Northern Ireland
Assembly

COMMITTEE FOR
REGIONAL DEVELOPMENT

OFFICIAL REPORT
(Hansard)

Transport Bill

20 October 2010

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Fred Cobain (Chairperson)
Miss Michelle McIlveen (Deputy Chairperson)
Mr Allan Bresland
Mr Billy Leonard
Mr Trevor Lunn
Mr Fra McCann
Mr Conall McDevitt
Mr George Robinson

Witnesses:

Ms Anne Breen	)	
Mr Sean Johnston	)	Department for Regional Development
Mr Brian White	)	

The Chairperson (Mr Cobain):
At the Committee meetings of 24 March, 14 April and 26 May 2010, departmental officials provided briefings to the Committee on proposals for the Transport Bill. At those meetings, it was made clear that the Committee would not complete the Committee Stage of the Transport Bill without receiving an update on the review of the outline business case. It was indicated at the meeting of 26 May 2010 that that would be available in mid-October 2010.

Departmental officials are here. Brian, I ask you to introduce your colleagues.

Mr Brian White (Department for Regional Development): Good morning. I have brought with me Sean Johnston and Anne Breen, who are both experts in this area. Thank you for asking us to speak about this matter. We have distributed a slide presentation, which will give you some idea of the structure that I want to follow. The purpose of the presentation is to give the Committee an update on the emerging findings resulting from the outline business case (OBC) review of our public transport reform proposals. The review is currently being finalised, and, at the end, I will say a bit about how we are taking it forward.

The purpose of the first slide is to remind the Committee, particularly members who have joined since the original OBC was produced, about that OBC. It was completed in May 2009 and examined three potential organisational models for the reform programme. As part of that original OBC, an efficiency review of Translink was conducted to determine the levels of efficiency that would be expected as a result of the reform programme. The overall conclusions from the report, which are shown in the slide, were that the preferred model was for a departmental agency and that the anticipated benefits were of around £12·8 million over five years.

There were some gaps in the information that was available at that time. As a result, the Committee requested that the review that we were intending to undertake of the OBC be brought forward, so that it would be available for your consideration during the Committee Stage of the Transport Bill. The review was commenced in July, the earliest date at which we could do it while ensuring that the information from the latest management accounts was available. The report should be finalised in the next few weeks.

The OBC review covers three main areas: an examination of the efficiencies achieved to date by NITHCo/Translink; an update of the comparative efficiency of Translink as benchmarked against other operators in GB, including an assessment of the additional efficiencies that Translink could deliver in the future; and an update of the proposed agency costs and benefits. Discussions with Translink are ongoing about the level of efficiencies that it may achieve in the future. Therefore, the figures that I am quoting today may change somewhat in the near future, although hopefully by not very much.

Slide 4 refers to the update on the comparative efficiency of Translink companies. Before turning to the emerging findings, I will deal with the gaps in the information in the original report, which resulted in consultants having to devise a methodology to estimate the financial impact of the provision of authority-type functions within Translink. Since the completion of the earlier report, Translink has been working with the Department to identify more precisely the cost and impact of delivering those functions. We believe that the gaps have now been filled. Moreover, Translink has carried out further work to quantify and to provide supporting evidence in relation to Northern Ireland-specific factors that influence the delivery and cost-effectiveness of the public transport system here.

What I say about the review of efficiencies comes with the caveat that there may be some change to the figures as we do our final accuracy checks in relation to the OBC. The first area considered in the report is an update on the efficiencies already achieved within NITHCo/Translink. The annual cost savings reported by Translink in the period 2008-09, 2009-2010 was £11·2 million. Around two thirds of that relates to savings in staff costs, including the group's voluntary redundancy programme. The consultants conducting the review of the OBC have looked at the savings reported by Translink against the management accounts for the period and have assessed any changes in gross operating costs and net operating profit. That allowed for consideration of adjustment for changes in activity levels, wage rates and fuel prices. As a result, the report concluded that the total efficiency savings generated over that two-year period were around £6·2 million.

