APPENDIX 2

METRO: ANALYSIS OF EFFICIENCIES ACHIEVED, 2008-10

Efficiencies Achieved between 2007-08 and 2009-10

Table A2.1:
Metro Financial Performance for 2007-08, 2008-09 and 2009-10

	2009-10 (excluding one-off costs)	2008-09	2007-08	Favourable/ (Adverse) Variance
	£'000	£'000	£'000	£'000
Turnover	35,553	34,714	31,614	**3,939**
Operating costs				
Staff costs (exc pensions)	(19,641)	(19,161)	(17,683)	**(1,958)**
Pension costs	(2,454)	(2,284)	(1,840)	**(614)**
Fuel costs	(4,826)	(4,283)	(2,803)	**(2,023)**
Other operating costs	(3,754)	(3,736)	(3,574)	**(180)**
Subtotal	**(30,675)**	**(29,464)**	**(25,900)**	**(4,775)**
Profit before overheads	**4,878**	**5,250**	**5,714**	**(836)**
Overhead costs				
Staff costs (exc pensions)	(1,194)	(1,218)	(1,281)	**87**
Pension costs	(154)	(147)	(138)	**(15)**
Other overhead costs	(2,189)	(2,309)	(1,824)	**(365)**
Subtotal	**(3,536)**	**(3,673)**	**(3,243)**	**(293)**
Operating profit/(loss)	**1,342**	**1,577**	**2,471**	**(1,129)**
Total costs	**(34,211)**	**(33,137)**	**(29,143)**	**(5,068)**

Source: Translink and FGS McClure Watters

As noted in the table above, Metro's cost base increased overall by £5.1m between 2007-08 and 2009-10 (excluding one-off reorganisation costs), through the net impact of increases and decreases in the cost categories identified. In examining these changes in costs, we have considered:

- **Rate variances,** including the impact of changes in unit costs such as wage rates, employer pension contributions and fuel prices; and

- **Quantity variances,** reflecting the physical amount of labour or materials used, and further divided for operating costs into:

- **Activity variances,** linked to the overall level of activity carried out (such as vehicle kilometres); and
- **Efficiency variances,** reflecting variations in how efficiently labour and materials are used in delivering the levels of activity reported.

Table A2.2 below presents our variance analysis in relation to Metro:

Table A2.2:
Metro Financial Variances between 2007-08 and 2009-10

	Favourable/ (Adverse) Variance	Rate Variance	Quantity Variance	Activity Variance	Efficiency Variance
	£'000	£'000	£'000	£'000	£'000
Operating costs					
Staff costs (exc pensions)	(1,958)	(803)	(1,155)	(1,297)	142
Pension costs	(614)	(367)	(247)	(135)	(112)
Fuel costs	(2,023)	(1,693)	(330)	(206)	(124)
Other operating costs	(180)	(111)	(69)	(262)	193
Subtotal	**(4,775)**	**(2,974)**	**(1,801)**	**(1,900)**	**99**
Overhead costs					
Staff costs (exc pensions)	87	(58)	145	-	145
Pension costs	(15)	(26)	11	-	11
Other overhead costs	(365)	(57)	(308)	-	(308)
Subtotal	(293)	(141)	(152)	-	(152)
Total costs	**(5,068)**	**(3,115)**	**(1,953)**	**(1,900)**	**(53)**

Source: FGS McClure Watters

Metro Operating Costs

STAFF COSTS (EXCLUDING PENSIONS)

Overall variance: Between 2007-08 and 2009-10, Metro's operating staff costs rose by almost £2.0m.

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 Metro's 2007-08 operating staff costs of £17.7m, it would result in additional costs of £0.8m, before any changes in the quantity of labour used.

Quantity variance: The remainder (£1.2m) of the overall variance in Metro operating staff costs is represented by increased labour usage, whether through changes in levels of activity or efficiency:

Activity variance: DRD's KPI reports indicate Metro's scheduled vehicle kilometres rose by 7.3% between 2007-08 and 2009-10, from 11.8m to 12.7m. It is reasonable to assume that applying this increase to Metro's 2007-08 operating staff costs of £17.7m would produce additional activity-related staff costs of £1.3m.

