



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

PUBLIC AUDIT COMMITTEE

Wednesday 22 December 2010

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Printed and published in Scotland on behalf of the Scottish Parliamentary Corporate Body by
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PUBLIC AUDIT COMMITTEE
23rd Meeting 2010, Session 3

CONVENER

*Hugh Henry (Paisley South) (Lab)

DEPUTY CONVENER

*Murdo Fraser (Mid Scotland and Fife) (Con)

COMMITTEE MEMBERS

*Willie Coffey (Kilmarnock and Loudoun) (SNP)

*George Foulkes (Lothians) (Lab)

*Jamie Hepburn (Central Scotland) (SNP)

*Mr Frank McAveety (Glasgow Shettleston) (Lab)

*Anne McLaughlin (Glasgow) (SNP)

*Nicol Stephen (Aberdeen South) (LD)

COMMITTEE SUBSTITUTES

Derek Brownlee (South of Scotland) (Con)

Linda Fabiani (Central Scotland) (SNP)

James Kelly (Glasgow Rutherglen) (Lab)

John Farquhar Munro (Ross, Skye and Inverness West) (LD)

*attended

THE FOLLOWING ALSO ATTENDED:

Mr Robert Black (Auditor General for Scotland)

Bob Leishman (Audit Scotland)

THE FOLLOWING GAVE EVIDENCE:

Gordon Hanning (Transport Scotland)

George Mair (Confederation of Passenger Transport UK)

David Middleton (Transport Scotland)

Alastair Mitchell (Transport Scotland)

Paul White (Confederation of Passenger Transport UK)

CLERK TO THE COMMITTEE

Jane Williams

LOCATION

Committee Room 2

Scottish Parliament

Public Audit Committee

Wednesday 22 December 2010

[The Convener *opened the meeting at 09:31*]

Decision on Taking Business in Private

The Convener (Hugh Henry): Good morning. I welcome everyone to the 23rd meeting in 2010 of the Public Audit Committee and remind everyone to ensure that all electronic devices are switched off. Jamie Hepburn has sent apologies. He will attend the meeting, but his journey is delayed.

Agenda item 1 is to decide whether to take items 5 to 7 in private. Do members agree to do so?

Members *indicated agreement.*

Section 23 Reports

“National concessionary travel”

09:31

The Convener: Item 2 is the section 23 report on national concessionary travel. We have with us today George Mair, who is the director of the Confederation of Passenger Transport UK—Scotland, and Paul White, who is the public affairs executive of the Confederation of Passenger Transport UK—Scotland. Welcome to the committee and thank you for coming to the Parliament in such inclement weather. Before we come to our questioning, would you like to make an opening statement?

George Mair (Confederation of Passenger Transport UK): No. We are delighted to be here this morning. We are more than happy to try to answer the questions that you and the committee may have, convener.

George Foulkes (Lothians) (Lab): How did you get here this morning?

George Mair: By bus.

George Foulkes: Both of you?

George Mair: We got the service 35 bus.

George Foulkes: Were you on the same one as me? I came on the 35 as well.

The Convener: More than one person uses the 35 bus, George.

Mr Frank McAveety (Glasgow Shettleston) (Lab): You are used to carriages, being a lord, George.

The Convener: Okay. How has the national concessionary travel scheme affected not only the bus companies but services across Scotland? What impact has it had?

George Mair: When you look back, you see that we were pushing back frontiers in setting up the scheme. The industry worked with the Scottish Executive and then with the Scottish Government. By reducing 16 schemes to one, we reduced the administrative burden across Scotland, achieved significant savings and lightened the workload for the industry. Instead of multiple claims having to be submitted, one claim now goes to the centre. We pushed back the frontiers of technology with the introduction of ticket machines that were smart card enabled and to an industry standard. We have allowed people to make additional journeys in their local areas as well as cross-Scotland journeys.

In looking back, you always see things that you could have done better. However, the scheme has

been a huge success. In the early days, additional services were put on, frequencies were increased and vehicle capacity was increased. All in all, the campaign has been pretty positive and successful.

The Convener: You made a point about a reduction in administration costs. How significant was that change? Why did moving to one national scheme from the individual schemes make such a difference?

George Mair: When we had 16 individual schemes, each local authority had a concessionary travel team. I assume that a big part of the savings came from the fact that local authorities do not need such teams now. We have a centralised team that deals with all the claims from operators throughout Scotland.

Now that we are 100 per cent live with the ticket machines, further efficiencies might be gained in the future. I have in mind a figure of £4 million to £5 million of savings per annum, which could increase each year. The saving to the public purse is significant.

The Convener: What is the split between local journeys and journeys on what might be described as national routes?

George Mair: That question is difficult for me to answer. Transport Scotland might have more information on that.

The Convener: Do you know anything about the popularity of journeys on national routes?

George Mair: Entitled card-holders in Scotland have two main benefits over those who use schemes elsewhere in the United Kingdom: peak-time travel and cross-boundary travel. When we meet groups who are entitled through disability or age to use the scheme, the general message from them is that they enjoy a benefit. They can travel further afield to meet family members, which they perhaps could not do before.

Murdo Fraser (Mid Scotland and Fife) (Con): I will ask about the increase in the cost of the adult single fare. The report points out that such fares

“increased by 25 per cent between 2006/07 and 2009/10 while, over the same period, general inflation increased by”

only 7 per cent. Does that suggest profiteering by your member companies?

George Mair: I would not say that at all. It is a recognised fact that industry costs have risen at a higher rate than general inflation. That was recognised in the work that Transport Scotland commissioned from Halcrow. Industry costs in Scotland have risen more than those in other parts of the UK, but costs have risen throughout the UK. In no way do I see profiteering; the situation reflects the cost increases that we have faced.

Murdo Fraser: Given that you receive 67 per cent of the money back from the Government, do you have any incentive to keep fares down?

George Mair: The Government's position is that if operators put up costs, they cheat themselves. As the budget is capped, the budget will run out of money all the more quickly if fares are increased by more than the rate that is needed to keep a business viable. I see no benefit to operators in jacking up fares higher than they need to be. Doing so would have an impact through early application of the cap on the budget and would harm operators commercially.

Murdo Fraser: The Government reduced the reimbursement rate from April from 73.6 per cent to 67 per cent of the adult single fare. When that happened, your organisation said that some services might have to be cut as a result. The reduced rate has now been in place for more than half a year. Are you aware of services having been cut as a result?

George Mair: I will rewind first to the belief that, with the 67 per cent reimbursement rate, the industry is better off now than it was before. If you are going to make such comparisons, you have to look back at the previous schemes, when operators had a revenue stream from concessionary travel that included, in most cases, a fare that was paid on the bus. In Edinburgh, it was a flat fare of 30p; in Aberdeen it was a quarter of the adult fare. A reimbursement was then paid by the local authority. In many locations, the operators were paid additional costs by local authorities; the operators would submit a claim that indicated that additional resource had been put in and the local authorities would then agree to pay that. If you are looking back, please make sure that you make a real comparison and do not just look selectively at the reimbursement. The 67p in the pound that the operators now get covers the additional cost and the journey reimbursement and it has replaced the fare that the operators used to be paid in locations where fares were charged.

Could you repeat your question?

Murdo Fraser: The Audit Scotland report said that when the Scottish Government said that there would be a reduction in the rate from 73.6 to 67 per cent, your organisation warned that that might mean that services would be cut. Now that it is more than six months after that reduction, is there any evidence that that has happened?

George Mair: It is fair to say that there has been a reduction in mileage. We are doing some work with Transport Scotland to look at the cut for this year and to look into next year and beyond. There has been a reduction in mileage and there might also have been an increase in fares as

businesses adapt to the lower reimbursement rate that is being paid.

Murdo Fraser: But you cannot give us any evidence that services have been cut.

George Mair: I can say only that there has been a reduction in mileage, which indicates that there has been some reduction in service.

The Convener: Does that suggest that many services depend on the income from the national concessionary travel scheme rather than being able to generate sufficient income from other passengers?

George Mair: One of the key things in people's minds when the scheme was being set up was whether there would be an opportunity to start new services and/or retain some existing services. Over the years, it is inevitable that some services have been kept going because of the 73.6 per cent reimbursement rate that was previously paid. With the reduction to 67 per cent, there is a danger that some routes are not viable and have to be looked at.

The Convener: That suggests that those who will suffer most from the withdrawal of those services will be people who are entitled to the concessionary travel scheme.

George Mair: By implication, if they have been helping to support services that might otherwise struggle, that is right.

Willie Coffey (Kilmarnock and Loudoun) (SNP): I want to pick up on the question that Murdo Fraser asked about the increase in costs compared to the number of journeys. I do not know whether you have the Audit Scotland report in front of you, but exhibit 6 on page 16 shows that, since 2005, the cost of concessionary bus travel has risen by 53 per cent, from £130 million to £199 million, but the number of bus journeys has risen by only 3 per cent. I think that I picked you up correctly, but are you saying that that difference is entirely attributable to rising costs within the industry?

George Mair: You are talking about exhibit 6.

Willie Coffey: Aye. That is a huge jump in the cost of the scheme when the number of passenger journeys has stayed pretty flat over that period of time. In your answer to Murdo Fraser, you said that that rise was attributable to rising costs in the industry. Is that huge jump entirely attributable to that?

09:45

George Mair: Are the costs shown the full costs of operating the scheme or the reimbursement to operators?

Willie Coffey: Do you have the exhibit in front of you?

George Mair: Yes.

Willie Coffey: The Auditor General states:

"the cost of concessionary bus travel increased by 53 per cent, from £130 million to £199 million".

George Mair: That is total costs. The substantial part of that will be concessionary reimbursement which, over the period, goes from £154 million to £187 million. There is an element of that additional cost—£12 million or so in the final year—that must be related to back-office and administrative costs and the youth concession scheme, rather than the underlying concessionary reimbursement to operators.

Willie Coffey: It is a hell of a difference. I do not know whether you are looking at the graph but, in the two years prior to the NCT scheme, it was pretty steady—the costs pretty much followed passenger journey numbers.

George Mair: That would be 2008-09.

Willie Coffey: This significant jump occurred after the NCT scheme was introduced.

George Mair: I would love to be able to give you the answer to that. What I can say is that we have looked at the position across the UK. In that year, for whatever reason, there was a huge spike in operator costs in England, Scotland and Wales. That would lead me to believe that something throughout the country impacted hugely on the industry. My gut feeling—it is only a gut feeling—is that it is related to fuel price.

Willie Coffey: Would you be able to evidence any of that if the committee were minded to look further at the reasons behind it? I appreciate and accept what you are saying, but is there any evidence to support it or to give some justification for the differential from 2005 to the present day?

Paul White (Confederation of Passenger Transport UK): The CPT produces six-monthly cost indices that look at costs to the industry across the UK, so we could provide you with those dating back to the start of the scheme.

The Convener: I want to stick with this issue for a moment. It may be that your gut instinct is right and that there was an increase in fuel costs. However, you also said earlier that there were significantly higher increases in operating costs in Scotland compared to the rest of the United Kingdom. What were the specific reasons for the costs in Scotland rising so much higher?

George Mair: We can demonstrate that through the indicators that Paul White mentioned. In addition, the consultants that undertook work for Transport Scotland recognised that costs had

been rising higher in Scotland than in other parts of the UK.

The Convener: Why?

George Mair: There are a number of factors. First, the ending of the link to the bus service operators grant meant that, when fuel prices went up, operators were worse off in Scotland than in other parts of the country. The 41.21p that operators in Scotland get is less than our counterparts in England get. That is one issue. Wage and fuel costs will play a big part in that, too.

The Convener: Forgive me, because I am not entirely familiar with this, but I understand that there is a subsidy, or a payment to the industry. However, in Scotland, we received the money but chose not to use it in that way. You are suggesting that that might have—

George Mair: It is one element that has had an impact on operator costs in Scotland. We can come back with further information but, when the link with BSOG was broken in Scotland, it cost operators something like £2 million. That is compounded year on year.

The Convener: But some of that is then recovered through the concessionary travel scheme. Although it has been lost on one hand, it has been recovered elsewhere. Potentially, it then inflates the cost of the concessionary travel scheme.

