

**CENTRAL MANAGEMENT BRANCH**



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Dear Paul

**TRANSLINK FARE INCREASES**

Please find attached briefing which Translink and the Department will present to Members on Wednesday 4 March 2015.

Ciaran Doran, Director Public Transport Services Division, David Strahan, Chief Executive, Translink, and Ciaran Rogan, Marketing Executive, Translink will be in attendance.

This letter and enclosure is disclosable under FOI.

Yours sincerely

[SIGNED]

**ALAN DOHERTY**  
**Assembly Liaison Officer**

## TRANSLINK FARE INCREASES

### Background information

The Translink Corporate Plan is approved annually and sets the overall financial target which the Department expects Translink to achieve, based on a range of assumptions including Departmental funding. It covers three years but the primary focus is on the first year - the process happens annually. The Minister approved a plan for this current year 2014-15 based on budget scenarios at that time. Essentially if the Department provided £7.2m in year in Concessionary Fares reimbursement, it would run a loss of around £9m. **The funding position has altered radically since that time.** Translink has received £9.5m in year in Concessionary Fares but its budgets for Fuel Duty Rebate and Rail PSO has been reduced by £10.3m this year. In other words the net effect has been a reduction in anticipated funding of £8m.

1. Until this year, Translink aimed to balance its books over the three years from 2012-13 to 2014-15. To do this it proposed to utilise profits built up during 2012-13 and 2013-14 against 2014-15 losses. In fact the loss now projected for 2014-15 could be £14m which represents a loss of £5m over three years.

Profit Before Tax	2012-13	2013-14	2014-15	Total
Latest forecast	+£9m	+£0.3m	-£14m	<b>-£4.7m</b>
Original budget	+£9m	+£0.4m	-£9.3m	<b>+£0.1m</b>

2. It is important to say that the figures reported above are based on the position before tax/redundancy/impairments and movement on derivatives but represent the agreed measure of profit in the financial target.

3. It is very important to say that the decision made on the fares increase implemented on 16 February 2015 should be seen in the context both of the table above and the financial projections made for future years which have actually changed since.

4. There are different measures of reserves. Net Assets represents the net worth of the business. It is projected to be close to nil at the end of this year and negative at the

end of next year, if grants paid for by the Department are treated as liabilities. Liquidity is another measure and this is best looked at in relation to bank or net current assets. Translink will still have net current assets at the end of the year but these are reduced significantly. A loss of £14m will reduce them to around £43m by the end of this year.

## **2015-16**

5. Translink has produced a plan to address a reduction in revenue funding next year of £13m (whilst recognising that concessionary fares budget has increased by £9.5m to bring it close to actual spend this year). This reduction will mean the end of the Fuel Duty Rebate scheme which is the key bus subsidy for Translink and a reduction in the subsidy for rail services. Translink has worked out scenarios to address this but will consult and firm up some parts of this plan in the next few months. In broad terms the plans will involve:

- Efficiency staff reductions of **£2.1m** in 2015-16 increasing to £4.2m in 2016-17. Targeted at non-front line staff - this should not impact on front line services - this has been announced.
- Service reorganisation saving around **£5m** recurrently. The essence of the plan here is to retain the bus network but consider customer views in looking at services. Ulsterbus Town services will not be stopped in low use areas due to increased funding of around £2m provided.
- Overall job staff reductions could be of the order of 150. Overall redundancy costs could be around £10m. We hope to bid for this funding to DFP under the announced packages but cannot guarantee funding at this point.
- Increased fares income of £7m was the original target proposed by Translink. This was on the basis of fare increases totalling on average 10%. The Minister agreed only to a fare increase of half that proposed noting that fares have increased well below inflation during his time in office. There is no approval for a second fare increase. Taking account of other income and spend assumptions and all of the measures above, it is projected that Translink will make a loss of £10.8m next year.
- Clearly if the cost savings or increased income does not materialise then this deficit would increase.
- In its projections Translink makes a number of critical assumptions. That:

- DRD funds its staff reduction costs of £10m and this is not a charge on its own cash. This is not certain.
- The Executive funds any further pressures on Concessions next year (current estimate: £4m). This will be subject to in-year bids.
- It is required to self-fund Capital of about £11.8m to allow a Capital Plan totalling some £60m to be taken forward next year. There is almost certain to be some level of self funding in the following year.
- On a scenario net current assets/bank could be reduced from £43m at the end of this year to around £15m (If redundancy costs are not funded). Translink argues it needs around £15m of working capital to operate so would be at this level. If additional Concessionary Fares have to be funded as well then net current assets could be down to close to around £10m. This demonstrates that there is real risk here to Translink liquidity after the fares increase just introduced has been factored in. In other words the increase agreed was less than proposed by Translink.

### Fares Announcement

6. In light of the budget cuts for 2015-16 Translink had proposed an increase overall of 10%. There were two options for implementation. The table below sets out options proposed. The Minister agreed to Option A. This point has been made to the Consumer Council.

