

## Financial performance of Sovereign

### Blazefield

1. Sovereign is 100 per cent owned by Blazefield, a privately-owned company based in Harrogate. Blazefield also owns a number of companies which operate bus services in Yorkshire and Lancashire. Its bus operations are summarized in Table 1.

TABLE 1 **Blazefield's bus operations by subsidiary**

<i>Yorkshire</i>	
Harrogate & District Travel Ltd	Services in and around Harrogate, Ripon and Knaresborough in North Yorkshire and Wetherby in West Yorkshire. Depot is in Harrogate.
Keighley & District Travel Ltd	Services in and around Keighley in West Yorkshire. Depot is in Keighley.
Yorkshire Coastliner Ltd	From a depot in Malton, the company operates services between Leeds, Tadcaster, York, Malton and the east coast resorts of Bridlington, Scarborough and Whitby.
<i>Lancashire</i>	
Burnley & Pendle Travel Ltd	Services in and around Burnley, Colne and Nelson. Depot is in Burnley. Inter-urban services to Manchester.
Lancashire United Ltd	From a depot in Blackburn operates inter-urban services to Accrington, Bolton, Clitheroe, Manchester and Preston.
<i>Hertfordshire</i>	
Sovereign Bus & Coach Co Ltd	From depots in Stevenage and Hatfield services in and around Stevenage, Hatfield and Welwyn Garden City, together with inter-urban services to Hitchin, St Albans, Hemel Hempstead and London.

Source: Sovereign.

2. A further subsidiary, Bus & Coach Claims Investigations Ltd, handles third party claims and pursues uninsured loss recoveries on behalf of Blazefield's subsidiaries and also acts on these matters for a number of other bus, coach and general vehicle operators and insurers directly. It receives fees for this work.
3. In the year to 31 December 2003, Blazefield generated profits before taxation of £1.5 million on turnover of £38.7 million (of which £3.9 million was discontinued).<sup>1</sup> Net assets as at 31 December 2003 were £9.8 million.

### Sovereign

4. Sovereign operates commercial and contracted local bus services within the county of Hertfordshire (primarily central Hertfordshire) from leased depots in Stevenage and Hatfield.
5. Its commercial services comprise one town service in Stevenage, two local services in each of Welwyn Garden City and Hatfield, and one inter-urban service linking Hitchin, Stevenage, Welwyn Garden City, Hatfield, St Albans and Hemel Hempstead (branded as the 'Centraline' service). It also runs the 797 Green Line express coach service linking Stevenage and Hatfield to central London.
6. Its contracted services comprise 11 bus services on behalf of HCC.

<sup>1</sup>Source: Blazefield published accounts.

7. Tables 2 and 3 show all Sovereign's commercial and tendered services together with route description and (in the case of tendered services) the times at which they operate.

TABLE 2 **Sovereign's commercial routes**

<i>Service</i>	<i>Route description</i>	<i>Time of day operated</i>
SB1	Stevenage Town Centre	Monday to Saturday, daytime only
300/301	Hitchin/Stevenage–Hemel Hempstead	Seven days a week, daytime only
401	Welwyn Garden City local service	Monday to Saturday, daytime only
403	Welwyn Garden City local service	Monday to Saturday, daytime only
405/406	Hatfield local service and Hatfield–Welwyn Garden City	Monday to Saturday, daytime only
797	Stevenage–central London via Hatfield	Seven days a week

Source: Sovereign.

TABLE 3 **Sovereign's tendered routes**

<i>Service</i>	<i>Route description</i>	<i>Time of day operated</i>
SB8/SB9	Stevenage local service	Evenings; Mon–Sat*
101	Luton and Hitchin–Stevenage	Evenings; Sundays
301	St Albans–Stevenage	Evenings; Sundays
215	Welwyn school/local service	Peak times school days; weekdays off-peak
315	Welwyn Garden City local service	Peak times; weekdays
340	Hemel Hempstead–Welwyn Garden City	Sundays
384	Stevenage–Hertford	All day; Mon–Sat
600	Hatfield business park shuttle	All day; weekdays
608/609	Hatfield local service	All day; Mon–Sat
854/5/6	Stevenage school service	Peak times; school days only
889	Stevenage–Buntingford school service	Peak times; school days only

Source: Sovereign.

\*Arriva operates this service on Sundays.

8. Sovereign has also recently won two tenders to operate contracted services for HCC in St Albans: service 601 operates at peak times only on school days and service 804 runs all day on school days. Both services started in the first week of September 2004 and run from the Hatfield depot, requiring three buses in total. In order to accommodate these three new buses, three buses on other routes have been moved to operate from the Stevenage depot. These new services are not included in the 2004 figures.

