
2 EXECUTIVE SUMMARY

2.1 Review of Efficiencies Achieved

The original OBC estimated that the three Translink operating companies could achieve up to £12.8m in annual efficiency savings, based on a review of their performance in 2007-08 relative to operators in comparable settings elsewhere.

Over the course of the 2008-09 and 2009-10 financial years, Translink has reported achieving cumulative annual revenue efficiencies in the region of £11.2m, around two thirds of which relate to savings in staff costs, including the group's voluntary redundancy programme. Although Translink refers to these as revenue efficiencies they are actually a record of cost reductions and for the purpose of clarity will be referred to as such throughout this report.

As part of validating the information on cost reductions provided by Translink, we undertook a review of the reported financial performance of each of the three operating companies over that period, drawing on the information contained in the management accounts for Metro, Ulsterbus and NIR.

The combined operating cost base of Metro, Ulsterbus and NIR increased by £10.9m from 2007-08 to 2009-10. After making allowances for increases in wage rates, pension contributions and fuel prices paid, as well as changes to the levels of activity delivered, we estimate that the group generated efficiency savings of around £6.2m over the same period. This estimate is lower than the cost reductions which Translink has separately reported. This is because a figure for cost reductions does not necessarily equate to a figure measuring efficiency. The former measures only the cost reductions whereas the latter takes into account cost increases as reflected in the management accounts for the Translink companies.

Section 3 of the report provides greater detail in this area.

2.2 Approach to Assessing Comparative Efficiency of Translink Companies

In order to assess the comparative efficiency of Translink we have compared the performance of the bus companies with operators in broadly similar settings in Great Britain (GB) using a variety of information sources, including the TAS Partnership Bus Industry Monitor and individual operators' annual reports.

While a benchmarking exercise such as this cannot provide precise like-for-like comparisons, not least because the GB market is deregulated, they do give some important comparisons in relation to the key performance indicators (KPIs) for the bus industry. These generally accepted indicators are:-

- **Cost effectiveness**, which is normally assessed by comparing the cost per passenger journey; and
- **Cost efficiency**, usually measured by comparing the average cost per vehicle kilometre and staff cost comparisons.

There are also a number of unique features to the Northern Ireland bus market which have been quantified by Translink. The benchmarking exercise has been carried out largely without making allowance for these factors in order to show clearly the impact on cost effectiveness and cost efficiency of these unique features. However, in assessing the level of potential efficiencies that could be achieved in the future, we have made allowances for some of the most significant of these factors.

The performance of Northern Ireland Railways (NIR) has been compared mainly with Iarnród Éireann,

2.3 Comparative Efficiency of Metro

We compared the operating performance of Metro with a number of agreed benchmark operators in English cities similar in size to Belfast, across a number of key financial, staffing and operational performance metrics.

Our work indicated that, relative to the comparators identified, Metro performed less well in terms of cost-effectiveness (cost per passenger using the company's services) and cost-efficiency (cost per kilometre travelled by the company's fleet and staff cost comparisons).

The cost effectiveness measure is affected to a degree by Metro's public service obligations, whereby it is required to provide a network of peak and off-peak services across Belfast, some of which are not commercially profitable, for example outside the main commuting times. It is also impacted by an increase in bus numbers with no corresponding growth in passenger journeys.

The level of local wage rates and employer pension contributions were found to exert upward pressure on Metro's cost structure, and the company's average staff cost per employee is over 13% higher than the average for the benchmark group considered.

While Metro performs well on some per-bus comparisons, this is positively influenced by the size of the company's fleet and the level of spare capacity it contains. It should also be noted that the company has a relatively high level of non-operating staff (both per bus and as a proportion of operating staff), after making allowances for the estimated costs of delivering Head Office/Authority functions.

Our review of the company's 2008-09 performance relative to comparable operators suggested potential for some £3.9m of annual efficiency savings. Taking into account mitigation factors (such as a relatively high level of employer pension contributions),

efficiencies generated in 2009-10 and planned cost reductions in future years, we estimate that some further potential exists to reduce Metro's costs, albeit of a smaller order (£1.5m per annum).

For Metro, our analysis also suggests:

- The company's fleet is large in relation to the population it serves, even after allowing for higher levels of spare fleet capacity prevalent in Belfast;
- The fleet operates with a comparatively high utilisation rate, service density and operational load factor; and
- The company's services operate punctually and reliably, with good rates of accessibility compliance within a relatively young fleet.

Sections 4, 5 and 7 provide information relevant to our analysis of Metro.

2.4 Comparative Efficiency of Ulsterbus

We assessed the performance of Ulsterbus against comparators in non-metropolitan areas of England and Wales.

Based on the Department's preferred cost-effectiveness measure (operating cost per passenger), there is a considerable gap between the performance of Ulsterbus and the performance of operators in Wales and other non-metropolitan areas of England, even after adjusting for costs involved in delivering certain head office/authority functions within Ulsterbus. The differential in cost per passenger between Ulsterbus and comparable areas has showed little sign of narrowing in the course of recent years.

The cost effectiveness of Ulsterbus is undoubtedly affected by a public service obligation whereby it is required to provide a comprehensive network of routes and services across Northern Ireland, many of which attract low passenger volumes. This is illustrated by the evidence provided by Translink which indicates that 85% of its routes are unprofitable. This means that they have to be cross-subsidised by a small number of profitable routes, by Translink's other commercial activities and by the capital subsidy from DRD.

In relative terms, the company performs better in terms of cost-efficiency (the cost of running services across the network) than on cost-effectiveness (the cost per passenger using its services). This is consistent with the company having a lower passenger load than operators elsewhere.