Efficiency variance: The rate and activity variances described above are equivalent to a cost increase of £2.1m. This implies that Metro has been able to generate efficiencies of over £0.1m, within its overall increase of £2.0m in operating staff costs.

PENSION COSTS

Overall variance: Between 2007-08 and 2009-10, Metro's operating pension costs increased by £0.6m.

Rate variance: Information provided by Translink indicates that employer's pension contributions for Metro operating staff rose from 11.13% of salaries in 2007-08 to 13.35% of salaries in 2009-10. If this rise were applied to Metro's 2007-08 operating pension costs of £1.8m, it would result in additional costs of £0.4m, before the impact of any changes in the quantity of labour used.

Quantity variance: The remainder (£0.2m) of the overall variance in Metro 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: DRD's KPI reports indicate Metro's scheduled vehicle kilometres rose by 7.3% between 2007-08 and 2009-10, from 11.8m to 12.7m. Applying this increase to Metro's 2007-08 operating pension costs of £1.8m would generate additional activity-related pension costs of more than £0.1m.

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

FUEL COSTS

Overall variance: Between 2007-08 and 2009-10, Metro's fuel costs rose significantly, by more than £2m.

Rate variance: Metro's fuel cost per scheduled vehicle kilometre increased from 23.7p in 2007-08 to 38.0p in 2009-10, a rise of some 60% over the two-year period examined. If an equivalent increase were applied to Metro's 2007-08 fuel costs of £2.8m, it would result in additional costs of nearly £1.7m, before examining any changes in the quantity of fuel used.

- Metro's fuel cost per scheduled kilometre increased between 2007-08 and 2009-10 by significantly more (60%) than the fuel inflation rate (38%) reported by Go Ahead, a major operator in Great Britain, over the same period. However, the rate of increase reported by Metro is similar to unit cost rises reported by Dublin Bus and Bus Éireann in the two years ended 31 December 2009.

- In terms of fuel efficiency, information provided by Translink indicates that the Metro fleet achieved 5.34 miles per gallon (mpg) in 2009-10, compared to 5.26mpg in 2007-08, representing an improvement of 1.5%. This may have helped to mitigate the increase in the company's fuel cost per vehicle kilometre.

Quantity variance: The remainder (£0.3m) of the overall variance in Metro's fuel costs is represented by a change in the amount of fuel used, whether through changes in activity or efficiency levels.

Activity variance: DRD's KPI reports indicate Metro's scheduled vehicle kilometres rose by 7.3% between 2007-08 and 2009-10, from 11.8m to 12.7m. Applying this increase to Metro's 2007-08 fuel costs of £2.8m would lead to additional activity-related costs of £0.2m.

Efficiency variance: The rate and activity variances described above are equivalent to a cost increase of £1.9m. This implies that Metro has experienced other adverse efficiencies of around £0.1m, within its overall increase of £2.0m in fuel costs.

OTHER OPERATING COSTS

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

Rate variance: The all-items Retail Price Index (RPI) increased by 3.1% over the two years ended 31 March 2010. If this rise were applied to Metro's 2007-08 other operating costs of £3.6m, it would result in additional costs of £0.1m, before any changes in the quantity of goods and services used.

Quantity variance: The remainder of the overall variance (£0.1m) in Metro's other operating costs relates to the company's levels of activity and efficiency in using other goods and services.

Activity variance: DRD's KPI reports indicate Metro's scheduled vehicle kilometres rose by 7.3% between 2007-08 and 2009-10, from 11.8m to 12.7m. Applying this increase to Metro's 2007-08 other operating costs of £3.6m produces additional activity-related costs of £0.3m.

Efficiency variance: The rate and activity variances described above are equivalent to a cost increase of £0.4m. This implies that Metro has been able to generate efficiencies of around £0.2m, as the company's other operating costs have increased by £0.2m overall.

