Bus Éireann Existence Plan

For Discussion with Dept. of Transport, Tourism & Sport

20th September 2016

Background

An existence plan is required for Bus Éireann

- On the 8th September, and in line with previous submissions in July, August and September, Bus Éireann was requested to prepare a revised document for the meeting 14th September that clearly sets out the following:

    - The cost and implications for BÉ/CIE of an Expressway Exit

    - The Base Case (Unconstrained) solution to retaining and restructuring BÉ and Expressway and the associated business risks, and the challenges in bringing this to reality.

    - The costs/measures that could be taken on the mitigate the risk at a Bus Éireann level, backed by financials

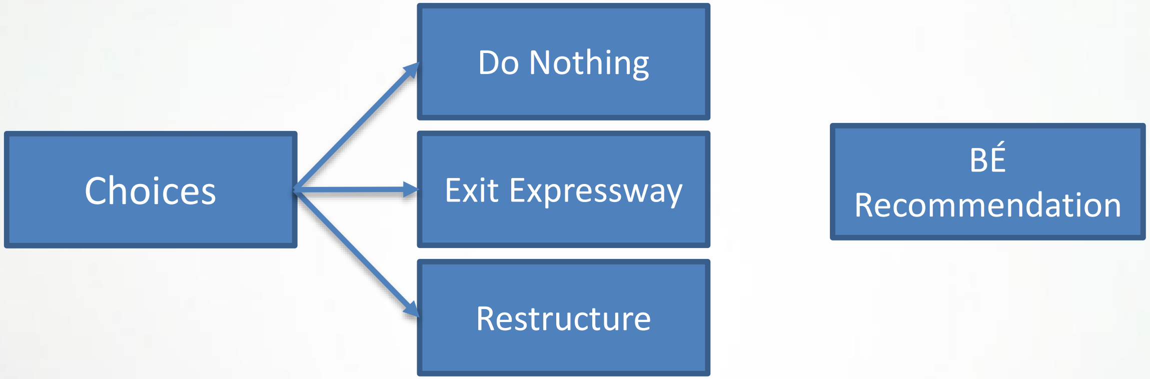
    - A recommendation on the way forward in relation to a Bus Éireann Existence Plan

    - CIE/BÉ view on realistic options in relation to funding these measures.

- This document reflects the queries and updates as discussed at the meeting on 14th September

Document Structure

Detailed analysis underpinning each scenario has been undertaken. A summary of the options is presented



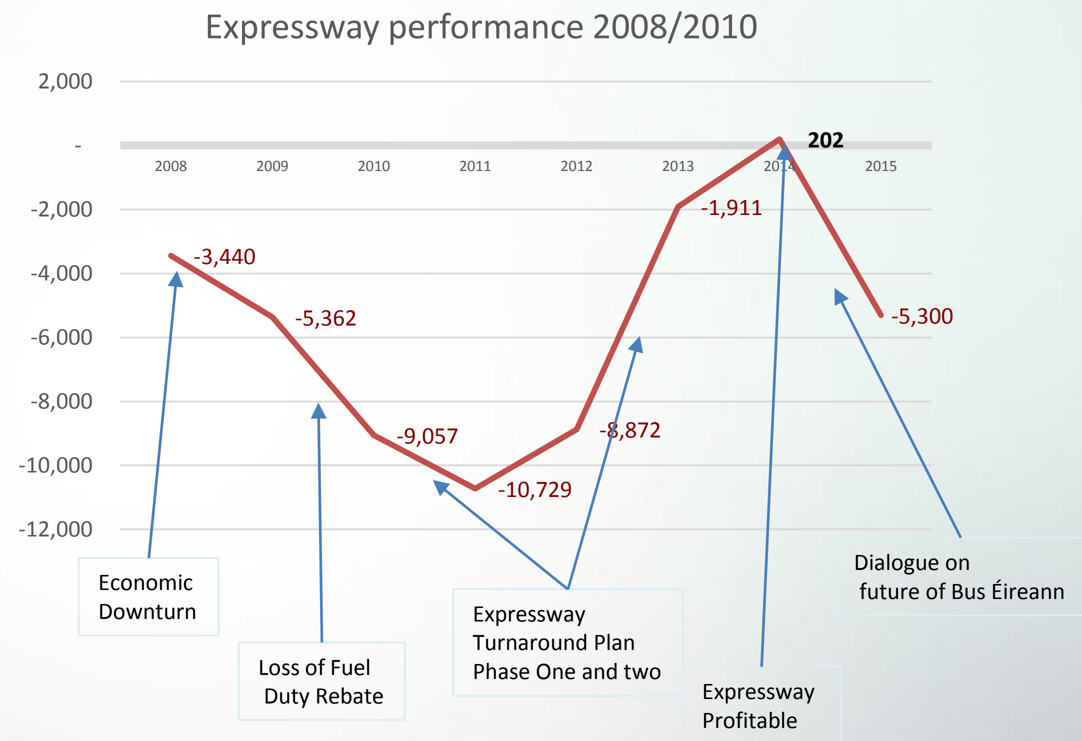
This pack works through the following:

