



Ein cyf/Our ref SF/CS/6142/11

Chair of the Enterprise and
Business Committee
Cardiff Bay
CF99 1NA

November 2011

Scrutiny of the Local Government and Communities Transport 2012-13 Draft Budget

Thank you for inviting me to the Scrutiny Committee on 20 October 2011 to discuss the draft budget for Transport for 2012-13 to 2014 -15.

At that meeting I agreed to provide the Committee with further details on the following four issues:

The monitoring tools used to demonstrate success within the National Transport Plan (NTP)

A high level set of indicators has been developed and published which sets out how the Wales Transport Strategy is currently being monitored (<http://wales.gov.uk/topics/statistics/headlines/transport2010/100330/>). This work is the first stage of a longer term exercise which will build further sets of monitoring indicators linked to the NTP. Further work will be undertaken next year and published as appropriate.

Update on negotiations regarding potential funding for the electrification of the Great Western Mainline to Swansea

We are currently working on an Outline Business Case for the electrification of the Great Western Main Line between Swansea and Cardiff. We are leading this, working closely with Department for Transport (DfT) and Network Rail. The Outline Business Case will be submitted to DfT in December 2011 for consideration and we expect a decision in July 2012 as to whether it has been included in the next High Level Output Statement.

Clarification on how the Non-Cash amounts of the budget are set and Annually Managed Expenditure (AME)

During the meeting, members asked about the reduction to the Non-Cash budget and I promised a further note on what is a very technical issue.

The Non-Cash budget for Roads Depreciation and Impairments within the Local Government and Communities Departmental Expenditure Limit (DEL) provides cover for the annual depreciation charge for the motorway and trunk roads network, and impairment charges arising from a permanent loss or write-off of recoverable value of an asset below the value recorded on the balance sheet in the accounts.

The annual depreciation charge for the roads network consists of three elements:

- the annual maintenance charge;
- an estimate of the permanent deterioration in the condition of the network in the year (which has been calculated by a computer model, based on the actual data on the condition of the network);
- calculated depreciation on structures.

The Transport Non-Cash budget has been reduced in the Draft Budget proposals from £170.2m to £108.7m - a reduction of £61.5m. This is as a result of a review during 2010-11 into the historic distribution of non-cash resources, the current pattern of need and the pressures going forward. Although the pattern of depreciation and impairments of the trunk road network has been volatile in the past, the trend of out-turn has been below the previous budget allocation of £170.2m. The Draft Budget for 2012-13 onwards has therefore been reduced to the 2010-11 baseline position.

Progress report on the Smart Card initiative

The deployment of on-bus smart card electronic ticket machines and back office systems for the concessionary fares smart card scheme was completed in November 2010, at a cost of approx £8.5m.

This project provides the infrastructure necessary to establish much wider use of smart card technology. To make maximum use of this infrastructure and to fulfil the wider aims of encouraging sustainable transport, two pilot projects are being implemented and evaluated in 2011-12. The schemes will demonstrate a range of technologies in respect of how people use and recharge their cards before expanding the boundaries of each pilot to establish an all-Wales scheme. The two pilots are:

- Mon a Menai Sustainable Travel Area – this pilot covers the town and immediate surrounding area, including Ynys Mon, and will involve services operated by Arriva Cymru, Padarn and Express Motors. The location is attractive as it is already part of the Mon a Menai Sustainable Travel Area Project, plus the university offers a sizable user group enthusiastic for technology.
- Newport and Cardiff – this pilot covers all services provided by Newport Bus, this will be followed by Cardiff Bus services and will form the basis for a wider roll-out across South East Wales. The pilot will test a system that allows a card holder to automatically add value on to their card whenever the balance falls below an agreed threshold, thus avoiding the need to top up the e-purse at a travel centre or to hand cash to a driver. In addition the pilot will look at opportunities to expand into local authority applications.

An e-money issuer will use the Welsh Government smart card architecture to host the scheme but it will be largely commercially operated with operators paying a small commission per transaction. In addition the e-money issuer would work with local retailers and businesses to develop the e-purse concept for non-transport applications and through this establish a retail network which will enable cards to be topped up for transport use.

The Welsh Government will retain overall ownership of the scheme and will be responsible for branding, scheme concepts and wider deployment. The initial deployment in 2011 will be confined to small user groups who are given e-purses on a trial basis, to test the technology and architecture. Local Authorities and Operators in the pilot areas are closely involved in all aspects of the project.

Following completion of the testing, the e-purse will be made available to all public transport users in the pilot areas. This will be backed up with appropriate advertising and support services that will ensure that feedback continues to be received from users throughout the period of the pilots.

Future roll out will be phased over three financial years across Wales (2011-14) and discussions are ongoing with Arriva Trains Wales to establish a trial on rail before full scale implementation across the local rail network.

Two operators, Cardiff Bus and Newport Transport, have already implemented commercial smart card schemes that make use of the Welsh Government's back office systems and that offer interoperability between each others services.

Enterprise and Business Committee Recommendations

The Committee's letter of 26 October also made three recommendations for me to consider.

Firstly, in terms of National Transport Plan Prioritisation, I am aiming to make an announcement in December and will be happy to provide you with details of the prioritised NTP. May I take this opportunity to re-iterate that this is a re-prioritisation of the plan, not introducing new services.

Secondly, and in relation to managing projects within the Transport portfolio, we are continually improving our processes in the management of the Trunk Road Programme. This includes:

- Improving risk management of the project;
- Following best practice in procurement;
- Use of Early Contractor Involvement and robust commercial review through the development of costs information and milestones;
- Developing key performance indicators for contractors and consultants;
- Developing good relationships with contracting parties; and
- Undertaking Gateway Reviews.

The management of risk on transport contracts is in line with the best practice principles set out by the Office of Government Commerce. The allocation of risk is based upon the party best placed to manage that risk, therefore this avoids the transfer of detrimental levels of risk to any party not able to bear or manage that level of risk. The risk management process is governed by our Value for Money Manual which has a chapter dedicated to the effective management of risk. The effective management of risk allocation and the commercial relationship with the suppliers will seek to address over-exaggerated time margins and costs in relation to future projects.

Finally, my officials are involved in ongoing discussions over Enterprise Zones with officials from Business, Enterprise, Technology and Science. I will ensure that an update is provided in due course.

A handwritten signature in black ink that reads "Carl Sargeant". The signature is written in a cursive style with a long, sweeping tail on the letter 't'.

Carl Sargeant AC / AM

Y Gweinidog Llywodraeth Leol a Chymunedau
Minister for Local Government and Communities