Metro Overhead Costs

STAFF COSTS (EXCLUDING PENSIONS)

Overall variance: Between 2007-08 and 2009-10, Metro's overhead staff costs reduced by around £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 Metro's 2007-08 overhead staff costs of £1.3m, 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 (almost £0.2m) of the overall variance in Metro 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: Between 2007-08 and 2009-10, Metro's overhead pension costs increased by less than £0.1m (around £15,000).

Rate variance: Information provided by Translink indicates that employer's pension contributions for bus overhead staff rose from 11.57% of salaries in 2007-08 to 13.78% of salaries in 2009-10. If this rise were applied to Metro's 2007-08 overhead pension costs of £0.1m, it would result in additional costs of £26,000, before examining any changes in the quantity of labour used.

Quantity variance: The remainder (£11,000) of the overall variance in Metro overhead 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: Between 2007-08 and 2009-10, Metro's other overhead costs rose by £0.4m.

Rate variance: Applying a 3.1% rise (in line with the RPI) to Metro's 2007-08 other overhead costs of £1.8m would result in additional costs of £0.1m, excluding the impact of any changes in the quantities of goods and services used.

Quantity variance: The remainder (£0.3m) of the overall variance in Metro's other overhead costs is represented by an increase 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 Metro Costs

Table A2.3 below summarises our analysis of changes in Metro's cost base between 2007-08 and 2009-10, including the impacts of changing wage rates and prices paid for fuel, as well as the increase in Metro's activity between 2007-08 and 2009-10:

Table A2.3:
Summary of Changes in Metro Cost Base

	£'000
(Increase)/Decrease in wage rates and fuel prices	(3,115)
(Increase)/Decrease in activity	(1,900)
Subtotal	**(5,015)**
Efficiency savings/(losses)	**(53)**
Overall (Increase)/Decrease in costs	**(5,068)**

Source: FGS McClure Watters

Metro's cost base increased by £5.1m between 2007-08 and 2009-10. Within this overall rise, we estimate that, after adjusting for changing market wage rates, fuel prices and activity levels, Metro incurred annual efficiency losses of less than £0.1m between 2007-08 and 2009-10.

Efficiencies Achieved in 2009-10

Table A2.4:
Metro Financial Performance for 2008-09 and 2009-10

	2009-10 (excluding one-off costs) £'000	2008-09 £'000	Favourable/ (Adverse) Variance £'000
Turnover	35,553	34,714	**839**
Operating costs			
Staff costs (exc pensions)	(19,641)	(19,161)	**(479)**
Pension costs	(2,454)	(2,284)	**(171)**
Fuel costs	(4,826)	(4,283)	**(543)**
Other operating costs	(3,754)	(3,736)	**(18)**
Subtotal	**(30,675)**	**(29,464)**	**(1,211)**
Profit before overheads	**4,878**	**5,250**	**(372)**
Overhead costs			
Staff costs (exc pensions)	(1,194)	(1,218)	**24**
Pension costs	(154)	(147)	**(7)**
Other overhead costs	(2,189)	(2,309)	**120**
Subtotal	**(3,536)**	**(3,673)**	**137**
Operating profit/(loss)	**1,342**	**1,577**	**(235)**
Total costs	**(34,211)**	**(33,137)**	**(1,074)**

Source: Translink and FGS McClure Watters

As noted in the table above, Metro's cost base increased overall by £1.1m between 2008-09 and 2009-10 (excluding one-off reorganisation costs), through the net impact of increases and decreases in the cost categories identified.

As in Chapter 3 of the report, in examining these changes in costs, we have considered:

- **Rate variances,** including the impact of changes in unit costs such as wage rates, employer pension contributions and fuel prices; and

- **Quantity variances,** reflecting the physical amount of labour or materials used, and further divided for operating costs into:
    - **Activity variances,** linked to the overall level of activity carried out (such as vehicle kilometres); and
    - **Efficiency variances,** reflecting variations in how efficiently labour and materials are used in delivering the levels of activity reported.

