

A supplementary note on public expenditure, costs and profitability

1. Revised figures issued by the Department of Transport show that revenue support through local authorities was marginally lower than originally stated (due entirely to revisions in the Scottish figures), at 1987/8 prices now shown as £353 million in 1985/6 (previously £354 million) and £213 million for 1987/8 (previously £218 million). They amend the top line of table 4. The effect on conclusions drawn in the paper is negligible.

2. Total revenue figures for 1987/8 have still not yet appeared. However, provisional estimates can be made by reference to patronage and fare index trends. Estimates for total operating cost have also been made using data in Statistics Bulletin (88)54, to show the difference thus observed. Results are shown below. They exclude operations in London, and fuel tax rebate.

£ million	Year				
REVENUE	1985/6	(@ 87/8)	1986/7	(@ 87/8)	1987/8
From users :					
Met PTCs	396		407		
Muni PTCs	212		210		
NBC cos	539		538		
SBG	122		121		
Independents	79		95		
Total	1348	1467(a)	1371	1443(b)	1414 (c)
Payments from local auths.	325	353	274	289	213
Concessionary fare comp'n.	212	231	218	229	242
Rural grant	-	-	17	18	17
TOTAL INCOME		2051		1954	1886
Total operating cost (d)		1803		1692	1598
Difference		248		287	288

Notes

(a) Conversion from 1985/86 to 1987/8 prices by GDP deflator ratio (110.0/101.1 = 1.088)

(b) Conversion from 1986/87 to 1987/8 prices by GDP deflator ratio (110.0/104.5 = 1.052)

(c) An approximate estimate, based on a 2% fall on the 1986/7 figures at 1987/8 prices (i.e. total trips fell by 2.4%, the money fares index rising from 105.3 to 109.5, and RPI from 104.4 to 108.6)

(d) Based on total vehicle-km operated outside London (table 1.1 of Statistics Bulletin (88) 54) multiplied by £1.0 per km in 1985/6 (at 1987/8 prices). £0.9 per km (ditto) in 1986/7, and £0.78 per km in 1987/8 (the last being derived from the 22% drop between 1985/6 and 1987/8 in real terms, shown in column I

Revenue figures for 1985/6 were derived from 'Transport Statistics Great Britain 1976-1986' table 2.34 (c), and for 1986/7 from Statistics Bulletin (88) 29, table 2.34(c).

The local authority expenditure, concessionary fares compensation and rural grant are taken from Statistics Bulletin (88) 54.

3. The 'difference' does not represent a profit as such. It is required firstly to meet depreciation and leasing charges not covered in the operating cost definition. These are of the same order (see our other paper at this conference). In addition, it would also have to meet dividends on capital other than fixed interest charges.

The total operating cost figure in particular is highly approximate, especially as regards the independents. If, for example, the 87/88 figure were 25% below that (for the whole industry) in 85/86, total operating cost would fall to £1537 million in 1987/8, giving a difference of £324 million.

Actual profitability would also be affected by non-local bus activities (both in revenue and cost). This is particularly true for the independents.

4. Outside London, very few published accounts are available. However, it is known that the Scottish Bus Group, severely affected by competition, fell from a profit of £1.026 million in 1986, to a loss of £3.567 million in 1987, on a turnover in the latter year of £155 million (these figures are after income from grants and concessionary fares compensation, and historic cost depreciation) (Source Scottish Transport Group Annual Report 1987, page 39).

5. The extent to which financial performance of the industry was improved by real fare increases, mainly in the PTEs, may also be considered. Given the real increase of 28% in fares in the metropolitan counties (cell L2 of the spreadsheet), the expected passenger fall, had service levels been unchanged, would have been about 11% (i.e. 3% trend decline over two years, and a -0.3 elasticity applied to the real increase). A net revenue growth of about 13% would thus have been expected. On a base of £396 million revenue in 1985/6 (see table above), an extra £45 million revenue would have been produced (about half the net reduction in public spending in the metropolitan counties).

6. Since the paper was written, the National Audit Office (NAO) has produced a report on the effect on the fuel duty rebate*. This contains some useful diagrams showing components of total income for local bus service operators (including grants, etc) which are reproduced in this note, and as colour slides in presentation. However, they also include London and are thus not directly consistent with data as shown in the paper.

