

APPENDIX 4

NIR: ANALYSIS OF EFFICIENCIES ACHIEVED, 2008-10

Efficiencies Achieved between 2007-08 and 2009-10

Table A4.1 below presents our analysis of NIR's cost base over the last three financial years:

Table A4.1:

NIR Financial Performance for 2007-08, 2008-09 and 2009-10

	2009-10 (excluding one-off costs) £'000	2008-09 £'000	2007-08 £'000	Favourable/ (Adverse) Variance £'000
Turnover	51,909	50,891	48,501	3,408
Operating costs				
Staff costs (exc pensions)	(20,364)	(20,922)	(20,274)	(90)
Pension costs	(2,652)	(2,524)	(2,007)	(645)
Fuel costs	(7,637)	(7,004)	(4,630)	(3,007)
Other operating costs	(8,286)	(8,344)	(8,447)	161
Subtotal	(38,939)	(38,794)	(35,358)	(3,581)
Profit before overheads	12,970	12,097	13,143	(173)
Overhead costs				
Staff costs (exc pensions)	(6,301)	(6,362)	(6,941)	640
Pension costs	(835)	(787)	(726)	(109)
Other overhead costs	(7,657)	(7,376)	(8,172)	515
Subtotal	(14,793)	(14,524)	(15,839)	1,046
Operating profit/(loss)	(1,823)	(2,427)	(2,696)	873
Total costs	(53,732)	(53,318)	(51,197)	(2,535)

Source: Translink and FGS McClure Watters

The analysis above indicates NIR's cost base rose overall by £2.5m between 2007-08 and 2009-10 (excluding one-off reorganisation costs in 2009-10).

We understand from Translink that two significant exceptional factors had an adverse impact on NIR's performance for the 2009-10 year:

- The planned closure of the Derry line between April and June 2009 (and relaying of track between Derry and Ballymena) resulted in a 20% passenger reduction on the Derry line during this period; and
- The collapse of the Malahide viaduct outside Dublin in August 2009, contributing to a decline in cross-border patronage of approximately 15%. After the reopening of the line in November 2009, NIR offered significantly discounted fares until March 2010 to stimulate demand in both directions.

Translink has indicated that, while passenger miles, journeys and revenue were reduced by the planned and unplanned line closures noted above, the direct labour costs of operating the network were not reduced, and additional bus substitution costs were incurred. This suggests that, while vehicle kilometres were lower in 2009-10 than 2008-09, the level of activity involved in delivering the company's services was not. We have therefore used 2008-09 vehicle kilometres as a proxy for NIR's overall level of activity in 2009-10.

Table A4.2 sets out our financial variance analysis for NIR:

Table A4.2:
NIR Financial Variances between 2007-08 and 2009-10

	Favourable/ (Adverse) Variance £'000	Rate Variance £'000	Quantity Variance £'000	Activity Variance £'000	Efficiency Variance £'000
Operating costs					
Staff costs (exc pensions)	(90)	(920)	830	242	588
Pension costs	(645)	(626)	(19)	24	(43)
Fuel costs	(3,007)	(3,099)	92	55	37
Other operating costs	161	(262)	423	101	322
Subtotal	(3,581)	(4,908)	1,327	422	904
Overhead costs					
Staff costs (exc pensions)	640	(315)	955	-	955
Pension costs	(109)	(192)	83	-	83
Other overhead costs	515	(253)	768	-	768
Subtotal	1,046	(761)	1,807	-	1,807
Total costs	(2,535)	(5,669)	3,134	422	2,711

Source: FGS McClure Watters

NIR Operating Costs

STAFF COSTS (EXCLUDING PENSIONS)

Overall variance: Between 2007-08 and 2009-10, NIR's operating staff costs rose by £0.1m.

