal since then.

**33.** In response, Transport Scotland established the Concessionary Fares Governance Board to approve all key decisions and expenditure, and to provide direction on the operation of the scheme. The board improved the flow of information to senior management on key aspects of the scheme.<sup>13</sup> Initially it provided oversight over the development of checks on bus company claims and, more recently, it has focused on the introduction of ETMs. In 2010, Transport Scotland's internal auditors reported that the governance arrangements for NCT were sound and well managed.

### Performance management arrangements have been slow to develop

**34.** It is essential that the impact made by public services and the outcomes achieved by public spending can be demonstrated. ETM technology was intended to provide routine performance management information for the NCT scheme, such as the number of journeys made, when and where they started and finished. In January 2006, the Scottish Executive said that Transport Scotland would be responsible for monitoring and evaluating the scheme. It said that the statistical and performance information gathered by Transport Scotland would be used to shape and develop the scheme over time, to ensure it continued to meet the needs of the users and the aims of the Executive.<sup>14</sup> However, this has not happened on a routine basis and, in the absence of the technology, systems to monitor the performance and impact of the scheme have still to be fully developed.

**35.** Transport Scotland told us its priority in the first year was to improve processes to validate claims and take forward the roll-out of ETM technology. It decided not to develop robust performance management systems at this time, considering that the best use of available resources was to focus on risk management arrangements. This included reducing the risk of bus companies making inaccurate or fraudulent claims.

**36.** Transport Scotland introduced some performance indicators for NCT in 2006 and amended and expanded these in 2009. However, these performance indicators largely relate to the effective administration of NCT. Transport Scotland plans to develop its performance indicators and performance management arrangements in 2010/11 to focus more on impact and to incorporate the views of concessionary passengers.

<sup>13</sup> *Audit of Concessionary Travel 2008-09*, a 2009 management report by Audit Scotland as external auditors of Transport Scotland.

<sup>14</sup> *Scottish Executive response to the public consultation on the Scotland-wide free bus scheme for older and disabled people*, Scottish Executive, 2006.

# Part 2. The impact and cost of NCT



The costs of NCT are significant and projected to increase, but its impact appears limited.



## Key messages

- NCT has standardised eligibility and increased access to free bus travel for older people and some disabled people. The scheme is popular among users with a high level of take-up – around 80 per cent of over 60s in Scotland have an NCT pass. However, recent research shows that NCT has had only limited impact on improving social inclusion, improving health or promoting a shift from car to bus. The Scottish Government's own review said that there is insufficient evidence that NCT is achieving more than the previous local schemes that were in place.
- There is unexplained variation in the take-up of disabled NCT passes. There are also some people who, although eligible for NCT, cannot benefit from it as they cannot physically access a bus or they live in areas without a bus service. There is a risk that some of these people may be more socially excluded than some NCT users.
- The cost of NCT (at 2009/10 prices) has increased each year, from almost £173 million in 2006/07 to just over £199 million in 2009/10. The costs of the scheme are expected to continue to increase. Based on current levels of concessionary journeys and a range of fare increases, we project the **uncapped** costs of NCT could reach between £216 million and £537 million a year by 2025.
- Since the introduction of NCT, the cost of concessionary bus travel has increased at a faster rate than the number of concessionary bus journeys recorded. The reasons for

this are not fully understood by Transport Scotland or the Scottish Government, but are likely to include increases in bus fares, a more generous reimbursement rate paid to bus companies than under the previous schemes and the inclusion of national bus and coach travel.

- To help control the costs of the scheme, the Scottish Government places an overall limit – a cap – on the amount of money which will be reimbursed to bus companies each year. The Scottish Government has concluded there was a lack of evidence to support key elements of the reimbursement rate paid to bus companies for the first four years of the scheme and has recently reduced the rate.
- The NCT was supported by all political groups in Parliament on its introduction. However, public sector budgets are now under significant pressure. The Scottish Government recognises that in the longer term it will be difficult to sustain the scheme in its current form. There are several options which the government may wish to consider for the long-term sustainability of NCT, such as increasing the eligibility age, introducing a flat fare or targeting services to specific groups.

