



Consideration of proposal from the RPA to increase monthly and annual fares for 2015

Determination No. 6 - 2014

October 2014

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Executive summary

The National Transport Authority (the Authority) has the statutory obligation to secure the provision of light railway passenger services in the Greater Dublin Area. On 29th September 2014 the Authority co-signed with the Railway Procurement Agency (RPA) a five year contract with Transdev Dublin Light Rail Limited to operate the Luas services. The Authority has assigned aspects of its statutory function to the RPA, however, Luas fares and their alteration are determined by the Authority.

In recent years the Luas system has been faced with increased operating costs due to the opening of three new extensions to the Luas network since 2009. While passenger volumes have increased they have not improved to the extent that these additional costs can be met by increased ticket revenue. It is expected that Luas services will return to break-even or profitability in 2015 i.e. revenues will exceed the operating fees paid to Transdev, the contracted operator.

Currently the economy is experiencing a good level of growth and predictions are that this will continue for the next year or more. This will contribute to growth in passenger numbers. The RPA has proposed a fares increase which would give a revenue yield of about 0.6% i.e. just above inflation to ensure Luas returns to profit in 2015.

The Authority is setting the fares for 2015 for bus, rail and light rail services by way of a number of Determinations, with this determination addressing the price of the Luas monthly and annual tickets. Increases to the annual tickets will be permissible from 1st November 2014 and increases to the monthly tickets will be permissible from 1st December 2014. The determination of other Luas fares such as cash and Leap will be in Determination number 10.

Monthly and annual determinations:

Determination No. 5 - 2014 – CIÉ operators

Determination No. 6 - 2014 – Luas

Cash, Leap and other fares determinations:

Determination No. 7 -2014 – Dublin Bus

Determination No. 8 - 2014 – Bus Éireann

Determination No. 9 - 2014 – Irish Rail

Determination No. 10 - 2014 - Luas

In assessing this proposal the Authority took into consideration a number of factors including the current economic climate, the effect of the recession on the public's disposable income, that the Luas operations are being supported from a diminishing surplus and the need to maintain a sufficient level of service frequency. Also considered was that, currently, savings of between 31% - 52% in tax, PRSI and Universal Social Charge can be made on the approved prices for the annual and monthly tickets under the Tax saver scheme. Over 3,500 companies now purchase monthly and annual tickets for their employees under this scheme. Companies can also save up to 10.75% in PRSI.

This year the Authority is continuing the process of consolidating fares by moving towards a single monthly and single annual ticket for all Luas services, similar to that offered by Dublin Bus. The current 3 zones monthly and 3 zones annual tickets will be phased out over the next 2 years. To achieve this, Luas all zone fares will remain the same price as last year and there will be an increase in the 3 zone fares only.

The Authority has determined that the Irish Rail Short Hop Zone and Luas fare will drop in price so as to fall in line with the Irish Rail Short Hop Zone and Dublin Bus fare.

The Authority, in a drive to increase the number of young people using public transport, increased the child age on the Leap card from up to 16th birthday to up to 19th birthday. This enables young people, still in second level education, to avail of child fares where the Leap Card is in operation. In the coming weeks the Authority will introduce a second journey discount on Dublin Bus fares which will be introduced across all modes including Luas in early 2015. This second journey discount is designed to reduce the penalty on those customers who need to avail of a connecting service on any mode.

These innovations address problem fares and will incentivize increased use of public transport. However as would be expected they would have the effect of reducing the overall fare revenue to the operators. Therefore the Authority has looked at the fares for 2015 in the round, with the objectives of (i) meeting the assessed financial costs of maintaining Luas services (ii) increasing Leap card use to simplify fares payments, improve cross-mode use and also reduce bus journey times and (iii) funding the fares innovations. This means that the Authority may reduce fares from those increases requested and may increase some fares above those requested, all in order to provide a balanced increase across all users - some fares products have been under-priced relative to other products.

The approved fares permissible from 1st November 2014 are set out in the tables on pages 11 and 14 below.

1. Introduction

1.1 Background

The National Transport Authority (the Authority) has the statutory obligation to secure the provision of light railway passenger services in the Greater Dublin Area (section 48 of the Dublin Transport Authority Act 2008). In September 2014 the National Transport Authority (the Authority) and the Railway Procurement Agency (RPA) and Transdev Dublin Light Rail Limited signed a new Luas operation contract, under which Transdev runs the Luas services and also assumes responsibility for the maintenance of the Luas infrastructure and rolling stock through a number of novated maintenance contracts.