Slide 6 shows the emerging findings of the benchmarking review. The caveat here is that the OBC is, primarily, comparing Translink bus operations with the deregulated market in Great Britain, where cost-efficiency is perhaps more easily achieved because operators deliver only services on which they can make a profit or at least break even. That slight health warning needs to be taken into account. The OBC review shows that Metro performed less well than GB operators in measures of cost-effectiveness and cost-efficiency. There could be a number of reasons for that, including the lower bus speed in Belfast at peak times, higher than expected fuel prices, wage levels that are somewhat higher and a larger bus fleet. The larger bus fleet is possibly due to a combination of two factors: the legacy of the Troubles and the purchases made during phase 2 of the Metro project.

Ulsterbus's performance on cost-effectiveness and cost-efficiency was also lower than that of its GB comparators. Reasons for that include low patronage on many services, a number of unprofitable routes, higher wage rates and fuel prices. Ulsterbus continues to be the area with the greatest scope for efficiency savings. The results of benchmarking indicate that Ulsterbus performs relatively better in cost-efficiency, which is the cost of running the services across the network, than in cost-effectiveness, which is the cost per passenger using the service. That might be seen as being consistent with the company's having a lower passenger load than operators elsewhere and as a consequence of maintaining the provision of a comprehensive network of socially necessary services across all areas.

Slide 7 looks at NIR, on which it is quite difficult to benchmark. There are not many easy comparators, but NIR seems to be performing well compared with Iarnród Éireann. In making use of the benchmarking information to determine future levels of efficiency targets, we have also been able to use additional information provided by Translink to quantify and make allowances for certain mitigating factors such as pension costs, costs relating to the provision of duplicate services and vandalism costs. As a result of that, the review gives a more realistic assessment both of the potential benefits of the reform programme and of the efficiency targets for Translink in the future.

Slide 8 sets out the consultants' assessment of the impact of the revised benchmarking on efficiency targets compared with the original OBC. As a result, the final efficiency target that is expected as a result of the programme of reform is around £10·3 million.

Slide 9 deals with agency costs and benefits. The original OBC talked about the need for 117 staff, with annual personnel costs estimated at £3·5 million. That was based on average salary costs for the new grades. The emerging findings, we hope, are more precise. They show that the agency would require 80 full-time staff, with running costs of around £4 million. Of the 80 full-time equivalent staff, it could be anticipated that 53 would transfer from current positions in DRD where the work is currently being performed. Therefore, there would be 27 new posts, which would include specialist transport planners.

That has been a quick rattle through what is a lengthy report. I have no doubt that you look forward to reading it as much as I enjoyed looking at it. The presentation was intended to give you a brief heads-up. I assure you that the report contains an executive summary, which I hope will be helpful to the Committee. The report is in the process of being finalised, and we hope that, subject to clearance from the Minister, it will arrive while you are on your recess and will be waiting for your return, when you will be refreshed and able to look at it with renewed vigour.

The Chairperson:

It is difficult for us because we have not seen the report, so we are talking in a vacuum. I appreciate your attendance this morning, but we need to see the report and to have some detailed discussions on it in parallel with the Transport Bill. We do not have any benchmarking against the report. We had a number of serious concerns about the original report. When we see the review of the outline business case, which we hope to get next week, we will study it over the next three or four weeks in parallel with the Bill.

I have one query that may be silly. When you spoke about the costs and benefits of a new agency, you said that it was originally proposed to have 117 staff at a cost of £3·5 million and that the new proposals are for 37 fewer members of staff but at a cost of £4 million.

Mr White:

The more recent figures are more accurate. In the original OBC, the staff costs were based on averages. What we have been able to do as a result of working more closely on this is to produce more actual salary information and to ensure that associated administrative costs are attached to those figures.

The Chairperson:

Things such as that are abstract for us without the report.

Mr White:

I understand that.

The Chairperson:

It seems curious to me that there are fewer members of staff, yet it is costing more money. I know that civil servants are well paid, but —

Mr Sean Johnston (Department for Regional Development):

We are not that well paid. The annual costs have gone up.

The Chairperson:

I am seeing only the bare figure, and it seems a bit strange.

Mr McDevitt:

I have two questions, one of which the Chairperson just asked. On the basis of the presentation, it seems that there is a 40% reduction in head count and an increase in costs of in excess of £500,000. That takes some getting your head around, and I look forward to exploring that one.