George Mair: Yes, but the impact on the Scottish Government is that it has a capped figure and it does not cost it any more money.

George Foulkes: Is the rule on the percentage of the adult single fare for each journey made invariable? Is it always the case?

George Mair: There were varying rates of reimbursement in Scotland under the previous arrangement. Some rates were higher than the 73.6 per cent rate that was agreed as part of the national scheme; some were lower. The Halcrow report, which Transport Scotland commissioned, looked at the area and concluded that, if we were looking for a mid-range, acceptable level, 73.6 per cent was not too bad.

Operators recognised the many benefits that would come from having a single scheme that was managed by a single body. They accepted that they might lose in some areas and gain in others, but they thought that, overall, the scheme was far better.

George Foulkes: Let us say that a pensioner is coming from Colinton to the Scottish Parliament, to see me. They get on a number 27 bus. The fare would be £1.20, so Lothian Buses gets 80p. At Forrest Road, they change on to a 35 and Lothian

Buses gets another 80p. On the way back, they do the same thing in reverse. Therefore, Lothian Buses will get £3.20 in total. However, if a young man, like Frank McAveety, made the journey, he would buy a day ticket, which would cost less than that.

George Mair: When we reviewed the scheme with Transport Scotland and its consultants, ITS Leeds, an allowance for discount tickets was built into the calculation that arrived at 67 per cent. In the absence of that factor, the rate would have been higher than 67 per cent; a discount rate was factored in. The consultants considered the usage of day tickets and, I think, weekly and monthly tickets.

George Foulkes: That is a good answer. I can tell that you are from the north-east of Scotland.

The Convener: Notwithstanding that a discounted rate is paid, in George Foulkes's example four times the discounted rate would still come to more than 100 per cent of the day ticket. The operators are benefiting artificially from the public purse, as a result of journeys that most sensible people would buy a day ticket before making.

George Mair: Recent work has been done as part of the Department for Transport's review of the scheme in England, which indicates that people are really not that sensible when it comes to buying travel tickets. The vast majority of journeys are still single-fare journeys. You might ask why. The research that we have seen indicates that ITS Leeds did a fair and sensible piece of work when it concluded that it was using the right discount factor.

The Convener: Therefore, operators are benefiting because of people's stupidity or lack of common sense.

George Mair: I would not necessarily use those terms. For whatever reason, the vast majority of journeys are still made on a single fare, despite the fact that operators display notices that tell people that they can buy a day ticket for £3, £3.20 or whatever. ITS Leeds considered the likelihood of pensioners making sufficient journeys to warrant their buying a day ticket, and it concluded by applying a discount factor to the calculation.

Nicol Stephen (Aberdeen South) (LD): Can you give us a flavour of how the annual negotiations with the Scottish Government work? How are you represented? The Audit Scotland report states in paragraph 46, on page 15:

"The Scottish Government agrees the cap with the Confederation of Passenger Transport (CPT) in advance."

Do you also agree the 67 per cent figure? Which bus companies do you liaise with, or do you seek to liaise with all the bus companies in Scotland?

Who sits round the table—are ministers involved? Could you give us a sense of when the negotiations happen and what takes place?

George Mair: We are an industry representative group, and our members operate more than 90 per cent of scheduled bus mileage in Scotland. They cover the range from individual operators through to the biggest groups in Scotland and UK terms. We are a broad church, and our members operate the vast majority of bus mileage in Scotland. We represent a strong body.

I suppose that the best example to give is the work that we did as part of the review of the scheme. We set up various working groups to look at the different aspects of the scheme as part of the big review after three years. That covered everything from reimbursement to administration and, ultimately, led to the Transport Scotland report and list of recommendations.

Flowing on from that piece of work, we got into work with Transport Scotland and the consultants ITS, looking at discount and operator additional cost. That work and the work that we have done previously with officials at Victoria Quay and Transport Scotland are very good examples of partnership and positive working. The industry pulled together for ITS probably the biggest data set that has been pulled together in my 29 years in the industry.

We worked through the draft report that was received from ITS, and it is fair to say that there were areas that we could agree on and, equally, some areas that we disagreed on. We said that loudly and clearly as we went through the process. Ultimately, ITS recommended a range of figures to the Scottish Government. We met the transport minister and the cabinet secretary, we had an open and frank discussion on the work that had been done and the areas that we had concerns about, and we ultimately concluded an arrangement for three years to take us to the final year of the initial seven-year arrangement. We looked realistically at where the concessionary travel budget would need to be, considering aspects such as increased costs and a growth in the number of journeys, and we agreed a three-year package of £174 million for the current year, £180 million in year 2 and £187 million in year 3. With that, we also concluded an arrangement on BSOG moving to £66.5 million over the three-year period.

Part of the logic was that the Government and industry wanted some certainty. That was a fundamental aspiration at the outset of the new scheme—having certainty rather than the situation that prevailed before in which every year managing directors across the country were rolled into local authorities to have meetings about concessionary reimbursement, which was

generally always on a downward slide. The new scheme is a far more robust and sensible action.

Nicol Stephen: Were the cap and reimbursement rate agreed by the CPT, or were they imposed by ministers?

George Mair: We walked away from the meeting making it clear that we were still unhappy with some of the work that ITS had done, but we were pragmatic and we accepted the package that we discussed with the cabinet secretary.

10:00

Nicol Stephen: Do you believe that, in future, the trend in the cost of the scheme to the public, if we have the same scheme, will continue to be upwards?

George Mair: I guess that it will. The prognosis is that the population will increase, which will result in additional journeys. It is inevitable that operators will face increased costs: fuel will probably get more expensive and wages will have to be increased as inflation rises. Those two factors mean that costs will increase.

Nicol Stephen: Do you believe that the scheme is sustainable, given the current pressures on the public purse?

George Mair: We have recently committed to getting involved with Transport Scotland in having a wide look at the scheme going forward. Some of those discussions will need to revolve around initiatives that have been touched on but perhaps not picked up on, such as how we manage demand and whether there are things that we can do to reduce the scheme's cost to the public purse. We need to have a full range of discussions to look at those issues.

The Convener: As members have no more questions on that part of the report, we will move on to the section on fraud.

When the audit took place, the total value of the fraud that was being investigated, which involved four bus operators, was £1.654 million. Eight operators are now the subject of investigation and report to the courts, and the total value of the fraud that is being investigated is £1.7 million. That would indicate that the problem is growing and that more companies are involved in fraudulent activity. Is that the case?

Paul White: No. I would say that the introduction of smart-card ticketing has shown up a significant drop in claims, which would suggest to Transport Scotland that fraud may have been taking place and that investigation is necessary. It is probably the case that rather than there being an upward trend in fraud, the change in ticketing has alerted Transport Scotland to previous fraud. I

imagine that electronic ticketing means that it is now more difficult to commit fraud under the scheme.

George Mair: CPT and our members welcome any additional work that Transport Scotland can do to identify fraud. We are on record as saying that we will do anything to help to minimise fraud which, ultimately, cheats other companies in the industry out of money that they might well be entitled to, particularly if the cap is applied. We have no support for any operator that does anything underhand and which benefits more than it should. We will happily support Transport Scotland in any work to improve the detection of fraud.

The Convener: Mr White, you are saying that the new ticketing systems have merely identified what was taking place. They have alerted us to the fact that a substantial level of fraud has taken place over a number of years, which we have become aware of because of their introduction.

Paul White: That is potentially the case.

The Convener: What other explanations are there?

George Mair: I am conscious that the team at Transport Scotland has used a number of means to identify fraud. For example, it can look for anomalies in the number of journeys that are made per mile. It is undoubtedly true that the introduction of smart-card-enabled ticketing machines will have given Transport Scotland an additional and stronger handle on identifying where fraud might be taking place.

The Convener: It would be helpful if Audit Scotland could provide members with a note of the companies involved and the relevant amounts. I presume that if those cases are the subject of court proceedings, that information will be in the public domain. We cannot talk about any items that are sub judice, but could we have a look at the information?

Nicol Stephen: Can we be told which companies have been charged? I presume that that information is in the public domain.

The Convener: That is what I was asking. Can Audit Scotland provide that information?

Mr Robert Black (Auditor General for Scotland): The question might be better addressed to Transport Scotland because it will have the information and because there are sub judice issues on which we are not fully up to speed. We need to be careful about what we say to you on that.

The Convener: I accept that there are sub judice issues but, if companies have been charged, that is a matter of public record.

Nicol Stephen: Does the Confederation of Passenger Transport know whether the companies that have been charged with fraud are some of its members?

George Mair: We are not aware of the companies concerned. We know that there are cases under investigation, but we do not know the individuals or companies that are involved in them.

The Convener: What does the confederation do to investigate cases in which fraud has been identified?

George Mair: We are on record as having said to Transport Scotland that if a company is found guilty of fraudulent actions, we will support their being struck off the membership, the traffic commissioner for Scotland being advised of the situation and their good reputations being called into question.

Mr McAveety: What is the timescale for that process? If companies are being investigated, does Transport Scotland make you aware of that at all?

George Mair: We have regular discussions with Transport Scotland. Obviously, it does not go into detail but, in the past, it has indicated that it is investigating some companies. That is great. We have the same view on BSOG. If any operator is gaining additional advantage by foul means, it is not acceptable and we will support and help Transport Scotland with that if we can.

Mr McAveety: What is the total number of operators under your auspices?

George Mair: We have just under 100 members in Scotland.

Mr McAveety: We know that eight companies are being investigated. Two cases have certainly been sent to the courts for further deliberation and that is probably being considered for the others.

Short of going to court, if you are aware that a company has figures that are perhaps not as accurate as they should be—I am picking my words carefully—can you intervene at any stage to try to sort that company out and sober it up a bit?

George Mair: No. We do not get information at individual company level unless we ask for it. We are not a policing group but a representative group. We do not have data of that kind.

Mr McAveety: Does it not worry you that nearly a tenth of the organisations that you represent are perhaps not doing what you would like them to do? Do you have no responsibility to try to sort that out?

George Mair: We would have to know whether any of those companies were members. If they were eventually found guilty, they certainly would

not be members for any time beyond that. Equally, we would support a report being given to the traffic commissioner, because that business's reputé would be in severe question.

Mr McAveety: If one or two companies—perhaps larger companies—had been involved in fraud and you had to take action, how would you fill the gap if they were unable to provide the service?

George Mair: The market would fill it. I am pretty sure that somebody else would step in and run services. In certain areas, we have seen companies disappear virtually overnight and, the following day, other operators pick up on the services or the local authority step in and put some services out to tender. Generally, the market will pick up on commercial opportunities.

Mr McAveety: Does your organisation have an annual review of issues that have been thrown up, including concerns about fraud? Have you discussed at a senior level how you wish to address fraud?

George Mair: Yes. We meet regularly with the membership. We brief our members via newsletters and e-mails. Our position is clear: we will not be shy in dealing with any member that loses reputé. The likelihood is that they would not be members because the traffic commissioner would probably remove their right to operate buses.

Willie Coffey: My question relates to this issue. My understanding from an answer that Mr White gave is that since its introduction the NCT system has enabled us more readily to identify potential fraud. I know that hindsight is a wonderful thing, but how on earth were we not in a position to spot potential fraud at the outset of the scheme?

George Mair: That question should really be addressed to Transport Scotland. My organisation has no input from members other than on the global number of passengers that are carried in Scotland. We have no input to the local commercial issues for operators.

Willie Coffey: I will do that.

Nicol Stephen: You mentioned the three-year review and the involvement of your members in the overview of how the scheme is working. You also mentioned working groups that looked at particular areas of the scheme. Was there a working group that looked at fraud?

George Mair: I would have to come back to you on that. I am sure that fraud would have been in there somewhere, but rather than give you a specific answer at this point, I would have to check the different groups that were set up.

Nicol Stephen: When or if a member is found guilty of an offence such as fraud, what disciplinary procedures does the CPT have for considering the case and taking action against a member?

George Mair: The organisation has a code of practice and, when members join the organisation, they are expected to live by it. If there is an infringement of that, we review the membership, most likely in conjunction with our head office. If the infringement is as serious as an operator being investigated and found guilty of defrauding the Government through concessionary reimbursement or BSOG, I have no doubt that the company would lose its reputation and cease to exist, and it would certainly no longer be a member of CPT.