1. Do Nothing [implications]
2. Exit Expressway [unconstrained -> risk mitigation -> constrained cost -> implications]
3. Retain Expressway & Restructure BÉ [unconstrained -> risk mitigation -> constrained cost -> implications]

4. Recommended action from BÉ

Context

Performance of Expressway

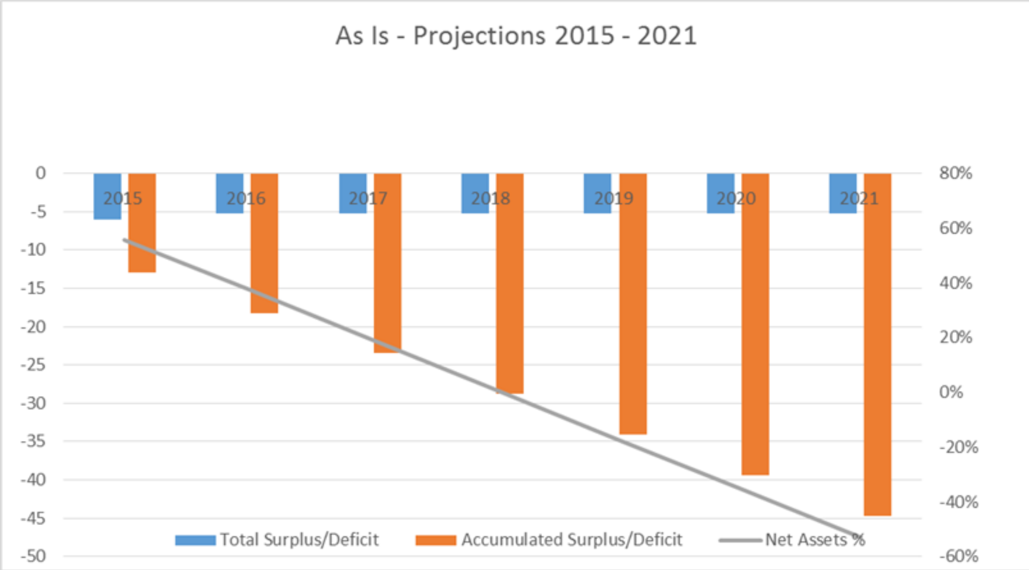


- Expressway began to make losses in 2008/2009 as a result of the economic downturn and loss of fuel duty rebate
- Expressway Turnaround plan 2011/2014 successfully turned an €11m loss into profit by 2014, as a result of:
    - Complete network revamp
    - Cost reduction Programme
    - 2 year cut in terms and conditions
- Expressway back into losses since 2015 as a result of:
    - Cost inflation (claims etc.)
    - Reinstatement of terms and conditions
    - Liberal commercial licensing
- Concern expressed on current losses by BE Board and directors since 2014.
- Current stakeholder dialogue began in January 2015.

