



## **Consideration of application from the RPA for a Luas fares increase for 2012**

**December 2011**

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## **1. Background**

The Railway Procurement Agency (RPA) is a statutory body that was established under the Transport (Railway Infrastructure) Act 2001. It is responsible, among other things, for ensuring the provision and procurement of light rail infrastructure. Veolia Transdev Ireland operates Luas, Dublin's light rail tram system, under contract with the RPA.

The National Transport Authority (the Authority) has powers 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 assigned these functions to the RPA under the terms allowed by the Act; however Luas fare alterations require the prior approval of the Authority.

It is clear that general economic conditions in 2012 and possibly beyond will be challenging. With an extended national budgetary plan of fiscal austerity up to 2014 and the uncertain effects of a volatile global economy, consumption is expected to continue to contract over the coming years. The current economic recession has had a detrimental effect on the operating environment for all transport companies as they have been experiencing falling passenger demand, reduced ancillary revenue and increased fuel costs.

Examining the effect of the recession on Luas passenger numbers is complicated by the fact that although the number of passengers carried on Luas increased from 25.4 million in 2009 to 27.4 million passengers in 2010, there was a Red Line extension to the Docklands (Busáras to The Point) in December 2009 and a Green Line extension to Cherrywood (Sandyford to Brides Glen) in October 2010. There was also 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. The lower than expected passenger volumes are therefore seriously affecting the RPA's financial position as there is no commensurate reduction in costs if frequencies are maintained.

Luas extensions have not met passenger volume expectations for the following reasons:

- Increasing unemployment and reduced working hours
- Fall in retail and entertainment sales
- Lower tourist numbers
- Land near Luas extensions not being developed as was projected
- Emigration from Ireland and recent immigrants departing home.

The RPA in conjunction with Veolia 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 amounting to a total of €4.11m.

The RPA has been experiencing deficits between Luas revenue and operating costs and is forecast to have an operating deficit, including asset refurbishment costs, in 2011 and a further deficit which is expected to be higher in 2012. This has resulted in them having to deplete their accumulated cash reserve which was intended for necessary maintenance work.

Given this 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 cash reserve (this reserve is currently the only identified source of funding for the maintenance of the Luas network and therefore the reserve should only be drawn down from to meet operating deficits in extreme circumstances).

## **2. Proposal by operator**

The RPA has written to the National Transport Authority seeking approval for an average fares increase of 6.3% on Luas for 2012. The net yield from the proposed fares increase would be 5.3% or €2.16 million per annum.

The RPA initially wrote to the Authority on the 4<sup>th</sup> of October 2011 seeking approval for a fares increase. The Authority responded to the RPA identifying particular issues with price

differentials and requesting that these be amended. The RPA subsequently submitted a final request on the 29<sup>th</sup> of November 2011.

### **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 RPA receives no operating Public Service Obligation subsidy for Luas,
- the difficult financial and operating environment for Luas, and
- the need to maintain a sufficient level of service frequency and preserve the attractiveness of public transport as opposed to car dependent travel.

While not a company under the Companies Acts, but rather a statutory body corporate, the RPA has sought to comply with the requirements of the Companies Acts 1963 to 2009 where applicable and this prevents them from engaging in reckless trading (e.g. accumulating unsustainable debts). The Authority therefore recognises that given that the RPA is substantially reducing costs, then requiring them to absorb the additional costs incurred in increased fuel charges and falling passenger numbers is an unsustainable financial position and could have a significant detrimental impact on services.

#### **The Authority approves increases in fares by an average of 6.3% (weighted by sales volumes).**

A number of elements affect the individual fare increases, for example the minimum increment possible on tickets sold from Luas ticket vending machines (TVMs) is 10 cent. A summary of the main fare changes are outlined in the table below and any changes above the 6.3% average increase are explained in further paragraphs. Further details of individual fares are contained in the Appendix.

**Table 1: Average fare increases (see Appendix 1 below for detailed fare changes)**

<b>Fare Type</b>	<b>Increase</b>	<b>Average % increase</b>
Adult cash fares	10 cent, peak and off peak single	5.5%
Child cash fares	10c single	12.5%
<b>All cash fares</b>		<b>5.8%</b>
<b>All Smart Card fares</b>		<b>11.5%</b>
Flexi Tickets		5.9%
Luas Ticket Agents		9.4%
Tax Saver Tickets		5.5%
<b>Averaged across All fares</b>		<b>6.3%</b>

***Child fares***

In respect of child fares there are a number of general issues pertaining to the Luas fare rates. The RPA currently has heavily discounted Luas child fares; peak fares, off-peak fares and return fares being generally discounted above the 50% discount mark. The trend with the new proposed fares in these three fare categories is moving towards a more standard discount of 50%, although in most cases it still remains above it. This would reflect the international trend of setting child fares at roughly 50% of the adult fare or less.