9. Sovereign also manages Stevenage bus station under licence from its owner, Stevenage Borough Council (see paragraphs 24 and 25).

10. Staff numbers for the two depots, totalling 131 employees, are shown in Table 4.

TABLE 4 **Staff numbers at the Stevenage and Hatfield depots**

	<i>Stevenage</i>	<i>Hatfield</i>	<i>Total</i>
Drivers	76	40	116
Engineers	6	2	8
Supervisory/management	6	1	7
Total	88	43	131

Source: Sovereign.

11. Since 1989, Sovereign has had to operate from a series of short-term depot sites in the Hatfield area as the opportunity to acquire a freehold or secure a long leasehold

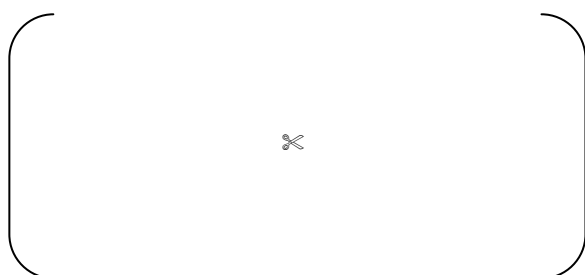
site has never been available. This has been due to the lack of sites suitably located and at acceptable cost, and with the necessary planning consents available. Prior to moving on to the current Hatfield site, Sovereign has occupied sites at Codicote, North Mimms, Welwyn Garden City, and the former British Aerospace site in Hatfield.

12. Prior to the disposal of the St Albans depot in January 2004, three of the buses used on routes 300/301 (the Centraline Hemel Hempstead to Stevenage and Hitchin route) had been based at St Albans. These buses were transferred to Sovereign's remaining depots at Stevenage and Hatfield, which already provided buses for the routes. The PVR on these routes is 18.

### Vehicle rental recharges

13. Blazefield provides Sovereign with buses for use on its routes: Sovereign does not lease or own any vehicles on its own account. Maintenance costs are borne by Sovereign but the residual value risk lies with Blazefield. Vehicles are not provided to Sovereign on a formal or fixed-term contract, although if a vehicle is provided for a contract with HCC (of a specific age/type) then the vehicle will stay with Sovereign for at least the life of the contract.
14. Vehicle recharges are made on the basis of recovering the depreciation charge, interest and central overheads. Central overheads are not recharged to Sovereign in any other way. The charge is made up of two elements: [✂].

TABLE 5 Rental charge calculation



Source: Sovereign.

### Sovereign financial performance

15. Table 6 shows Sovereign's financial performance for the three periods to 31 December 2004.<sup>2</sup> The period to 31 December 2002 was a 14-month period and the two periods to 31 December 2004 were 12-month periods.
16. In respect of the 2004 figures, those for the St Albans operations were prepared separately (as at the time of the preparation of the 2004 budget the sale of these operations had not completed) and this led to a budget showing the split between the Stevenage and Hatfield operations. The 2004 figures in Table 6 are made up of actual figures for the first eight months of the year and forecast<sup>3</sup> figures to the year end, excluding the St Albans operations. Revenue and EBITDA figures are approximately 4 and 8 per cent ahead of budget respectively, although higher than budgeted

<sup>2</sup>Management accounts for periods prior to 31 December 2002 have not been retained.

<sup>3</sup>A forecast is a budget updated to take account of actual results during the budget period.

vehicle rental and plant depreciation costs result in a lower than budgeted forecast profit before tax.

TABLE 6 Sovereign's financial performance, 2002 to 2004\*

£'000

	2002	2003	2004†
<i>Revenue</i>			
On bus			
Off bus:			
Scholars			
Concessions‡			
Tenders			
Other			
Other			
Total revenue			
<i>Costs</i>			
Driving			
Direct:			
Labour			
Fuel			
Fuel duty rebate			
Tyres			
Third party risk			
Licences			
Publicity			
Other			
Engineering:			
Labour			
Non-labour			
Overheads:			
Labour			
Rent and rates			
Maintenance			
Power			
Communication			
Prof fees			
Insurance			
Inter-company			
Other			
Total costs			
EBITDA			
Vehicle rental			
Depreciation on plant			
Profit/loss before tax			
EBITDA % of revenue			

Source: Sovereign.