### **Take-up of NCT is high but it is not clear whether it is achieving more than the previous arrangements**

#### **Take-up of NCT passes is high but there is unexplained variation in the take-up of disabled passes**

**37.** NCT has standardised eligibility and increased access to free bus travel for older people. There are

just over 1.1 million NCT passes in circulation and around 80 per cent of those aged 60 and over have a pass. Under the previous arrangements, eligibility criteria for disabled people varied across council areas. With the introduction of NCT, the Scottish Executive standardised eligibility criteria for disabled people. This followed a six-week public consultation exercise.

**38.** Around 15 per cent of NCT passes are issued under disability criteria. However, the proportion of disabled people with an NCT pass is not known as an individual may be eligible for NCT under a number of different disability criteria and disabled people over 60 may claim a pass based on their age. There is also unexplained variation in the take-up of disabled passes across the country. Take-up of disabled passes varies from less than two per cent of the total population in some council areas to over five per cent in others.

**39.** There may be valid reasons for this variation but, equally, the variation could be the result of some eligible people not receiving concessionary travel to which they are entitled or others receiving NCT passes who should not be. A Transport Scotland internal audit report previously highlighted the need for greater consistency in councils' processing of NCT cards and the need for Transport Scotland to increase the level of assurance it received on councils' processing arrangements.<sup>15</sup> Original plans to meet with councils every quarter did not happen but Transport Scotland is now planning to increase training visits to councils in the future. Given its equalities duties, Transport Scotland should work with councils to understand the reasons for this variation.

#### **It is not clear that NCT is achieving more than previous arrangements**

**40.** Transport Scotland does not routinely monitor the impact of NCT.



This, in addition to a lack of baseline data and the difficulty found in measuring cause and effect, makes it hard to assess the overall impact of the scheme.

**41.** However, in May 2009, Transport Scotland published an independent evaluation of NCT.<sup>16</sup> The same month, the Scottish Government published its own national review of the scheme as required by the 2004 agreement between bus companies and the Scottish Executive. The Government's review drew on the findings of Transport Scotland's evaluation.

**42.** Both of these reports listed eight objectives for NCT and assessed the scheme's impact against some of them. There is no evidence that these objectives were in place when the scheme was introduced in 2006. The Scottish Government and Transport Scotland are unable to explain how these objectives were established or which objectives are the priorities. Transport Scotland's evaluation shows that NCT has had only limited impact on these objectives (Appendix 2). The Scottish Government's own review found there was insufficient evidence to conclude that the national scheme was achieving more than the previous local schemes.

**43.** There are some people who, although eligible for NCT, do not benefit from the scheme. These include:

- people who live in remote and rural areas not served by buses
- frail and disabled people who cannot use bus services. Research has shown that cost is only one of the barriers to disabled people using public transport.<sup>17</sup>

**44.** There are also some disabled people who were eligible for

## Exhibit 5

### The cost of NCT

The cost of NCT, at 2009/10 prices, has increased each year.

	£ million			
	2006/07	2007/08	2008/09	2009/10
Reimbursement to buses	165.2	170.0	182.1	186.4
Ferry	0.5	0.7	0.6	0.8
Other expenditure	0.9	1.1	1.0	2.0
Smartcard	5.9	10.3	10.6	10.2
<b>Total</b>	<b>172.5</b>	<b>182.1</b>	<b>194.3</b>	<b>199.4</b>

Note: The smartcard costs include running costs and are therefore higher than the set-up costs used in Exhibit 3, page 10.

Source: Transport Scotland, 2010

concessionary bus travel under some of the previous local schemes but who are not now eligible under NCT. This is because NCT requires a higher level of disability to qualify than some previous schemes. For example, people on lower levels of disability living allowance are no longer entitled to concessionary travel. These people may need guidance and supervision when moving around or may have learning difficulties. The number of people adversely affected is not known but the Learning Disability Alliance Scotland has estimated that around 12,000 people may be affected.<sup>18</sup> There is a risk that some of these people may be more socially excluded than some NCT users who are relatively fit, able bodied and well-off.

### The costs of NCT are significant although the reimbursement rate has recently been reduced

#### NCT has cost £748 million over four years

**45.** The total cost of NCT was around £748 million, at 2009/10 prices, over the first four years of the scheme

(2006/07 – 2009/10). The costs have increased each year since the scheme began and have increased by 16 per cent over these four years (Exhibit 5). Following the introduction of NCT, the Scottish Executive removed £79 million from councils' suggested funding provision for concessionary travel.