Table A2.5 below presents our variance analysis in relation to Metro:

Table A2.5:
Metro Financial Variances between 2008-09 and 2009-10

	Favourable/ (Adverse) Variance	Rate Variance	Quantity Variance	Activity Variance	Efficiency Variance
	£'000	£'000	£'000	£'000	£'000
Operating costs					
Staff costs (exc pensions)	(479)	(192)	(288)	(525)	237
Pension costs	(171)	(109)	(61)	(63)	1
Fuel costs	(543)	(414)	(129)	(117)	(11)
Other operating costs	(18)	(164)	146	(102)	249
Subtotal	**(1,211)**	**(880)**	**(331)**	**(843)**	**511**
Overhead costs					
Staff costs (exc pensions)	24	(12)	36	-	36
Pension costs	(7)	(10)	3	-	3
Other overhead costs	120	(102)	221	-	221
Subtotal	**137**	**(124)**	**261**	**-**	**261**
Total costs	**(1,074)**	**(1,003)**	**(71)**	**(843)**	**772**

Source: FGS McClure Watters

Metro Operating Costs

STAFF COSTS (EXCLUDING PENSIONS)

Overall variance: Between 2008-09 and 2009-10, Metro's operating staff costs rose by £0.5m.

Rate variance: Information provided by Translink indicates that the group's annual pay settlement for 2009-10 was 1%. If this rise were applied to Metro's 2008-09 operating staff

costs of £19.2m, it would result in additional costs of £0.2m, before any changes in the quantity of labour used.

Quantity variance: The remainder (£0.3m) of the overall variance in Metro operating staff costs is represented by increased labour usage, whether through changes in levels of activity or efficiency:

Activity variance: DRD's KPI reports indicate Metro's scheduled vehicle kilometres rose by 2.7% between 2008-09 and 2009-10, from 12.3m to 12.7m. It is reasonable to assume that applying this increase to Metro's 2008-09 operating staff costs of £19.2m would produce additional activity-related staff costs of £0.5m.

Efficiency variance: The rate and activity variances described above are equivalent to a cost increase of £0.7m. This implies that Metro has been able to generate efficiencies of around £0.2m, within its overall increase of £0.5m in operating staff costs.

PENSION COSTS

Overall variance: Between 2008-09 and 2009-10, Metro's operating pension costs increased by £0.2m.

Rate variance: Information provided by Translink indicates that employer's pension contributions for Metro operating staff rose from 12.74% of salaries in 2008-09 to 13.35% of salaries in 2009-10. If this rise were applied to Metro's 2008-09 operating pension costs of £2.3m, 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 of the overall variance (less than £0.1m) in Metro operating staff costs is represented by a small increase in the quantity of labour used. This variance comprises both activity and efficiency elements, as detailed below.

Activity variance: DRD's KPI reports indicate Metro's scheduled vehicle kilometres rose by 2.7% between 2008-09 and 2009-10, from 12.3m to 12.7m. Applying this increase to Metro's 2008-09 operating pension costs of £2.3m would generate additional activity-related pension costs of less than £0.1m.

Efficiency variance: The rate and activity variances described above are equivalent to a cost increase of £0.2m, leaving an additional favourable efficiency variance of less than £0.1m within the overall increase in operating staff pension costs.

FUEL COSTS

Overall variance: Between 2008-09 and 2009-10, Metro's fuel costs rose by approximately £0.5m.

Rate variance: Metro's fuel cost per scheduled vehicle kilometre increased from 34.7p in 2008-09 to 38.0p in 2009-10, a rise of 10%. If an equivalent increase were applied to Metro's 2008-09 fuel costs of £4.3m, it would result in additional costs of £0.4m, before examining any changes in the quantity of fuel used.

Quantity variance: The remainder (£0.1m) of the overall variance in Metro's fuel costs is represented by an increase in the amount of fuel used, whether through changes in activity or efficiency levels.

Activity variance: DRD's KPI reports indicate Metro's scheduled vehicle kilometres rose by 2.7% between 2008-09 and 2009-10, from 12.3m to 12.7m. Applying this increase to Metro's 2008-09 fuel costs of £4.3m would lead to additional activity-related costs of £0.1m.