With passenger numbers growing on Luas services in recent times and modest fares increase over the past few years Luas is expected to at least break-even in 2015 and to return to profitability in 2016.

Determination of fares

The determination of fares for 2015 is being undertaken in two stages with this determination addressing the price of the monthly and annual tickets. Increases to the monthly and annual tickets can apply from 1st November 2014. The determination of increases to other Luas fares is in a separate report (Determination No. 10).

1.2 Factors influencing public transport demand and revenues

Public transport revenues for Luas come from three main sources: passenger fares, subsidy via the free travel grant from the Department of Social Protection, and relatively minor ancillary revenues (e.g. advertising). Passenger fares account for a substantial amount of revenue and are dependent on passenger numbers. These in turn depend on the demand for passenger services.

Demand for public transport services is strongly related to economic activity. Economic growth increases employment, immigration, disposable income and consumer spend, all of which lead to greater travel. Economic decline produces the opposite effect.

Passenger numbers on Luas have grown since 2010 following a fall-off in demand in late 2008 and 2009, however, there was a Red Line extension to the Docklands (Busáras to The Point) in December

2009, a Green Line extension to Cherrywood (Sandyford to Brides Glen) in October 2010 and a Red Line extension to Citywest (Belgard to Saggart) in July 2011. Given these extensions, the RPA had expected passenger numbers to have increased by considerably more than actually occurred which would have helped cover the additional operational costs associated with the new lines. This led to a loss in profitability but as passenger growth continues and modest fare increases are applied RPA expect Luas to return to breakeven in 2015.

1.3 *The need for fare increases*

Luas public transport fare increases have been deemed necessary in recent years to compensate for reduced patronage and the increased operating costs due to the opening of three new extensions to the Luas network since 2009. While passenger volumes have increased they have not improved to the extent that these additional costs can be met by increased ticket revenue. Ancillary revenues have also reduced over the past number of years. Cost reduction programmes have been put in place.

1.4 *National Payments Plan*

The National Payments Plan (NPP) is a three year plan managed by the Central Bank of Ireland. The plan is targeting savings of up to €1 billion per annum for the Irish economy through a doubling of electronic payments by 2015. These savings are intended to be achieved through a significant shift away from cash and paper payments to efficient electronic payment methods.

Public transport users span all sectors of society and as such can include people who will not readily migrate to electronic payment systems. However, recent experience with the introduction of the Authority's integrated ticketing Leap card system, has shown that significant numbers of people will use a cash replacement system that is convenient, well marketed and provides advantages, in particular price benefits.

There are significant benefits to reforming our payments system on public transport for both the public and the operators. The gains include cashless transactions, ease of use, discounting from cash fares, daily and weekly fare capping, quicker boarding, an improved public transport offer and with the Leap card, an integrated payments format.

Cash transactions involve additional costs for public transport operators. These come from the counting and collection of cash, the need for a logistical system involving security, transportation, insurance, cash depots, et cetera. Public transport operators have also been experiencing increases in the cost of the return of excess cash to banks and overall cash operating costs are high.

The Authority contributes to improvements in Ireland's payment systems' infrastructure through encouraging greater use of electronic payments that enhance both the efficiency and convenience of using public transport.

1.5 Economic outlook

It is evident that the economy is starting to grow again after 5 or 6 years of decline or modest growth. As can be seen in the table showing a number of the key economic indicators on page 8 the forecast of growth in the economy for this year are between 4% and 5% depending on the forecast used and indeed how recent the forecast was delivered. If this predicted level of growth in the economy comes to pass it will help all sectors of the economy but public transport operators, while they will expect to benefit from the growth in the economy, will take some time to recover the losses they have suffered in the past 5 or 6 years.