Nicol Stephen: Would such a case have to go before a panel of members, a committee or a board, or would it happen automatically through the CPT?

George Mair: It would not be a board. Our office, in consultation with our head office in London, would make a decision; it would not be a collection of members at a monthly meeting. I have no experience of it happening. If the situation arose, we would present a report to the head office in London, set out the facts and decide whether the company had breached the code of practice. If it was as bad as someone being found guilty of fraud, I have no doubt at all that the company would not be a member.

Nicol Stephen: So that has not happened to any of your Scottish members yet. Is that right?

George Mair: Yes.

Nicol Stephen: Has it happened anywhere in the UK?

George Mair: There might well be operators that have been refused membership or rejected because of their loss of reputation. I would have to check on that.

Murdo Fraser: I want to ask about overstaging, which is when a passenger is issued a ticket for a journey that is longer than the one they want to make, which we know goes on. Some of us at this table have had constituents coming to us with examples of it. Most travellers are not particularly fussed about it because it does not affect them personally, but it is fraud on the part of a bus operator. Do you have any evidence of how widespread the practice is?

10:15

George Mair: I had experience of that in my previous role as managing director of a bus company. It is difficult because I genuinely believe

that reputable businesses are not trying to get anything out of the scheme other than what they are entitled to.

You are talking about a human interface that lasts, at most, for a matter of seconds. There are a range of different attitudes on both sides of that transaction. The driver might be under stress and pressure from dealing with traffic congestion. The passenger might be new to concessionary travel and having to state an alighting stage, which is industry jargon. If you ask them, "Where are you going?" they say, "I'm gaun tae Auntie Jeannie's."

The transaction is a difficult one and I could not sit here and say, in all honesty, that drivers never get it wrong—they occasionally do. However, when I used to get letters from people who were concerned that the driver had overstaged their ticket, it was often not overstaged. The ticket went to the final stage in that particular fare band, so the operator gained no money but, from the individual traveller's point of view, it was staged to a point beyond where they were alighting. Overstaging does happen; we are dealing with human beings. However, sometimes the customer's perception of overstaging is different from the position in reality, because it is within the fare band.

Is the current approach the best way to do it? Certainly, that question was part of the work that was done, and the option that Transport Scotland concluded it wanted to go forward with was shadow fares. When we were having discussions on the scheme back in the early days, I remember that it was suggested that we should have tap on, tap off, but that did not happen. Would using average fares negate overstaging? I am not sure, but it is certainly a matter that we could revisit in the work that we have just started with Transport Scotland.

Murdo Fraser: That is helpful. The issue is that it is very difficult to know how widespread overstaging is unless, as you say, individual passengers write to you and draw it to your attention.

George Mair: I urge you to urge your constituents to let the local bus company know when they experience overstaging, because that is the only way that it can deal with the matter. If particular drivers are struggling because they are from outwith Scotland and do not understand the destination, that is a training issue, but it will not be addressed if people do not get in touch with the local bus company and make it aware of the situation. They should give the company the bus ticket, because the information is on it and the companies will follow the issue up with the drivers involved.

Bus companies are not saying to the drivers, "Always stage the ticket to the end of the route." I genuinely do not believe that that is the case.

Willie Coffey: Several people in my constituency have come to me with tickets that are overstaged; none of them has been understaged. All the honest mistakes have been made in favour of the bus companies. I have had no satisfactory response on why that should be.

Mr Mair, you mentioned that you had suggested a tap-on, tap-off system. Can you tell us what you mean by that?

George Mair: This information is anecdotal, but it might be helpful. We used shadow fares when I was the MD in Aberdeen, which was back when the scheme was overseen by Grampian Regional Council. The council was pretty hot. It had a team of guys that would go on and do checks on the buses. They looked for out-of-date passes, which the driver is supposed to check for, and for tickets that were overstaged or understaged. Often more tickets were understaged than were overstaged. There was a balance over time.

What was the second question?

Willie Coffey: You said that a tap-on, tap-off system was suggested but was never taken up. Can you tell us more about that?

George Mair: Another piece of equipment would be added to the ticket machine. When the passenger gets on the bus, they place the card over the machine, which indicates that the card is valid and the passenger is entitled to a journey, and the passenger goes into the saloon of the vehicle. When they leave, they touch another mechanism. It is a bit like the Oyster card. That system would record the actual stop at which the passenger alights.

Willie Coffey: Why was that suggestion not taken up?

George Mair: I guess that it was linked to the additional costs that would be involved in putting the equipment on every bus in Scotland.

Willie Coffey: Was an estimate done for the cost of that option? Was it ruled out at the time on the basis of cost?

George Mair: I would need to go back through the files to see if that was done. Colleagues from Transport Scotland might be able to tell you.

Willie Coffey: That is worth following up. Thanks.

Nicol Stephen: I have a final question. You said that you had ideas about how the costs of the scheme could be kept down in future. Will you tell us about some of those ideas? How practical are

they and how likely are they to be successfully implemented?

George Mair: We would not claim, I think, that these are our ideas; they are ideas that are there. At this point, they are perhaps not politically acceptable, but things move on.

Operators often have a good dialogue with pensioner organisations. We could envisage a scheme whereby pensioners pay a flat 20p fare. Across 157 million journeys, that would significantly lighten the load on the public purse. Would the pensioners be overly upset about paying 20p? That option is worth looking at. In England, the age criteria for eligibility are being linked to changes in the pension age. That is another option that could be considered. Another issue that could be examined is why people make pre-9 o'clock journeys. Where are people going pre-9 o'clock? A multitude of options that have the potential to lighten the load could be looked at. I guess that it is up to you guys to make the decision.

Nicol Stephen: Those are all policy changes rather than changes that bus operators themselves could introduce to make the scheme more efficient or more effective. Is that correct?

George Mair: Yes.

Nicol Stephen: So, to ask a direct question about what the industry can do to reduce costs, do you believe that you have gone as far as you can to contain and cap costs? From an operator's viewpoint, is it the case—as I think you said previously—that costs will continue to rise?

George Mair: Any amount of research indicates that since privatisation in 1995 through to recent times, the industry has been extremely good at managing costs downwards—

Nicol Stephen: But it has not been very good in the past few years.

George Mair: Costs have gone up.

Nicol Stephen: Quite dramatically.

George Mair: Yes.

The Convener: I thank both Mr White and Mr Mair for their very helpful contributions this morning. We will clearly need to follow up some issues with Transport Scotland. I hope that through various agencies working together we can improve what is already a remarkably effective scheme.

I suspend the meeting briefly to allow a changeover of witnesses.

10:23

Meeting suspended.

10:25

On resuming—

The Convener: I welcome from Transport Scotland David Middleton, the chief executive; Alastair Mitchell, the head of bus, taxi and concessionary fares policy; and George Hanning, the head of concessionary travel and integrated ticketing. Mr Middleton, before we go into questions—there will be one or two questions that follow on from what we heard previously—do you have any introductory remarks?

David Middleton (Transport Scotland): No, convener; I am happy to proceed with questions.

The Convener: Okay. Thank you. Anne McLaughlin wants to ask some questions about the roll-out of technology but, before I bring her in, I would like to refer you to the original budget for the electronic ticketing machine technology. In 2004, it was costed at £9 million. In August 2010, Transport Scotland estimated the total set-up cost as £42 million. That is a staggering difference. Was that due to incompetence, or were there unforeseen factors between 2004 and 2010? If so, what were they?

David Middleton: It is clear from the Audit Scotland investigation that the basis of the original £9 million was not clear. Certainly, as the Audit Scotland report reflects, things such as the cost of the machines to be put in every bus suggest that that figure did not have an accurate basis. It is clearly not a good story to go from £9 million to £42 million. As the story unfolded and precise calculations were made of the technology, the equipment and the back-up services needed to make it an effective scheme, you can understand why the £9 million figure did not equate very well. I hope that the committee will be satisfied that £42 million has a sound basis in terms of what it has to be spent on to make the scheme effective.

The Convener: Okay. It is encouraging to know that £42 million has a sound basis in terms of making the scheme effective. Presumably officials in the Scottish Executive produced the figure of £9 million to enable ministers to advocate a scheme and say at that time that it was an effective and accurate figure. Why did officials get their calculations so badly wrong?

David Middleton: I do not think that I have a basis to speak for the 2004-05 thinking around the £9 million. Audit Scotland has tried its best to bottom that out. It is clear that there was not a precise basis for the £9 million.

The Convener: So Audit Scotland has tried to bottom it out but failed. There is no one among the civil servants who is able to tell Audit Scotland, and you, the head of Transport Scotland, are not able to tell us. Basically, we had civil servants at the time advising ministers, and ministers advising Parliament, but they did not have a Scooby Doo about the figures, which are clearly completely inaccurate. We now have an accurate figure, but politicians in this Parliament made a decision to implement a scheme based on what we were told was an accurate figure that was produced by civil servants at the time, and no one seems to be able to tell us how it was calculated. Is that not just farcical?

David Middleton: I will leave the committee to draw its conclusions. I cannot speak for the calculation of the £9 million. We and Audit Scotland have tried, at the Scottish Government end and at the Transport Scotland end, to see what the precise basis of the calculation was. It may have been an aspirational or a hoped-for figure, but the fact is that once we began to calculate the precise costs of the technology and infrastructure needed to make the scheme work well—we believe that the scheme is now working well and that the report reflects that it is now working a lot better—it was clear that £9 million was not properly based.

10:30

The Convener: We will consider how well the system is working, but I will stick with the current subject for the moment. You tell me that no one in the civil service can tell us how the figure was calculated, yet the Parliament based its decision on the figures that civil servants produced. If the figures had been different, Parliament might not have decided to proceed with the scheme; we do not know—it might well have proceeded anyway.

To be frank, it beggars belief that no one in the system can give the answer. Nothing has been recorded, which is a worry; nothing can be demonstrated; and no one is available to tell us how the figure was reached. I do not know whether that is just how Transport Scotland and the transport department have operated or whether that is an indictment of the Government in general. If we have no means of determining how figures were calculated only six years ago in any branch of the civil service, we have a seriously dysfunctional organisation. How can we hold anyone to account when you cannot give us the figures?

David Middleton: I understand what you say. All that I can say is that Transport Scotland takes forward plenty of other projects on roads and railways all the time. The scheme was not originally Transport Scotland's responsibility. Many

prestigious schemes have run on time and on budget.

Ministerial priority was given to getting the concessionary travel scheme under way—it had impetus at the time. Initial figures were arrived at. Audit Scotland has investigated the basis of the £9 million. In a way, it would be odd if I came to the committee with a separate explanation that Audit Scotland had not studied. It would be improper for me to suggest that a further bank of information existed that Audit Scotland could not access.

I regret the situation, although it occurred some time ago. All that I can speak for is what we have done in the past few years to make the scheme work and to make it effective. We have had to purchase the infrastructure and the technology and to put machines on buses to make the scheme work as well as possible. Those costs, which we can show, are soundly based and are effective in making the scheme work.

I understand perfectly well what you say about the unsatisfactory nature of the original number.

The Convener: To be clear, no one anywhere in the civil service can show how the £9 million was calculated. No documentary evidence anywhere in the civil service shows the calculations for that figure. To be frank, as far as we know, the figure looks as though it was plucked out of thin air.

David Middleton: I was not around at that time. In going through the report with Audit Scotland, we have tried our best in all quarters to be helpful and to see whether anything could be turned up to explain the basis of the £9 million. As the report says, a clear basis for the figure that relates to the costs that were required to put into effect the scheme's infrastructure is not available.

Anne McLaughlin (Glasgow) (SNP): Who was the Minister for Transport in 2004?

Nicol Stephen: I can answer that—it was me.

Anne McLaughlin: I was not sure—I thought it was Tavish Scott. I am not sure whether I can ask a fellow committee member my questions, so I will address them to Transport Scotland. I am astonished that nothing—no paperwork anywhere—says, "The figure is £9 million because the machines cost this amount, we need this number of units and we have this quote from this company and another quote from another company."

Mr Middleton said that we now have precise figures. I appreciate that he was not involved at the relevant time, but I am astonished that the figures to make up the £9 million were not precise. The £9 million was just a guesstimate—and a pretty bad guesstimate at that.