**46.** To help control the costs of the scheme, the Scottish Government places an overall limit – a cap – on the amount of money which will be reimbursed to bus companies each year. The Scottish Government agrees the cap with the Confederation of Passenger Transport (CPT) in advance. To date, the cap was only reached in 2007/08 when the uncapped cost of the scheme would have been an additional £2 million. Transport Scotland report no adverse reaction from bus companies when it applied the cap.

#### The cost of concessionary bus travel has increased at a higher rate than the number of journeys made

**47.** Our analysis of the costs of concessionary travel before and after the introduction of NCT indicate

<sup>16</sup> *Evaluation of National Concessionary Travel in Scotland*, Transport Scotland, 2009. Based on work by consultants – Halcrow.

<sup>17</sup> *Mind the Gap: the next steps*, Leonard Cheshire Disability, 2009.

<sup>18</sup> <http://www.ldascotland.org>

that the cost of concessionary bus travel has increased at a faster rate than the number of concessionary bus journeys recorded.<sup>19</sup> Between 2003/04 and 2005/06, the costs of concessionary bus travel increased by seven per cent from £122 million to £130 million (at 2009/10 prices). Between 2005/06 (the year before the introduction of NCT) and 2009/10, the cost of concessionary bus travel increased by 53 per cent, from £130 million to £199 million (at 2009/10 prices). However, in the same five-year period, the number of concessionary bus journeys increased by only three per cent, from 147 million to 151 million journeys (Exhibit 6).

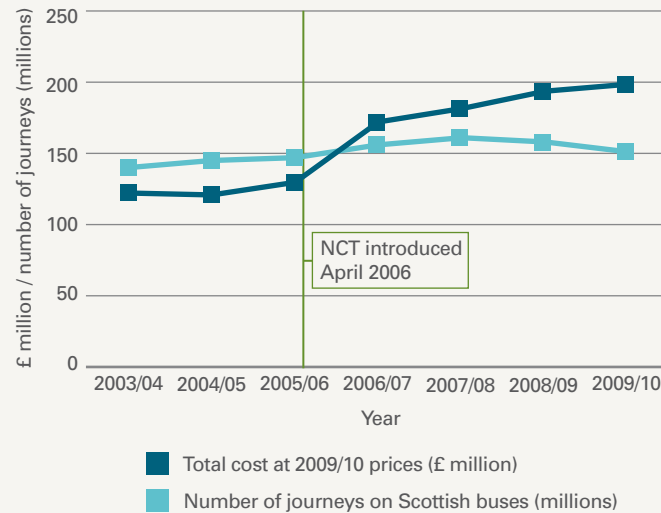
**48.** The reasons for this increase in costs are not fully understood by Transport Scotland or the Scottish Government. However, our audit has identified a number of potential contributory factors:

- Under previous arrangements, concessionary travellers often paid a flat rate contribution such as 20 pence a journey, whereas NCT is free.
- NCT now includes national bus and coach travel that was not included in the previous arrangements.
- The amount bus companies are reimbursed may now be more generous than under previous local arrangements (this is discussed in more detail in paragraphs 49 to 53).
- Increased bus fares. Bus companies are responsible for setting bus fares although Transport Scotland can challenge any increase in adult single fares it considers too high. The reimbursement rate is a percentage of the adult single fare

### Exhibit 6

#### The costs of concessionary bus travel (2003/04 to 2009/10)

Since the introduction of NCT, the costs of concessionary bus travel (at 2009/10 prices) have increased at a higher rate than the number of journeys recorded.



Source: Audit Scotland, 2010

for each journey made, therefore increases in fares means extra cost to Transport Scotland. The average adult single fare increased by 25 per cent between 2006/07 and 2009/10 while, over the same period, general inflation increased by seven per cent.<sup>20</sup>

#### The reimbursement rate paid to bus companies has recently been reduced

**49.** NCT reimburses all bus operators a standard proportion of the adult single fare that the concessionary passenger would have paid to travel. The reimbursement rate is based on a formula which compensates operators for:

- lost revenue, ie fares of passengers who would have paid to travel in the absence of a scheme

- any additional costs caused by carrying passengers who would not have travelled in the absence of a scheme.

This is then adjusted to reflect the fact that some passengers would have bought discounted tickets such as a day ticket instead of a full price single fare.

**50.** The original reimbursement rate (73.6 per cent of the adult single fare) was agreed between the Scottish Executive and CPT in 2004. These negotiations were influenced by the identical rate having been agreed earlier between the Welsh Assembly and the bus companies in Wales.