Despite these encouraging forecasts for growth we are aware that some European economies are not enjoying the same level of growth in their economies and if that remains the case this may have an effect on Ireland's economy as we are partly relying on a growth in exports to achieve the expected levels of growth. Slow growth in Europe will dampen the level of exports from Ireland and in turn dampen our growth prospects

As the table overleaf shows, the increase in the Consumer Price Index in 2013 and forecast for 2014 is very small. It should be noted that although the price of energy and fuels is reflected in changes in inflation, the Consumer Price Index is made up of a basket of weighted goods and services and so changes in the rate of inflation may not fully reflect the sometimes large and volatile swings that can occur in the cost of energy in Ireland, which is naturally a major cost component of a transport company.

| Key Economic Indicators (real annual % growth) | | | | | | | | | |
|--|------|------|------|------|------|------|-------|-------|-------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014f | 2015f | 2016f |
| Consumer Price Index (CPI) | | | | | | | | | |
| CSO | 4.1 | -4.5 | -1.0 | 2.6 | 1.7 | 0.5 | | | |
| Central Bank | | | | | | | 0.4 | 1.1 | n/a |
| ESRI | | | | | | | 0.3 | 1.0 | n/a |
| Department of Finance (HICP) | | | | | | | 0.5 | 1.0 | 1.4 |
| IMF (HICP) | | | | | | | 0.6 | 0.9 | 1.2 |
| Gross National Product (GNP) | | | | | | | | | |
| CSO | -1.8 | -9.1 | 0.5 | -0.9 | 1.9 | 3.2 | | | |
| Central Bank | | | | | | | 4.9 | 3.1 | n/a |
| ESRI | | | | | | | 4.9 | 5.2 | n/a |
| Department of Finance | | | | | | | 4.1 | 3.3 | 2.5 |
| Gross Domestic Product (GDP) | | | | | | | | | |
| CSO | -2.2 | -6.4 | -1.1 | 2.8 | -0.3 | 0.2 | | | |
| Central Bank | | | | | | | 4.5 | 3.4 | n/a |
| ESRI | | | | | | | 5.0 | 5.3 | n/a |
| Department of Finance | | | | | | | 4.7 | 3.6 | 3.0 |
| IMF | | | | | | | 3.6 | 3.1 | 2.5 |

Source: Central Statistics Office (CSO), Central Bank Quarterly Bulletin Oct 2014, ESRI Quarterly Economic Commentary Autumn 2014, IMF World Economic Outlook October 2014, Department of Finance Budget 2015 Macroeconomic Forecasts – 7th October 2014 (2014 & 2015 forecast) and Department of Finance Monthly Economic Bulletin October 2014 (2016 forecast). Note “f” indicates forecast and HICP is the Harmonised Index of Consumer Prices which differs slightly from the Consumer Price Index (CPI).

1.6 Fares Innovations

Earlier this year the Authority examined the Child and Scholar Fares across the public transport operators and introduced a simplification of those fares across the public transport companies in the Greater Dublin Area which extended the permissible age for the Child Leap card fares to up to 19th birthday. Its introduction will impact the operators revenue in 2015.

The Authority is also introducing a second journey discount on Leap card fares on 2nd November on Dublin Bus services. This will allow the customer to get the discounts (€1.00 adults, €1.00 students €0.70 child) on a second journey that has been commenced within 90 minutes of the start of the first journey. It is planned to introduce this feature across all operators in 2015 which will impact their revenues. Therefore the Authority, in its determinations, has allowed for these costs.

2. Luas operations

2.1 Introduction

Luas currently has two tram lines, the green line which runs from Brides Glen to St Stephen's Green and the red line which runs from the Point in the Docklands to Tallaght with a spur to Citywest and a spur to Connolly rail station.

Over the past number of years there have been deficits between Luas revenue and operating costs and is forecast to have an operating deficit again in 2014. However they expect to return to break-even in 2015 and to profitability in 2016. To fund these deficits over the past few years the RPA have used their accumulated cash reserve, with the approval of the Authority.

It is expected that operating costs will reduce further over the next five years as a result of the award of a new operating contract earlier this year.

Given this deficit in 2014 and funding shortfall, the Authority recognises that a small fares increase is needed to generate increased revenue with the balance of the shortfall being met for this year from the RPA's accumulated operations cash reserve.

Luas financial results and forecasts for period 2013 to 2016

| Year | 2013 | 2014* | 2015* | 2016* |
|---|--------|---------|--------|--------|
| Operating surplus/deficit on Luas infrastructure activities before interest, tax and depreciation | -€2.2m | -€1.27m | €0.05m | €1.36m |

* Forecast June 2014– based on revenue accrued with fares increase applied

2.2 Proposal by RPA

The RPA has proposed to the Authority fares increase on Luas in respect of cash, Leap and prepaid tickets including tax saver monthly and annual tickets varying from 0% to 12.5% for 2015. RPA expect the fare increases to yield about 0.6% i.e. close to the current rate of inflation. RPA expect passenger number to grow by about 3.4% in 2015 which will also contribute to revenue yield.