I cannot question a fellow member of the committee. I am a back bencher and I do not know how this operates, but is it normal practice for ministers to be told, "This is how we've come to this conclusion" or is it normal practice for them just to be given figures and to accept them and give them to Parliament, which we then accept in good faith? I find this utterly astonishing.

David Middleton: No, it is certainly not normal practice for them just to be given figures. There are plenty of projects that are taken forward with clear estimates of the actual costs. There are schemes across the range of Transport Scotland's activities—most obviously road schemes, some of which are very large—which run on time and on budget.

The NCT scheme was a groundbreaking area. I am to some extent speculating in looking back, but it was an area in which ministers at the time wanted to make progress; they wanted to put a national scheme into operation and speed was of the essence. It may be that the figures speculated about were heroic at the time. I do not think that I can add to the fact that, following the Audit Scotland review, no clear basis can be found for the £9 million. I do not think that that would ever be considered normal or appropriate practice.

Anne McLaughlin: I am glad to hear that. In 2004, the £9 million figure was given. The scheme should have been completed by 2006—it should have been rolled out by then. A new Government comes in and inherits not just the £9 million estimate but, because the scheme has taken so long, an additional bill for £33 million—if my maths is correct. That money has to come from other services. I find that deeply concerning. I am glad to hear that it is not normal practice.

I want to look at the length of time things have taken. I think that, originally, the scheme was to be fully operational by April 2006. The roll-out of the machinery was not completed until August 2010. The report states:

"Transport Scotland now expects the back-office systems ... to be fully operational by December 2010".

Are they fully operational now? If not, when will they be?

I also want to go through the reasons given in the external review. You said yourself that we are talking about groundbreaking technology that had never been used before. Why choose to use something that has not been tried and tested?

David Middleton: First, I can confirm that it is now fully operational, in line with the report. Gordon Hanning, who oversees the implementation of the scheme, is probably best placed to talk about your second point.

George Foulkes: The nameplate says that we have George Hanning with us—

David Middleton: His name is Gordon Hanning.

The Convener: I beg your pardon, Mr Hanning. We were given wrong information. I am sorry about that.

Gordon Hanning (Transport Scotland): It is probably a bit like the £9 million; I do not know why the decision to go for that type of technology was taken. I came in—

Anne McLaughlin: I am sorry to interrupt, but using groundbreaking technology that has never been used before is a risk, is it not?

Gordon Hanning: Yes. That is partly why the cost has come out at about £42 million. There were aspects of rolling out that technology that we had not anticipated. Certainly when I came into the role we thought that we were purchasing something that, when you plugged all the pieces together, would work. That patently was not the case. When we started to roll out ticket machines, the first batch that we put out in Shetland in late 2006 actually went quite well. It was only when we rolled out more ticket machines and started introducing them to smart cards that we realised that the technology was nowhere near as reliable as we had initially thought. We had to spend quite a lot of time, money and effort on systems integration. We have learnt a lot about rolling out information technology projects. We have the biggest ITSO scheme in the world. Others are still struggling with it.

The Convener: Sorry, what is that?

Gordon Hanning: The technology goes by the name of ITSO. It is a sort of specification. You have two options when you roll out smart-card technology. You can go to one supplier, which will roll out the whole system for you and, usually, hold you to ransom. Look at the costs of Oyster in London, for example. It can do only a handful of things, although it does them very well, and it is very expensive. The alternative is ITSO, which attempts to put together what we call an open specification, in which you can get more than one supplier of cards, ticket machines and back-office equipment, which is probably good for keeping costs under control and getting the system to evolve and meet all your future requirements. That is the route that we chose. We still have the biggest ITSO scheme in the world; we are one of the very few places that has rolled it out at all, and we have rolled it out pretty successfully. I do not doubt that we will discuss, later, what the technology does, but it works: it enables us to do our job and to manage the scheme in ways that we could never have done under the old type of arrangements with show and go.

Anne McLaughlin: The external review highlighted that properly skilled staff were not in place at the time.

Gordon Hanning: That is absolutely right. It is very specialised IT: there are certain aspects of testing ticket machines and of ensuring that they do all the different IT-related things that they are supposed to do that your average civil servant would never have the skills to do. However, we have developed the skills to manage projects such as this one. As I say, we completed it, albeit a little later than we expected.

I look at how other people are getting on with rolling out much smaller schemes. They are not making the level of progress that we have made. We can point to the fact that by 2008 we had a decent number of machines out and that by 2010 we had dealt with the last rump-end of it, which was in the Western Isles.

Anne McLaughlin: The report also said that contracting arrangements were “weak”, which gave private sector advisers too much influence. How did you, and how do you, guard against private advisers and contractors having too much influence?

Gordon Hanning: I have learned an awful lot from overseeing this programme, but I suppose that it is like anything in life: if we were starting all over again we would do it differently. With the benefit of hindsight, I would say that too much of the risk for this programme sat with Transport Scotland. Perhaps more of the risk should have sat with the suppliers.

Anne McLaughlin: You have said that we now have properly skilled staff in place and that the technology is groundbreaking, and you have spoken fairly convincingly about that. Without commenting on the escalation in costs or on the length of time the project has taken, would you say that it is worth while and that it is value for money?

Gordon Hanning: Yes. As simple as that—yes.

George Foulkes: May I ask Mr Middleton how he travelled to the Parliament this morning?

David Middleton: I travelled by bus.

George Foulkes: Good. Did you expect questions on the increase in costs for this particular scheme to be asked at today’s meeting?

David Middleton: I would have anticipated them, yes.

George Foulkes: So, in preparation for the meeting, you went through all the papers.

David Middleton: I hope that I did, yes.

George Foulkes: And you cannot find any reason why the cost escalated and why it was predicted to be £9 million.

David Middleton: No, I cannot. That was what Audit Scotland said in its report and it would have been odd if, in preparing for the meeting, I had found another set of considerations that proved differently.

George Foulkes: Did you look at the papers that were used in drawing up the recommendation to the minister that the cost should be £9 million?

David Middleton: I looked at the papers that were relevant to the study that Audit Scotland published.

George Foulkes: Some of those papers might have been private papers. Did you look at all the papers that were used by Transport Scotland in drawing up the recommendation to the minister?

David Middleton: At the time—2002 to 2004–05—I was in the main part of what is now called the Scottish Government, rather than in Transport Scotland. I looked at no papers that were not available to Audit Scotland.

George Foulkes: So all the papers that were used in drawing up the recommendation to the minister were made available to Audit Scotland.

David Middleton: Yes.

George Foulkes: And you still cannot assess or deduce why the figure of £9 million was arrived at?

David Middleton: I cannot add to the findings of Audit Scotland about that, no.

George Foulkes: The cost is now up to £42 million. Can you identify precisely where the additional costs came from?

David Middleton: The report makes clear where the costs were encountered over the lifetime of the project, and what the money was spent on—for example, on the machines in each bus, and in the back-office and support services to make those machines effective.

George Foulkes: But there is still the question of why the additional costs were not anticipated when the figure of £9 million was drawn up. Why is there a disjunction between what actually happened and what was predicted? Why was it different?

10:45

David Middleton: It is clear that the £9 million was not soundly based. I do not think that I have attempted to suggest other than that.

George Foulkes: So, how do we now, in looking at it, ensure—and how do you ensure—

that the same thing is not happening with some of your current projects?

David Middleton: All projects are different. As I said previously, which may be a bit of a cliché, this scheme was groundbreaking; a smart card technology alongside the policy of a national concessionary travel scheme took us into new territory. We have a range of other projects, most obviously infrastructure projects. As I mentioned, road schemes have their own natural process through public inquiry and estimates presented to Parliament. There are many very large-scale road projects. For example, two big motorway projects that are going ahead at present are some of the largest projects in a generation, but I am glad to say that they are on time and on budget.

George Foulkes: They are traditional projects. Another groundbreaking project is the Forth replacement crossing. How can you be confident about the figure that you presented for that project?

David Middleton: We are confident about that figure. The basis of the figure work for the cost estimates for the Forth replacement crossing has been widely available and, of course, was debated in Parliament during the Forth Crossing Bill. The competitive dialogue period with the two consortia that are bidding for the Forth replacement crossing has recently concluded. The two international consortia will submit their bids in the new year. Clearly, when it comes to awarding the contract we hope that the terms of the contract and its basis will give Parliament and all in Scotland confidence that the cost estimates that we have displayed thus far are accurate and will reflect the costs of this very important project.

George Foulkes: So the terms of the contract for the ticketing scheme did not reflect the costs that you anticipated?

David Middleton: I said that the £9 million did not properly anticipate the costs that were required to roll out the project as it developed and as we worked on the technology, which Gordon Hanning has discussed, to put the machines into every bus. Clearly, the £9 million was not soundly based and there is no point in my seeking to dispute that.

George Foulkes: Yes, but you do not seem able to indicate why. You state that you are sure of other projects; I took the example of the Forth replacement crossing. How can we be sure that if this happened once, it will not happen again?

David Middleton: I can only point the committee to the range of road improvements, rail contracts and other financial arrangements that Transport Scotland enters into. Partly because of the recent bad weather, not a huge amount of publicity was given to the opening of the Airdrie to Bathgate rail link, which Network Rail and

ourselves have taken forward and which was a fixed-price contract. We believe that the project has been delivered at that fixed price and we hope that it will prove to be value for money. There is also the example of the £200 million Clackmannanshire bridge project, for which we are on time and on budget.

Transport Scotland has taken forward a range of projects since its establishment in 2006. I am more than happy for the committee and others to pore over the range of projects that we have undertaken. I think you would find that, generally speaking, we are pretty good at the business of budgeting and delivering projects on time and on budget. It is regrettable that there is a story around the ticketing project, but the £9 million figure was arrived at some time ago—six years ago—and it clearly was not soundly based at that time. However, we believe that the costs that Transport Scotland has incurred in implementing the project are soundly based and are now making it an effective scheme, as Gordon Hanning described in his evidence.

Willie Coffey: I apologise for sticking with the £9 million, but it is clearly in the public interest that we try to get to the bottom of it. I do not know whether the Auditor General's report is in front of you. Paragraph 24 on page 9 says that the £9 million was set aside in 2004 and that

"A year later,"

we

"realised that this budget was unrealistic—it was not"

even

"enough to buy an ETM for every bus".

For goodness' sake, surely when equipment for buses is to be bought the first thing somebody in the system does is estimate the number of buses and the cost of the equipment. The committee is known for having been astonished at almost every meeting it has held in the past three and a half years—

Mr McAveety: And perplexed.

Willie Coffey: And perplexed. I join that feeling now. I have been a member of the committee for as long as my colleague Murdo Fraser, but I am utterly gobsmacked that somebody in the system could not estimate the cost of a unit and the number of buses, do a wee multiplication and come up with a figure. It is clear that the cost was more than £9 million. Furthermore, those involved did not even estimate the cost of back-office administration. How on earth do we get an explanation for that? You have said that you were not in Transport Scotland at the time. Who was in the organisation and could answer our questions?

David Middleton: I do not think that I can add to what I have said. We cannot identify precisely the individuals who were around at the time. By looking at all the papers that were available from all parts of the Government, Audit Scotland did its best to find out the basis.

As you say, it seems perfectly obvious to think of the price of a machine and do a multiplication. I understand why you make that obvious point. Looking back at the situation leaves me in an uncomfortable position. I wish that the situation were different. However, as for producing evidence to explain the state of affairs, I cannot add to what Audit Scotland said. It would be odd if, after Audit Scotland had published its agreed report, I produced a subsequent set of explanations. That would cast doubt on the process by which Audit Scotland comes into the Government and accesses papers in order to draw up reports such as the report that we are discussing.

Willie Coffey: Exhibit 3 in the report shows that we spent £650,000 on consultancy fees in 2005, £890,000 in the following year and £900,000 in the year after that. Nearly £4 million has been spent on consultancy fees for the scheme since 2005. Have we obtained value for money for the public purse from the consultancy costs?