Do Nothing

If nothing is done, existing losses on Expressway exhausts BÉ net assets and threatens company future

- ‘As is’ losses of c. €5.3m p.a. on Expressway continue to erode net assets of the company and threatens the company’s survival across all services.
- The ‘profits’ available from PSO and Schools are limited and cannot offset the Expressway losses
- The accumulated deficit rises from €18.2m in 2016 to €44m in 2021
- Net Assets reduce from 37% in 2016 to 1.3% in 2018, and -53% in 2021



See Appendix 1 for supporting data

A number of plans to address these losses have been prepared by BÉ and presented to CIE/DTTS since 2015:

- BE Strategy and Roadmap (April 2015)
- Expressway 5 year plan presented to/approved by BE Board (Feb 2016) and reviewed by NewERA
- Bus Éireann Existence plan reviewed with CIE/DTTS/NewERA (July – September 2016)

- These plans have not been accepted, and losses have continued to accumulate

Do Nothing | Implications

- Continuing a strategy of “do-nothing” is no longer sustainable
- The BÉ Budget 2017 cannot be supported and signed off by BÉ Board under this scenario
- BÉ Board and Management will take action within the resources available to BÉ to address the situation
- Additional support, if available, from CIE and DTTS will allow additional action to be taken as well as mitigating the risks of the action plan proposed by BÉ
- The upcoming WRC discussions on 21st September requires a plan of action beyond a “Do Nothing” approach

Exit Expressway

We have considered whether to persist with Expressway within BÉ

- It is recognised that there is no public policy requirement for BÉ to provide a commercial bus service.

- However, a profitable commercial service is useful to BÉ and CIE for a number of reasons:

  - Generates profits and positive cash flow which, in the past, has allowed subventions to be reduced to PSO business lines
  - Commercial services increase overall economies of scale within BÉ, which in turn leads to lower unit costs for PSO and Schools services
  - Exposure to commercial activities introduces and maintains a commercial attitude and edge within the wider BÉ company, as well as introducing new innovations from commercial markets into non-commercial services
  - It also helps to attract and retain staff in BÉ

- We have looked at the cost of exiting Expressway to turn Bus Éireann into purely a PSO transport service provider for Schools and PSO.

Exiting Expressway

There are a number of costs which would need to be addressed in the event of an exit

- 516 FTE would be impacted by an exit, across all grades and across the national network. These would be compulsory redundancies – a first for CIE

- Residual costs within BÉ which are currently covered by Expressway would now need to be funded by PSO and Schools, until such time as these costs could be eliminated

- There is currently an overlap of some PSO type routes and Expressway – these routes do not currently require funding from PSO. In the event of an exit, a requirement to fund these would arise for the NTA

Grade	FTE
Drivers	381
Garages	46
Clerical	41
Inspectors	20
Management	22
Ancillary	6
Total	516

A reminder of the IR context that BÉ and CIE operate within

- Before considering the actions which would be taken if Bus Éireann operated in an unconstrained environment, here is a summary of the current IR environment BÉ and the wider CIE Group operates in.

    - Compulsory redundancies have <u>never</u> been a feature of any cost reduction agreement in Bus Éireann or CIE to date
    - Historically, FIFO has always been the basis of all VS in Bus Éireann (and CIE Group as a whole). This seniority means that employees with longer service are offered redundancy first – it also means that the overall cost is higher
    - LIFO can only be realistically applied across all employees – in practice it would not be either realistic or achievable to attempt to confine to nominated "Expressway" staff

- Direct IR impact on BÉ would be work stoppages in all 3 products – Schools and PSO as well as Expressway – resulting in significant revenue loss.

- Contagion risk to the wider CIE Group would be likely on the basis that actions taken in BÉ would be resisted in case of setting a precedent in the other operating companies.

For the compulsory redundancies required here, there are a range of scenarios costed

Variable 1 - Compulsory Redundancy Scheme

- Statutory Minimum
- Existing BÉ
- HSE Model
- BÉ + (to mitigate IR risk)

Variable 2 - Model for selecting candidates to make redundant (LIFO v FIFO)

- FIFO (first in first out) (existing practice – results in older age profile exiting)
- LIFO (last in first out) (an unconstrained scenario, would result in younger age profile exiting)

- An **unconstrained** scenario would be **Statutory** redundancy, with **LIFO**. In all cases, these are compulsory redundancies rather than voluntary
- **Compulsory** redundancies will be new territory for CIE in IR
- **Note - BÉ +** represents what BÉ management believe may be required to buy peace in a closure or forced redundancy situation. It is based on the *An Post* voluntary redundancy terms.