On the majority of financial and operational metrics considered, Ulsterbus ranks less favourably than many operators within the group of benchmark companies reviewed. Particular features of note include a high level of average staff cost and a relatively high ratio of non-operating to operating staff.

As with Metro, local wage rates and pension obligations exert upward pressure on the company's cost per employee. Ulsterbus's average staff cost per employee is around 13% higher than the average for the benchmark group.

The company's performance on per-bus comparisons is influenced by the size of its fleet and the level of spare capacity contained within the fleet (although the obligation to deliver home-to-school transport is an important determinant of Ulsterbus's peak vehicle requirement).

There are many distinctive features to the network and pattern of services which Ulsterbus is required to operate, and we acknowledge the progress the company has made in fitting its operations around this (e.g. term-time and single-shift operations for bus drivers). While this has helped drive improvements across a number of efficiency indicators, our analysis suggests there is potential for further progress in this respect.

To bring its VFM performance in line with Wales and non-PTE areas of England, our analysis suggests that Ulsterbus would have to make large reductions in its cost base as well as generating a significant increase in passenger numbers.

We recognise that achieving this could be extremely challenging for a number of reasons: the degree of cost savings required would be significant, as would the level of increase necessary in passenger numbers, a factor which is not wholly within Translink's control (e.g. in terms of encouraging modal shift away from car use to public transport). However, this is not to say that meaningful savings could not be generated in the delivery of Ulsterbus's services.

Our review of Ulsterbus's efficiency relative to its agreed comparators suggests that the company could potentially achieve up to £8.9m per annum in efficiency savings. We acknowledge that the company's ability to reduce costs may be constrained by factors such as employer pension contributions and the provision of duplicate services due to community divisions in certain parts of its catchment area.

Taking into account these mitigation factors, efficiencies generated in 2009-10 and planned cost reductions in future years, we estimate that Ulsterbus could generate additional efficiencies of £1.7m per annum.

In qualitative terms, our work suggests Ulsterbus operates to a similar standard of punctuality and network coverage as operators in comparable settings, with a fleet of broadly the same age.

Sections 4, 6 and 7 provide further information relating to the assessment of Ulsterbus's performance.

2.5 Comparative Efficiency of NIR

Our work indicates that NIR's recent financial and operational performance has many positive features, and the company appears to deliver a more cost-effective service than Iarnród Éireann, its closest comparator.

The company receives a substantially lower subvention per passenger than Iarnród Éireann, and generates revenue per passenger kilometre at the same level as comparable regional train operators in Great Britain. However, cost per passenger increased significantly in absolute and relative terms between 2007-08 and 2008-09, due to the impact of factors such as rising fuel costs.

In addition, patronage has grown substantially over recent years and services have operated at a good standard of punctuality.

Although the gap with Iarnród Éireann is narrowing in respect of the level of its costs which NIR recoups from passenger receipts (before recourse to subsidies), the company should explore opportunities for continued progress in this area. However, it should be recognised that any future decrease in passenger numbers may make this objective more difficult for NIR to achieve.

Taking into account the results of our 2008-09 benchmarking and efficiencies generated since 2009, we estimate there is little scope for NIR to generate further efficiency savings beyond those planned up to 2011-12.

Our review of NIR's comparative efficiency is set out in Section 8.

2.6 Updated Analysis for Agency Model

The original OBC indicated that the new Agency would require 117.3 Full-Time Equivalent (FTE) staff and have annual personnel costs of some £3.5m, of which £2.6m would be covered by the transfer of existing resources from DRD and NITHC/Translink.

DRD has subsequently refined this assessment and now estimates that the Agency would require 80 FTE staff (of which 53 would transfer from DRD and 27 would be new posts) and have annual running costs of £3.6m. The increase in costs is due to:

- Up-to-date actual salary costs, rather than ready reckoner costs, being used;
- General administrative expenditure now having been included; and
- A revised grade mix in relation to the new posts identified, as a result of more detailed organisational and process design having been completed. This resulted in fewer lower grade staff and more middle ranking staff being required particularly in areas requiring specialist transport planning and contracting skills.

We have reviewed the proposed staffing resources for each of the Agency's key functions against a number of comparable Passenger Transport Executives (PTEs) which organise public transport in larger English cities.

Our analysis indicates there is a degree of variation among the staff costs which comparable organisations in England and Scotland incur in delivering the functions considered. However, the anticipated staff costs and numbers within the Agency and Translink for carrying out these

activities are in line with the range identified for the comparator PTEs, in overall terms and for the majority of business areas considered, with the exception of fares, ticketing and monitoring. This reflects a number of distinctive factors relating to PTE areas, including:

- An increased administrative burden arising from deregulated markets and the requirements of competition legislation;
- The complexity of concessionary fare schemes, reimbursement mechanisms and data collection requirements; and
- As the level of monitoring required reflects the relative scales of bus operations in particular locations, and since PTE areas have a higher level of bus usage than Northern Ireland, this will potentially lead to PTEs having a larger staff complement for monitoring than the Agency would require.

We have updated our estimates of the annual monetary costs and benefits associated with the new Agency, in terms of the resources required to deliver its functions and the level of operational improvement the Agency could help bring about within the Translink operating companies. As part of this, we have also examined the monetary impact of variations in key assumptions, including:

- Metro. Ulsterbus and NIR's performance improving less quickly than anticipated;
- Performance improvements in Metro, Ulsterbus and NIR being less than forecast; and
- The Agency's running costs being higher than projected.

In the majority of the scenarios we have considered, our work indicates that the Agency would bring net financial benefits over a 25-year time horizon, as well as generating a range of other non-monetary benefits in all scenarios.

Further information on the Agency model is contained in Section 9.