

INFORMATION NOTE



GLASGOW & STRATHCLYDE TRANSPORT ACT SCOPING STUDY

EXAMINATION OF BUS SERVICE FINANCIAL PERFORMANCE

IDENTIFICATION TABLE

Client/Project owner	Strathclyde Partnership for Transport & Glasgow City Council
Project	Glasgow & Strathclyde Transport Act Scoping Study
Title of Document	Examination of Bus Service Financial Performance
Type of Document	Information Note
Date	20/12/2021
Reference number	110724
Number of pages	10

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1. INTRODUCTION

1.1 The Challenge

1.1.1 In order to inform the decision-making associated with bus service delivery reform options enabled by recent Scottish legislation, it is useful to identify the financial situation faced by local bus service delivery in the study area (Glasgow and Strathclyde).

1.1.2 Local bus operators were unwilling to share detailed financial information due to concerns associated with commercial confidentiality, and we therefore had to seek alternative ways of quantifying the present situation and projecting how potential changes to the delivery model might impact on the overall financial situation facing the sector.

1.1.3 A further complication was the impact of the ongoing COVID19 pandemic, which has depressed bus service demand significantly in 2020 and 2021, making the use of any recent data meaningless. We have therefore sought to illustrate the situation immediately prior to the pandemic, but must also stress that the future course of recovery remains uncertain and even once a “new normality” emerges it is likely to have affected travel behaviour and therefore a detailed examination of the pre-COVID situation is unlikely to be a true reflection of future prospects.

1.2 Approach Adopted

1.2.1 In the absence of data from Operators, we have based our analysis on published statutory company accounts deposited with Companies House. This has posed a series of problems:

- The detail required within statutory accounts from smaller companies is very limited, and we have had to extrapolate certain data from the data available for larger companies;
- First and Stagecoach operators within Glasgow and Strathclyde are subsidiaries of larger owning groups, and we know that internal adjustments to statutory accounts of subsidiaries can distort the reported data;
- Operations of Glasgow Citybus are consolidated into their wider owning group (Craigs of Campbeltown) so we were unable to identify the operation solely within Glasgow and Strathclyde;
- There are no standardised year end accountancy dates, so inevitably there is not a perfect match of time periods for each operator; and
- As we describe below, we have used other data sources to enrich the analysis – but these do not necessarily have reporting dates which perfectly match the operating companies’ accounting periods.

1.2.2 To enrich the data, we have sourced three additional datasets:

- SPT data on payments for subsidised bus services in the Strathclyde region;
- Transport Scotland data for concessionary fare reimbursement and Bus Service Operator Grant (BSOG) payments to operators; and
- GIS analysis of the existing bus network which allowed us to identify the proportion of services captured through our company accounts analysis.

- 1.2.3 We focused on the three largest operators in Glasgow & Strathclyde – First¹, Stagecoach and McGills²; selected three smaller operators as representative of the rest of the sector; and then grossed up the analysis to 100% of the mileage operated using the GIS data.
- 1.2.4 To minimise the impact of the pandemic, but still utilise the most recent evidence base, we used the most recent reported accounts which had a minimal overlap into the COVID19 lockdowns.
- 1.2.5 Given the mismatch of reporting periods and data availability, and the element of professional judgement and estimation required, we have expressed figures in multiples of £250,000. **All figures must be treated as indicative only.**

Calculating Revenue for bus operations in Glasgow & Strathclyde

- 1.2.6 For larger operators, their statutory accounts provided total revenue for the accounting period adopted; using data for known subsidised bus payments, concessionary fares reimbursement and BSOG, we were then able to estimate the likely farebox revenue for larger operators.
- 1.2.7 For smaller operators we estimated their farebox revenue using their known concessionary fares reimbursement factored in proportion to that observed for the similar First subsidiary, then added other known receipts to give total revenue for a year.
- 1.2.8 The accompanying table shows these actuals and estimates.
- 1.2.9 Our sample of bus operators represented circa 84% of total operated miles in Glasgow & Strathclyde – we therefore grossed up the revenue data by a factor of approximately 1.19 (100/84) wherever a full set of operator information was not available (eg farebox revenue).

