

1 INTRODUCTION, BACKGROUND AND TERMS OF REFERENCE

1.1 Introduction

In May 2010, the Department for Regional Development (DRD) appointed FGS McClure Watters, in association with the TAS Partnership Limited, to undertake a review of the Outline Business Case (OBC) completed in 2009 for the reform of public transport in Northern Ireland.

1.2 Background to the Assignment

1.2.1 *Public Transport in Northern Ireland*

Currently, all rail services and the vast majority of bus services in Northern Ireland are provided by the Northern Ireland Transport Holding Company (NITHC), a publicly-owned corporation with three operating subsidiaries, operating under the brand name of Translink:

- Metro (formerly known as Citybus), which provides bus services in the Greater Belfast area;
- Ulsterbus, providing bus services outside Greater Belfast; and
- Northern Ireland Railways (NIR), which provides rail services in Northern Ireland and on cross-border routes.

The Government regulates public transport in the region and the private sector's share of the market is presently small, and generally limited to niche services which the Translink companies do not provide.

The Department for Regional Development (DRD) has put in place a Management Statement and Financial Memorandum with NITHC, setting out the group's roles, responsibilities, aims, objectives and targets, and specifying how NITHC is to account to DRD for its performance.

1.2.2 *The Public Transport Reform Programme*

Some years ago, DRD formed the view that reforming public transport could potentially bring about efficiency savings, in terms of how services are organised and operated.

Since 2002, the Government has taken forward a range of policy initiatives aimed at reforming the governance, planning and delivery of public transport in Northern Ireland, (including the 'New Start' consultation document and the Regional Transportation Strategy ("RTS")) and has taken on board views from a broad range of stakeholders at each stage.

Central to the Government's proposals for reform is the concept of a new three-tier structure for public transport, which would comprise:

- A top Government tier, responsible for broad policy, legislation and regulations;
- A new middle tier, responsible for specifying service requirements and securing their provision; and
- A third tier, made up of transport operating companies responsible for delivering services.

The overall policy objectives for the reform programme are to develop and maintain a public transport system that:

- Supports the implementation of the RTS, enabling the maximum possible integration of an effectively regulated public transport network;
- Provides safe, efficient and high quality public transport services;
- Complies with EU regulations, with contractual and funding arrangements that provide incentives to deliver an efficient, customer-focused and continually improving public transport service;
- Encourages the greater use of public transport in support of the Government's economic, social and sustainability objectives; and
- Maximises efficiency and value for money, confirmed through benchmarking with other comparable public transport operations and competition, where appropriate.

1.2.3 Options for Reform

In 2008, the Department commissioned an OBC examining a number of options for public transport reform, including:

- **Do nothing:** Under this scenario, current structures, roles and responsibilities within public transport would remain as they are;
- **Enhanced NITHC model:** In this model, NITHC would take on a new and extended remit to design and deliver an integrated public transport network, and procure the delivery of services through both Translink and independent operators; and
- **Agency model:** With this option, a range of functions currently carried out by DRD, DOE, NITHC and Translink would be reorganised into a single Departmental Agency with responsibility for public transport. This could provide a more integrated approach to public transport and roads issues within DRD.

1.2.4 Preferred Option in Original OBC

Based on a rounded consideration of monetary, non-monetary and risk factors, the original OBC identified the Agency model as its preferred option for the following reasons:

- Of the three options considered, it had the greatest potential to generate net financial efficiency savings, within Translink's operations and in the oversight structures within the Department and NITHC;
- It had the potential to deliver a higher level of qualitative benefits than the other options, in areas such as the separation of operational delivery from service specification, contract management and establishing levers to influence operators to improve their performance and structure services more closely to the needs of users; and
- Overall, its risk profile was no more adverse than other options considered.

As the overall reform programme progresses, the Department now wishes to review and update the analysis in the original OBC, including the preferred Agency option.

1.3 Terms of Reference for the Assignment

The Department has indicated its key objectives for the review of the OBC are to:

- Confirm the level of efficiencies achieved by the Translink companies over the 2008-09 and 2009-10 years;
- Review and update the key comparators of Translink efficiency from the original OBC exercise, taking account of its public service obligations to provide services on unprofitable but socially necessary routes, the Authority, Head Office and rail infrastructure functions that it will retain and that are unique to Northern Ireland, and the financial implications of Translink delivering home to school transport;
- Indicate the likely scope and scale of future efficiencies, which will assist in Translink compliance with the provisions of EU Regulation 1370/2007, taking account of the action plan drawn up following the recent financial review of the corporate plan prepared by the Northern Ireland Transport Holding Company (NITHC);
- Update the analysis in the original OBC of the overall costs, benefits, assumptions, affordability and value for money of the preferred Agency model, including potential monetary and non-monetary costs and benefits, risk profile, staffing and resource analysis (taking account of any more recent data available from the Department, Translink or comparator organisations outside Northern Ireland), transition and implementation costs, and overall Net Present Value; and
- Assess the public expenditure (PE) implications of the proposed agency model.

1.4 Structure of the Report

The remainder of the report is structured as follows:

- Section 2 provides an Executive Summary;

- Section 3 reviews the extent to which the three Translink operating companies have improved their efficiency in the 2008-09 and 2009-10 years;
- Section 4 outlines our approach to assessing the current efficiency of Translink's operations compared to relevant benchmark sites outside Northern Ireland;
- Section 5 explores the recent performance of Metro and discusses the potential for additional efficiency improvements in the future, in the light of the Translink companies' current performance and existing commitments set out in the NITHC Corporate Plan;
- Section 6 considers the comparative efficiency of Ulsterbus;
- Section 7 compares the combined performance of Metro and Ulsterbus with other regions;
- Section 8 discusses aspects of NIR's performance; and
- Section 9 updates the overall costs, benefits, assumptions, Public Expenditure implications, affordability and value for money of the preferred Agency model.