David Middleton: In terms of the scheme's effectiveness, we have value for money. The Audit Scotland report suggests that the scheme functions much better than it did at earlier stages. The money that has been spent is there for all to see. Gordon Hanning described aspects of how and on what the expenditure was incurred to make the groundbreaking system work. What was spent represents value for money and helped to produce an effective scheme that provides important benefits for a range of people.

Willie Coffey: In 2005, we spent £650,000 on consultancy fees for the scheme when the cost of units that would go into buses could not even be estimated. What kind of consultancy service is that?

David Middleton: The consultancy service related to whatever services we purchased at that time. I do not know whether Gordon Hanning wants to comment on that angle.

George Foulkes: Before you came here, did you not look at the papers on the consultancy to allow you to answer Mr Coffey's question? Can you not answer his question properly?

David Middleton: I can answer the question in the sense that I believe that the consultancy fees that have been incurred to make the groundbreaking technology work were at various stages value for money. It has not been suggested that value for money was not obtained.

On the specific items that were purchased from a consultancy in 2005-06, I look to my colleagues who do the detailed implementation to provide further information to the committee. Can Gordon Hanning say anything about that?

Gordon Hanning: The issue is difficult; Transport Scotland came into being at the start of 2006. We inherited the programme from other colleagues in the Government in about May 2006. For exactly the same reasons as have been given, it is difficult for me to comment in detail on what happened before May 2006.

I believe that, given the size and scale of the smart card system that we are talking about, costs were incurred in 2005 on advice from consultants on how to set it up. I can say with confidence that since 2006 most of the payments that we have made to consultants have been for specialist work around testing individual ticket machines. Each time a supplier delivers a particular piece of kit we need to be satisfied that it works and that all the software does all the things we expect it to do. That was a pretty intensive process in regard to the ticket machines, because we would not allow the machines to go on buses and we would not make payments to the supplier unless we were confident that the machines did the job that they were supposed to do.

The other aspect of consultancy costs that caught us out a bit was our decision to go for the ITSO system. We probably naively assumed that you bought ticket machines, bought the back office, put it all together with the smart cards and it all worked, but it did not. Quite a bit of systems integration work had to be done that has cost us about £4.5 million over the period of the programme. That is the other main area that would be labelled as consultancy costs.

The Convener: I have one further question on that. You indicated that later consultancy work looked at specific aspects of technology but that the work that was done in 2005-06 was to scope the system. Is it the case that, between the consultants on whom £650,000 was spent and the civil servants, no one thought to say that the first step in working out how much it would cost was to identify how many buses would need the technology?

Gordon Hanning: I can surmise only that my predecessors did not know what the cost of a ticket machine would be because it is an evolving, emerging technology. When I inherited the programme, it was quite clear to me what it would cost, given that there were 7,000 buses and each machine cost £3,500.

The Convener: Mr Middleton, Willie Coffey asked who was responsible and who was involved, but you cannot say at this stage. I do not

know whether the permanent secretary would be able to provide that information, but we can ask. Would it worry you if any of the people in the civil service who were involved in producing such a poor piece of work—a shoddy piece of work—was now in a promoted post in the civil service?

David Middleton: I would need more information about the circumstances that surrounded whatever those people were asked to do. However, in general terms, obviously, one would not wish to see people who wrongly estimated things prosper. I can make that general statement, but I cannot comment on specific factors surrounding what anyone was asked to do in 2004 or 2005.

Mr McAveety: I do not know whether Nicol Stephen wants to come in at this point, because he has some knowledge of the time in question.

Nicol Stephen: I have just a couple of simple points. I clearly recall that there were papers for all of this, but I have not seen any of them for six years. You said that the papers have not been available to you. Does that mean that they have been lost or mislaid?

David Middleton: The papers, such as they are, are available to us and they were seen by Audit Scotland. The point is that the papers that are available now do not appear to give a proper explanation of the £9 million.

Nicol Stephen: You are not aware of any documents having been lost or mislaid. You believe that you have seen all the documents that were available at that time.

David Middleton: I believe that all the documents that are available have been seen by us and Audit Scotland. I cannot make a categorical statement as to whether any have been lost as, clearly, I do not know what I do not know.

Nicol Stephen: In that case, the names of the civil servants who prepared them would be on the face of the documents.

David Middleton: Clearly, the names of the civil servants on the documents are available and are known.

Nicol Stephen: Have you spoken to those civil servants about this issue? Have they been involved in the process?

David Middleton: Not directly, no.

Nicol Stephen: Would it not be straightforward to find out the names of all the individuals who were involved in the preparation of the information at that time?

David Middleton: Clearly, that is not a secret, but some may have retired, moved on, left the service or be wherever.

Nicol Stephen: Have you endeavoured to find out who those individuals are? Have you spoken to any of them?

11:00

David Middleton: I have not conducted an investigation concerning those individuals. However, it would not be difficult to find out their names. The established practice in government is that the people who hold the responsibilities have to account for the issues. The files are in the possession of the people who hold the responsibilities. Five or six years is quite a long time to try to go back to individuals who may well have left the service, or retired, or moved on to other functions altogether.

Nicol Stephen: My point is that it would be straightforward to find them.

David Middleton: It would be straightforward, yes.

Nicol Stephen: It would be straightforward if we wished to do so—or if you had wished to do so for your preparation for today. If you had wanted to, you could have spoken to those individuals. We may choose to do so, if we believed that it would be valuable in the finalisation of our report.

David Middleton: Obviously, it is not for me to tell the committee whom it can or cannot speak to. The convention is that, if you inherit a situation, you have to speak about it—rather than there being a system of going back a number of years and finding people who may well have moved on by several stages since the time that they prepared advice.

Nicol Stephen: Some of us may feel that it would have been preferable to approach those individuals rather than coming to the Public Audit Committee with a complete lack of explanation on an issue that is of considerable concern to us.

David Middleton: The committee may well take the view that that would have been preferable; all that I can do is relate the fact that we cannot give you a basis for the £9 million, as is recorded in the Auditor General's report.

The Convener: Do you have the Audit Scotland report with you?

David Middleton: Yes.

Mr McAveety: I am tempted to say that, if I found myself in a court, I would find it remarkable if an evidence trail were similar to the evidence trail that we have heard about today.

I want to ask about three things. We have been very concerned about value for money. We know from the previous evidence session that the cost of an adult single fare has increased at a rate four times higher than the rate of inflation. In addition, we know that the cost of the technology system is nearly five times higher than the original estimate and we do not have an explanation of how the original estimate was arrived at. I find that difficult to justify on value-for-money grounds. Is it at all defensible that people are here today, in 2010, having to explain something as awkward as that to the Public Audit Committee?

David Middleton: Obviously, it is difficult for me to speak continually about the £9 million. I have not made any secret of that. However, I believe—and I believe that Audit Scotland's report suggests this—that all the measures that we put in place to make the scheme work and to provide benefits to Scottish citizens represent value for money. I do not think that the value for money of the sums incurred is in question, beyond the fact that the figure is clearly higher than was originally estimated.

Mr McAveety: Mr Hanning, did you say that you inherited this in 2006?

Gordon Hanning: Yes.

Mr McAveety: As soon as you walked through the door in 2006, what alarm bells rang when you saw the project that was handed to you?

Gordon Hanning: It was high risk. The budget figures, which we have done to death today, were clearly not sufficient.

Mr McAveety: Your predecessors did not do basic budget figures. Is that what you are really saying?

Gordon Hanning: The frustration was that the principal chap who had done the work before my arrival on the scene had left the Government altogether. I do not know where he is now. That does not help me much. It would be better for David Middleton and me if we could give you answers to the questions that you are posing. However, the fact is that we cannot uncover it. We would like to, but we cannot.

Mr McAveety: He was last rumoured to be on a tour bus somewhere in the north of Scotland.

We know that there is a high risk with technology. If you had been in this position in 2004, what two things would you have done immediately that you found out in 2006 had not been done?

Gordon Hanning: My answer to that would reflect the things that I felt were important when we came in. It was a high-risk, technology-oriented project; it was an emerging technology; it was not

proven. No other ITSO smart-card schemes had been established anywhere else in the world that we could go and look at. That carries with it all sorts of risks. As well as the technology risk, there was clearly a timescale and a budget risk.

My job was to build up a team that had the skills to deal with all the issues, to undertake effective programme management and to put the kit on the ground, because the endgame of having smart-card technology seemed to be a pretty important prize, given the annual value of concessionary travel of about £180 million. If we flip the matter on its head, we can see that the amount of risk that a free concessionary travel scheme carries when smart-card technology is not in place is pretty considerable, too. Although there were many risks and challenges in rolling out the technology, an endgame in which we would move away from show and go, which creates all sorts of risks and weaknesses for passengers and operators to exploit, to smart-card technology, which goes a huge way towards mitigating most of the risks, seemed a pretty good place to get to.

Mr McAveety: Audit Scotland thought that private sector advisers had too much influence. How many private sector advisors were there? Are we talking about a single contractor?

Gordon Hanning: The main input from the private sector was from a firm of consultants, who advised the Government in 2004 and 2005 on how to go about setting up a smart-card system.

Mr McAveety: Was the firm the main beneficiary of the high consultancy fees?

Gordon Hanning: It was one of two companies that would have been paid a fair amount.

Mr McAveety: If we are looking for a name, I see that that guy George has disappeared. You are back to having "Gordon Hanning" on your nameplate, so you are fine.

Jamie Hepburn (Central Scotland) (SNP): Witnesses have made much of the fact that Transport Scotland inherited the project, which I suppose is technically correct, because Transport Scotland was established in 2006 and the project had its genesis in 2004. However, I understand that Transport Scotland was established through the transfer of civil servants who were employed in the then Scottish Executive's transport department. I am sure that new people also got involved, but is my understanding broadly correct?

David Middleton: Transport Scotland was created out of part of what was then called the Scottish Executive and is now called the Scottish Government. Transport officials from certain parts of the Executive went into Transport Scotland, which took on additional responsibilities in respect of rail and concessionary travel, in relation to

which I think that a number of staff transferred in from Strathclyde partnership for transport.

Jamie Hepburn: Therefore, broadly speaking, my understanding was correct. I am surprised by the apparent lack of continuity. What happened to the officials who were involved in pulling the plan together? Why were they not involved further down the road? It sounds as though Mr Hanning almost had to start from year zero.

David Middleton: There was not sufficient continuity. That is clear from the Audit Scotland report. I think that Gordon Hanning and his colleagues transferred into the Government from their previous employment in SPT. In a sense, because Transport Scotland was established at a slight distance from the centre of Government—though not a huge distance; it is an executive agency—it was expected to get on and run with the project, in the way that Gordon Hanning described.

It is clear that, if there had been more continuity and a greater understanding of the original budget estimate figures, we would be in a better position today. It is difficult for me to defend that set of circumstances, but I am talking about events of a number of years ago and I think that, in making the implementation of the scheme fully effective, Gordon Hanning and his colleagues did a good job. He can probably tell you more about that.

Gordon Hanning: The original team was comprised mainly of people who transferred in from SPT—I had previously been working in England. We came up and started to run the scheme. I think that I joined Transport Scotland virtually on the day the free national concessionary travel scheme started. The team dealing with the smart-card programme left the Government at about the same time, and the ownership of the programme to roll out the technology transferred to me. There was not a great handover, which is frustrating for me and for David Middleton, but that is where we are. We can talk with confidence and in detail about what we did on Transport Scotland's watch.

Jamie Hepburn: The report identifies £3 million for on-going running costs for the technology. Were on-going running costs identified in the original £9 million cost for the introduction of the technology?

Gordon Hanning: Again, I do not know.

Jamie Hepburn: What are the on-going running costs for? Why does that cost £3 million a year on top of the installation costs?

Gordon Hanning: A range of costs comes into play, but probably the single biggest one is for the back-office system. There are 150 million passenger journeys every year for the

concessionary travel scheme and each smart-card transaction on a bus creates data, which must go somewhere. The data go into a back-office system that has to be managed by a specialist firm in a secure way because there is a security aspect to the data. The single biggest cost in running the scheme relates to the managed service that we get from the back-office system.

Jamie Hepburn: You described the electronic ticket machinery as an important prize. You said that the endgame of getting the technology installed was an important place to get to. Is it fair to say that your view is that the machinery is an integral part of the national concessionary travel scheme?