Rate variance: Information provided by Translink indicates that the group's annual pay settlements were 3.5% for 2008-09 and 1% for 2009-10, equivalent to a 4.54% rise over the two years combined. If this rise were applied to NIR's 2007-08 operating staff costs of £20.3m, it would result in additional costs of some £0.9m, before any changes in the quantity of labour used.

Quantity variance: The remaining variance in NIR's operating staff costs is represented by reduced labour usage, through a combination of changes in levels of activity and efficiency:

Activity variance: Information supplied by Translink indicates NIR's activity levels fell by 1.2% between 2007-08 and 2009-10. Applying a similar reduction to NIR's 2007-08 operating staff costs of £20.3m would suggest an activity-related reduction in staff costs of £0.2m.

Efficiency variance: The rate and activity variances described above are equivalent to a cost increase of £0.7m. This implies that NIR has achieved additional efficiencies of £0.6m, within its overall rise of £0.1m in operating staff costs.

PENSION COSTS

Overall variance: Between 2007-08 and 2009-10, NIR's operating pension costs increased by £0.6m, from £2.1m to £2.7m.

Rate variance: Information provided by Translink indicates that employer's pension contributions for NIR operating staff rose from 10.64% of salaries in 2007-08 to 13.96% of salaries in 2009-10. If this rise were applied to NIR's 2007-08 operating pension costs of £2.0m, it would lead to additional costs of £0.6m, before the impact of any changes in the quantity of labour used.

Quantity variance: The remainder of the overall variance in NIR operating pension costs is represented by an increase in the quantity of labour used. This variance comprises both activity and efficiency elements, as detailed below.

Activity variance: Information supplied by Translink indicates NIR's activity levels fell by 1.2% between 2007-08 and 2009-10. Applying this reduction to NIR's 2007-08 operating pension costs of £2.0m would lead to an activity-related reduction in pension costs of less than £0.1m.

Efficiency variance: The rate and activity variances described above are equivalent to a cost increase of £0.6m, leaving an additional adverse efficiency variance of less than £0.1m within the overall increase of over £0.6m in operating staff pension costs.

FUEL COSTS

Overall variance: NIR's expenditure on fuel increased significantly between 2007-08 and 2009-10, rising from £4.6m to £7.6m, an increase of £3.0m.

Rate variance: NIR's fuel cost per vehicle kilometre increased from £0.91 in 2007-08 to £1.51 in 2009-10, a rise of 67% over the period reviewed. If an equivalent increase were applied to NIR's 2007-08 fuel costs of £4.6m, it would result in additional costs of some £3.1m, before examining any changes in the quantity of fuel used. In considering the variation in NIR's unit fuel costs, it should be noted that the fuel cost per passenger journey within Iarnród Éireann increased by 37% between December 2007 and December 2009,

Quantity variance: The remaining £0.1m of the overall variance in NIR's fuel costs is represented by a reduction in the amount of fuel used. Our analysis suggests this is due to decreases in activity and other improvements in efficiency.

Activity variance: Information supplied by Translink indicates NIR's activity levels fell by 1.2% between 2007-08 and 2009-10. Set in the context of NIR's 2007-08 fuel costs of £4.6m, this fall in activity would account for a reduction in expenditure of £0.1m.

Efficiency variance: The rate and activity variances described above are equivalent to a cost increase of over £2.9m. This suggests that the company has generated other favourable efficiencies of less than £0.1m, within its overall increase of £3.0m in fuel costs.

OTHER OPERATING COSTS

Overall variance: Between 2007-08 and 2009-10, NIR's other operating costs fell by £0.2m.

Rate variance: Applying a 3.1% rise (in line with the RPI) to NIR's 2007-08 other operating costs of £8.4m would lead to additional costs of around £0.3m, before any changes in the quantity of goods and services used.

Quantity variance: The remainder (almost £0.5m) of the overall variance in NIR's other operating costs is represented by a decrease in the quantity of other goods and services used.

Activity variance: Information supplied by Translink indicates NIR's activity levels fell by 1.2% between 2007-08 and 2009-10. Applying this reduction to NIR's 2007-08 other operating costs of £8.4m would suggest a fall in expenditure of around £0.1m.