Efficiency variance: The rate and activity variances described above are equivalent to a cost increase of £0.5m. This implies that Metro has experienced other adverse efficiencies of less than £0.1m, within its overall increase of £0.5m in fuel costs.

OTHER OPERATING COSTS

Overall variance: Between 2008-09 and 2009-10, Metro's other operating costs rose only marginally, by less than £0.1m.

Rate variance: The all-items RPI rose by 4.4% in the year ended 31 March 2010. If this rise were applied to Metro's 2008-09 other operating costs of £3.7m, it would result in additional costs of £0.2m, before any changes in the quantity of goods and services used.

Quantity variance: The remainder (almost £0.2m) of the overall variance in Metro other operating costs is represented by a decrease in the quantity of other goods and services used.

Activity variance: DRD's KPI reports indicate Metro's scheduled vehicle kilometres rose by 2.7% between 2008-09 and 2009-10, from 12.3m to 12.7m. Applying this increase to the company's 2008-09 other operating costs of £3.7m produces additional activity-related costs of £0.1m.

Efficiency variance: The rate and activity variances described above are equivalent to a cost increase of £0.3m. This implies that Metro has been able to generate efficiencies of broadly the same magnitude, within its overall decrease of less than £0.1m in other operating costs.

Metro Overhead Costs

STAFF COSTS (EXCLUDING PENSIONS)

Overall variance: Between 2008-09 and 2009-10, Metro's overhead staff costs reduced by less than £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 Metro's 2008-09 overhead staff costs of £1.2m, it would result in additional costs of less than £0.1m, before the impact of any changes in the quantity of labour used.

Quantity variance: The remainder of the overall variance in Metro 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: Between 2008-09 and 2009-10, Metro's overhead pension costs increased by less than £0.1m (around £7,000).

Rate variance: Information provided by Translink indicates that employer's pension contributions for bus overhead staff rose from 12.91% of salaries in 2008-09 to 13.78% of salaries in 2009-10. If this rise were applied to Metro's 2008-09 overhead pension costs of £0.1m, it would result in additional costs of £10,000, before examining any changes in the quantity of labour used.

Quantity variance: The remainder (£3,000) of the overall variance in Metro overhead 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: Between 2008-09 and 2009-10, Metro's other overhead costs decreased by £0.1m.

Rate variance: The all-items RPI rose by 4.4% in the year ended 31 March 2010. If this rise were applied to Metro's 2008-09 other overhead costs of £2.3m, it would result in additional costs of £0.1m, excluding the impact of any changes in the quantity of goods and services used.

Quantity variance: The remainder (£0.2m) of the overall variance in Metro's other overhead costs is represented by an decrease 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 Metro Costs

Table A2.6 below summarises our analysis of changes in Metro's cost base between 2008-09 and 2009-10, including the impacts of changing wage rates and prices paid for fuel, as well as the increase in Metro's activity over the period examined:

Table A2.6:
Summary of Changes in Metro Cost Base in 2009-10

	£'000
(Increase)/Decrease in wage rates and fuel prices	(1,003)
(Increase)/Decrease in activity	(843)
Subtotal	**(1,846)**
Efficiency savings	**772**
Overall (Increase)/Decrease in costs	**(1,074)**

Source: FGS McClure Watters

Metro's cost base increased by £1.1m between 2008-09 and 2009-10. Within this overall rise, we estimate that, after adjusting for changing market wage rates, fuel prices and activity levels, Metro was able to generate efficiency savings in the region of £0.8m in 2009-10. This compares with an estimated £2.4m of potential efficiency savings identified in 2008-09 as part of our benchmarking work.

However, our 2008-09 savings estimate has been reduced by £1.2m to reflect a higher level of employer pension costs persisting in Metro. Translink identified pension costs as a mitigating consideration but did not quantify the potential savings from changes to employer pension contributions. The adjustment we have made should therefore be viewed as purely indicative.