

Shan Morgan
Ysgrifennydd Parhaol
Permanent Secretary



Llywodraeth Cymru
Welsh Government

Nick Ramsay AM
Chair of the Public Accounts Committee
National Assembly for Wales
Cardiff Bay
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29 August 2017

Dear Chairman,

I am writing in response to the Committee's scrutiny of the Welsh Government's 2015-16 Annual Accounts, and specifically to Recommendation 12:

The Committee recommends that the Welsh Government provide an update prior to next year's account scrutiny on the detail of arrangements put in place to strengthen the systems around the administration of concessionary travel payments.

The Recommendation was accepted as follows:

The Welsh Government is tracking process and control improvements put in place with respect to concessionary travel. The Welsh Government will provide an update to the Public Accounts Committee when it next considers accounting matters, ahead of 2016-17 accounts scrutiny, or as requested by the PAC.

The Annual Accounts for 2016-17 are due to be published shortly. Please find below a response to the Committee's recommendation. I hope that the chronology provided will also address the questions raised in relation to the ATCO 2012 report on Gwynedd, raised by Lee Waters AM following my predecessor's valedictory session in November last year.



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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding

Summary of scheme operation

Section 93 of the Transport Act 1985 makes local authorities responsible for administering concessionary travel, including for reimbursing bus operators. The Welsh Government's mandatory free concessionary bus travel scheme was introduced in 2002. The mandatory scheme applies throughout the day to any local bus service that is operating. The local authorities are obliged to ensure that those bus operators are "no better and no worse off". Local authorities receive and are obliged to check the bus companies' invoices, which the authorities then pay and subsequently claim back those sums from the Welsh Government.

During the lifetime of the scheme, the Welsh Government has initiated reviews of the formula that local authorities use to calculate the reimbursement they are obliged to pay to bus operators. Those reviews were not prompted by allegations of fraud, but as part of an ongoing process to validate that local authorities continue to comply with their obligation to ensure that their reimbursement of operators leaves the latter "no better and no worse off", and to protect public money.

For information, the formula is:

£	=	Number of journeys	x	Representative Concessionary Fare	x	Reimbursement Rate
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The number of journeys is those recorded electronically or manually each time a passholder undertakes a journey. The Representative Concessionary Fare (RCF) reflects what the passholder would otherwise have to pay, and the Reimbursement Rate takes account of trip generation and additional operator costs.

Chronology

During 2011, rumours began to emerge of potential discrepancies in claims originating in the Gwynedd area. The Welsh Government initiated a review by the Association of (local authority) Transport Co-ordinating Officers (ATCO), which was completed in November 2012. The report concluded that there was insufficient supporting base data to make any firm financial conclusion that the RCFs used by Gwynedd Council were then a true and accurate reflection of those being charged in September 2009. Further audit work was recommended, however it was acknowledged that a detailed audit would require full base data to be provided. The necessary data, plus the technology needed to analyse it, were not available at this point in time. Local authorities were reminded of their responsibilities in 2013, but no specific legal action was possible due to the fact that no conclusive evidence of fraud had been detected.

In spring 2014 officials discovered an indication of possible 'excessive use' of a pass, and further investigations established that this was not an isolated incident. However, it was not possible to drill down further owing to the limitations of the data systems available at that time. In summer 2014 an analytical tool was commissioned and took some four months to develop. A dedicated official was then appointed to oversee this work, allowing us to monitor and challenge levels of concessionary travel use.

An independent validation of the data messages between the bus machine and the back-office system was commissioned and reported to be no less than 98%+ (and in most operator cases 100%) correct between the systems. The analytical tool allowed officials to ask further questions of the data and meant we could identify the use of passes within seconds. The analytical tool was used to provide data as part of the police investigation into Padarn Bus and has been instrumental in further work to strengthen fraud prevention measures and controls described below.

Internal Audit work and measures to further improve fraud prevention

Upon taking up the role in December 2015, the Deputy Director for Network Management Division initiated an internal audit review of the concessionary bus travel scheme, which commenced in April 2016 – the third such audit of the scheme. At the end of October 2016, Internal Audit Services concluded its audit of the scheme. All management actions have been implemented, except for the issue of a strengthened 'grant offer' letter to local authority Chief Executives for 2016-17 – this was not actioned because it was considered too late in the year for such a letter to have effect. A strengthened 'grant offer' was issued for 2017-18 and all CEOs were requested to sign up to the conditions. (An example is attached for the Committee's reference.)

Officials continue to strengthen fraud prevention measures and controls in conjunction with local authorities. For example:

- We are using National Fraud Initiative (NFI) data-matching to identify concessionary passes that local authorities should have cancelled.
- We scrutinise information about individual passholders' travel patterns, such as the number of trips daily, on which services, and operated by which operator and even which of their drivers. We have reviewed the patterns of use by current passholders and identified those who never use their pass, or who have not used it for some time. Data is shared with the local authorities for them to contact passholders, if necessary.

- The Cabinet Secretary for Economy and Infrastructure consented to cleansing the local authorities' data on concessionary passholders to remove persons who are deceased or who may have left Wales.
- Detailed data reports have been issued to all local authorities since July 2016 for them to scrutinise and then validate invoices. We have made it clear to bus operators that we expect local authorities to quickly move to a situation in which the data to which we and the authorities now have access will be deemed to be accurate, and that the onus will be on any operator to demonstrate that its own data should be used instead to calculate reimbursement.
- Several workshops have also been held to educate the local authorities on the type of data that exists and what to look for, and to help them via our fraud unit if they spot anything unusual in the data. For example, one authority has utilised the data to identify a passholder with particular needs who has been tapping his pass numerous times, not appreciating its effects. As a result, bus drivers have been instructed to take the appropriate - measured - remedial action. In addition, in another case resulting from this new tool and closer local authority scrutiny, a bus operator has dismissed one of its drivers who was found to have been using his own pass to inflate the number of recorded concessionary journeys.
- We have issued significantly clearer and more specific 'grant offer' letters to local authorities, setting out in much more detail the respective roles and responsibilities of the Welsh Government and local authorities in 2017-18. These describe very clearly the standards we require of local authorities when they check and validate bus operators' claims for reimbursement.
- Chief Executives of local authorities have been reminded of their legal duties through the above award letter. All invoices submitted by local authorities will be accompanied by a statement of assurance signed by their financial officer in accordance with the award letter conditions.
- We have introduced new payment procedures that require the certifying official to confirm that local authority invoices include statements of assurance signed by the responsible financial officer plus another before seeking authorisation for payment.
- Operators that had not switched on hotlisting were identified via the analytical tool and those operators have now turned on their hotlisting function, supported by a publicity campaign in some areas. (Hotlisting allows invalid electronic passes to be 'turned off' centrally by the operator).

- We have facilitated a new, rationalised administration mechanism in south east Wales, under which two of the authorities are sharing the key administrative responsibilities on behalf of all 10 local authorities. Under this arrangement, fewer staff are specialising in specific responsibilities, consolidating and improving expertise. Subject to the findings of this work, new and better processes will be rolled-out throughout Wales.

I hope the above information and list of actions provides the Committee with assurance that every effort is being made to ensure the correct control improvements are in place. I have asked the Additional Accounting Officer for this work to keep me informed of progress.

Yours sincerely



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