Covid-19 and State-owned companies in the Irish transport sector

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Key Issues

- The transport sector is one of the worst hit by the Covid-19 pandemic.
- The State has a large financial interest in the transport sector through State-owned companies.
- Many of the State-owned transport companies, including CIÉ and the Dublin Airport Authority, are availing of the Temporary Wage Subsidy Scheme (TWSS).
- The State companies in the aviation sector will incur losses in 2020. While these companies are likely strong enough to survive the crisis without specifically directed State support, they may well have to reduce staff numbers and take other measures to ensure their immediate financial stability including considering postponing capital expenditure projects.
- The aviation sector companies will likely not pay dividends to the Government until 2022 at the earliest. These dividends were worth over €60 million in 2019.
- CIÉ, and its main subsidiaries, which were in a poor financial position prior to the crisis are likely to be impacted extremely hard. Revenue losses from passenger fares is likely to be in the region of €200 million in the first half of 2020. Revenue from passenger fares is likely to be significantly reduced compared to 2019 for the second half of 2020 as well. Costs may increase for example for additional services on existing high demand routes or new safety features (e.g. Perspex screens).
- The Government has brought forward Public Service Obligation (PSO) payments to ensure the companies' operations continue but it is likely that further subvention will be needed, notwithstanding CIÉ's use of the TWSS.

Introduction

This PBO Note discusses the potential impact of the Covid-19 crisis on the State-owned companies in the Irish transport sector. The transport sector has been dramatically affected by the Covid-19 crisis as restrictions mean individuals travel much more infrequently and use public transport less. In addition, even when some restrictions are lifted, ongoing social distancing requirements and a reluctance to travel or share space with other passengers may change the type and pattern of travel for many.

This Note focuses on the finances of the many State-owned enterprises in the transport sector. With the notable exception of Iarnród Éireann (Irish Rail) most state-owned transport companies are considered 'commercial' and not part of the 'general government'. This means that they are 'off balance sheet' i.e. their debts are not considered part of Government debt, though in many cases are a contingent liability on the State (i.e. in the event of the company experiencing financial difficulty the State would have to intervene to pay their debts). In addition, many of these companies provide essential public services both paid for by the State and through user charges. Such services are, in general, necessary irrespective of the ownership or corporate structure of the provider. This means that in many cases such companies cannot be allowed to 'fail' in the traditional sense of going bankrupt as the services they provide are essential for the public good.

The sub-sectors in the transport sector covered in this Note are the aviation sector and land public transport. In the aviation sector the companies examined are the Irish Aviation Authority, the Dublin Airport Authority and the Shannon Group.

In the land public transport sector, the Córas Iompair Éireann (CIÉ) group of companies is examined.

The other major sub-sector of the transport sector with many State-owned companies is the port sector. This sector is not covered in this Note for two main reasons. While the main Irish ports are state-owned enterprises, they are small in comparison to the State-owned companies in the other sub-sectors - the largest is Dublin Port which had a turnover of almost €80 million. In addition, while port passenger traffic is majorly impacted by the travel restrictions, most other port traffic is not. Some passenger ferries are cancelled but many are still operating, especially to/from Britain, and continue to transport goods vehicles.[1] Port income will be less affected by the travel restrictions than other modes of transport.

Aviation

The Department of Foreign Affairs and Trade is currently advising against all non-essential travel overseas. Individuals arriving into Ireland from May 28, 2020 must complete a passenger location form and are expected to self-isolate for 2 weeks.[2] According to the latest CSO data, arrivals by air in March 2020 were 56.7% below the corresponding 2019 figure; departures were down by 58.1%. In Q2 2020 (April, May and June) it is likely that the decrease in arrivals and departures will be 95% - 99% below the 2019 level. This has a major effect on the revenue of the main State-owned companies in the aviation sector - the Irish Aviation Authority, the Dublin Airport Authority and the Shannon Group.

Irish Aviation Authority

The Irish Aviation Authority (IAA) is a commercial State-sponsored body. It receives no direct State funding. It is unlikely to need specifically directed State support due to the impact of the Covid-19 crisis.[3]

The vast majority of IAA revenue is generated from charging aircraft that use Irish-controlled airspace or land/take-off from Irish airports. In 2019[4] it had a turnover of approximately €200 million and a financial profit before tax of almost €33 million. It paid a dividend to the State of almost €20 million in 2019, with a €7.8 million dividend planned for 2020. Approximately €10 million per month of its revenue comes from flights using Irish airspace. Other revenue sources include fees for landing and taking off at Irish airports (approximately €2 million per month) and facilitating communications over the North Atlantic (approximately €2 million per month). Such revenue is likely to have reduced to a small fraction of these levels since late March 2020 as flights have been cancelled. Monthly revenue is unlikely to increase until flights EU-wide resume in earnest. In addition to at least three/four months of very low revenue, the volume of airline traffic (and thus revenue) over the rest of the year is likely to be well below 2019 levels.