**51.** NCT is based on the principle that no bus company should be better or worse off by participating in the scheme. This is simple in theory, but complex and uncertain in practice,

<sup>19</sup> This calculation assumes that spend by Scotland's councils on other modes of concessionary travel has remained constant, in real terms, with reported average spend from 2003/04 to 2005/06.

<sup>20</sup> GDP deflator index, HM Treasury, August 2010. [http://www.hm-treasury.gov.uk/d/gdp\\_deflators.xls](http://www.hm-treasury.gov.uk/d/gdp_deflators.xls)

particularly when there is a standard national rate. For example, the costs of additional passengers will vary across bus companies and between individual routes. If the bus company or route with the highest costs from additional passengers is no worse off under a national reimbursement rate, then all other bus companies must be better off.

**52.** The Scottish Government review of NCT in 2009 concluded there was a lack of evidence to support key elements of the rate.<sup>21</sup> It therefore commissioned Leeds University to examine the evidence behind the reimbursement rate. This concluded that bus companies were being over-compensated and it recommended a lower rate. The Scottish Government reduced the reimbursement rate from 73.6 per cent of the adult single fare to 67 per cent with effect from April 2010.

**53.** The Confederation of Passenger Transport agreed to the reduced reimbursement rate as part of a three-year agreement with the Scottish Government. This provided some stability for both parties. However, CPT does not agree with all the findings of the Leeds University report and does not believe that the new reimbursement rate adequately covers the costs of carrying concessionary passengers. CPT believes that some services and routes may have to be cut as a result of the reduced rate. A cut in services could have an impact on councils which subsidise socially necessary bus services. However, it is too early to judge the extent, or impact, of any service cuts.

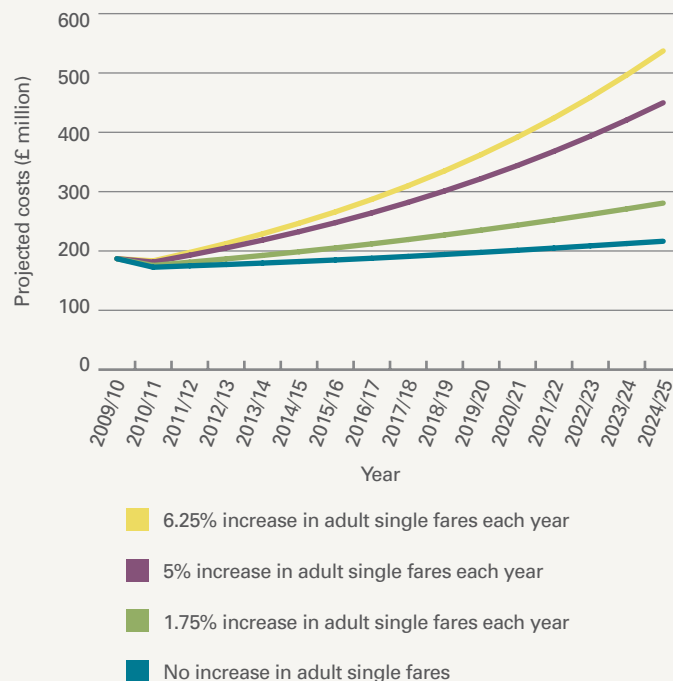
### The costs of NCT are likely to continue to increase in future years

**54.** Given Scotland's ageing population, the costs of NCT are expected to continue to increase. We

## Exhibit 7

### Projected increased cost of NCT

The uncapped costs of NCT are likely to increase each year.



Note: Future costs assume that take-up and use of NCT passes among the over 60s and disabled people will remain constant. We have then projected the future costs of NCT based on 67 per cent (the current reimbursement rate) of the adult single fare and assumed a range of changes to the adult single fare.

Source: Audit Scotland, 2010

have projected future cost increases based on recent trends in average adult single fares and inflation and on Transport Scotland's estimate of a five per cent increase in adult single fares each year. Exhibit 7 shows the projected increased costs of NCT based on:

- no increase in adult single fares – increasing costs are solely due to the growing number of people aged 60 and above
- a 1.75 per cent increase in adult single fares each year (reflecting increases in general inflation between 2006/07 and 2009/10)

- a five per cent increase in adult single fares each year (Transport Scotland's estimate)
- a 6.25 per cent increase in adult single fares each year (reflecting increases in the average adult single fare between 2006/07 and 2009/10).