Calculating Costs for bus operations in Glasgow & Strathclyde

- 1.2.10 Total costs were available from statutory accounts for larger operators, and the accompanying table shows the breakdown available from analysing the accounts. Where operators had not reported their costs, we estimated total costs for smaller operators using the data reported by Shuttle Buses pro rata to the reported number of staff (staff costs being the biggest determinant of bus company costs).
- 1.2.11 As with revenue, the sample was grossed up to represent the whole of Strathclyde.

Calculating passengers carried on bus operations in Glasgow & Strathclyde

- 1.2.12 Table 2.2b in Scottish Transport Statistics presents data for local bus passenger journeys by region, providing a single total for all types of passenger (including concessionary

¹ For statutory accounting purposes, First's operations in the region are reported via two subsidiaries (First Glasgow (No 1) Ltd and First Glasgow (No 2) Ltd) – as these have some distinctive differences between their operating areas, we have retained this differentiation in our analysis.

² The larger groups have some peripheral services in the region provided by subsidiaries operating predominantly outwith the region (eg First Scotland Limited - Central & Borders) – these have been accommodated via the grossing up approach.

travel) in the SPT & Swestrans regions combined. We estimate that approximately 5 million of these reported journeys were in the Swestrans region³, hence the rest of the journeys are within our study area. In 2019/2020 this was broadly equivalent to 425,000 passengers per day in Strathclyde. There is no published data for concessionary travel use below Scotland level, but based on published data⁴ and the level of reimbursement to operators in Glasgow and Strathclyde we estimate that approx. 49% of concessionary travel journeys are undertaken in Strathclyde, equivalent to circa 68 million journeys in 2019/2020 and implying around 80 million fare-paying passenger journeys in the same period.

1.3 Caveats

1.3.1 As a reminder:

- Figures quoted are indicative and rounded
- Annual reporting periods are not aligned across all data sets
- Some data is estimated
- Data for the whole study area is grossed up based on total scheduled mileage
- There may be some (limited) adverse impacts from early stages of the COVID pandemic in the reported data

2. INTERPRETATION OF OUR ANALYSIS

2.1 Scale of the Bus Market in Glasgow & Strathclyde

2.1.1 Our estimates suggest that the annual value of the bus market in Glasgow and Strathclyde is circa £277.5m per annum, when grossed up for all operators. Most recent data indicates that around 148m passenger journeys were made in 2019/20, just before the impact of the pandemic⁵.

2.1.2 We estimate that for the bus market as a whole, operating profit was circa £34.5m per annum before the pandemic, representing an operating margin of circa 12%, which is fairly typical of the UK bus sector. The sector employs around 4700 staff in Glasgow & Strathclyde.

2.2 Value of Public Sector Support

2.2.1 The sample operators in our analysis received almost £85m in concessionary fare reimbursement (circa £105m for all operators based in the region), and Bus Service Operator Grant for the operators analysed was circa £17m. SPT provided £12.1m of subsidy for non-commercial services in 2019/20, of which about £8.8m was paid to the sample operators in our analysis.

³ <https://www.transport.gov.scot/media/10063/dumfries-and-galloway-transport-summit-final-report-4.pdf>

⁴ THE NATIONAL BUS TRAVEL CONCESSION SCHEME FOR OLDER AND DISABLED PERSONS (SCOTLAND) AMENDMENT ORDER 2020 (https://www.legislation.gov.uk/sdsi/2020/9780111044070/pdfs/sdsipn_9780111044070_en.pdf)

⁵ Scottish Transport Statistics Table 2.2a

2.2.2 Concessionary fare reimbursement is intended to recompense operators for the fact they are obliged to carry certain categories of passenger free of charge, restoring the operators to a “no better/no worse” situation. Payments for BSOG and to operate subsidised bus services represented circa 11% of the estimated total revenue for the operators analysed.