2.3 Determination by the Authority

A number of factors need to be taken into consideration in assessing this request:

- The economic climate over the past 6 years,
- The effect of the recession on the public's disposable income and costs,
- That the accumulated surplus is being used to subsidise operations, and
- The need to maintain a sufficient level of service frequency.

In 2012 the Authority began the process of aligning the fares on the Red and Green lines and we completed that process last year.

This year we are taking the next step in the process of consolidating fares by moving towards a single monthly and single annual ticket for all Luas services similar to that offered by Dublin Bus. The current 3 zones monthly and 3 zones annual ticket will be phased out over the next 2 years. To do this Luas All zone fares will remain the same price as last year and there will be an increase in the 3 zone fares only. The gap between 3 zone fares and the all zone fares is too large to reduce in one year so the Authority will close the gap over two years starting in November this year. The fares for Luas only monthly and annual tickets will be as in the table below.

| <u>Luas only annual and monthly tickets</u> | | | | | |
|--|-----------------------------|-----------------------------------|------------------------------------|----------------------------------|-----------------------------------|
| <u>Monthly Tickets</u> | <u>Current price</u> | <u>RPA Requested price</u> | <u>Requested increase %</u> | <u>NTA Approved price</u> | <u>Approved increase %</u> |
| Adult Luas 3 Zones Monthly | €80.00 | €85.00 | 6.25% | €85.00 | 6.25% |
| Adult Luas All Zones Monthly | €91.00 | €91.00 | 0.00% | €91.00 | 0.00% |
| <u>Annual Tickets</u> | | | | | |
| Adult Luas 3 Zones Annual | €800.00 | €850.00 | 6.25% | €850.00 | 6.25% |
| Adult Luas All Zones Annual | €910.00 | €910.00 | 0.00% | €910.00 | 0.00% |

Luas also offers a number of multi-operator monthly and annual tickets in conjunction with other operators. When examining these multi-operator tickets it became apparent that a rebalancing of the pricing relationships between single and multi-operator tickets was required towards a more standardised approach. As a result the Authority has determined the changes to multi-operator tickets as outlined in the table on page 14. Of particular note is the fact that the *Iarnród Éireann Short Hop Zone & Dublin Bus* ticket is being priced the same as the *Iarnród Éireann Short Hop Zone & Luas* ticket. This results in a drop in the price of the *Iarnród Éireann Short Hop Zone & Luas* ticket by 3.39%. The price of the *Iarnród Éireann Short Hop Zone, Dublin Bus & Luas* ticket (which allows passengers travel on all three services within the Short Hop Zone) has also been reduced and is now a 52 week multiple of the Leap card multi-operator weekly cap of €40.00, which is another step towards having a standardised and consistent pricing structure.

The Authority has a policy of consolidating and rationalising tickets so as to reduce the array of ticket options and to offer customers a clear, concise and easy to understand choice. The introduction of capping on the Leap card and the migration of many ticket types, including monthly and annual tickets, onto the Leap card format has greatly assisted with this policy.

The student monthly Irish Rail Short Hop Zone and Luas ticket currently costs €137.00 and Irish Rail and Luas have requested an increase of 9.01% which would bring the price of this ticket to €149.35. With the introduction of multi-operator Leap capping the maximum a student will be charged in a week, Monday to Sunday, when using their student Leap card to pay for their travel on a combination of Irish Rail Short Hop Zone services, Dublin Bus and/or Luas is €30.00. Over 4 weeks this is equivalent to €120.00 which is considerably less than either the current or the proposed fare for the monthly Irish Rail/Luas ticket. As the student monthly Irish Rail Short Hop Zone and Luas ticket does not offer value to the customer and there is a better value option available by using the Leap card the Authority has withdrawn this ticket.

The *Iarnród Éireann Short Hop Zone & Feeder Bus/Luas* monthly or annual ticket currently offers unlimited travel for one month/year on *Iarnród Éireann* Dublin Commuter and DART services between Balbriggan, Maynooth, Kilcoole and Hazelhatch, as well as on Luas and Dublin Bus routes 90/145 feeder services between Connolly and Heuston station.