Gordon Hanning: It is fundamental. I cannot conceive how we could run the scheme as efficiently on the only other basis on which it could be done, which is show and go.

Jamie Hepburn: You also said that, with the benefit of hindsight, things would have been done differently. Would it have been better to have installed the machinery before the scheme began?

Gordon Hanning: Of course it would have been better.

Jamie Hepburn: That is useful.

George Foulkes: I am slightly confused. Gordon Hanning is head of concessionary travel and integrated ticketing with Transport Scotland and Alastair Mitchell, who has not said very much—if anything—is head of bus, taxi and concessionary fares policy. Mr Middleton, can you explain the difference in responsibilities between the two?

David Middleton: Alastair Mitchell looks at general policy in relation to the bus industry and debates about the future of concessionary travel, answers questions from ministers and briefs them on the policy basis of the concessionary travel scheme and deals with any questions that may arise about the general policy. Gordon Hanning is focused fundamentally on the implementation and management of the scheme.

George Foulkes: As Gordon Hanning is implementing the scheme, would he not be the best person to brief ministers and you on the policy?

David Middleton: In practice, both Alastair Mitchell and Gordon Hanning will have input into issues such as discussions with the CPT. However, there is clearly a general policy interest in the bus industry as well as Gordon's implementation and management responsibilities.

George Foulkes: But you will be aware of the public expenditure position in Scotland and the United Kingdom at the moment and of the number

of people who are being asked to take salary cuts and the cuts that are taking place at the front line in education, health and other areas. Do you really need two heads of concessionary travel at this stage?

David Middleton: Until August, there was a separate transport directorate in the Scottish Government alongside Transport Scotland. We had a merger in August, so the overall senior management structure for transport in the Scottish Government has already been rationalised to a degree. As I think the permanent secretary has made clear, there is an on-going process of looking to make savings in running costs across the civil service, from which Transport Scotland will not be exempt.

11:15

The Convener: We move on to the risk of fraud when the NCT scheme was introduced. The written evidence from the Auditor General says that

"There are now eight operators which are the subject of investigation and report to the courts and the total value"

of the fraud that is being investigated is £1.7 million. Will you provide details of the operators that have been the subject of a report to the courts?

David Middleton: It would be inappropriate for us to make publicly available the operators' details, which could well prejudice the process. The Auditor General obtained from us the figures that he supplied to the committee in his correspondence. We were willing to give the figures in aggregate to describe the level of activity to pursue fraud, but it would be inappropriate for us to say the operators' names.

The Convener: I am interested that you believe that providing the committee with details of the operators that are the subject of a report to the courts would prejudice the case. Correct me if I am wrong, but we do not have secret court hearings in this country, so the public would be aware of and have information about the court hearings. Given that, why can you not provide the names of the operators that have been reported to the courts? Surely that is not a secret.

David Middleton: That depends on whether the matter proceeds to court action. Further action might not be taken against operators that are being investigated. Names are known once court action is taken but, in the build-up to that process, giving out operators' names would be inappropriate.

The Convener: Let us speculate. If some operators were not reported to the courts, would

the fact that they had been investigated for fraud be public information or would it be kept secret?

David Middleton: To be honest, it might be better if we reflected on that and wrote to the committee. We certainly do not wish to make any secret of what we do to investigate fraud. If we can give the committee more detail, we will be happy to do so. However, members will understand that, when people might end up being the subject of court action—that will depend on how the investigation goes—we need to be clear that any information that we give out is appropriate. However, we do not intend to be at all secretive.

The Convener: We do not wish to deal with anything that is sub judice or to do anything that would have an impact on the court process. However, I am not sure why we cannot be told which companies have been investigated and reported to the courts. I ask you to reflect on that and write to us; the committee will consider your response.

Willie Coffey: The Audit Scotland report said that, when the NCT scheme was introduced in April 2006, basic management systems were in place, but no robust systems were in place to minimise the risks of error and fraud effectively. The presumption is that, when the technology was introduced, the possibility of error and fraud happening became more evident. Did the pending cases, with which we have had difficulty in relation to identifying operators, arise as a result of or after the technology's introduction?

Gordon Hanning: There is no question but that the technology certainly helps. However, we did not sit on our hands and wait for the technology to become available. We have always done a range of tasks to investigate possible fraud. The technology undoubtedly makes our job an awful lot easier. It widens the parameters—the avenues that we can investigate to consider whether fraud is being committed. We undertook activities to investigate fraud before the technology was in place, but the technology helps us hugely.

Willie Coffey: I asked your colleagues from the CPT this question and they suggested that I should ask you. I think that I know the answer that you will give but, from the outset of the scheme, why were no systems in place to try to validate claims and identify potential risk and potential fraudulent claims? The suggestion appears to be that the introduction of the technology has enabled us to be a bit surer that that is happening, whereas we were particularly unsure prior to that. Why from the outset were there not sufficient protections in the system to guard against those risks?

Gordon Hanning: Back in April 2006, when it became a national scheme, we were simply continuing the sorts of processes to run a scheme

that the various local authorities had pursued prior to that. Secondly, there was a presumption that technology would be available much sooner. In the very early days of running the scheme, it seemed to me that my priorities were ensuring that the 260 bus operators were paid on time and that 1 million card-holders had their passes and were able to access free travel. In the very early days, it was about prioritising. It became very clear to me at the outset that we needed to develop processes to harness the technology as and when it became available. Bear in mind that we started to make that technology available in late 2006. There was a long progression from 2006 to 2010 to roll out all 7,000 of the ticket machines but, separate to that, we needed to develop the skills, capacity and processes to manage all sorts of potential frauds against the scheme, with or without the technology. The past four years will show that Transport Scotland has done that progressively since 2006.

Willie Coffey: The technology, which we have discussed at great length, has cost us £42 million so far. My understanding is that there is nothing intrinsic in the technology that validates the claims, from an electronic or software perspective. It is people making complaints about invalid staging of tickets and so forth that highlights possible fraud. Does any validation in the electronics of the system point you in the direction of possible fraudulent claims?

Gordon Hanning: I do not think that technology does validation; technology generates data. It is my team who do the validation work. I could sit and talk for hours about the different techniques that we employ to slice and dice and analyse the data and the processes that we follow. The recurring theme in the work that the unit does is that it is all focused on fraud and audit. I have a team of people who all have different roles to play. We are looking at data and looking for things that are happening that do not follow the normal trends and patterns, such as where an operator's claim has increased in size from one period to the next and where we see that an individual pass has been used more than 10 times a day. Those are examples of where we are using the technology. There are numerous flags and indicators that will suggest to us that there might be something going on that is not right. The job of my team day in, day out is to investigate anything and everything that is off the normal trends. Part of that, as you quite rightly said, is about investigating complaints that something is going on from MSPs and individual card-holders, sometimes via the local authority. That is great, because, with 260 bus operators and about 0.5 million journeys a day, of course it helps us if we know where to look, over and above all the trends that we are monitoring and analysing daily.

Willie Coffey: We have a £42 million system that does not do any ticket validation. Mr Mair, your colleague on the previous panel, suggested to us that, at an early stage, the CPT had recommended a tap-on, tap-off kind of mechanism for the technology, so that when the customer comes on the bus they tap on and when they leave the bus they tap off. My understanding is that that journey would be 100 per cent accurate. Why did we reject that kind of system initially?

Gordon Hanning: We did not reject it. First of all, we have tap on; that is, after all, essentially how the smart cards work. As for tapping off, the technology is not proven and therefore not available for purchase. That particular problem might well be solved in years to come but, at the moment, there would be high technological risks in going for such an option.

There is another much more practical problem with a free travel scheme: how to ensure that, in each of the 150 million people journeys, people tap off every single time. If they do not tap off, what do you do? Even if the technology were available and utterly reliable, the practicalities of making it all work would be quite significant. I would prefer to wait for the introduction of proximity readers, which are being developed but have not yet reached the right stage. I simply do not want to get into the same problems with them—at the moment, I do not know exactly what they will cost, how reliable they will be or how long it will take to deliver them—but they are probably the way forward.

With proximity readers, the passenger taps on when they get on and, when they leave, the reader registers the fact that the smart card is no longer on the bus, which means that the passenger must have left the bus and their journey, therefore, has ended. I think that that is a much better method. I am certainly all for it and, if and when that technology proves to be reliable and the costs become clear, we will be able to ask, "What is the business case for such a move? If we spend X, will we save Y and maintain the integrity of the concessionary travel scheme?" I can see that as being the next phase in the technology's evolution.

Murdo Fraser: I want to pick up on Willie Coffey's last point. Is the Oyster card not a tap-on, tap-off system?

Gordon Hanning: The Oyster card is very good at what it does, but it has severe limitations. For a kick-off, its tap-off system works because every London Underground station is gated and no one can get out without, in effect, tapping off. Tap off does not work on the buses and the way round that has been to say that the technology can cope with only one single fare at a time. As a result, the entire London bus network has one fare and one fare only, which from a revenue point of view is not

a terribly efficient way of running a transport system. It is, though, the only way in which the Oyster card can be deployed on the bus network. We could not introduce that technology up here because it is simply not sophisticated enough for what we need it to do.

Murdo Fraser: That is helpful.

When I asked the previous panel about the risks of overstaging, it became clear that the bus operators do not have a particularly strong understanding of how widespread the practice is, but committee members and other MSPs have heard anecdotal evidence that it happens. What is Transport Scotland's understanding of the scale of the problem? How are you dealing with it?

Gordon Hanning: It is quite difficult to determine the scale of the problem because the only way of quantifying it is through introducing some sort of tap-off system. In that respect, I have already shared my views about the proximity reader.

As for what we are doing about the problem, I find it interesting that as the ticketing equipment has been rolled out it has become a lot easier for us to get a handle on what might be going on. Overstaging might well have been happening since the dawn of concessionary travel schemes back in the 1960s, but the technology is starting to make it a hell of a lot easier for us to identify what might be happening and where it might be happening. We have a pretty comprehensive approach to the problem; indeed, I have already described the hierarchy of measures that we have. First off, we have the technology, which brings a lot of benefits. We also have a zero-tolerance fraud strategy, which means that we will investigate every complaint that comes our way and pursue anything that looks like fraud or a deliberate attempt to cheat us. Fraud and overstaging are not always the same thing; after all, drivers make a lot of mistakes that I do not think are deliberate attempts to cheat us.

We have a documented process that sets out what we do when we get a report. We must establish whether it is a fraud, just a one-off mistake or an on-going mistake that drivers are making too often. We have a series of processes right up to letters that we send to operators, giving them a certain amount of time to respond to us. We reclaim the money that we can identify from overstaging.

11:30

I do not want to bore you to death about this, but the essence of what we do is about managing fraud and protecting the integrity of the scheme. We have pretty detailed processes, and staff who are trained for different roles in the investigations.

They can follow all sorts of routes. Of the complaints that we get about overstaging, roughly a third are unfounded: there is nothing going on, no mistakes are being made and no fraud is being perpetrated. However, we have processes that follow every complaint. Depending on what we find, we move it on to the next stage of the investigation, which can sometimes end up with a report being submitted to the procurator fiscal.

Murdo Fraser: It sounds like you have rigorous systems in place to deal with fraud, or potential fraud, where it is alleged. Are you entirely dependent on members of the public or passengers reporting things to you, or do you have other systems to identify problems? For example, are there mystery travellers who go out on potential problem routes? Perhaps you can say something about that.

Gordon Hanning: We use all such methods. If you can dream it up, we probably have it. We recognise that we need all those methods. There is scope to do even more, but we must balance resources against the scale of the problem that we are trying to manage. We use mystery shoppers and we have special dispensation to be a direct reporting agency. In other words, we can now bypass the police and conduct investigations using covert operations and closed-circuit television. We are pursuing almost any means you can think of to collect information and decide whether a fraud has been perpetrated.

We collect all the data and have in place a series of tools and staff with the right skills to analyse what is going on. Our job day in, day out is not to rely on granny telling us that something might be going wrong, although that really helps, but to see where something is happening that is different from the trend—for example if an operator is charging a fare that is higher than we think it should be, if an operator is claiming for more passengers than we think there should be or if a card is being used more often than we think is realistic in a day. Any or all of those things can trigger the processes that we will follow to see whether fraud or overclaiming is happening.