Efficiency variance: The rate and activity variances set out above are equivalent to a cost increase of £0.2m. This would suggest that NIR has generated other efficiencies of more than £0.3m, within the overall decrease in other operating costs of almost £0.2m.

NIR Overhead Costs

STAFF COSTS (EXCLUDING PENSIONS)

Overall variance: Between 2007-08 and 2009-10, NIR's overhead staff costs fell by £0.6m.

Rate variance: Information provided by Translink indicates that the group's annual pay settlements were 3.5% for 2008-09 and 1% for 2009-10, equivalent to a 4.54% rise over the two years combined. If this rise were applied to NIR's 2007-08 overhead staff costs of £6.9m, it would result in additional costs of £0.3m, before the impact of any changes in the quantity of labour used.

Quantity variance: The remainder (£0.9m) of the overall decrease in NIR's overhead staff costs is represented by a reduction in the quantity of labour used. For the purposes of our analysis, we have assumed that variances in relation to overhead costs are not directly linked to changes in activity, and should therefore be considered as efficiency savings.

PENSION COSTS

Overall variance: From 2007-08 to 2009-10, NIR's overhead pension costs increased by £0.1m.

Rate variance: Information provided by Translink indicates that employer's pension contributions for NIR overhead staff rose from 11.25% of salaries in 2007-08 to 14.23% of salaries in 2009-10. If this rise were applied to NIR's 2007-08 overhead pension costs of £0.7m, it would result in additional costs of almost £0.2m, before examining any changes in the quantity of labour used.

Quantity variance: The remainder (£0.1m) of the overall variance in NIR operating pension costs is represented by a reduction in the quantity of labour used. As above, we have considered this as an efficiency saving.

OTHER OVERHEAD COSTS

Overall variance: NIR's other overhead costs fell by £0.5m between 2007-08 and 2009-10.

Rate variance: Applying a 3.1% rise (in line with the RPI) to NIR's 2007-08 other overhead costs of £8.2m would result in additional costs of almost £0.3m, before any changes in the quantities of goods and services used.

Quantity variance: The remainder (£0.8m) of the overall variance in NIR’s other overhead costs is represented by a reduction in the quantity of other goods and services used. As with other overhead items, we have assumed this is not associated with changes in activity.

Summary of Change in NIR Costs

Table A4.3 below summarises our analysis of changes in the cost base of NIR between 2007-08 and 2009-10, including the impacts of changing wage rates and prices paid for fuel, as well as the decrease in NIR’s activity between 2007-08 and 2009-10:

Table A4.3:
Summary of Changes in NIR Cost Base

	£'000
(Increase)/Decrease in wage rates and fuel prices	(5,669)
(Increase)/Decrease in activity	422
Subtotal	(5,247)
Efficiency savings	2,712
Overall (Increase)/Decrease in costs	(2,535)

Source: FGS McClure Watters

Between 2007-08 and 2009-10, NIR’s cost base increased by £2.5m. After adjusting for changing market wage rates, fuel prices and activity levels, we estimate NIR was able to generate annual efficiency savings in the region of £2.7m between 2007-08 and 2009-10.

Efficiencies Achieved in 2009-10

As noted above, we understand from Translink that two significant exceptional factors had an adverse impact on NIR's performance for the 2009-10 year:

- The planned closure of the Derry line between April and June 2009 (and relaying of track between Derry and Ballymena) resulted in a 20% passenger reduction on the Derry line during this period; and
- The collapse of the Malahide viaduct outside Dublin in August 2009, contributing to a decline in cross-border patronage of approximately 15%. After the reopening of the line in November 2009, NIR offered significantly discounted fares until March 2010 to stimulate demand in both directions.