As a result of the approved changes to multi-operator tickets outlined above, passengers will now be able to buy either the Short Hop Zone Rail & Dublin Bus ticket or the Short Hop Zone Rail & Luas ticket at a cost of €1,710 each. This is significantly lower than the requested fare for the Short Hop Zone Rail & Feeder Bus/Luas ticket and means that depending on which ticket they choose, passengers will be able to continue to get the Iarnród Éireann Short Hop Zone services along with either all Dublin Bus or all Luas services rather than being limited to Luas and Dublin Bus feeder services.

The Short Hop Zone Rail & Feeder Bus/Luas ticket will be discontinued. However, switching from the Short Hop Zone Rail and Feeder Bus/Luas ticket to a ticket combining Short Hop Zone Rail in conjunction with all Dublin Bus or Luas services will see customers enjoy access to additional services, at a more competitive rate.

At present, Irish Rail customers purchasing point-to-point tickets can opt for a bus/Luas add-on to their rail ticket. This add-on entitles them to travel on Luas Red Line between Heuston Station and Dublin Connolly station or George's Dock, and on certain Dublin Bus routes. Add-on tickets can be considerably cheaper than equivalent Luas tickets. RPA, Iarnród Éireann and Dublin Bus had requested a 12.86% increase. The Authority considered the value offered by this ticket and determined that a 10% increase in the cost of these tickets is reasonable. The Luas add-on fare will still offer excellent value even at this increased price.

The multi-operator fares as determined by the Authority are permissible from 1st November 2014 are set out in the tables on page 14. Given the continuing small deficit (which may be reversed by this year's end) in the operation of Luas, the Authority believes that the approved fare increases for Luas are warranted in order to maintain the service levels and be in a position to meet increasing demand.

It should be remembered that under the current tax regime savings of between 31% - 52% in tax, PRSI and Universal Social Charge can be made on the approved prices for the annual and monthly tickets under the Tax saver scheme. Over 3,500 companies now purchase monthly and annual tickets for their employees under this scheme. Companies can also save up to 10.75% in PRSI.

Luas combined annual and monthly tickets

| <u>Monthly Tickets</u> | <u>Current price</u> | <u>RPA Requested price</u> | <u>Requested % increase</u> | <u>NTA Approved price</u> | <u>Approved % increase</u> |
|--|-----------------------------|-----------------------------------|------------------------------------|--|-----------------------------------|
| Adult Bus/Luas Monthly (Dublin Bus & Luas) | €145.00 | €155.00 | 6.90% | €155.00 | 6.90% |
| Adult Short Hop Rail/Luas Monthly (Irish Rail & Luas) | €177.00 | €193.00 | 9.04% | €171.00 | -3.39% |
| Adult Short Hop Rail and Feeder Dublin Bus/Luas | €170.00 | €185.00 | 8.82% | Discontinued, see top of page 13 | |
| Adult Short Hop Monthly (Dublin Bus, Irish Rail & Luas) | €218.00 | €238.00 | 9.17% | €208.00 | -4.59% |
| Adult Bus/Luas Add on Monthly (Dublin Bus & Luas) | €35.00 | €39.00 | 11.43% | €38.50 | 10.00% |
| Student Short Hop Rail/Luas Monthly (Irish Rail & Luas) | €137.00 | €149.35 | 9.01% | Discontinued as Leap multi-operator student weekly cap x 4 weeks costs €120.00 | |
| <u>Annual Tickets</u> | | | | | |
| Adult Bus/Luas Annual (Dublin Bus & Luas) | €1,450.00 | €1,550.00 | 6.90% | €1,550.00 | 6.90% |
| Adult Short Hop Annual (Irish Rail & Luas) | €1,770.00 | €1,930.00 | 9.04% | €1,710.00 | -3.39% |
| Adult Short Hop Rail/Luas Monthly (Irish Rail & Luas) | €1,700.00 | €1,855.00 | 9.12% | Discontinued, see top of page 13 | |
| Adult Irish Rail Short Hop & Dublin Bus (For information only) | €1,560.00 | €1,700.00 | 8.97% | €1,710.00 | 9.62% |
| Adult Short Hop Annual (Dublin Bus, Irish Rail & Luas) | €2,180.00 | €2,380.00 | 9.17% | €2,080.00 | -4.59% |
| Adult Bus/Luas Add on Annual (Dublin Bus & Luas) | €350.00 | €395.00 | 12.86% | €385.00 | 10.00% |
| Adult Irish Rail all services & Luas annual | €5,260.00 | €5,735.00 | 9.03% | €5,280.00 | 0.38% |