\*In the two periods to 31 December 2003, the Huntingdon operations were able to be excluded from the retained operations of Sovereign as separate management accounts were held for operations from this depot. However, separate management accounts were never produced for the other depots. Therefore the 2002 and 2003 financials include the results of operations from the St Albans depot.

†Eight months actual, four months management estimate.

‡Sovereign does not have its own concessionary fare scheme, but does participate in HCC's scheme. Sovereign told us that students on its buses paid a £1 fare but it did not consider this to be a concessionary scheme. The fare revenue from students is included in on-bus revenue.

17. Between 2002 and 2003 there was a modest decline in revenue (after taking into account the 14-month period for 2002 and the 12-month period for 2003). Between 2003 and 2004 revenue declined by 27.6 per cent which was due to the sale of the St Albans operations in January 2004.

18. Costs decreased relatively more than revenue between 2002 and 2004, resulting in increased EBITDA margins, though still less than the target EBITDA margin of [X] per cent set by Blazefield as a key performance indicator. Direct labour and engineering costs decreased greatly, relative to revenue decreases.

19. As Table 7 shows, in each of these three periods the split between the different revenue streams remained largely the same.

TABLE 7 Split of revenue, 2002 to 2004

		2002	2003	per cent 2004
On-bus	Scholars Concessions Tenders Other	}	✂	}
Off-bus:				
Other				
Total revenue				

Source: Sovereign.

20. Sovereign told us that in April 2003 it undertook a very large service revision which resulted in route simplification, the change of routing and of route numbers. The principal reason for this stemmed from the fact that travel patterns were beginning to change in the Welwyn Garden City, Hatfield and St Albans area because the University of Hertfordshire was about to open a new campus in Hatfield (September 2003) and also because of the large development of the former British Aerospace site, in Hatfield, where both commercial and housing developments were under way and continue to take place. For this reason, meaningful comparisons with earlier years are difficult.
21. Table 8 shows the detailed revenue and costing analysis, by route, based on the 2004 budget. The total revenue figure differs slightly to that in Table 6 as Table 6 shows forecast, not budgeted, figures. Although the forecast figures are available for 2004 by route, detailed costings are not, so for internal consistency Tables 8, 9 and 10 show detailed budgeted revenue and costings by route.
22. Based on the 2004 budgeted figures, just over [X] per cent of total revenues (almost £[X] million) are generated by route [X] and over three-quarters of revenue is generated by commercial services. The next two main commercial routes in terms of revenue are the [X] and the [X]. The [X] service is the only route to generate season ticket income.
23. Tendered services generate 21 per cent of revenues with no single tendered service generating more than £190,000 turnover.
24. Non-bus-route-specific revenue is made up of £11,000 advertising revenue (from advertisements on buses) although this has ceased following a management decision following preparation of the budget, and £24,000 of departure charges relating to the management of Stevenage bus station.
25. Sovereign told us that there were no additional staffing requirements relating to the management of Stevenage bus station: the only work involved was processing the invoices to each of the bus operators. The only costs incurred by Sovereign relating to Stevenage bus station are the business rates. Table 9 shows Sovereign's 2004 budgeted costs and profitability by route.
26. Thirteen routes generate positive EBITDA for Sovereign. However, three routes (one commercial—the [X]) and two tendered—the [X] and the [X]) generate a negative EBITDA. After vehicle rental costs (see paragraphs 13 and 14) a further four routes are loss making.

TABLE 8 Sovereign's 2004 budgeted revenues by route

Route	Comm/ tend	Revenue (£'000)								Total revenue £'000	% total rev	% for type of service
		On bus	Scholars	HCC conc OAP	HCC conc Child	HCC conc Other	Tenders	Season tickets	Adv			
SB1	C	)										)
300/301	C											
401	C											
403	C											
405/406	C											
797	C											
SB8 & 9	T											
101/301	T											
215	T											
315	T							✂				
340	T											
384	T											
600	T											
608/609	T											
854/5/6	T											
889	T											
Misc												
Totals												

Source: Sovereign.

TABLE 9 Sovereign's 2004 budgeted costs and expected profitability by route

Route	Comm/ tend	Costs (£)								EBITDA £	EBITDA % revenue	Vehicle rental £	Profit £	
		Drivers	Direct labour	Fuel	Tyres	Vehicle insurance	Other direct	Vehicle maintenance	O/H					
SB1	C	)											)	
300/301	C													
401	C													
403	C													
405/406	C													
797	C													
SB8 & 9	T													
101/301	T													
215	T													
315	T													
340	T													
384	T													
600	T													
608/609	T													
854/5/6	T													
889	T													
Misc														
Totals														
Plant depreciation														
Profit before tax														

Source: Sovereign.