Translink has indicated that, while passenger miles, journeys and revenue were reduced by the planned and unplanned line closures noted above, the direct labour costs of operating the network were not reduced, and additional bus substitution costs were incurred. This suggests that, while NIR's vehicle kilometres were lower in 2009-10 than 2008-09, the level of activity involved in delivering the company's services was not. We have therefore used 2008-09 vehicle kilometres as a proxy for NIR's overall level of activity in 2009-10.

Table A4.4 below presents our analysis of NIR's cost base over the last two financial years:

Table A4.4:
 NIR Financial Performance for 2008-09 and 2009-10

	2009-10 (excluding one-off costs) £'000	2008-09 £'000	Favourable/ (Adverse) Variance £'000
Turnover	51,909	50,891	1,018
Operating costs			
Staff costs (exc pensions)	(20,364)	(20,922)	558
Pension costs	(2,652)	(2,524)	(128)
Fuel costs	(7,637)	(7,004)	(633)
Other operating costs	(8,286)	(8,344)	58
Subtotal	(38,939)	(38,794)	(145)
Profit before overheads	12,970	12,097	873
Overhead costs			
Staff costs (exc pensions)	(6,301)	(6,362)	61
Pension costs	(835)	(787)	(48)
Other overhead costs	(7,657)	(7,376)	(282)
Subtotal	(14,793)	(14,524)	(269)
Operating profit/(loss)	(1,823)	(2,427)	604
Total costs	(53,732)	(53,318)	(414)

Source: Translink and FGS McClure Watters

The analysis above indicates NIR's cost base increased by £0.4m between 2008-09 and 2009-10 (excluding one-off reorganisation costs in 2009-10).

Table A4.5 sets out our financial variance analysis for NIR:

Table A4.5:
NIR Financial Variances between 2008-09 and 2009-10

	Favourable/ (Adverse) Variance £'000	Rate Variance £'000	Quantity Variance £'000	Activity Variance £'000	Efficiency Variance £'000
Operating costs					
Staff costs (exc pensions)	558	(209)	767	-	767
Pension costs	(128)	(197)	69	-	69
Fuel costs	(633)	(633)	0	-	0
Other operating costs	58	(367)	425	-	425
Subtotal	(145)	(1,406)	1,261	-	1,261
Overhead costs					
Staff costs (exc pensions)	61	(64)	125	-	125
Pension costs	(48)	(56)	7	-	7
Other overhead costs	(282)	(325)	43	-	43
Subtotal	(269)	(444)	175	-	175
Total costs	(414)	(1,850)	1,436	-	1,436

Source: FGS McClure Watters

NIR Operating Costs

STAFF COSTS (EXCLUDING PENSIONS)

Overall variance: NIR's operating staff costs fell by £0.6m between 2008-09 and 2009-10.

Rate variance: Information provided by Translink indicates that the group's annual pay settlement was 1% for 2009-10. If this rise were applied to NIR's 2008-09 operating staff costs of £21.0m, it would result in additional costs of some £0.2m, before any changes in the quantity of labour used.

Quantity variance: The remainder (£0.8m) of the overall variance in NIR operating staff costs is represented by reduced labour usage. As we have assumed the same activity level in 2008-09 and 2009-10 for NIR, this would indicate this represents an improvement in efficiency.

PENSION COSTS

Overall variance: Between 2008-09 and 2009-10, NIR's operating pension costs increased by £0.1m.

Rate variance: Information provided by Translink indicates that employer's pension contributions for NIR operating staff rose from 12.95% of salaries in 2008-09 to 13.96% of salaries in 2009-10. If this rise were applied to NIR's 2008-09 operating pension costs of £2.5m, it would lead to additional costs of £0.2m, before the impact of any changes in the quantity of labour used.

Quantity variance: The remainder (£0.1m) of the overall variance in NIR operating pension costs is represented by a reduction in the quantity of labour used. As we have assumed the same activity level in 2008-09 and 2009-10 for NIR, this would indicate this represents an improvement in efficiency.