Exiting Expressway

Depending on the approach taken to exiting Expressway, there is a wide range of net costs

	Statutory Min €		HSE €		BE €		BE+ €	
Initial cost of exit (excluding PSO/schools impact)	**LIFO**	**FIFO**	**LIFO**	**FIFO**	**LIFO**	**FIFO**	**LIFO**	**FIFO**
Total liquidation proceeds	25,662,000	25,662,000	25,662,000	25,662,000	25,662,000	25,662,000	25,662,000	25,662,000
Total non-recurring costs	- 5,812,000	- 20,438,800	- 9,582,578	- 36,603,084	- 13,085,245	- 39,749,389	- 14,369,166	- 85,872,831
Net cash surplus/requirement	19,850,000	5,223,200	16,079,422	(10,941,084)	12,576,755	(14,087,389)	11,292,834	(60,210,831)
	Highly Unconstrained	Moderately Unconstrained	Highly Unconstraine	Moderately Unconstrained	Highly Unconstraine	Constrained	Highly Unconstrain	Constrained

- Detailed analysis under-pinning various redundancy models has been done. The largest driver of cost is the established IR practice that results in a FIFO exit model – this is the preferred model for unions, but it significantly increases the cost. Opting for a LIFO model is cheaper, but carries much higher execution risk.

- A highly unconstrained exit of Expressway requires compulsory exits of 516 FTE, with statutory minimum LIFO terms offered. While this generates positive cash proceeds of €19.8m the execution risk on this scenario is likely to be extremely high.

Exiting Expressway

The risk of exit is mitigated by incurring a higher cost of redundancies

Reduced risk, at a higher exit cost

Initial cost of exit (excluding PSO/schools impact)	Statutory Min € LIFO	Statutory Min € FIFO	HSE € LIFO	HSE € FIFO	BE € LIFO	BE € FIFO	BE+ € LIFO	BE+ € FIFO
Total liquidation proceeds	25,662,000	25,662,000	25,662,000	25,662,000	25,662,000	25,662,000	25,662,000	25,662,000
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- Exiting Expressway will require compulsory redundancies. This will be a first for CIE Group, and will be strongly resisted by trade unions
- If the approach is for compulsory redundancy on a LIFO basis, then there will be significant IR disruption.
- If the approach is to opt for a negotiated exit package, then this is going to push the cost towards the higher end of the range.

Relative Risk profile of Compulsory redundancies for 516 FTE (out of total 800 staff)

	Statutory Minimum	HSE	Existing BÉ Voluntary	Enhanced BÉ
FIFO (established practice)	High risk contagion to elsewhere CIE			Lowest relative risk Net cost € 60m
LIFO	High risk contagion to elsewhere CIE			

Costs which remain following an exit of Expressway would need to be addressed over time

- A smaller base of operations means that there is a higher share of overheads which have to be paid for by PSO and Schools, until such time as these costs can be eliminated.
- These residual overhead costs are estimated at € 6.2m for BÉ.
- Any group overhead costs in CIE which are spread across all group employees would increase unit costs by 5% for the operating companies within the group, until such time as these residual costs could be reduced
    - *5% calculated as 516 Expressway FTE out of 9837 CIE group employees*

Exiting Expressway

Expressway currently supports some route segments which would require PSO funding otherwise

- These Expressway routes currently service segments which would require PSO services if Expressway was closed down.
- The funding cost of these routes on a comparable service is estimated at €5m p.a.
- Expressway can support these routes at a lower cost than this, since these are a marginal cost for Expressway (which is already covering parts of these segments).
- Expressway does not currently get any funding to recognise the saving it is achieving for NTA

Route	Segments
4	Leighlinbridge-Royal Oak-Gowran-Thomastown-Ballyhale-Mullinavat
X8	Cashel-Cahir-Mitchelstown-Fermoy
13 / 14	Duagh-Abbeyfeale-Templeglantine-Reen's Pike-Croagh-Adare
21	Full Route
22	Ballinalack-Edgeworthstown-Tarmonbarry-Strokestown-Tulsk-Ballinagare-Frenchpark-Ballaghderreen-Carracastle
23	Newtownforbes-Rooskey-Dromod-Annsduff-Castlebaldwin-Drumfin-Collooney-Ballisodare
40	Ballymakeera-Ballyvourney-Glenfisk
51	Labane-Kilcolgan-Clarenbridge
52	Kiltimagh-Knock-Ballindine-Milltown Knockmore-Pomtoon-Balla
64	Milltown-Ballindine-Castlemacgarrett-Knock-Kilkelly-Curry-Tubbercurry-Ballinacarrow-Collooney-Ballisodare Drumcliffe-Grange-Cliffoney

Exiting Expressway

If Expressway is shut down, then these are the implications

Impact on Staff

- 516 immediate job losses across the country, additional resulting losses in suppliers.

