Recovery revenue scenario

Introduction

DfT has set out that as we emerge from the current lockdown we will move towards recovery partnerships which will last for around one year. This period of time is to stabilise the network and to allow for more permanent market structure to be developed.

DfT will make recovery funding available for this period, although the quantity of this is not yet known.

This briefing explores the level of funding that may be required to support networks at pre-Covid levels.

All figures presented are for the metropolitan areas. This decision has been made due to the data that is available from DfT on operating costs and revenue.

Patronage assumptions

To calculate what levels of support may be required we need to understand how revenue, generated in the form of patronage, is likely to recover.

Whilst it is not possible to understand exactly how patronage will recover, we have based our assumptions on the scenarios work of the UTG members. Each member has been tracking patronage during the pandemic and have undertaken research to understand what the recovery might look like. Although some of the recovery will be led by the virus (in terms of possible restrictions and future lockdowns), this provides us with behavioural insight to base our assumptions.

How might patronage recover?

Below we set out our assumptions for how patronage will recover during the recovery funding phase.

All figures are presented as a percentage of normal patronage, which is calculated using pre-pandemic levels. This is broken down by different sectors, showing our assumptions for how these sectors will recover as well as the total patronage as a percentage of normal.

Table1. Patronage recovery as a percentage of “normal” patronage

Month	1	2	3	4	5	6	7	8	9	10	11	12
Work, business and commuting	65	65	70	70	70	75	75	75	75	80	80	80
Education	75	75	75	80	80	80	80	80	85	85	85	85
shopping and personal business	60	60	65	65	65	65	70	70	70	75	75	80
Leisure	55	55	55	60	60	60	65	70	70	75	75	80
Patronage as a percentage of normal	63%	63%	66%	68%	68%	69%	72%	73%	74%	78%	78%	81%

What does this mean for revenue?

Once you have made assumptions of how patronage may return, it is possible to undertake high level cost/revenue calculations.

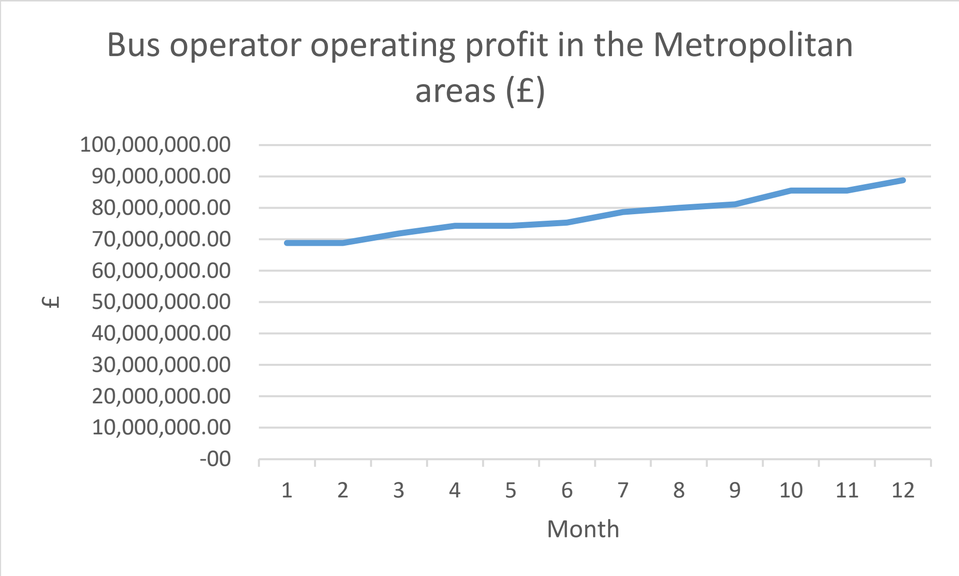
We have assumed that networks will maintain 100% of service miles from before the pandemic. This means that we can assume that operating costs will remain at pre-pandemic levels. Whilst in reality it is likely that there will be some variation (either through increased costs or savings through improved efficiency), this provides us with a good indication of where costs are likely to be.

In terms of revenue. We have assumed that average fares will remain the same as the pre-pandemic level. This means that we can work out revenue using the number of trips that are forecast to be made and multiplying them by the average fare. We also have information on the previous operating revenues of bus companies in the metropolitan areas. This means that we can understand how much support would be required to match the operating costs (operationally break even), to return finances to previous levels, and to deliver a specified level of profit to operators.