Jamie Hepburn: I want to return to tap on, tap off and will put the fact that it puts me in mind of Mr Miyagi from "The Karate Kid" to one side. Mr Hanning raised the issue of tap off not working for buses and said that the problem would be how it could be done for 150 million journeys a year. I can understand that point to an extent. Notwithstanding what you said about the experience in London, would one way be to put the onus on the operators? You said that a lot of the risk for this project fell on the public purse. Another way would have been to put the risk on the private sector by saying that if they did not get their customers to tap off they would either not be

paid or would be paid only a token amount. Would that have been one way to go?

Gordon Hanning: That would be an interesting discussion to have with the operators. The reality of a busy urban service and the fact that a typical Scottish bus has only one door for going in and out would mean that there would be difficult situations to manage—for example, 20 people getting off at a bus stop and 20 getting on and requiring granny to tap off every time. Mr Hepburn's suggested method is worthy of investigation, but there would be issues for passengers as well as operators in trying to implement it. My judgment is that if proximity readers, which I believe would in principle solve the problem, are available within a reasonable amount of time, that is probably a better path to go down. We must be mindful of factors such as boarding times. We do not want to gum up the whole bus network.

The Convener: We will move on to the increased cost of concessionary journeys. I call George Foulkes.

George Foulkes: Did I say that I was going to ask about that? Sorry, I wanted to ask about the evaluation reports.

The Convener: I was referring to paragraphs 20 to 25 in paper 1, George. Just before we ask about that, I will ask about the fact that the costs have risen substantially. We heard that the costs have increased disproportionately to the number of journeys. What is your view of why that has happened? Exhibit 6 on page 16 of the Audit Scotland report shows clearly that total costs have risen substantially since the introduction of the scheme but there has been only a marginal increase in the number of journeys.

Gordon Hanning: In fact, the number of journeys has come down quite markedly since the introduction of the smart-card technology. I have a very interesting graph, which I use internally, that shows the number of ticket machines on buses and the number of passengers. It is a pretty telling graph.

There is only one other factor that contributes to costs: the fare, which is the basis on which we pay the operator. Passenger numbers are going down, but fares are going up. Unfortunately, fares are going up more quickly than passenger numbers are going down, so the cost of the scheme goes up.

We took a big step earlier this year to rebaseline the costs, to lower the reimbursement factor from 73.6 per cent to 67 per cent.

The Convener: Is it your view that the public purse was being ripped off?

Gordon Hanning: I do not think that I am in a position to make a call on that.

The Convener: Surely you must have collected some evidence about the increase in costs. You have indicated that that increase relates to increases in fares. The operators say that they believe it could be related to high fuel prices, but they also said that costs have risen higher in Scotland than elsewhere in the United Kingdom. So, coincidentally to this scheme coming in, costs rose higher in Scotland, fares went up more, the public purse was paying out increased costs and the number of journeys rose slightly but then started to come down. Is that all coincidental? Have you collected any evidence about those trends?

Gordon Hanning: I am not quite sure what I am being asked.

The Convener: Have you collected any evidence about why costs have gone up?

Gordon Hanning: The reason costs are going up is very straightforward. The cost is driven by two things: if passenger numbers or fares increase, that will add to costs. We are not in control of what bus operators charge.

The Convener: But you negotiate and you decided to reduce the reimbursement factor from 73.6 to 67 per cent. If you suspected that costs were rising higher than was acceptable you could presumably have taken action. Did you believe that the rise in cost was acceptable?

Gordon Hanning: The action that we take is to put in place a cap on the scheme. A cap has been in place every year since the scheme's inception. The purpose of the cap is really to transfer some of the risk of fares going up at excessive levels to the bus operators.

The Convener: Even with a cap, if the fares and charges to you are going up, you are still paying more. You are still paying the capped level of whatever the increase is. You have never formed a view. You have merely accepted what was provided to you. Have you done any investigation or analysis of why costs have been rising?

Gordon Hanning: We do not run bus services so, to some extent, we have to go with the kinds of data provided by CPT, which has just given evidence.

The Convener: So you just pay whatever they ask?

Gordon Hanning: No. We understand some of the factors that they lay before us, such as fuel prices and insurance costs, but we are talking about a deregulated bus market. The operators set the fares for the journeys that apply to the

concessionary travel scheme and fare-paying passengers alike.

The Convener: You said that since the introduction of the technology the number of journeys has fallen substantially. Does that indicate that, before that happened, a certain number of journeys were claimed inappropriately? The technology will not in and of itself stop people using the buses, so what is the reason for the fall?

Gordon Hanning: Again we cannot know for certain unless we interview every passenger and find out what they have been doing. One can surmise that it might be down to, for example, the recession, the weather or the novelty of the scheme wearing off; it could also be down to operators inappropriately claiming journeys or, equally important, people using fake smart cards. Such an issue will not emerge until those cards are asked to operate as smart cards—after all, a fake will not work in that way.

I can tell the committee that, two years ago, when the rollout of the ticket machine was gathering pace, the number of passenger journeys was 157 million. I expect the figure this year to be 148 million, or perhaps even lower.

George Foulkes: Whenever you are ready, convener, I would like to ask about the evaluation of the scheme.

The Convener: Just before we come on to that, I want to ask about the routes that attract money from the scheme. I believe that the intention behind the scheme was to allow people to travel free on established bus services, but we have heard that a number of operators in different parts of Scotland have put on services between urban areas and what you might describe as tourist destinations, which run only between April and October. Is that acceptable?

Gordon Hanning: There are no services of that nature now. There were in the early years of the scheme but there is none that I am aware of now.

The Convener: There is none—

Gordon Hanning: Other than the established long-distance Citylink network across the country.

The Convener: So there are no services that run in the summer months from, for example, the west of Scotland to places such as Oban, Lochgilphead, the Trossachs and so on.

Gordon Hanning: My understanding is that they no longer operate.

Alastair Mitchell (Transport Scotland): There is a general sense that there is a social inclusion value in having a national scheme that did not exist with the range of local schemes. Gordon Hanning will correct me if I am wrong, but I think

that about 5 per cent of the costs relate to national travel in that sense.

The Convener: I am talking about specific services. If you are saying that they have been stopped, that is fine, but we have heard about bus operators putting on services in the summer months. At roughly £12 or £13 a ticket, very few of the paying public used such services; instead, the journeys were made by those with concessionary travel cards—and I presume were charged to you at whatever the percentage cap is. Effectively, the scheme was paying for day trips. Are you aware of anything like that?

Alastair Mitchell: It certainly does not go on now. If there is only a leisure content to a service—

The Convener: So you were aware of the problem and took steps to stop it?

Gordon Hanning: Just to be clear, I should point out that under the original set-up of the scheme there was nothing illegal about such services. Those operators were not breaking any laws.

I am 99 per cent sure of the facts—I have to hold up my hand and say that I did not prepare for this question. My understanding is that the two operators who were, if you like, taking advantage of the opportunity to provide the kind of service you have described are not doing so today and did not do so in the summer that has just gone. The cost of those services as a proportion of the whole scheme's cost was very small. The pay-out for the whole of Scotland was £180 million last year, whereas the total payment to the two operators that I have in mind was about £1.5 million, so it did not make a huge dent in the scheme. However, those services are gone now.

11:45

The Convener: But it was a nice little earner for those operators.

Gordon Hanning: Yes.

Willie Coffey: I ask the witnesses to refer again to exhibit 6 in Audit Scotland's report, which shows that the scheme's costs jumped significantly in the first year after it was introduced in 2006. I am trying to read the graph—the costs look as though they jumped from about £130 million to about £170 million, which is a huge jump in year 1. Committee members are trying to get a handle on whether that increase is fairly and honestly attributable to matters such as fuel costs and inflation or whether something else is going on. We also ask how effective the deployment of the technology has been in identifying potentially fraudulent claims. We cannot quite marry those two issues. What is your view on the initial huge

jump in costs in year 1 of the scheme's introduction, when £40-odd million looks as though it was added to the costs?

Gordon Hanning: There is no question but that going from a series of local schemes to a single national scheme increased costs; it also increased the number of passenger journeys. The single national scheme created a host of new opportunities to make journeys. From memory, the number of journeys rose by about 11 million in year 1. Such an increase carries a cost.

We had to create a single national scheme with a single reimbursement rate and a single set of terms and conditions on the costs and their basis. I understand that the route that was taken—before I joined Transport Scotland—was to consolidate what was best on eligibility, the reimbursement factor and all the rest of it in local schemes. That comes at a cost, which was perhaps part of the price that we paid for going from a series of schemes that were administered locally to a single national scheme that is administered centrally.

Willie Coffey: What were the factors in the decision-making process that led to the reduction in the reimbursement rate from 73.6 to 67 per cent?

Alastair Mitchell: We asked an independent analyst to examine the costs involved in the reimbursement rate. The University of Leeds was invited to consider for us all the issues in relation to the rate and its independent expert analysis concluded that 67 per cent was now appropriate.

Willie Coffey: I am sure that, like the convener, members have had constituents come to them to complain that services are being withdrawn because the rate has been changed. Are bus operators withdrawing services fairly or unfairly?

Alastair Mitchell: We would not attribute a significant reduction in service to the reduced reimbursement rate, which is designed to recompense operators for the concessionary travellers they carry so that their situation is no better or worse.

George Foulkes: Evaluation of the scheme is probably the most important issue—politically, anyway. How much did the 160-page Halcrow Group report cost?

David Middleton: The report cost £176,000, including VAT.

George Foulkes: We have a note that says

“that there was insufficient evidence that the scheme was achieving more than the previous local schemes”

but the evaluation's findings say that

“the least affluent are observed to have made the greatest use of the extension of the scheme outside the former local scheme boundaries.”

Mr Mitchell mentioned that just a minute ago. The findings continue:

“There are more walking trips being made by eligible users and this appears to be taking place alongside increased concessionary bus travel, with an increase in active mobility apparent. There is clear evidence of increased levels of activity and the potential to improve health when assessing the change in walking habits and indeed modal shift, from private car to more sustainable transport, amongst users ... 2.7 per cent claimed that they had decided not to use or own a car as a direct result of NCT and 59.5 per cent said they travelled less by car since receiving their pass.”

Is not that all proof that the scheme is achieving what it was set out to achieve?

David Middleton: It is all positive evidence in support of the scheme.

George Foulkes: You said that there is insufficient evidence, but that is not really the case. There is some evidence, but it maybe depends on what you describe as sufficient.

David Middleton: It is a matter of interpretation and weight. It is an evaluation that takes quite an intellectually thorough approach and maybe it reaches overpurist conclusions. However, the fact is that there is plenty in the Halcrow report to encourage ministers and us to believe that the scheme is of great value to Scotland.

George Foulkes: Good. In the current budget exercise, the scheme is being reviewed. Have you made a report to ministers with options for continuation of, or amendments to, the scheme—or otherwise?

David Middleton: Obviously, we regard advice to ministers as private for Government and ministers. However, John Swinney highlighted in his budget speech that he is maintaining the existing eligibility for concessionary travel.

George Foulkes: So you have made absolutely no recommendations that there should be any change at all in the criteria for the concessionary scheme?

David Middleton: If any set of ministers asks us to undertake evaluations of changes we will do that, but it is certainly not my job to recommend changes. I would take direction from ministers, who have been quite clear throughout my time—and before—that they are committed to the scheme.

George Foulkes: So the hours of operation will remain the same under the present plan. Is that right?

David Middleton: Under the present plans the existing eligibility criteria will be maintained.

George Foulkes: All of them?

David Middleton: Yes.

George Foulkes: Good. Thank you very much.

The Convener: Okay. Members have no further questions, so thank you very much Mr Hanning, Mr Middleton and Mr Mitchell for your evidence. We look forward to your providing, if possible, the further information that we asked for. We will consider whether we should ask the permanent secretary to identify the people who were responsible for the initial advice on the scheme and whether we need to interview them. However, thank you very much for contributing to our discussion. I know, Mr Middleton, that this is a very busy time for you and your staff. We wish you well over the next few weeks.

David Middleton: Thank you, convener.