27. Five out of the 16 routes operated by Sovereign (six commercial and ten tendered) are performing to the target [%] per cent EBITDA/revenue measure set by the Blazefield group. Of the commercial services, only the [%] service [%] contributes towards [%] per cent of EBITDA. Of the tendered routes, five ([%]) contribute towards 17 per cent of EBITDA. However, three of these tendered routes do not require additional vehicles (because of the time of day at which they are operated), so no overheads have been allocated.<sup>4</sup> If overheads were allocated across the routes by numbers of bus used, the percentage EBITDA/revenue margins would be near zero for the first two routes and –8 per cent for the [%].
28. After full apportionment of costs the under-performing routes are as follows, shown by the losses after vehicle rental costs in Table 9:
- (a) Commercial: routes [%] and [%].
- (b) Tendered: routes [%].
29. In respect of the commercial services, Sovereign told us that it would withdraw route [%] shortly. Route [%] still contributed to overheads (positive EBITDA) and Sovereign stated that it would be closely monitored.
30. The figures in Table 9 also show that a high proportion of Sovereign's total costs are variable (89 per cent).
31. Table 10 shows analysis of Sovereign's costs and profitability by route.
32. The 300/301 service is budgeted to run nearly 1 million miles this year and is Sovereign's biggest route by service miles. The next biggest routes, the Stevenage SB1 and Green Line 797 routes, are each budgeted to run over 0.25 million miles in 2004.
33. Revenue per driver hour averages roughly £30 across all routes with a notable exception (£74 an hour) being a tendered route, the [%]; however, it is a relatively insignificant route for Sovereign and a poor performer (see paragraph 26). Blazefield's target revenue per hour is £[%] for a service operating all day and £[%] for a peak-time-only vehicle.
34. Revenue per mile averages £2.23 across all routes, with the same tendered route, the 854/5/6, generating £10.35. On average, revenue per hour and revenue per mile are approximately 20 per cent higher for tendered than commercial services. Sovereign stated that the [%] route had always been a well-performing route, and that route [%] had grown exceptionally well in the last two years, mainly due to [%].
35. Revenue per PVR tells a different story, however: it averages over £100,000 across all routes and over £109,000 for commercial routes, but less than half this amount for tendered routes at £48,810.<sup>5</sup> This implies that Sovereign makes more use of its buses on commercial services than its tendered services, which is to be expected because the nature of tendered services is such that vehicles are used for fewer hours such as at school-run times, weekends and evenings, rather than throughout the whole day. Blazefield's target revenue per PVR is £[%] for a vehicle being used all day, and £[%] to £[%] for a vehicle being used only on a school contract.

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<sup>4</sup>Sovereign told us that overheads were directly apportioned by the number of buses required on each route (PVR).

<sup>5</sup>The average by type of service on the right-hand side of Table 7 takes into account the eight buses used to run the tendered services, even though they are not additional buses required by Sovereign on top of its existing fleet (ie they are just buses taken off other routes).

TABLE 10 Analysis of Sovereign's costs and profitability by route

Route	Comm/ tend	PVR	Hours	Service miles	Revenue			Average for type of service			
					Rev/hr	Rev/mile	Rev/PVR	Rev/hr	Rev/mile	Rev/PVR	
SB1	C	6	)								
300/301	C	18									
401	C	1									
403	C	2									
405/406	C	3									
797	C	5									
SB8 & 9	T	eve = 2									
101/301	T	eve = 3									
215	T	1									✂
315	T	1									
340	T	Sun = 3									
384	T	2									
600	T	2									
608/609	T	2									
854/5/6	T	3									
889	T	2									
Totals		48									)
								(	Commercial	)	
								(	Tendered	)	

Source: Sovereign.

## **Other inter-company transactions**

36. Blazefield carries out the accounting and wage function on behalf of Sovereign and recharges the cost of the one accounts clerk required to carry out this function (£15,000 in 2004).
37. There is also a recharge from Bus & Coach Claims Investigations Ltd (see paragraph 2) in respect of accident claims handling, settling and investigations (approximately £17,000 in 2004).

## **Grants from HCC**

38. Sovereign has received grants from HCC for the following:
  - (a) £50,000 in 2002 towards the capital cost of buses on the SB1 route, on the condition that these buses remain on the route for five years; and
  - (b) an amount (less than £10,000) for the reseating and fitting of CCTV cameras on three Dennis Javelin vehicles required to be used on the schools contract 889, which finishes in July 2005.