This shows that the uncapped costs of the scheme could reach between £216 million and £537 million by 2025. The *Independent Budget Review* also projected the increase in the costs of NCT based on an eight per cent increase in adult single fares each year and found that the annual costs of NCT could increase to £286 million by 2014/15.<sup>22</sup>

<sup>21</sup> *Review of the Scotland-wide free bus travel scheme for older and disabled people*, Scottish Government, 2009.

<sup>22</sup> *Independent Budget Review*, Beveridge, McIntosh and Wilson, 2010. <http://www.scotland.gov.uk/Resource/Doc/919/0102335.pdf>

The *Independent Budget Review* was commissioned by Scottish ministers to inform public spending and set out a range of options that could be considered to address Scotland's budgetary challenges. The review was undertaken by Crawford Beveridge, Sir Neil McIntosh and Robert Wilson and was published in July 2010. It commented on the future increasing costs of NCT and recommended immediate government action to review the eligibility criteria.

### Future sustainability of NCT

**55.** NCT was supported by all political groups in Parliament on its introduction. However, public sector budgets are now under significant pressure. The Scottish Government recognises that, in the longer term, it will be difficult to sustain the scheme in its current form.<sup>23</sup> The *Independent Budget Review* recently recommended immediate action to review the scheme. There are a range of potential options the Scottish Government could consider, such as changing the eligibility criteria or asking passengers to pay a contribution.

**56.** The Scottish Government would want to consider any option against its priorities and strategic objectives set out in the National Performance Framework and in the context of all services available to older people. This would require a full assessment of the potential savings of any changes, the impact on NCT's objectives and any unintended consequences. For example, it would need to consider whether savings in the concessionary fares budget would lead to additional expenditure in health and social care budgets because of the reduced mobility of some older and disabled people.

**57.** Based on concessionary travel schemes elsewhere, and previous Scottish schemes, potential options could include:

- **Increasing the eligibility age**  
The age limit for the national concessionary travel scheme in England is increasing to 65 in 2015. If this approach was adopted in Scotland, we calculate that this would save approximately £40 million each year.

- **Introducing a flat rate**  
Under most of the previous local schemes, concessionary passengers had to pay a standard flat rate such as 20 pence per journey. If this approach was adopted by the Scottish Government for NCT, a 20 pence standard rate would generate £30 million a year.<sup>24</sup> Research published by the Scottish Executive in 2004 reported that some concessionary passengers would be happy to pay a small fare.<sup>25</sup>
- **Better targeting of the scheme**  
The Local Government Association in England reported that the national concessionary fares scheme in England was an inefficient and high-cost way of delivering its objectives and that better targeting at the scheme's intended beneficiaries (eg, those who were socially excluded) would generate savings.<sup>26</sup> In Scotland, some people use NCT to travel to and from work. Some of these people could be at the peak of their earning potential, while others may have to work to supplement their income. The number of people with an NCT pass in employment, and how much they earn, is not known. However, at the last census there were over 223,000 people in Scotland aged 60 and over who were still in employment. Based on average usage in 2009/10, removing these people from NCT could save around £34 million a year.<sup>27</sup>
- **Changes to the way bus companies are reimbursed**  
The Scottish Government could maximise ETM technology to better reflect the fare concessionary passengers would have paid in the absence of the

scheme. So that, for example, when someone is making multiple journeys on the buses of a single operator on the same day, then that operator could be reimbursed a proportion of a discounted day ticket rather than a proportion of numerous adult single fares. The information is not currently available to calculate how much this would save.

<sup>23</sup> *Review of the Scotland-wide free bus travel scheme for older and disabled people*, Scottish Government, 2009.

<sup>24</sup> Based on number of journeys in 2009/10.

<sup>25</sup> *Monitoring free local off-peak bus travel for older and disabled people*, Scottish Executive, 2004.

<sup>26</sup> *Securing Best Value and outcomes for taxpayer subsidy of bus services*, Local Government Association, 2009.

<sup>27</sup> <http://www.scrol.gov.uk>

# Appendix 1.

## How NCT compares with concessionary travel schemes in England and Wales

Concessionary travel schemes also exist in England and Wales. The scheme in Wales is a national scheme – like NCT. In England, councils manage their own schemes, this has resulted in a range of different forms of reimbursement. There are also differences in the entitlement, eligibility and costs of concessionary travel in Scotland, England and Wales.<sup>1</sup> For example, the Scottish scheme is the only one to include travel on national bus services.