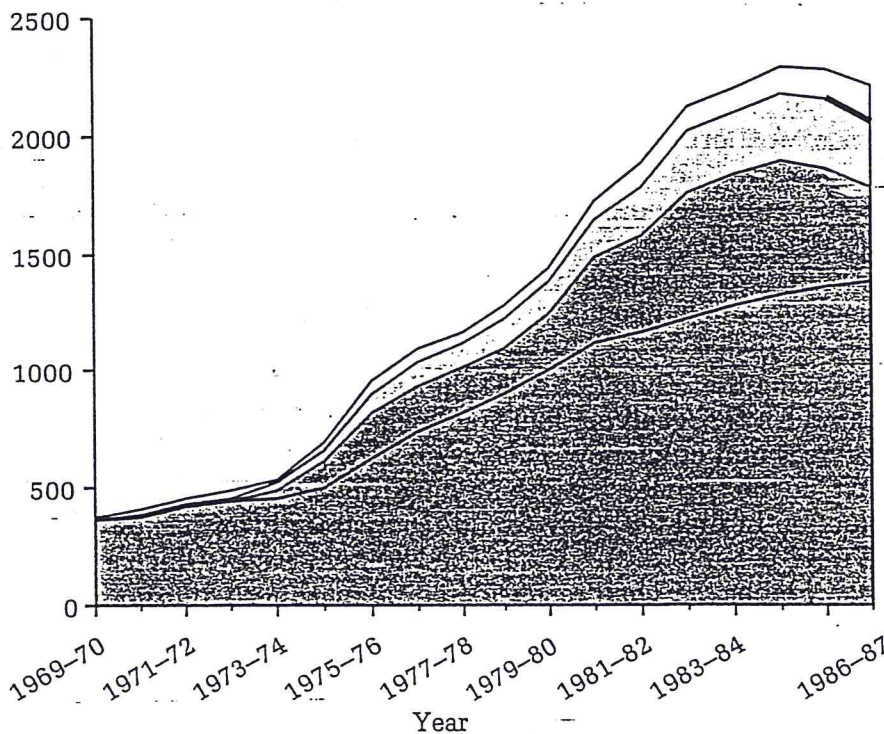
* National Audit Office "Department of Transport : Bus Fuel Grants". HMSO, London, February 1989

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Figure 3

Local services income: 1969-70 to 1986-7

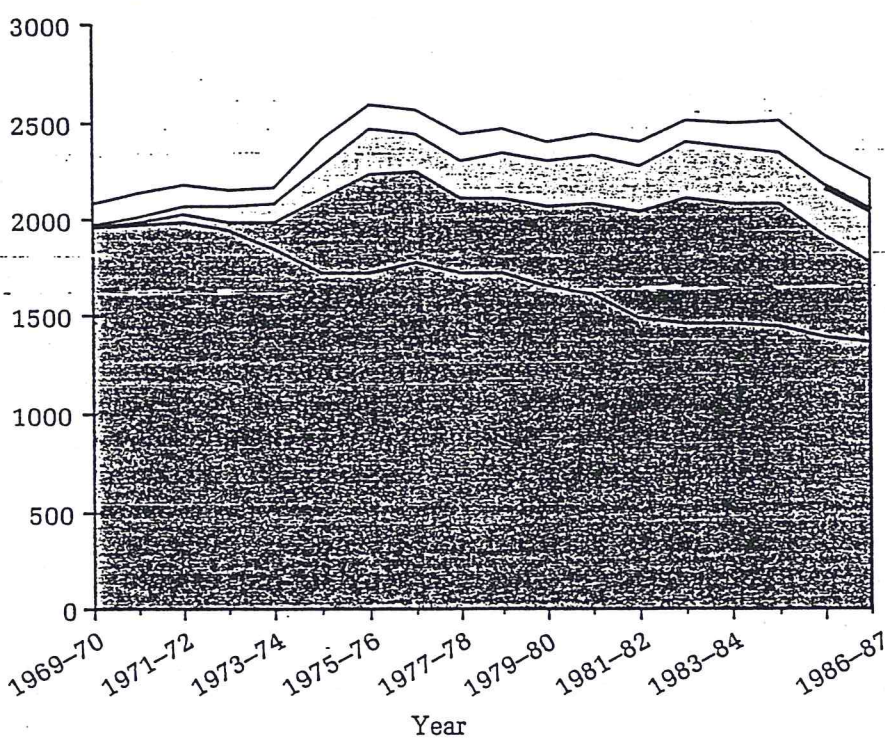
(a) £ million in money terms



- Bus fuel grants
- Rural bus grants
- Concessionary fares
- ▨ Revenue support
- ▩ Farebox income

Revenue support includes
London Regional
Transport/London Buses
Limited depreciation and
renewal

(b) £ million in real terms



- Bus fuel grants
- Rural bus grants
- Concessionary fares
- ▨ Revenue support
- ▩ Farebox income

Revenue support includes
London Regional
Transport/London Buses
Limited depreciation and
renewal

Adjusted for general inflation to 1986-87 prices, using the Retail Price Index

Source: Department of Transport