Impact on Customers and Communities

- 7m passengers displaced, 75% do not own a car
- 23 interregional routes eliminated. Significant connectivity impact in Cavan, Donegal, Galway, Kerry, Derry, Meath, Monaghan, Sligo and Wexford (Limited Rail links or Stage Carriage Bus services in these areas)
- Further significant loss of interregional bus connectivity in other counties

Impact on BE

- Loss of integrated national network in many regions – town to town and city to city connections
- Loss of €50m in revenue – Loss of Brand
- Loss of economies of scale across the company
- Decommissioning of garages
- Decommissioning of BE Bus Stations/No requirement for presence at shared CIE stations
- Immediate IR implications for BE and CIE
- CIE group would also have residual costs to address.

Impact on CIE

- Loss of €50m commercial revenue – impact on cash flow
- CIE Principal statutory mandate would need to be reviewed *"to deliver sustainable public transport services to best practice standards for a reasonable cost is support of Ireland's economic progress, balanced regional development, transport integration and social cohesion"*
- Consider if 1986 Act would have to be amended

Impact on Exchequer

- Loss of €10m p.a. in PAYE, PRSI and VAT to the Exchequer
- Cost of providing PSO services previously covered by Expressway = €5m per annum

Exiting Expressway

Exiting Expressway will have significant implications for some regions in the absence of alternative connections

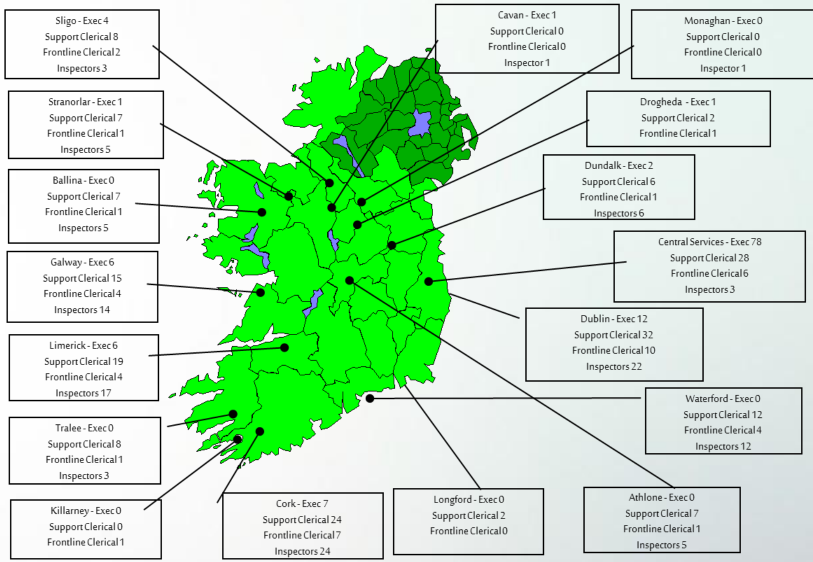
Significant Impact on Interregional connectivity by county (Services over 60km)

County	Northbound	Southbound	Eastbound	Westbound
Carlow	IR / JJK / DC	JJK / IR	Nil	Nil
Cavan	EXP only	PSO	PSO	PSO
Clare	IR	IR	IR	IR
Cork	IR /AC / GoBe	IR	DC	Exp Only
Donegal	Exp Only	Exp Only	Exp Only	Exp Only
Dublin	IR / AC	IR / Others	PSO	IR / Others
Galway	EXP Only	Exp Only	IR	IR /Others
Kerry	DC	DC	Exp Only	DC
Kildare	IR / Others	IR / Others	PSO	IR / PSO
Kilkenny	IR / Others	PSO	DC	
Laois	IR / Others	IR/ Others	IR	IR
Leitrim	IR	IR	IR	IR
Limerick	IR / Others	DC	IR	IR / Others
Derry		Exp		
Longford	IR	IR / PSO	PSO	IR
Louth	IR	IR / Others	PSO	PSO
Mayo	IR	IR	IR	IR
Meath	EXP Only	PSO	PSO	Others
Monaghan	Exp Only	Others	Exp Only	Exp Only
Offaly	IR	IR	IR	IR
Roscommon	IR	IR	IR	IR
Sligo	Exp Only	IR	IR	IR
Tipperary	Others	Others	IR	IR
Waterford	IR / DC / JJK	DC		IR
Wexford	IR / WB	Exp Only		
Wicklow	IR	WB		
Westmeath	IR	PSO	Other	Other