11:53

Meeting suspended.

11:59

On resuming—

“The Scottish Police Services Authority”

The Convener: The next item of business is consideration of correspondence from the permanent secretary on the report on the Scottish Police Services Authority. Do members agree simply to note it?

Members *indicated agreement.*

“Financial overview of the NHS in Scotland 2009/10”

The Convener: Item 4 is consideration of a section 23 report entitled “Financial overview of the NHS in Scotland 2009/10”. I invite the Auditor General to brief the committee.

Mr Black: Thank you, convener. As the committee well knows, each year, with Audit Scotland's help, I bring to Parliament a report on the financial performance of the national health service in Scotland and, every second year, there is a report not only on NHS finances but on performance in the round. This report, which came out last week, looks only at the NHS's financial performance.

The commentary is drawn mainly from the reports by auditors on each of the 14 health boards, the nine special boards and the Scottish Government health directorates. However, it also draws on the performance reports that we have produced over the year and a variety of other sources.

The report is in two parts: the first comments on the financial health of the NHS in Scotland in 2009-10 and the second summarises the

challenges for the future, many of which will be very familiar to the committee. With regard to financial health, in 2009-10 the NHS in Scotland spent £10.8 billion and ended the financial year with a £43 million underspend against its budget, £42 million of which was a revenue underspend and £1 million a capital underspend. That revenue underspend is 0.4 per cent of the overall budget of the NHS in Scotland.

For the second year running, all NHS bodies met their financial targets. One really important sign of good financial health in an NHS body is its ability to meet its recurrent or day-to-day expenditure from its recurrent income within the financial year in question. I am pleased to be able to report to the committee that, this year, NHS bodies have been less reliant than in previous years on non-recurring funding to meet their financial targets or to support their financial position.

The NHS continues to report good progress against the efficiency programme. Once again I stress to members that we do not audit the numbers that have been reported, but the report itself mentions that in 2009-10 NHS bodies reported cost savings exceeding £202 million, including £166 million of recurring savings and £36 million of non-recurring savings. Clearly, severe financial pressures lie ahead and NHS bodies fully recognise that they will have to deliver further financial savings at a higher rate if they are to continue to deliver their services within budget. They forecast that in 2010-11 they will need to achieve £274 million of savings, which is a substantial 36 per cent more than the savings that were delivered in 2009-10.

The committee well knows that over recent years there has been substantial capital investment in the NHS. Back in 2003-04, capital spend was about £120 million; by 2009-10, that figure had risen to £772 million. That level of capital investment is unlikely to be repeated in future years—at least in the short to medium term—and although the impact of that will vary across NHS bodies, it will certainly have an effect on the planned capital programme. Exhibit 7 on page 11 lists 12 major projects that each have a value in excess of £50 million and a total estimated value of up to £2.6 billion.

That leads me quite naturally to the challenges for the future, which is covered in the second part of the report. It might be useful for the committee to look at exhibit 8 on page 13, in which we attempt to summarise the main financial pressures that face the health service in the years ahead, and which will become more significant with the constraints on public spending. The committee and I have considered these matters in the past, not least in last year's report “Scotland's public

finances: Preparing for the future”, but I should remind members of some of the main pressures.

First, the growing population of older people is putting real pressure not only on health budgets but on social care budgets. I need not go into what those pressures are, but the report gives examples of them on pages 13 and 14. Expenditure on drugs, of course, is forecast to increase above inflationary levels. Staffing is the biggest cost associated with delivering health services and there has been a substantial rise in the pay bill, which has absorbed much of the increase in funding of the NHS over the past few years. Containing pay costs will be a major challenge for the future.

We mention other factors in the report, such as the VAT increases, the cost of financing private finance initiative deals, meeting the commitments to national targets and services and delivering a number of services free at the point of delivery.

Given the constrained budgets that are ahead, it will be challenging for the NHS to maintain service levels and quality standards, because costs tend to go up faster than general inflation. The NHS in Scotland is aware of those challenges and is taking a number of actions to prepare for them—which are mentioned in the report—such as the health care quality strategy that came in in May 2010, the plans to generate more efficiency savings and so on. To ensure that that happens, it is clearly going to be absolutely essential that the NHS has good management arrangements and good information systems in place to support those changes.

I make no apology for mentioning again the importance of getting better information to allow a more comprehensive assessment of quality and cost effectiveness of NHS services, which is a recurring theme in past reports.

I make the obvious point that the NHS does not operate in a vacuum. A lot of the services that really matter for ordinary people are delivered through partnership working, particularly with local government. As budgets become tighter, I think that a strain will be put on some of the partnership arrangements that are in place. The public sector bodies need to work together to ensure that they are clear about the priorities of partnership working and that they are adding value through those arrangements.

Changes to how health services are delivered will clearly be contentious. Therefore, there is a need for individual NHS bodies, with their partners, to communicate well with the public to make them aware of the financial challenges and the impact on service delivery.

The last financial year was a year of good performance in financial terms for the NHS, but

there are significant challenges ahead. As we attempt to outline in the report, the NHS is working hard to deal with some of these unprecedented financial challenges.

My colleagues and I will do our best to answer questions.

The Convener: Thank you very much for that, Mr Black.

I want to clarify something. You referred to exhibit 8 on page 13 of the report, which shows budget pressures and a list of factors that eased budget pressures, one of which was increased funding from the Scottish Government. I refer you to appendix 1 and 2 on page 20 and 21 of the report. If you look at the revenue resource limit for all NHS bodies in 2009-10 and compare it to the forecast financial performance in 2010-11 you see that the opening revenue resource limit seems to be just over £1 billion less. Is that correct?

Bob Leishman (Audit Scotland): The opening revenue resource limit is an indicative level. It changes through the year, so you cannot compare the final figure for one year with the indicative figure—

The Convener: No, but it gives us an idea that the starting point is just over £1 billion less than it was this year.

Bob Leishman: The expectation is that the resource limits will increase over the year.

The Convener: That might be the expectation, but in budgeting terms, we are being told that the opening gambit is a budget that is more than £1 billion less than it was last year.

Bob Leishman: If you look at previous reports, the same trend would be—

The Convener: We are not living in usual times and there is no guarantee that the kind of increases that came through previously would continue across all departmental budgets. Is that correct?

Bob Leishman: Those are decisions that the Government will have to take over the course of the year for the whole of the health budget.

The Convener: As things stand just now, what is being planned is a budget that is more than £1 billion less than it was.

Mr Black: That might not be absolutely the correct interpretation. As Bob Leishman said, during the year, extra resources become available. During the year, the efficiency programme will be kicking in to deliver savings.

We are not really in a position today to give you an indication about what the outturn will be for 2010-11, but the indications are that the health

boards will be coming in on balance. However, what the actual level of spend will be we cannot say in December; there is some way to run until the end of March.

Another point that is possibly worth making is that, according to the recent budget announcement by the Cabinet Secretary for Finance and Sustainable Growth, the rate of increase will slow down, but it is my understanding from the published information that the plan for next year is a total budget of £11.4 billion, which will be 1.6 per cent higher than that for the current year.

The Convener: Okay—that is fine. Do members have questions or comments?

Murdo Fraser: One of the themes in the report is the need for better financial information on cost, activity and quality. Paragraph 54 and onwards on page 17 of the report expands on that basic principle. It seems that we are very good at measuring inputs in the health service, such as the money that is spent and the number of staff who are employed, and that we are quite good at measuring outputs, such as whether we meet targets for waiting times, but we are not very good at all at measuring outcomes—in other words, whether people are actually healthier.

I thought that it was interesting that the Audit Scotland report made reference to the Nuffield Trust report, the centre for Public Policy for Regions report and the Parliament's Health and Sport Committee report, all of which have come out within the past year and have developed the themes of how we are doing relative to performance elsewhere and whether we are getting good value for money. Can you say more about what has been done to benchmark us against other countries or other health service performances and how we are going to get a better picture of the value-for-money element?

Mr Black: It has always been problematic to compare the performance of the NHS in Scotland with that of the rest of the United Kingdom because data are captured on a different basis and the systems of delivery are different. As I am sure members of the committee will be aware, there is, if anything, a greater divergence in how the health care systems are operated between, say, England and Scotland than there was in the past. This has, quite frankly, been one of the most complex, difficult and challenging areas of public policy in the UK for many years. It is interesting that expert bodies such as CPPR find it quite difficult to do such comparisons. Very occasionally in our studies we manage to get data that we can use to make comparisons, but we have found it challenging to compare the overall performance of the different systems. That is just the reality of the situation in which we find ourselves.

Murdo Fraser: Is there likely to be any move to a more outcomes-based system of reporting?

Mr Black: In the past, I have commented in the committee and elsewhere that the Scotland performs framework provides a good understanding of what the Scottish Government is attempting to achieve. We also have nesting within that the health improvement, efficiency, access and treatment targets that the health directorates publish. There is evidence of improvement on many of those, but it is not yet possible to link those outcomes to the activities and to the cost of activities so that we can get the total narrative about how efficient and effective the health service is.

The Convener: In your reply to Murdo Fraser you said that it is difficult to make comparisons because the delivery systems in Scotland are different from those elsewhere in the United Kingdom. Are we able to say with certainty that we can make a valid comparison of expenditure per head of population?

Mr Black: The short answer to that is no. We cannot say that with absolute certainty. Exhibit 11 on page 17 of the report simply charts expenditure on health per head of the population, comparing Scotland with Northern Ireland, Wales and England over the past few years.

12:15

There are several reasons for differences. They include factors such as population sparsity, deprivation in different parts of the United Kingdom and basic accounting issues such as the differential between use of private medicine in Scotland and England in the health service. Issues that relate to productivity and efficiency might well be involved.

George Foulkes: I am astonished by the plethora of special boards. I do not understand why we need the National Waiting Times Centre Board, NHS 24, NHS Education for Scotland, NHS Health Scotland, NHS National Services Scotland and NHS Quality Improvement Scotland, although I understand the need for the State Hospitals Board for Scotland, the Scottish Ambulance Service Board and the Mental Welfare Commission for Scotland, which are separate. Do all those boards have their own finance departments and human resources departments and the whole back-office infrastructure?

Mr Black: I cannot give a clear and well-informed answer about the arrangements in each body. In general, the boards are free-standing. Of course, some provide services to the rest of the NHS in Scotland—in many respects, they are shared-services organisations. I refer you to the

report, "The role of boards", which I presented to the committee some weeks ago.

George Foulkes: The special boards have different board members. I presume that they could all work together as one board and have joint services. Altogether, the special boards cost £1.2 billion, which is more than 3 per cent of the Scottish Government's budget. That is a huge amount.

Mr Black: I am sure that you understand that such questions and concerns would be best addressed to the Scottish Government. How the boards are set up is a policy matter.

George Foulkes: If we forget about the special boards, there is talk about having one NHS delivery board for Scotland, which would be regressive. Without creating such a board, I presume that savings could be made by amalgamating the special boards.

Mr Black: A body such as NHS National Services Scotland provides a wide range of services to the whole NHS. Having that body to do procurement and so on at the national level has certainly produced significant efficiency gains.

George Foulkes: Why do all the special boards need to be separate?

Mr Black: The Scottish Government would answer that question best.

Willie Coffey: The report is really good. As usual, it comes with the Auditor General's health warning for the future, which is to be expected and is appreciated. To clarify remarks that have been made, I say that the health budget will increase—not reduce—by £191 million next year.

I was particularly pleased to read the Auditor General's comment about recurring savings of about £166 million per year, throughout the NHS. I understand that such money is reinvested in care services, so that is welcome.

Our friends in the Western Isles—convener, I think that we dealt with the Western Isles inquiry before your convenership—also appear to be identifying substantial possible recurring savings of about £1 million a year, which is welcome. At this stage in the committee's life, it is good to look back and to welcome such progress by Western Isles NHS Board, on which it is to be congratulated.

The Convener: That point is well made. We produced a controversial report on Western Isles NHS Board, which was clearly a dysfunctional organisation—at one point, it had three chief executives—so progress is welcome. From its investigation, the committee understood that there was a commitment to improving matters, so I am glad that that has worked.

I thank the Auditor General for his report.

12:20

Meeting continued in private until 12:45.

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