The IAA has substantial net assets of €215.6 million at the end of 2019 including €20 million in cash and €212 million in short-term deposits. It is a useful illustration of the potential impact of the COVID-19 pandemic on commercial State-sponsored bodies. It will see a severe reduction in its income but is unlikely to be able to cut costs much (56% of its costs are employee salaries and associated costs) in the short-term. It must still fulfil its air traffic control and air safety roles. It may make a substantial loss in 2020 and potentially in 2021, and thus pay a lower dividend in future years. It also has an existing significant actuarial deficit in its pension fund (€110 million). The recent fall in the global financial markets may increase this deficit in the short-term – meaning additional provision may be needed in the future to ensure the pension fund is not underfunded. Its strong asset position means it will likely weather the crisis but its situation will affect the State's finances through lower dividend payments. Its weaker financial position may also impact its plans for future investment. It is likely that other commercial semi-state organisations may have to address similar considerations.

1 The Irish Government introduced a temporary three-month €15 million Public Service Obligation for ferry companies to ensure certain routes continue to operate.

2 See Department of Heath's Coronavirus Travel Advice. This is subject to change and is correct as of 29 May 2020.

3 The IAA may qualify for the Temporary Worker Subsidy Scheme given its likely substantial fall in income and if it did could seek assistance through this scheme.

4 All IAA figures based on Irish Aviation Authority Annual Report 2019. The monthly figures are averages of the annual figures and revenue in a specific month will be affected by seasonality and other factors.

Dublin Airport Authority

The Dublin Airport Authority which owns and runs Dublin and Cork Airports (amongst other things) had a turnover of just under €900 million in 2018 (the latest year its annual report is available for), with a profit of €164 million before tax in that year. It owed approximately €800 million in bank loans and bonds at end-2018. This debt is a contingent liability for the Irish State. It has approximately 3,000 employees at its airports. The traffic through its airports has fallen by 99% during the pandemic restrictions period and is unlikely to recover to pre-crisis levels for a number of years. The company has announced that it will make a significant unquantified loss in 2020[5] and expects passenger numbers to fall to 21 million in 2021 (from 35.5 million in 2019). It has indicated that the last time it had this level of passengers it also had a staff complement that was between 750 and 1,000 fewer. In 2019 the DAA paid a dividend to the State of €40 million based on its 2018 earnings, with a similar level of dividend paid in 2017. The company is availing of the Temporary Wage Subsidy Scheme. To weather the crisis it has offered a redundancy programme to its staff[6] and is unlikely to be in a position to pay a dividend for some time.

Shannon Group

The Shannon group runs Shannon Airport and some tourism and heritage sites as well as having a portfolio of commercial premises which it leases out. In 2019, its turnover was €79 million.[7] Most of this turnover comes from aviation, airport concessions, retail and tourism (representing 72% of turnover, or approximately €57 million). Much of this revenue will not be replicated in 2020 as travel is curtailed and tourism is limited, possibly for an extended period. Its operating profit was €8 million in 2019 and it had €24 million cash on hand at the end of 2019. It also has a portfolio of investment properties amongst other assets. The pandemic will likely cause financial losses in 2020. Similar to the Dublin Airport Authority it may have to consider reducing its workforce in the airport and the tourism businesses. Its directors in the 2019 Annual Accounts published in late March 2020, stated that they "believe that sufficient financial resources are available to enable the Group to meet its obligations as they fall due, covering a period of not less than 12 months from the date of approval of the financial statements" notwithstanding the expected revenue reduction due to the Covid-19 pandemic.

Land public transport - Coras Iompair Éireann (CIÉ)

This section discusses the Coras Iompair Éireann (CIÉ) group of companies. CIÉ has four main subsidiaries providing transport services: Dublin Bus, Bus Éireann, Iarnród Éireann and C.I.É. Tours.

The latest CIÉ annual report is for 2018.[8] Across its operations it had approximately €1.3 billion in revenue - €1 billion of which came from operations (effectively fare and freight income, including income from providing the school bus service) and €310 million from the Exchequer (including the Public Service Obligation (PSO) payments and grants to Iarnród Éireann). C.I.É. Tours had generated private revenue of €123 million. The other subsidiaries have a mixture of private and public income (Table 1).

Table 1: CIÉ Revenue by broad source and subsidiary 2018, € 000s.

	CIÉ Tours International €000	Dublin Bus €000	Bus Éireann €000	Iarnród Éireann €000	2018 €000
Revenue from operations	123,253	262,685	337,582	280,891	**1,004,413**
Public Service Obligation/Grants	-	41,854	52,825	215,852	**310,531**
Total revenue	**123,253**	**304,539**	**390,407**	**496,743**	**1,314,944**

Source: CIÉ Annual Report and Accounts 2018.