In relation to the specific proposal from the RPA concerning child Luas fares it is important to note that even though child cash fares and 7 day and 30 day fares will be increasing by between 9.3% and 13.3%, customers can mitigate the effect of these increases by switching to the Child Leap Card / Smartcard where fares are cheaper and increases have been limited to between 5.3% and 6.7%. Child fares have not increased at all since Luas commenced operations in 2004, and so these increases are merely in line with the 13.2% increase in the consumer price index over the same period.

### ***Smartcard Fares***

Smartcard fares have increased only once since 2005 (by 5 cent in January 2009). As a consequence, a large differential has opened up between adult cash fares and adult Smartcard fares. This differential was initially used as a means of encouraging take-up of the Luas Smartcard. However, while still respecting the need to maintain the attractiveness of the Smartcard offering, with revenue from the Smartcard now accounting for 10% of total patronage revenue, it is considered prudent to narrow this differential to a level which still encourages Smartcard usage but mitigates the revenue dilution risk as larger numbers of cash customers increasingly convert to Smartcard. Adult Smartcard fares are increasing by 15 cent or 20 cent thereby narrowing the average differential with adult peak cash fares to 14%.

### ***Ticket Agents and Flexi Tickets***

Luas Ticket Agents sell Flexi tickets at a cheaper price than they can be purchased from ticket vending machines (TVMs). With the introduction of the new Leap Card, the RPA has proposed to narrow the differential between the price of Flexi ticket sold by agents and those sold by TVMs. For this reason, the proposed increase for Luas ticket agents is more than the increase for Flexi tickets sold from TVMs. Although some of the Flexi tickets purchased from TVMs are increasing by above the 6.3% average change, most of the tickets are increasing by less than 6.3% and hence they remain a price competitive ticket option.

Customers can reduce the effect of the fares increases by switching to the new National Transport Authority's 'Leap Card' and use its Travel Credit function or use existing Smartcard product options (which will be transferred to the Leap Card in 2012). The Leap Card offers substantial discounts on cash fares and so Luas customers using the Leap Card will receive a discount broadly in line with the Leap discount available on Dublin Bus services.

## **4. Conclusion**

Cost cutting should, where appropriate, take precedence over fare increases and service reductions. Luas has been delivering on such cost reductions and without having a noticeable

adverse impact on services. Hence, given the severe revenue and cost difficulties that Luas is experiencing and taking all the available information at its disposal, the Authority believes that the RPA's proposed fare increases are warranted.

The Authority therefore approves the average fares increase of 6.3% on Luas as representing the appropriate balance between a contribution on the part of the operator in continuing to increase efficiency and reduce costs and the levying of a fares increase on passengers. Both elements contribute towards maintaining the integrity of the network of public transport services, which is crucial for competitiveness, reduced emissions and congestion, quality of life and for sustaining the economic and social wellbeing of the Greater Dublin Area.

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## Appendix 1

### Approved Luas Fares Increase – January 2012

R = Red line

G = Green line

R0 is the fare on the Red line when you are crossing into no other zone.

G3 is the fare on the Green line when you are crossing through 3 other zones.

	Current Fares	New Fares 2012	Increase	% Increase
<b>Adult Single Peak</b>				
R0	€1.60	€1.70	€0.10	6.2%
R1	€1.90	€2.00	€0.10	5.3%
R2	€2.20	€2.30	€0.10	4.5%
R3	€2.40	€2.50	€0.10	4.2%
R4	€2.60	€2.70	€0.10	3.8%
G0	€1.60	€1.70	€0.10	6.2%
G1	€2.00	€2.10	€0.10	5.0%
G2	€2.40	€2.50	€0.10	4.2%
G3	€2.60	€2.70	€0.10	3.8%
G4	€2.80	€2.90	€0.10	3.6%
<b>Adult Single off-peak</b>				
R0	€1.50	€1.60	€0.10	6.7%
R1	€1.80	€1.90	€0.10	5.6%
R2	€2.10	€2.20	€0.10	4.8%
R3	€2.30	€2.40	€0.10	4.3%
R4	€2.50	€2.60	€0.10	4.0%
G0	€1.50	€1.60	€0.10	6.7%
G1	€1.90	€2.00	€0.10	5.3%
G2	€2.30	€2.40	€0.10	4.3%
G3	€2.50	€2.60	€0.10	4.0%
G4	€2.70	€2.80	€0.10	3.7%
<b>Adult Smart Card</b>				
R0	€1.25	€1.45	€0.20	16.0%
R1	€1.45	€1.65	€0.20	13.8%
R2	€1.85	€2.00	€0.15	8.1%
R3	€2.00	€2.15	€0.15	7.5%
R4	€2.20	€2.35	€0.15	6.8%
G0	€1.25	€1.45	€0.20	16.0%
G1	€1.55	€1.75	€0.20	12.9%
G2	€2.00	€2.15	€0.15	7.5%
G3	€2.20	€2.35	€0.15	6.8%
G4	€2.35	€2.50	€0.15	6.4%