	Scotland	England	Wales
<b>Entitlement</b>			
Free travel	✓	✓	✓
Local bus services	✓	✓	✓
National bus services	✓		
Off-peak travel	✓	✓	✓
Peak-time travel	✓		✓
<b>Eligibility</b>			
60 +	✓	✓ (until 2012)	✓
Retirement age		✓	
Blind or partially sighted	✓	✓	✓
Profoundly or severely deaf	✓	✓	✓
Without speech	✓	✓	✓
Long-term ability to walk is substantially affected	✓	✓	✓
No arms or long-term loss of the use of arms	✓	✓	✓
Learning disability	Only those in receipt of high and medium Disabled Living Allowance	✓	✓
Would be refused a driver's licence on the grounds of physical fitness (not caused by persistent misuse of drugs or alcohol)	✓	✓	✓
Terminally ill	✓	✓	✓
Injured war veterans (from 2011)	✓	✓	✓
Reimbursement to bus companies (2009/10)	£186.4 million	Over £1 billion	£57.5 million
	Total costs met by Scottish Government	Around 80% of costs are met by councils, 20% by central government	Total costs met by Welsh Assembly
Take-up of concessionary passes (2009/10)	1.1 million	Up to 11 million	620,000
Cost per cardholder (2009/10)	£169.45	Around £90.91	£92.74

<sup>1</sup> We have made the costs as comparable as possible. However, detailed information on the costs and number of cardholders is not readily available for the council-run schemes in England.

# Appendix 2.

## Transport Scotland's evaluation of NCT

NCT has not delivered against most of its stated objectives.

Objectives	Conclusions of Transport Scotland's evaluation
Allow older and disabled people (especially those on low incomes) improved access to services, facilities and social networks by 'free' scheduled bus services; and so promote social inclusion.	NCT is supporting a high proportion of trips to access services, facilities and social networks that would have taken place anyway.  Take-up and usage of NCT is higher among those in less well off areas. However, since the introduction of NCT, take-up of concessionary passes has increased most among the most affluent and those in employment.
Improve health by promoting a more active lifestyle for the elderly and disabled.	NCT cardholders are walking more than they previously did. However, non-NCT users are also walking more. It is not clear to what extent NCT has contributed to this increase in activity.
Remove the restrictions of the previous local off-peak concessionary fare schemes that produced differences in access to facilities in different areas of Scotland.	Transport Scotland's evaluation did not consider this objective. However, NCT has removed the restrictions and variation that existed for concessionary bus travel under the previous arrangements. There is still variation in terms of rail, ferry and other local concessionary travel.
Promote shift from private car use to public transport.	NCT has promoted a shift from private car to bus among NCT users regardless of income or age. The research has been unable to identify the extent to which this is due to NCT or other wider factors such as older people being less willing to drive on unfamiliar roads or into busy town centres.
Maintain a no better, no worse off position for bus operators with standard reimbursement rate.	The legislation makes it clear that it is to be an objective (but not a duty) of the Scottish ministers that bus operators are financially no better and no worse off as a result of their participation in NCT. This is discussed in more detail at paragraphs 49 to 53.
Provide opportunities for improvements to public transport (eg, assist development of multi-operator ticketing; use of improved electronic ticket machine technology; and reduce the number of fraudulent journeys made).	The delay in the roll-out of ETMs has meant that, to date, no benefits have been realised from the investment.
Facilitate more effective administration of the system, with adoption of the standard reimbursement rate (73.6p for every pound of the 'actual' fare) and shift operational responsibility from local authorities to Transport Scotland.	Transport Scotland estimates that over £9 million was saved in administration costs in 2006/07 and 2007/08 compared to the previous local arrangements. It assumes that this saving – £4.5 million a year – will be made each year.
Provide a stimulus to the introduction of the smartcard (ie, an electronic bus pass, issued by the council, which could also allow cardholders to access other local services).	Transport Scotland's evaluation did not consider this objective. However, all councils use National Entitlement Cards for proof of age cards for young people and all but two councils use them for other local services such as libraries and leisure centres. It is not known how many people have NECs just to access local services.

# National concessionary travel

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