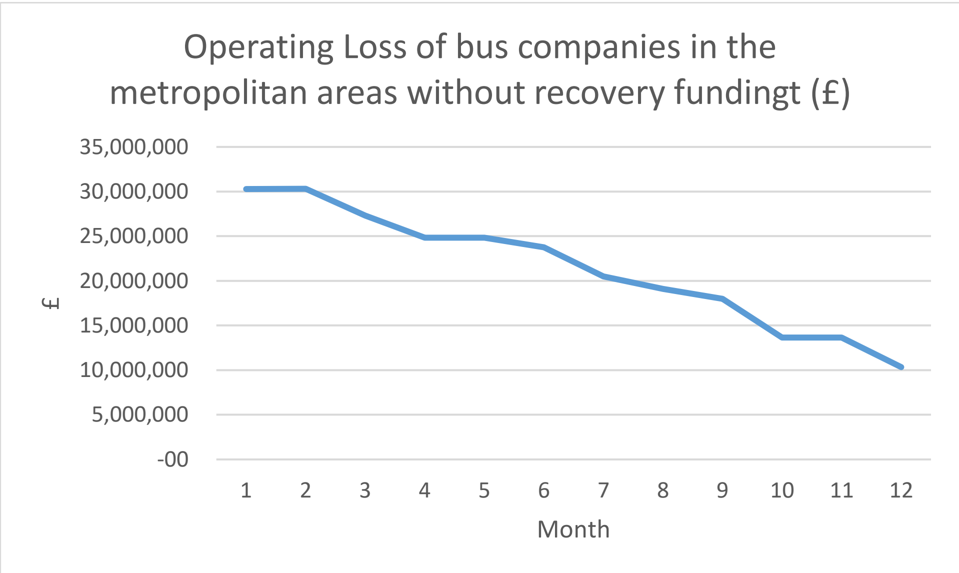
Month	1	2	3	4	5	6
Percentage of normal patronage	63%	63%	66%	68%	68%	69%
Operating Cost (£)	99,100,000	99,140,366	99,140,366	99,140,366	99,140,366.	99,140,366

Forecast revenue (£)	68,825,978	68,825,978	71,815,202	74,305,708	74,305,708	75,363,059
Operating Loss (£)	30,274,021	30,314,388	27,325,164	24,834,658	24,834,658	23,777,306
Funding gap to 5% profit	-35,229,021	-35,271,406	-32,282,182	-29,791,676	-29,791,676	-28,734,325
Funding gap to previous profit level(£)	-40,892,894	-40,892,894	-37,903,670	-35,413,165	-35,413,165	-34,355,813
Month	**7**	**8**	**9**	**10**	**11**	**12**
Percentage of normal patronage	72%	73%	74%	78%	78%	81%
Operating Cost (£)	99,100,000	99,140,366	99,140,366	99,140,366	99,140,366.	99,140,366
Forecast revenue (£)	78,659,843	80,024,754	81,150,348	85,504,483	85,504,483	88,801,267
Operating Loss (£)	20,480,523	19,115,612	17,990,017	13,635,882	13,635,882	10,339,099
Funding gap to 5% profit	-28,734,325	-25,437,541	-24,072,630	-22,947,036	-18,592,901	-18,592,901
Funding gap to previous profit level(£)	-31,059,029	-29,694,118	-28,568,524	-24,214,389	-24,214,389	-20,917,605

The graph below shows how we predict that revenue could return over the 12 month period.

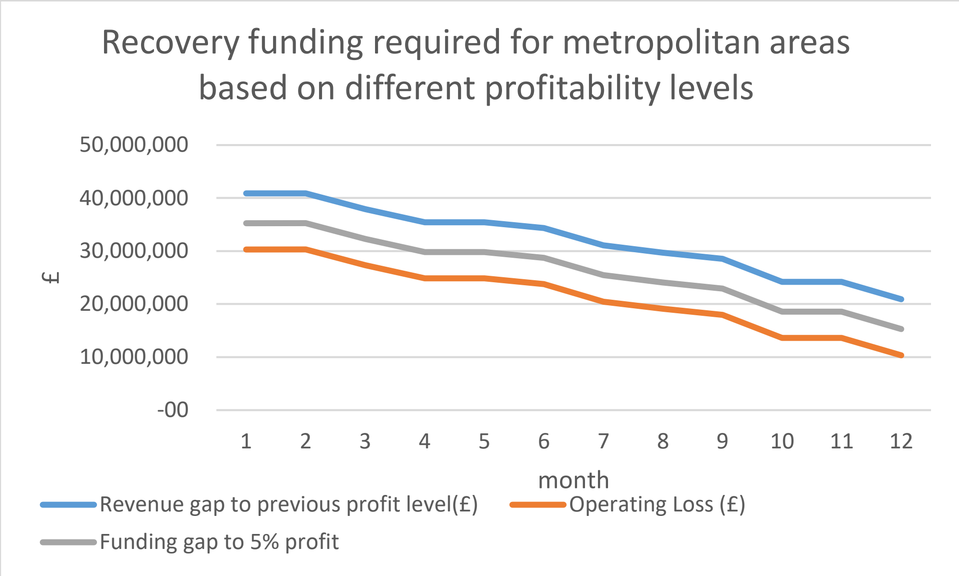


Assuming an operating cost of £99 million per month, the graph below shows the operating loss that operators would face in metropolitan areas over the year of the recovery partnerships



Whilst the loss comes down considerably over the year, a gap still remains in 12 months time. This would mean that we would need the following amount of funding each month to allow operators to be operating at neutral costs. This suggests that we would require around £257 million for operators in the metropolitan areas.

However, Dft has stated that they would like operators to make a profit during this period. The below graph shows the funding required to allow operators to break even, to make a 5% profit, and to return them to previous profit levels



This shows that over the 12 months, the Metropolitan areas would need the following funding levels for the different scenarios:

- Operationally neutral - £256 million
- 5% operator profit - £316 million
- Return to normal profit - £383 million