



**An Roinn Iompair
Turasóireachta agus Spóirt**

**Department of Transport,
Tourism and Sport**

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**Correspondence 3A.3
Meeting – 01/11/2012**

Ms Niamh Maguire
Committee Secretariat
Committee of Public Accounts
Leinster House
Dublin 2

Dear Niamh

I refer to your letter of 11th October 2012 regarding issues raised in relation to CIÉ and Bus Éireann at the Committee meeting of 4th October.

In relation to questions relating to the school transport scheme operated by Bus Éireann, you may recall I wrote to the Clerk to the Committee on 1st June last following my appearance before the Committee on the 10th May, in which I responded to matters raised in relation to the scheme.

At the meeting on 4th October, members of the Committee raised a number of questions in relation to the funding of the CIÉ Group and, more specifically, the payments to the subsidiaries of subvention for Public Service Obligation (PSO) services.

Each year funding is provided for socially necessary but financially unviable public transport services in Ireland. Funding for such services is made available under the vote for my Department by way of a payment to the National Transport Authority (NTA) for PSO services. In recent years the total subvention paid to the 3 CIE subsidiaries has been reduced from a high of €308 million in 2008 to €242 million in 2012 (a reduction of 21.4%). The allocation for 2012 amounts to an 8.7% reduction on the 2011 amount.

To compensate for reduced passenger revenues and PSO subvention, CIÉ have engaged in a cost recovery program in recent years which has focused on:

- Revisions to its network of services and, in particular, the implementation of the Dublin Bus Network Direct project and exiting the unprofitable road freight and FastTrack operations;
- Both bus companies have increased integration of services and eliminated duplication of services;



- Implementing a pay freeze in 2008;
- Reductions in payroll costs through changes in work practices and changes to entitlements and benefits;
- Changes to procurement and contracts, particularly in relation to school bus contractors and the electricity contract for Irish Rail;
- An effective recruitment embargo with voluntary severance scheme across all operating companies with a total reduction in staff from 2007- 2011 of 1,303.

Decisions on the individual allocations to the 3 CIÉ companies are a matter for the NTA under the contracts for the provision of PSO services. The distribution of the PSO subvention for 2012 (as compared to 2011) is as follows:

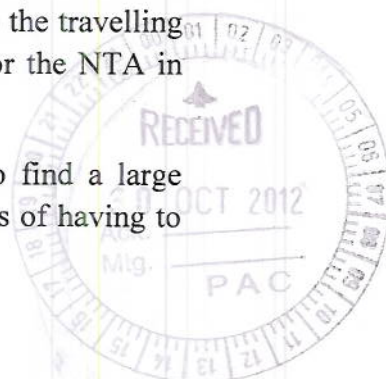
	2012	2011	Reduction
Irish Rail	€135.7m	€148.6m	€12.9m
Dublin Bus	€ 69.4m	€ 73.04m	€ 3.64m
Bus Éireann	€ 36.8m	€ 43.4m	€ 6.6m

The contracts meet the current criteria set down in EU Regulations, setting strict standards of operational performance and customer service and contain penalties for non-performance. A short note on the relevant EU and national legislation underpinning these arrangements is attached as an Appendix. The NTA monitors the contracted performance of each PSO operator on a quarterly basis, and publishes the results on its website. The contents of the contracts and the basis for maintaining them may be reviewed at any time by the NTA in consultation with the relevant company.

I have been advised by the NTA that during 2010 independent auditors were commissioned to conduct audits of Public Service Obligation (PSO) payments made by the NTA to Bus Éireann, Dublin Bus and Irish Rail. The purpose of the reviews was to provide an independent professional opinion on the adequacy and effectiveness of controls over PSO payments made by the NTA to the three contracted operators. The audits addressed PSO payments made by the NTA for the period from 1st December 2009 through to 31st December 2010 and final audit reports were issued by the auditors in September 2011. I understand these auditors are currently conducting similar audits of PSO payments for the year-ended 2011.

On 24th July last, the Government decided to provide additional funding of €36m to CIÉ to ensure that the companies could continue to operate for the rest of 2012. This would bring the total subvention for this year to €278m. The decision to increase the subvention to CIÉ was taken to ensure that the Group remains adequately funded for the immediate future and can continue to provide a sufficient service to the travelling public. The allocation of the additional PSO subvention is a matter for the NTA in conjunction with the companies.

At this very difficult time for the public finances it was not easy to find a large amount of additional funds. It involved very difficult decisions in terms of having to

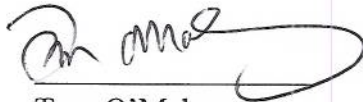


divert funding from other very worthwhile and important projects and initiatives and imposing sacrifices on others. To date, none of the additional €36m in subvention has been paid over to CIE, but up to €36m is still available. The Minister has indicated that he wants to see significant progress being made in relation to:

- the development of a realistic, sustainable and robust business plan by CIE to deal with the current economic realities;
- cost reductions with the CIE group;
- the sale of non-core assets; and
- the securing of new credit facilities.

I hope the above information will assist in addressing questions raised by Deputies at the recent PAC meeting. I am happy to provide any further clarification and the National Transport Authority can also provide additional detail if required.

Yours sincerely,



Tom O'Mahony
Secretary General.



Appendix

Legislation relating to PSO services

Regulation (EC) No. 1370/2007 of 23 October 2007 on public passenger transport services by rail and by road came into force on 3 December 2009. It creates a framework regulating how Member States award exclusive rights and pay compensation for services deemed to be 'public service obligations'. The purpose is to ensure transparency in the award of subvention for public transport services. The Regulation requires all PSO subvented transport services to be subject to contracts. The direct award of public service contracts (i.e. contracts awarded without an open tendering process to internal operators of the awarding "competent authority" - such as Dublin Bus and Bus Eireann) is required to comply with the regulation. Under the provisions of Regulation 1370/2007, the award of such contracts must comply with requirements laid down as from 3 December 2009.

The Dublin Transport Authority Act 2008 set out the legislative framework to support the authorisation and provision of improved public bus services in the Greater Dublin Area (GDA) and established a new contractual structure relating to the provision of subvented bus and rail services in the GDA. That structure was grounded on the provisions of the EU Regulation No. 1370/2007 and provided for a new contractual framework regulating how Member States award exclusive rights and pay compensation for services deemed to be Public Service Obligations. The 2008 Act specifically provides that existing PSO bus and rail services can be procured by the NTA through direct award contracts (to ensure the continuation of those services) but that any other new subvented services must be procured by way of open tendering. Arising from the enactment of the Public Transport Regulation Act 2009, these new contractual arrangements for the procurement of public land transport services have been extended on a national basis.