FUEL COSTS

Overall variance: NIR's expenditure on fuel increased between 2008-09 and 2009-10, rising from £7.0m to £7.6m, an increase of £0.6m.

Rate variance: NIR's fuel cost per passenger kilometre increased by 9% over the period reviewed. If an equivalent increase were applied to NIR's 2008-09 fuel costs of £7.0m, it would result in additional costs of some £0.6m, before examining any changes in the quantity of fuel used.

Quantity variance: As noted above, we have assumed NIR used the same quantity of fuel in 2009-10 as in 2008-09. No quantity variance therefore arises.

OTHER OPERATING COSTS

Overall variance: Between 2008-09 and 2009-10, NIR's other operating costs fell by almost £0.1m. .

Rate variance: The all-items RPI rose by 4.4% during the year ended 31 March 2010. If this increase were applied to NIR's 2008-09 other operating costs of £8.3m, it would result in additional costs of around £0.4m, before any changes in the quantity of goods and services used.

Quantity variance: The remainder (almost £0.5m) of the overall variance in NIR's other operating costs is represented by a decrease in the quantity of other goods and services used, which we have assumed relates to improved efficiency rather than any change in activity levels.

NIR Overhead Costs

STAFF COSTS (EXCLUDING PENSIONS)

Overall variance: Between 2008-09 and 2009-10, NIR's overhead staff costs fell by almost £0.1m.

Rate variance: Information provided by Translink indicates that the group's annual pay settlement was 1% for 2009-10. If this rise were applied to NIR's 2008-09 overhead staff costs of £6.3m, it would result in additional costs of £0.1m, before the impact of any changes in the quantity of labour used.

Quantity variance: The remainder (over £0.1m) of the overall decrease in NIR's overhead staff costs is represented by a reduction in the quantity of labour used. For the purposes of our analysis, we have assumed that variances in relation to all overhead costs are not directly linked to changes in activity, and should therefore be considered as efficiency savings.

PENSION COSTS

Overall variance: From 2008-09 to 2009-10, NIR's overhead pension costs increased by less than £0.1m.

Rate variance: Information provided by Translink indicates that employer's pension contributions for NIR non-operating staff rose from 13.29% of salaries in 2008-09 to 14.23% of salaries in 2009-10. If this rise were applied to NIR's 2008-09 overhead pension costs of £0.8m, it would result in additional costs of £0.1m, before examining any changes in the quantity of labour used.

Quantity variance: The remainder (less than £0.1m) of the overall variance in NIR operating pension costs is represented by a reduction in the quantity of labour used. As above, we have considered this as an efficiency saving.

OTHER OVERHEAD COSTS

Overall variance: NIR's other overhead costs rose by £0.3m between 2008-09 and 2009-10.

Rate variance: The all-items RPI rose by 4.4% during the year ended 31 March 2010. Applying this increase to NIR's 2008-09 other overhead costs of £7.4m would result in additional costs of more than £0.3m, before any changes in the quantity of goods and services used.

Quantity variance: The remainder (less than £0.1m) of the overall variance in NIR's other overhead costs is represented by a reduction in the quantity of other goods and services

used. As with other overhead items, we have assumed this is not associated with changes in activity.

Summary of Change in NIR Costs

Table A4.6 below summarises our analysis of variances in the cost base of NIR between 2008-09 and 2009-10, including the impacts of changes in wage rates, prices paid for fuel, and activity levels:

Table A4.6:
Summary of Changes in NIR Cost Base

	£'000
(Increase)/Decrease in wage rates and fuel prices	(1,850)
(Increase)/Decrease in activity	-
Subtotal	(1,850)
Efficiency savings/(losses)	1,436
Overall (Increase)/Decrease in costs	(414)

Source: FGS McClure Watters

NIR's reported cost base increased by £0.4m between 2008-09 and 2009-10. However, after adjusting for changing market wage rates and fuel prices, we estimate NIR generated efficiency savings of around £1.4m.