2.2.3 Commercially-generated revenue (ie farebox revenue, from the fares paid by passengers not entitled to free travel) represented 52% of total income for the analysed operators, and covered circa 59% of estimated total costs. If concessionary fare reimbursement has restored operators to a “no better/no worse” situation, then revenue directly from carrying passengers represents 88% of total income, and covers 100% of total costs.

2.3 Average Fares

2.3.1 For the comparators with other cities in the World Class review, we wanted to estimate a typical average fare so as to understand whether bus fares in Glasgow & Strathclyde were more expensive than similar cities elsewhere.

2.3.2 Fare-paying passengers in Glasgow & Strathclyde paid an estimated average fare of £1.80 per journey pre-pandemic⁶. However, typically the comparisons provided from cities with an integrated, franchised-style delivery model will be total farebox revenue per passenger carried, because they do not need to specifically identify passengers in receipt of concessionary travel benefits. If we adjust for this fact, we estimate that a comparable average fare for Glasgow & Strathclyde would be 97p per passenger journey⁷.

2.4 Impact of Adjusting Fares

2.4.1 At present, aside from the concessionary fare reimbursement paid to operators, there are no specific subsidies for fares in Glasgow & Strathclyde – commercial bus operators are free to set fares at whatever rate they judge the market can sustain. We wanted to test the potential impact of reducing the average fare, and the resultant reduction in total revenue collected (for which commercial operators would need to be explicitly compensated).

2.4.2 Reducing the cost of travel is likely to make bus travel more attractive (and vv) – this is reflected in the concept of price elasticity. For bus travel outside London, this is estimated at between -0.7 and -0.9⁸ – for the purposes of our illustration we adopted -0.8 as the midpoint of that range.

2.4.3 Clearly, the travel behaviour of passengers in receipt of free travel concessions is unaffected by the actual fare – it only influences decision-making by those who pay fares. Strictly speaking, the concessionary fare reimbursement paid to operators for the fares foregone is related to the fare which would have been paid, but for the purposes of this

⁶ Calculated based on estimated £144m farebox revenue in a full year, and circa 80m fare-paying passengers per annum

⁷ Calculated as £144m revenue received from passengers, and 148m passengers carried (all categories)

⁸ Bus fare and journey time elasticities and diversion factors for all modes by Fay Dunkerley, Mark Wardman, Charlene Rohr, Nils Fearnley (RAND Europe and SYSTRA, prepared for UK Department of Transport, February 2018)

illustration we have assumed that concessionary fare reimbursement would be maintained at previous levels even if the actual fares were reduced.

2.4.4 We assumed a 20% reduction in average fare paid by those passengers paying for travel – from £1.80 to £1.44. This increased the estimated number of annual fare-paying passengers from 80m to 93m but reduced estimated total farebox revenue from £144m to £133m. We therefore estimate that reimbursement of circa £11m per annum would be required to ensure that the operators were no worse off under this initiative.

2.4.5 If the Scottish Government was not prepared to maintain concessionary fare reimbursement at current aggregate amounts in Strathclyde despite a reduction in average fare, then an additional subsidy of £21m per annum could be required to restore operators to a “no better/no worse” situation.

3. SOURCES

3.1.1 Company accounts for the operators shown in the data table were obtained from Companies House – they are for the year end dates stated in the data table, selected as the most recent available year largely unaffected by the COVID pandemic.

3.1.2 Supplementary data was provided from:

- SPT (payments for subsidised local bus services in Strathclyde)
- Transport Scotland (concessionary fare reimbursement and Bus Service Operators’ grant – BSOG)
- GIS analysis of registered local bus service services in Strathclyde

3.1.3 The caveats expressed throughout the report regarding non-assigned reporting periods and the requirement to estimate key data must be noted, and whilst we consider the analysis as accurate as possible with the data available, the statistics reported must be treated as indicative.