My other question is about the pretty worrying way in which the consultants benchmarked Metro. Mr White, you talked about benchmarking Metro against deregulated bus providers in GB. That is, as you rightly said, a limited benchmark. Before we see the final report, would it be possible to get the consultants to benchmark against a more comparable bus provider in another region of the European Union that is not operating in a deregulated market? That way, we could genuinely try to get some sort of sense of how Metro is performing relative to like-with-like comparators.

Mr Johnston:

We can look at Dublin Bus. I am not quite sure of all the figures, though. I think that one of the reasons why Dublin Bus was not used was the fact that it did not publish its information in the same degree of detail as the Bus Industry Monitor in Great Britain. Mr McDevitt is right that a deregulated market tends to be more cost-efficient — perhaps less cost-effective — simply because it runs services only where it can make money. Under EU regulations, we must compare our services with those of an efficient operator, so the comparison made was not an unreasonable one.

Mr McDevitt:

The EU regulations require us to operate efficiently, but they also allow us to take a policy decision to operate in a regulated environment.

Mr Johnston:

Absolutely; and the fact that we are doing so means that it is difficult for Translink to show up well in terms of cost-effectiveness.

Mr McDevitt:

From a scrutiny point of view, it is in all our interests — our shared interests, given the model that we are opting for — to be able to compare like with like.

Ms Anne Breen (Department for Regional Development):

It can be difficult to get the actual information. By using the GB operators, the consultants were able to get the TAS Bus Industry Monitor information that was available. A lot of the operators themselves are reluctant to give detailed information. The consultants looked at a combination of operators and other factors. They looked at operators in GB that operated in regions of comparable size and included three publicly owned operators to try to make the comparisons as close as possible.

Mr McDevitt:

I am sure that there will be data on comparable regions and cities on the continent and in other parts of the European Union, for instance through Euro monitoring work. It would be interesting to see that.

The Chairperson:

Did I read somewhere that 80% of Translink's routes are unprofitable?

Mr Johnston:

That relates to Ulsterbus. The fact that 85% of its routes are unprofitable means that it is depending on a few key routes to pay for the lot.

Mr Leonard:

My question is about where we are going with this. We have had the work in 2009; the review in 2010; the movement in the figures in such a short time; and the benchmarking in which Iarnród Éireann was picked out as a comparator for the train service, but Dublin Bus was not picked out as a comparator for the bus service. I appreciate the point that Anne made about there being some difficulties with the companies, but the selection of certain benchmarks can skew figures. Perhaps that was an enforced selection. I am not criticising; I am trying to understand where we are going.

It was stated that 85% of Ulsterbus's routes are unprofitable. I transpose that to the impact of the Transport Bill on the cherry-picking of efficient routes. We are going to be looking to other people to select other routes under the permit scheme and all the rest of it, and they are going to have to make up the business case. A swathe will be left unserved. It is possible that an awful lot of unprofitable routes will be struggling to serve under the new regime. Are we going down that route?

Mr White:

It is quite the reverse. The proposed new regime is aimed as much at safeguarding the current position, which enables cross-subsidy from more profitable routes to less profitable ones. The reform's ethos is to ensure that that element of the system that we have had in the past is safeguarded going forward, while demonstrating to the European Union that services are being operated efficiently. Protecting that capacity is part and parcel of the reform and a key element of it. That is not to say that there will not have to be discussions in the future about whether, and to what extent, routes are supported, but that is entirely proper, and the reform process allows the Minister, the Assembly and the Committee for Regional Development to have a greater impact on decision-taking of that kind than is currently the case.

Mr Leonard:

I appreciate that that sort of thing has been said before, and it is quite right that you should repeat it. However, the worry may be about how the discussion and the cross-subsidy would work in the roll-out.

Mr White:

We will be able to make a direct award to Translink on the basis that it will provide a range of services. Some of the services that it provides may be profitable and others unprofitable, but the arrangement that we agree will require Translink to provide those services. Inherent in what we are proposing is that we want to allow permitted routes; we want operators to come along. However, we have been clear, and I am sure that I have previously told the Committee, that our aim is to ensure that, when a permit is given, it is not one that cherry-picks from the service's central core. A permit will not siphon resources away from the defined set of routes that we want to carry on providing.

