

News Update - The Profits from running buses: A tale of two cities

Welcome to the Tyne and Wear Passenger Transport Users Group "News Update" focusing on the Bus Quality Contracts debate

If you want to comment on any of the issues we raise – or are interested in becoming an active member of Tyne and Wear Passenger Transport Users Group and want to campaign on behalf of passengers – please contact us at twptug@phonecoop.coop or by using the 'Contact Us' form on our website <http://www.twptug.org.uk>

We'll keep on commenting about the issues until the Integrated Transport Authority makes a decision to go forward with a Quality Contract. If they did decide to abandon the idea of a Quality Contract and try to negotiate a Voluntary Partnership we'll be watching them closely to ensure that any deal provides real benefits for passengers and isn't just a form of 'business as usual' for the operators.

Once the Integrated Transport Authority make a decision we'll turn our attention to looking at how the voice of passengers will be heard in the future.

Why is it much more profitable to run buses in Tyne and Wear than it is in London?

At present bus operators in Tyne and Wear take about £100m each year from the fares that they charge us. In addition they receive about £62m in public money from a range of sources. From this £162m turnover they take about £20m in profit. At a time when even Government Ministers appear to be questioning the excessive profits made by some of the energy suppliers, we want to draw attention to the scale of the profits made by our local bus operators, and to ask if we can afford this level of generosity at a time of cuts.

In the last full year, ending April 2013, Stagecoach reported an operating margin⁽¹⁾ for their regional, de-regulated, operations of 17.1%. That is to say they made £165m in operating profit on revenue of £966.7m. Stagecoach don't publish details for each of their subsidiaries but TAS, the respected consultancy on bus issues, suggest that Tyne and Wear is one of Stagecoach's most profitable operating areas. NEXUS estimate the operating margin for Stagecoach in Tyne and Wear as being in excess of 23%.

Compare this operating margin with the situation in regulated London, the only area in England not to have been de-regulated. In London Stagecoach report an operating margin of 9.4% and say that they have "*achieved the profit margin aspirations we set when we acquired the UK Bus (London) business in October 2010. We now aim to maintain a mid to upper single digit operating margin*".

We simply ask how Stagecoach can justify such a difference in operating margins between two urban areas, especially when we compare their situation with other operators.

GoAhead, in their 2013 Annual Report, quote a margin of 11.2% in their de-regulated bus operations and 9.5% in their regulated bus operations.

It is clear to us that, as Stagecoach tell us, bus operators can, and will, provide services on “mid to upper single digit” operating margins. It is equally clear that the current de-regulated bus market in Tyne and Wear allows some operators to considerably exceed this necessary level of profitability.

*(1) An **operating margin** is, says the Stagecoach Annual Report, the operating profit as a percentage of revenue. An **operating profit**, says the same source, is the profit before net finance income/charges, taxation, intangible asset expenses, exceptional items and restructuring costs.*