SYSTRA

Table 1. Indicative Bus Sector Data for Glasgow & Strathclyde (E = Estimated)

	OPERATOR	FIRST GLASGOW (NO 1) LTD	FIRST GLASGOW (NO 2) LTD	WESTERN BUSES LTD [STAGECOACH]	MCGILLS BUS SERVICE LTD	AVONDALE COACHES LTD	JMB TRAVEL LTD	SHUTTLE BUSES LTD	TOTALS
	Year End Date	28/03/2020	28/03/2020	02/05/2020	29/12/2019	31/07/2019	31/12/2019	31/12/2019	
	% of Operated Mileage	24%	17%	23%	16%	1%	2%	1%	84%
Operating Area	Glasgow	Y	Y	Y	Y	Y	Y		
	West Dunbartonshire	Y	Y		Y	Y			
	East Dunbartonshire	Y	Y		Y				
	North Lanarkshire	Y	Y	Y	Y		Y		
	South Lanarkshire	Y	Y	Y	Y		Y		
	East Renfrewshire	Y		Y	Y		Y		
	Renfrewshire	Y		Y	Y				
	Inverclyde			Y	Y				
	North Ayrshire			Y	Y			Y	
	East Ayrshire			Y	Y			Y	
	South Ayrshire			Y				Y	
Argyll & Bute		Y							

	OPERATOR	FIRST GLASGOW (NO 1) LTD	FIRST GLASGOW (NO 2) LTD	WESTERN BUSES LTD [STAGECOACH]	MCGILLS BUS SERVICE LTD	AVONDALE COACHES LTD	JMB TRAVEL LTD	SHUTTLE BUSES LTD	TOTALS
Revenue	Total Turnover	£ 98,000,000	£ 37,000,000	£ 53,500,000	£ 36,500,000	£ 2,000,000	£ 2,750,000 [£]	£ 2,750,000	£ 232,500,000
	Concessionary Fare Reimbursement	£ 31,250,000	£ 19,000,000	£ 17,500,000	£ 15,000,000	£ 750,000	£ 1,000,000	£ 250,000	£ 84,750,000
	BSOG	£ 5,000,000	£ 3,750,000	£ 4,750,000	£ 3,250,000	£ -	£ 250,000	£ -	£ 17,000,000
	Tendered Bus Services	£ 1,000,000	£ -	£ 1,750,000	£ 3,750,000	£ -	£ 750,000	£ 1,500,000	£ 8,750,000
	Other (non core) Revenue	£ -	£ -	£ 1,500,000	£ -	£ -	£ -	£ -	£ 1,500,000
	Estimated Farebox Revenue	£ 60,500,000	£ 14,250,000	£ 28,250,000	£ 14,500,000	£ 1,250,000 [£]	£ 750,000 [£]	£ 1,000,000	£ 120,500,000
Costs & Resources	Total Costs	£ 83,500,000	£ 36,000,000	£ 51,000,000	£ 27,000,000	£ 1,250,000 [£]	£ 3,750,000 [£]	£ 2,000,000	£ 204,500,000
	Employees (excl Directors)	1464	635	964	689	29	90	50	
	Staff Costs (excl Directors)	£ 46,250,000	£ 19,750,000	£ 28,250,000	£ 19,250,000				
	Raw Materials & Consumables	£ 21,500,000	£ 7,750,000						
	Depreciation	£ 5,250,000	£ 1,750,000	£ 5,000,000	£ 3,000,000	£ -	£ 250,000	£ 250,000	
Operating Profit	£ 14,500,000	£ 1,000,000	£ 2,500,000	£ 9,500,000	£ 750,000	>£250,000	£ 750,000	£ 29,000,000	
	15%	3%	5%	26%	38%	n/a	27%	12%	

APPROVAL

Version	Name	Position	Date	Modifications
1	Author		DD/MM/YY	
	Checked by		DD/MM/YY	
	Approved by		DD/MM/YY	
2	Author		DD/MM/YY	
	Checked by		DD/MM/YY	
	Approved by		DD/MM/YY	