Mr Leonard:

I appreciate all that you have said, but, if there is not enough fat to be spread over all the other routes, would there be a limit to the amount of cross-subsidy given? How do you perceive that? I appreciate that the ethos is for a certain situation, but the roll-out may lead to a different situation that does not serve the required purpose.

Mr White:

The limitation is a public finance limitation, not a policy limitation per se. The Department or whoever takes a policy decision that a particular route needs to be supported will be able to do so under the proposed reform. Whether it has the finance, which will be partially achieved from fares, is another question. However, public transport has been subsidised in the past, and that is likely to continue. We wait to see at what level. The risk is a financial rather than a policy one; let me put it that way. I am sure that Mr Leonard understands my point.

Mr Leonard:

Absolutely; and the amount of subsidy in the overall financial package that can move from profitable to non-profitable routes will be the proof of the pudding.

Mr White:

Yes; providing that cross-subsidy is done for proper social reasons, against criteria, and so on. I am sure that that would be of interest to the Committee. We already subsidise services to the disabled and in remote rural areas. We subsidise services to people with accessibility difficulties. There is nothing in what we are proposing that takes that away. As ever, the issue will be one of how much money is available to provide those services.

I return to the benchmarking point. The Committee will see from the review that a considerable amount of thought has been given to benchmarking. It is never a precise science. However, I think that members will be able to see where the assumptions have been made and to arrive at a judgement, whether they agree with them or otherwise.

Miss McIlveen:

Some of the questions that have been asked are about a test of the robustness of the revised business case, compared with the original that we saw last year. There was criticism about gaps in data and so on, and there was a critical overview from Research Services. What has changed in your relationship with Translink in the preparation of this business case, compared with what was originally presented to us?

Mr Johnston:

There were gaps around the head office functions. Translink performs some authority-type functions, some of which it will retain under the new arrangements, but bits of which will move to the agency. It is not a group in Translink that performs those functions; it is bits of people all over the place. The accounting systems were not sufficiently refined to gather that information in the time we had available for the original OBC. That was the main area of difficulty. Since then, however, we have been working with Translink to narrow down which people and how many. We now have figures that we are content with.

The other area in which there were gaps was school transport. From the figures that we were given, there was a lack of complete understanding about the impact of school transport on the overall business. We have all that information now, and school transport is, frankly, quite an important contributor. I would not describe it as a cross-subsidy, but it certainly helps to make the whole thing a viable package.

Those were the two areas that were not quite clear, simply because we did not have time to get into the nitty-gritty of Translink's accounting systems. However, it has now had time to produce that information, which we have gone through in a fair degree of detail, as have the consultants, and we are content with what we have. Translink realises that it is in its interests to have a good handle on all those costs and on where the efficiencies and improvements could be derived.

Miss McIlveen:
The Chairperson's comments are valid. There is no point in us labouring the issue, because we have to see the report.

Mr Johnston:
There is a lot of detail in the report. It is reasonably easy to follow, and we tried to relegate to the appendices some of the detail.

Miss McIlveen:
Just for my own clarity, can you tell me when is the total efficiency target of £10·3 million to be achieved?

Mr Johnston:
It is over a five-year period. Some of it is in the pipeline, of course. Targets were set when the business plan was agreed for this year and next year. We think that it would be reasonable for

that to be achieved over a five-year period.

Miss McIlveen:

Is that from now?

Ms Breen:

Benchmarking is on the basis of the year 2008-09, so it will be five years running on from then.

Mr G Robinson:

How was the £6·2 million in efficiency savings achieved?

Mr Johnston:

It was achieved across the business, but about 75% of it was staff savings made when the business was re-engineered. There were voluntary redundancies, and some very low usage routes had to be curtailed. There was a whole raft of factors. There were savings on contracts and all sorts of things that were factored into it. There is a detailed breakdown in the report of the cost savings as opposed to the efficiency savings.

The Deputy Chairperson:

Those are all the questions that we have at this stage. Obviously, we will see you in the very near future. Thank you very much.