



## **Consideration of application from the RPA to increase monthly and annual tickets for 2014**

**Determination No. 2 for period Nov/Dec 2013 to Nov/Dec 2014**

**October 2013**

## Table of contents

<b>Executive summary</b>	<b>3</b>
<b>1. Introduction</b>	<b>5</b>
1.1 Background	5
1.2 Factors influencing public transport demand and revenues	5
1.3 The need for fare increases	7
1.4 <i>National Payments Plan</i>	7
1.5 Economic outlook	8
<b>2. Luas operations</b>	<b>10</b>
2.1 Introduction	10
2.2 Proposal by Operator	10
2.3 Determination by the Authority	11

## 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. The Authority has currently assigned these functions to the Railway Procurement Authority (RPA); however Luas fare alterations require the prior approval of the Authority.

In recent years the RPA have 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. Cost reduction programmes have been put in place, but these take time to design and implement.

Modest growth in the economy is forecast for the next year however this growth will not on its own return Luas to profitability. RPA have lodged an application for fares increase varying from 0% to 15.6% and if approved expect to return to profitability in 2015.

The Authority is setting the fares for 2014 by way of a number of **Determinations** for the operators with this determination addressing the price of the Luas monthly and annual tickets. Increases to the annual tickets will apply from 1st November 2013 and increases to the monthly tickets will apply from 1st December 2013. The determination of other Luas fares such as cash and Leap is in Determination number 6.

### Monthly and annual determinations:

Determination No. 1 for period Nov/Dec 2013 to Nov/Dec 2014 – CIÉ operators

Determination No. 2 for period Nov/Dec 2013 to Nov/Dec 2014 – Luas

### Cash, Leap and other fares determinations:

Determination No. 3 for period Nov/Dec 2013 to Nov/Dec 2014 – Dublin Bus

Determination No. 4 for period Nov/Dec 2013 to Nov/Dec 2014 – Bus Éireann

Determination No. 5 for period Nov/Dec 2013 to Nov/Dec 2014 – Irish Rail

Determination No. 6 for period Nov/Dec 2013 to Nov/Dec 2014 - Luas

In assessing this request 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. In addition the Authority has taken into account the value offered in the monthly and annual fares compared to the cost of single journey fares. It also should be noted that 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.

Last year we began the process of aligning the fares on the Red and Green lines in preparation for Luas Cross City when more passengers will transfer between lines. This year we have completed the process for the annual and monthly tickets. To do this some of the Red line fares will have to increase more than similar fares on the Green line.

At present, Irish Rail customers purchasing point-to-point tickets can opt for a bus/Luas add-on to their rail ticket. Add-on tickets can be cheaper than equivalent Luas or Dublin Bus tickets. The RPA and Dublin Bus had requested reducing the discount by applying an increase of almost 16%. The Authority considered this level of increase as inappropriate. Instead, the approved increase is between 9.4% and 9.8% on these products.

The approved fares applicable from 1st November 2013 are set out in the tables on page 12 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). The Authority has currently assigned these functions to the Railway Procurement Authority (RPA) under the terms allowed by the Act; however, Luas fare alterations require the prior approval of the Authority. Transdev Ireland operates Luas, Dublin's light rail tram system, under contract with the RPA.

The RPA in conjunction with Transdev have been reducing costs across the business since April 2009 and have implemented a wide range of cost saving measures to meet the current challenging environment. Unfortunately some Luas patronage levels remain below expectation, such as on the Citywest extension. For the RPA, as with all public transport companies, the current operating environment has had a detrimental impact on passenger demand and ancillary revenue, at a time of increased fuel costs.

### **Determination of fares**

The determination 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 will apply from 1st November 2013. The determination of increases to other Luas fares is in a separate report (Determination No. 6).

### **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. Consequently, passenger numbers

increased greatly during the economic boom but declined radically from 2008 onwards, resulting in a large reduction in patronage and in passenger revenues.

Passenger numbers on Luas have actually grown since 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. However what has occurred is that operating costs have increased while passenger volumes have not improved to the extent that these costs can be met by increased ticket revenue.

Although the economy is the dominant factor behind people's propensity to travel, there are other factors that influence demand, particularly for public transport, which include:

- Fares – changes to fares affect demand, with fare increases reducing demand
- Service quality – any improvements of factors such as frequency, reliability, cleanliness, comfort or security tends to increase demand
- Competition from other modes of transport – if alternative means of travel become more attractive, public transport demand will fall.

The influence of these factors over and above the economic effects in recent years is difficult to isolate. In addition, competition from other modes has increased. Despite large increases in fuel prices, driving conditions have improved with the completion of the roads programme, although this has also had a positive effect on buses using the enhanced road network. Cycling and walking have increased in popularity as well, due to the Bike to Work scheme, the Dublin Bikes scheme, infrastructure improvements and improved public awareness.