	Option A	Option B
Rail	4.5% February 2015	9% Rail
Bus	5% February 2015	10% Bus

7. Clearly the higher fare increase proposed was significantly above anything experienced in Northern Ireland in recent years. However, it is the case that the rest of the UK and the Republic of Ireland have experienced very significant fare increases in recent years. **Since 2011** bus fares have increased here by **6%** and Rail fares by **8%**. The rate of inflation over this period was just over 14%, so in Northern Ireland fares have fallen in real terms. In contrast, GB bus fares on regulated services have increased by 18.7%; GB regulated rail fares by 19.1%; ROI bus fares by between 20%-

40% and ROI rail fares by 38%. In other words even after the increases now proposed, rail and bus fares in Translink will be much less than in GB or the ROI. Our understanding is that GB rail regulated fares increased in January by 3.5% (inflation as measured in July 2014 2.5% plus 1%). So over the period since 2011, GB rail fares will have increased by 22.6%. Assuming rail fares increase in NI next year by 4.5%, still means the equivalent figure here is 12.5%, substantially below GB.

8. Translink implemented a fare increase on 16 February 2015, that is: Metro 5.2% (yield 4.5%); Ulsterbus 4.0% (yield 3.5%) and NI Rail 4.5% (yield 2.9%). The yield percentage represents what Translink estimate would be the impact on customers who either use or migrate to better value fares.

9. The likelihood of fare increases above inflation had been logged in the Budget consultation .

## **OTHER ISSUES IN RELATION TO THE FARES INCREASE**

### **Consultation with Committee before announcement**

- Translink announced on 11 December 2014 that fare increases would take effect from early 2015. The Minister was aware of this announcement and had agreed the fare increases as necessary.
- This was signalled in briefings to Committee last Summer but not at the levels implemented.
- The Department advised the Consumer Council of the fares increases shortly before the information was released publicly. Departmental officials met the Consumer Council on 16 December 2014 to discuss this issue in more detail.
- We shared the information with the Committee before it was announced and officials or Translink had always intended to brief the Committee in the New Year in detail. This was held up because it is part of the wider Corporate Plan and budget.

### **Consultation with the Consumer Council**

- There is an informal protocol with Consumer Council which has not been fully followed in this instance but there were exceptional circumstances this year resulting from the budgetary position facing the Department.
- One of the problems with formalising a new memorandum with the Consumer Council is commencement of relevant aspects of the Transport Act 2011.
- The Consumer Council received detailed briefing on 16 December and in January.

### **This announcement was premature?**

- When the Minister agreed the Translink Corporate Plan earlier this year he did not expect to have to cut Translink budget by £10m during this year. This has had to

happen because of the budget allocated to the Department this year. This changes the context for these decisions.

- Departmental officials briefed the Committee on the monitoring rounds this year and its impact on Translink.
- Translink proposed two fare increases. This one is agreed and a later one this year which has not been agreed.
- This fare increase could (excluding Schools) generate around only £4m.
- The scale of budget reduction is £13m.
- Passenger journeys are expected to rise from 80 million to over 80.5 million at the end of this year.

#### **Translink has substantial reserves?**

- We expect Translink's net current assets to reduce this year by up to £14m down to £43m. When you factor in a cut in its budget of £13m next year and potential commitments it is possible this will be soon be at a level that creates major liquidity risks.
- It would be irresponsible to ignore these considerations.
- The DFP Minister has recognised this analysis as reasonable.

#### **What are the average increases? What is meant by effective yield?**

- Translink fares will increase on average by:  
Metro 5.2%;  
Ulsterbus 4.0%; and  
NI Railways 4.5%.

- However customers who move to better value fares in the Translink portfolio should experience effective increases of:  
Metro 4.5%;  
Ulsterbus 3.5%; and  
NI Railways 2.9%.
- It is important that customers try to take advantage of the better value fare options particularly for regular users of services. This could mean a big discount on these increases. Around half of journeys will be at average or below average levels of increase.

#### **Details of the increases?**

- On Metro and Ulsterbus differentials will be maintained between cash and Smartlink cards although some fares will be increased above the averages quoted above.
- On NI Railways current discounts to advantage weekly, monthly and annual tickets are to be maintained. Translink will also move to equalise fares across rail lines.
- Metro cash fares will tend to increase by a multiple of 10p and for some fares % increases could be above average. On the other hand day tickets on Daylink will not increase at all.
- On both bus services differentials between cash and Smartlink cards will be retained.
- On Ulsterbus cross border coach fares deferred from February 2014 will be increased.
- On rail current discounts to advantage weekly, monthly and annual tickets are to be maintained.



- To equalise fares across different lines it is proposed that whilst Bangor and Portadown services would increase by 3.5% increases on the Larne and Londonderry lines would be 5% and 6% respectively. This reflects an historical anomaly where £ per mile fare are different on different lines.

**Fuel Costs are falling but fares are going up?**

- Translink put in place a policy for fuel forward purchasing in 2005 amended in 2008.
- Fuel costs are hedged out to end 2016. Lower fuel costs will be reflected in future costs.
- 90%of volumes needed up to Sep 2016 and 50% of volumes required from Oct 2016-March 2017 currently hedged.
- Fuel accounts for only a proportion of total costs for Translink.
- It is important to note that in the long term Translink will neither make savings nor incur additional costs as a result of fuel hedging. The overall impact is simply a timing difference. It is not speculation but simply good planning.
- Fuel costs are around £40m. Comparisons to the market price would be like the figures below. Estimates for 14/15 are being firmed up.

<b>Fuel Statistics</b>	<b>2013-14</b>	<b>2012-13</b>	<b>2011-12</b>	<b>2010-11</b>	<b>2009-10</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Bus and rail combined hedge cost/(credit)	1,193	(1,077)	(3,322)	(1,021)	3,500

**Translink to sell assets?**

- Sale of these assets creates a revenue pressure for Translink.