5 Dublin Airport Authority (19/05/2020) DAA Finance Plc Statement.
6 Irish Times 26/05/2020 DAA offers workers up to two years' wages in redundancy plan.
7 Shannon Group (2020) Annual Report and Accounts 2019.
8 C.I.É. (2019) Annual Report and Accounts 2018.

Unlike other companies which have public transport PSO routes (see Box 1) CIÉ companies both collect and keep the fares from such routes. This means the PSO payment operates on a net cost basis i.e. on costs after revenue is accounted for. In addition, any profits generated from non-PSO routes e.g. Bus Éireann's expressway services or Dublin Bus' Airlink service, indirectly reduce the amount of the PSO required.

Fare revenue is likely to have fallen dramatically from mid-March 2020. Dublin Bus stated in April that its passenger numbers were down 87%,[9] while Bus Éireann has stated passenger numbers are down 90%.[10] Other data from Google suggests a drop of 67% in footfall to public transport stations in Ireland at the end of April from a baseline using the first 5 weeks of the year. It was down 80% at periods during April.[11] CIÉ Tours has suspended operation until 1st August at the earliest and its revenue in Q2 2020 is likely to be minimal.[12] It is unclear how Bus Eireann's revenue from the School Bus contract will be affected. The Department of Education and Skills has indicated that parents will receive a refund on their contribution to the service for the period from 12 March when schools closed.

Seasonal patterns will affect revenue in different periods. Notwithstanding that, and based on 2018 figures, a loss of 90% of CIÉ's passenger revenue (excluding CIÉ Tours) in Q2 2020 would amount to approximately €200 million.[13]

Box 1: Other transport Public Service Obligation Services

While not the focus of this Note a brief discussion of other public transport companies providing Public Service Obligation (PSO) services to the State is merited. These include the Luas operator, some private bus companies and an airline. The PSO bus services are based on a gross cost contract i.e. the National Transport Authority (NTA) collects the revenue from the service provided.[14] This means while the NTA may face a shortfall, the individual bus companies will not and the routes should continue to operate. Similarly Transport Infrastructure Ireland takes the fare revenue risk for the LUAS system.

This means that the net cost of the PSOs will increase due to the lower fare revenue and the burden will fall to the Exchequer rather than the operators.

Social distancing requirements, increased working from home and a general reluctance to use public transport will mean that it is unlikely that passenger numbers will recover to pre-pandemic levels even when restrictions ease. This will inevitably lead to a large decrease in revenue and a large loss for CIÉ other things being equal in the second half of 2020.

CIÉ was in a precarious financial position before this crisis (it had overall net liabilities of almost €410 million at end-2018) and made a financial loss in 2018 of approximately €34 million. A loss of revenue on the scale outlined above will impact the company and the services it provides. CIÉ's borrowings are limited by legislation to €300 million for day-to-day operations.[15] CIÉ has stated that it is availing of the Temporary Wage Subsidy Scheme which will cover a portion of employee wage costs. In addition, the Government has announced that the PSO payments for 2020 were brought forward to help the company cope in the short-term. However, significant additional State support will likely be needed during the second half of 2020 to maintain the services the companies provide.

9 Dublin Bus (18/05/2020) A Note from our CEO Ray Coyne.

10 Irish Times (11/05/2020) State funding for bulk of public transport could out next month.

11 Google (2020) COVID-19 Community Mobility Report (April 2020).

12 CIÉ Tours (26/05/2020) Travel Update. This is subject to changes and is correct as of 29/05/2020.

13 This is an estimate based on the highest stated fall in passenger numbers. The average fare paid and the share of non-paying customers (e.g. Free Travel Scheme) are also likely to have changed due to Covid-19 will also have had an effect on revenue but this is unknown at this stage

14 National Transport Authority (n.d.) Public Service Obligation Contracts.

15 Transport (Córas Iompair Éireann and Subsidiary Companies Borrowings) Act 2012.

There may also be increased costs due to social distancing when additional demand needs to be catered for later in 2020 including frequent cleaning, PPE for staff, Perspex barriers and, possibly, free hand sanitizer, etc. Additional services may also be required on routes or at times when large numbers of passengers must be accommodated in order to ensure social distancing guidelines are complied with to the extent possible. This final point may require greater capital spending and/or staff recruitment. In addition, those with Taxsaver tickets who could not use them due to the restrictions will be compensated either through refunds or an extension of the validity of their ticket.[16]

If additional funds are needed by way of increased Public Service Obligation payments consideration should given to adding additional output measures in the *Revised Estimates for Public Services 2020* to detail the expected services that the payments will fund.

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16 See TaxSaver.ie COVID-19 and Taxsaver ticket arrangements – the details have yet to be finalised.