On the positive side, public transport service quality has been improving due to initiatives such as the real time information at bus stops, the Authority's National Journey Planner, the Leap card, investment in the bus fleet, improved public transport maps and the reconfiguration of regional city bus services that to date includes Dublin, Cork, Limerick, Galway and Waterford. Operators have also been increasing efficiency and, as yet, there have not generally been significant service cuts.

### **1.3    *The need for fare increases***

Luas public transport fare increases have been deemed to be necessary in recent years as the RPA have 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. Ancillary revenues have also reduced over the past number of years. Cost reduction programmes have been put in place. The result has been that increases in fares have been counter to, or in excess of, inflation and economic growth. Public transport is not unique in this respect – gas and electricity prices have also risen substantially in the same period.

Although there may be a need for fare increases, the Authority is conscious of the effects that the current recession is having on commuters and their families. Therefore, cost cutting by operators has, where appropriate, taken precedence over fare increases and service reductions and the Authority has endeavoured, where possible, to provide commuters with cost-effective alternatives if fare increases occur. The challenge for the Authority is to determine an appropriate level of fares increase that will greater match the costs of operating public transport to the revenues accruing from it, whilst also protecting the services themselves.

### **1.4    *National Payments Plan***

The National Payments Plan (NPP) is a three year plan launched in April 2013 and managed by the Central Bank of Ireland, on behalf of the Minister for Finance. 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.

In public transport terms having the correct combination of coins to purchase tickets from drivers or vending machines is inconvenient to most. The pressure to pay on boarding buses as a queue forms

results in delayed trips. The Authority is naturally eager to improve boarding and alighting times for public transport and therefore wishes to increase the use of payment systems that promote this.

There are significant benefits to reforming our payments system on public transport for both the public and the operators. The public's gains include cashless transactions, ease of use, discounting from cash fares, daily and weekly fare capping, quicker boarding and with the Leap card, an integrated payments format. The additional advantage is the growth of confidence amongst customers that they are getting good value and that they gain benefits from making extra trips.

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

## **1.5 Economic outlook**

On page 9 we have set out a table showing a number of the key economic indicators. As the table shows, the increase in the Consumer Price Index experienced in 2011 has tapered off in 2012 and is expected to drop slightly further in 2013. However, 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.

Modest growth in the economy is forecast for 2014 which provides some potential upside to the analysis in this determination and as mentioned earlier, when economic growth increases, the knock-on effects should lead to greater levels of travel. Nevertheless, the prospects for both the Irish and the international economy remain uncertain and with a further round of domestic budgetary tightening measures planned for 2014, caution would need to be employed in forecasting any significant passenger growth on the basis of improved economic growth.



<b>Key Economic Indicators (real annual % growth)</b>								
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013f</b>	<b>2014f</b>	<b>2015f</b>
<b>Consumer Price Index (CPI)</b>								
CSO	4.1	-4.5	-1.0	2.6	1.7			
Central Bank						0.7	0.6	n/a
ESRI						0.7	1.5	n/a
Department of Finance (HICP)						0.7	1.2	2.0
IMF (HICP)						1.3	1.3	1.6
<b>Gross National Product (GNP)</b>								
CSO	-1.8	-9.1	0.5	-1.6	1.8			
Central Bank						0.1	1.2	n/a
ESRI						2.0	2.7	n/a
Department of Finance						1.0	1.7	1.7
<b>Gross Domestic Product (GDP)</b>								
CSO	-2.2	-6.4	-1.1	2.2	0.2			
Central Bank						0.5	2.0	n/a
ESRI						0.5	2.6	n/a
Department of Finance						0.2	2.0	2.3
IMF						1.1	2.2	2.7

Source: Central Statistics Office (CSO), Central Bank Quarterly Bulletin Oct 2013, ESRI Quarterly Economic Commentary Autumn 2013, IMF World Economic Outlook April 2013 and Department of Finance Budget 2014: Economic and Fiscal Outlook. Note “f” indicates forecast and HICP is the Harmonised Index of Consumer Prices which differs slightly from the Consumer Price Index (CPI).

## 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.

The RPA has been experiencing deficits between Luas revenue and operating costs and is forecast to have an operating deficit in 2013 and in 2014. However they expect to return to profitability in 2015. To fund their deficits over the past few years the RPA have used their accumulated cash reserve, with the approval of the Authority.

The RPA and the contracted operator Transdev have also been reducing costs in a number of different areas and they have implemented a wide range of cost saving measures as part of decreasing the deficit.