Geographical Spread of Management, Clerical & Inspectors

Support and customer service Staff by Location

Note that not every operating location is shown. Executive and clerical in many locations have regional responsibility across a number of locations other than that shown.



If Expressway exited workload of indirect staff allocated to Expressway reduced by 20%, roles still required

Summary - Exiting Expressway

A decision to exit will have a once off cost of between €14m - €60m with residual costs of at least €11.2m p.a.

Once off Exit Cost	• Depending on choice of redundancy terms and risk appetite, the once off net cost is between €14m and €60m
Risk	• Compulsory exits will be a first for CIE group with likely significant IR implications • This will be mitigated if a higher exit cost is accepted
BÉ Residual Fixed Costs p.a.	• Exiting Expressway leaves € 6.2m p.a. of residual fixed costs for PSO/Schools until such time as those costs could be removed from the business.
New PSO Routes p.a.	• Exiting Expressway will result in additional PSO routes and cost for segments which are currently served by some Expressway routes. Estimated at € 5m p.a.

Funding Options for Exit

The total funding cost of an exit will be determined by the exit package offered to the staff impacted.

Sale of Fleet	• Proceeds of fleet estimated at € 25m – this would be sufficient to cover redundancy costs under LIFO, but would not be sufficient for FIFO (except at Statutory minimum levels)
CIE reserves	• May need to rely on any commercial reserves within CIE to fund shortfall
Bank Loan	• Difficult to make a case for raising a bank loan, since in the restructured entity, there is a smaller business, with less cash flow
Future profits on remaining business	• Limited potential here based on current funding model for PSO/Schools
Shareholder	• Request to shareholder for any short fall in once off exit costs, as well as funding remaining residual costs

Alternative to Exit

As an alternative to Exiting Expressway, we have looked in detail at what would be required to restructure

- Since Expressway is currently an integral part of Bus Éireann, any actions to restructure Expressway to profitability will also have implications for, and require action in, other parts of Bus Éireann.
- There are two strands to any re-structure plan
    - Actions specific to Expressway, and the funding required
    - Actions applicable to general cost base of BÉ (which predominantly applies to PSO and Schools)

Overview of BÉ

Integrated national network of routes and facilities

PSO, Expressway and Schools Transport Network
Economies of scale in a small island economy

2,487 own staff
17 locations

School Transport
1,400 local private operators

€59 Million
Contributed to Exchequer in taxes (2015)

Largest provider
local and rural services

10,000 People
working across every parish in the country

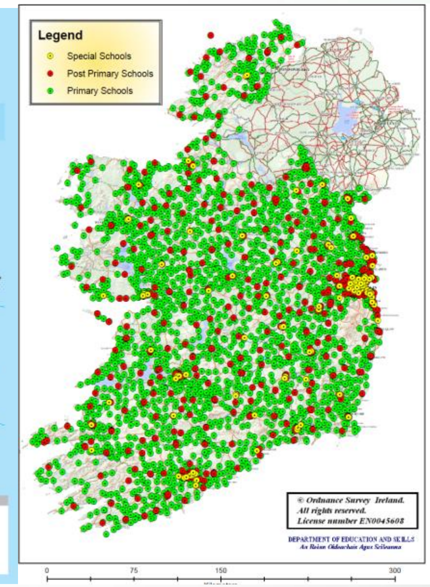
Three Products
PSO, Commercial & Schools

Economies of Scale
Drivers, Facilities, Procurement

78.9 Million
Customer Journeys (2015)

163 Million
Vehicle KM (2015)

Network
Complex Integrated Network Nationwide



- Currently, Expressway shares 20% of wider Bus Éireann infrastructure and overhead costs
  - *Support services, locations, garages, management*
- Same Terms & Conditions all staff across both PSO and Expressway
- Any across the board cost savings result in lower cost for Schools and PSO but do not give BÉ additional profits on these products.