Child Single Standards

R0	€0.80	€0.90	€0.10	12.5%
R1	€0.80	€0.90	€0.10	12.5%
R2	€0.80	€0.90	€0.10	12.5%
R3	€1.00	€1.10	€0.10	10.0%
R4	€1.00	€1.10	€0.10	10.0%
G0	€0.80	€0.90	€0.10	12.5%
G1	€0.80	€0.90	€0.10	12.5%
G2	€0.80	€0.90	€0.10	12.5%
G3	€1.00	€1.10	€0.10	10.0%
G4	€1.00	€1.10	€0.10	10.0%

Child Smart Card

R0	€0.75	€0.80	€0.05	6.7%
R1	€0.75	€0.80	€0.05	6.7%
R2	€0.75	€0.80	€0.05	6.7%
R3	€0.95	€1.00	€0.05	5.3%
R4	€0.95	€1.00	€0.05	5.3%
G0	€0.75	€0.80	€0.05	6.7%
G1	€0.75	€0.80	€0.05	6.7%
G2	€0.75	€0.80	€0.05	6.7%
G3	€0.95	€1.00	€0.05	5.3%
G4	€0.95	€1.00	€0.05	5.3%

Adult Return Standards

R0	€2.90	€3.10	€0.20	6.9%
R1	€3.30	€3.50	€0.20	6.1%
R2	€4.00	€4.20	€0.20	5.0%
R3	€4.30	€4.50	€0.20	4.7%
R4	€4.70	€4.90	€0.20	4.3%
G0	€2.90	€3.10	€0.20	6.9%
G1	€3.50	€3.70	€0.20	5.7%
G2	€4.30	€4.50	€0.20	4.7%
G3	€4.70	€4.90	€0.20	4.3%
G4	€5.00	€5.20	€0.20	4.0%

Child Return Standards

R0	€1.50	€1.70	€0.20	13.3%
R1	€1.50	€1.70	€0.20	13.3%
R2	€1.50	€1.70	€0.20	13.3%
R3	€1.90	€2.10	€0.20	10.5%
R4	€1.90	€2.10	€0.20	10.5%
G0	€1.50	€1.70	€0.20	13.3%
G1	€1.50	€1.70	€0.20	13.3%
G2	€1.50	€1.70	€0.20	13.3%
G3	€1.90	€2.10	€0.20	10.5%
G4	€1.90	€2.10	€0.20	10.5%

Adult 7 day R0	€11.90	€12.70	€0.80	6.7%
Adult 7 day R1	€14.20	€15.00	€0.80	5.6%
Adult 7 day R2	€16.50	€17.30	€0.80	4.8%
Adult 7 day R3	€19.00	€20.00	€1.00	5.3%
Adult 7 day R4	€20.80	€21.70	€0.90	4.3%
Adult 7 day G0	€11.90	€12.70	€0.80	6.7%
Adult 7 day G1	€15.50	€16.40	€0.90	5.8%
Adult 7 day G2	€19.00	€20.00	€1.00	5.3%
Adult 7 day G3	€20.80	€21.70	€0.90	4.3%
Adult 7 day G4	€22.00	€23.00	€1.00	4.5%
Child 7 day R0	€6.00	€6.60	€0.60	10.0%
Child 7 day R1	€6.00	€6.60	€0.60	10.0%
Child 7 day R2	€6.00	€6.60	€0.60	10.0%
Child 7 day R3	€7.50	€8.20	€0.70	9.3%
Child 7 day R4	€7.50	€8.20	€0.70	9.3%
Child 7 day G0	€6.00	€6.60	€0.60	10.0%
Child 7 day G1	€6.00	€6.60	€0.60	10.0%
Child 7 day G2	€6.00	€6.60	€0.60	10.0%
Child 7 day G3	€7.50	€8.20	€0.70	9.3%
Child 7 day G4	€7.50	€8.20	€0.70	9.3%
Student 7 day standard RO	€10.40	€11.00	€0.60	5.8%
Student 7 day standard R1	€11.80	€12.50	€0.70	5.9%
Student 7 day standard R2	€13.80	€14.50	€0.70	5.1%
Student 7 day standard R3	€15.20	€16.00	€0.80	5.3%
Student 7 day standard R4	€16.60	€17.50	€0.90	5.4%
Student 7 day standard G0	€10.40	€11.00	€0.60	5.8%
Student 7 day standard G1	€11.80	€12.50	€0.70	5.9%
Student 7 day standard G2	€13.80	€14.50	€0.70	5.1%
Student 7 day standard G3	€15.20	€16.00	€0.80	5.3%
Student 7 day standard G4	€16.60	€17.50	€0.90	5.4%

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