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

#### Luas financial forecasts for period 2013 to 2015

Year	2013*	2014*	2015*
Operating surplus/deficit on Luas infrastructure activities before interest, tax and depreciation	-€2.3m	-€0.6m	€1.5m

\* Forecast – based on revenue accrued with fares increase applied

### 2.2 Proposal by Operator

The RPA has written to the Authority requesting approval for fares increase on Luas in respect of cash, Leap and prepaid tickets including taxsaver monthly and annual tickets varying from 0% to 15.6% for 2014.

A number of the monthly and annual tickets are combined tickets which allow travel on Luas and/or Dublin Bus and/or Irish Rail. The price increase application on these combined tickets will have been agreed between the relevant transport operators.

### **2.3 Determination by the Authority**

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

- The current economic climate,
- 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.

Last year the NTA approved fares increases so as to gradually align adult red and green line fares, given that child and student fares are already the same on the respective Luas lines. This is because when Luas Cross City is opened in 2017, there will be more passenger transfers between lines and having different fares for each line would be problematic.

Aligning the Luas red and green lines fares will mean that red line fares will have to go up by more than green line fares. However, the Authority decided to introduce this on a phased basis last year in order to avoid dramatic changes in prices. It is expected that this alignment of fares will be completed later this year when the Authority completes its determination on all cash, Leap and pre-paid tickets, resulting in fares being the same on both the red line and the green line.

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 between Heuston and George's Dock, and on certain Dublin Bus routes. Add-on tickets can be cheaper than equivalent Luas tickets. The RPA and Dublin Bus had requested reducing the discount by applying an increase of almost 16%. The Authority considered this level of increase as inappropriate. Instead, the approved increase is between 9.4% and 9.8% on these products.

The approved fares applicable from 1<sup>st</sup> November 2013 are set out in the tables on page 12. Given the continuing deficit in the operation of Luas, the Authority believes that the approved fare increases for Luas are warranted in order to maintain the integrity of the network of light rail services

It should be remembered that 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 only annual and monthly tickets**

<b>Ticket type</b>	<b>Current price</b>	<b>RPA Requested price</b>	<b>RPA Approved price</b>	<b>Approved % increase</b>
Adult Luas Green Line Monthly	€88.50	€91.00	€91.00	2.8%
Adult Luas Green Line 3 Zones Monthly	€78.00	€80.00	€80.00	2.6%
Adult Luas Red Line Monthly	€88.50	€91.00	€91.00	2.8%
Adult Luas Red Line 3 Zones Monthly	€75.00	€80.00	€80.00	6.7%
Adult Luas All Zones Monthly	€91.00	€91.00	€91.00	0.0%
Adult Luas Green Line Annual	€885.00	€910.00	€910.00	2.8%
Adult Luas Green Line 3 Zones Annual	€780.00	€800.00	€800.00	2.6%
Adult Luas Red Line Annual	€885.00	€910.00	€910.00	2.8%
Adult Luas Red Line 3 Zones Annual	€750.00	€800.00	€800.00	6.7%
Adult Luas All Zones Annual	€910.00	€910.00	€910.00	0.0%

### **Luas combined annual and monthly tickets**

<b>Ticket type</b>	<b>Current price</b>	<b>RPA Requested price</b>	<b>RPA Approved price</b>	<b>Approved % increase</b>
Adult Bus/Luas Monthly (Dublin Bus & Luas)	€131.50	€145.00	€145.00	10.3%
Adult Short Hop Rail/Luas Monthly (Rail & Luas)	€161.00	€177.00	€177.00	9.9%
Adult Short Hop Monthly (Dublin Bus, Irish Rail & Luas)	€198.00	€218.00	€218.00	10.1%
Adult Bus/Luas Add on Monthly (Dublin Bus & Luas)	€32.00	€37.00 (15.6%)	€35.00	9.4%
Adult Bus/Luas Annual (Dublin Bus & Luas)	€1,315.00	€1,450.00	€1,450.00	10.3%
Adult Short Hop Annual (Irish Rail & Luas)	€1,610.00	€1,770.00	€1,770.00	9.9%
Adult Short Hop Annual (Dublin Bus, Irish Rail & Luas)	€1,980.00	€2,180.00	€2,180.00	10.1%
Adult Bus/Luas Add on Annual (Dublin Bus & Luas)	€320.00	€370.00 (15.6%)	€350.00	9.4%
Adult Irish Rail all services & Luas monthly	€478.00	€526.00	€526.00	10%
Adult Irish Rail all services & Luas annual	€4,780.00	€5,260.00	€5,260.00	10%
Student Short Hop Rail/Luas Monthly (Rail & Luas)	€124.00	€136.00	€136.00	9.7%