A BÉ wide restructure is required, including actions relating to Expressway

- The wider restructure of Bus Éireann which is anticipated encompasses

- Expressway specific actions

    - Separation of Bus Éireann into different corporate structures, in order to introduce new and more competitive terms and conditions for commercial arm
    - A leaner supporting structure for the commercial product in terms of overhead costs
    - Introduction of sub-contracting of routes in commercial business – on loss making routes initially – involving negotiating redundancies with drivers involved
    - New revenue growth on targeted routes

- BÉ actions – addressing residual cost base for PSO and Schools

    - Action to address residual costs exposed by restructure of Expressway – in the short term
        - Either by being funded by PSO and Schools
        - Change in reasonable profit model in PSO and Schools to pay for residual costs
        - General pay cut for staff remaining in PSO and Schools
        - In the longer term, the plan is to reduce and remove these residual costs.
    - A review of supporting regional structure to continue to remove additional indirect costs across all products

Re-structure BÉ

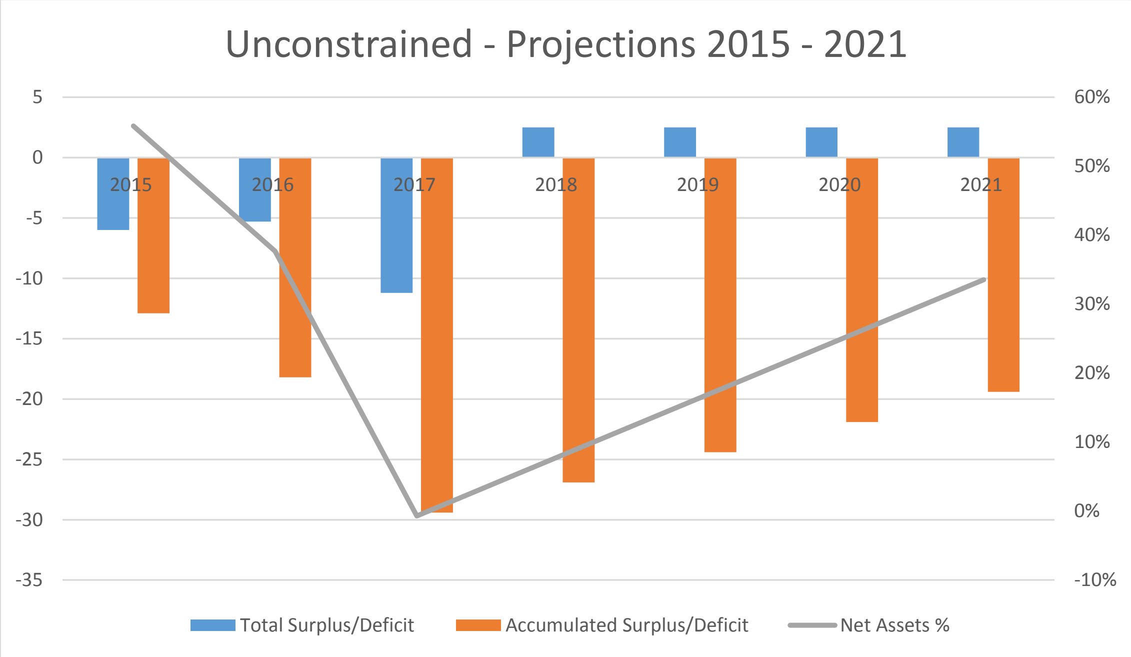
The starting point in looking at re-structuring was to take an unconstrained view.

'Once-off' costs of €5.9m incurred in 2017 result in improvements to Expressway bottom line of €6.9m from 2018 onwards

Net assets reduced to -0.7% in 2017, and improve thereafter.

Residual costs of €4.5m mitigated by one of:

a. Increase in funding from PSO / Schools
b. Change in reasonable profit model for PSO / Schools to cover these
c. General pay reduction across the company to achieve reduction of €4.5m



See Appendix 2 for supporting data

This plan is recognised as having very high risk. However, since it minimises dependencies outside of BÉ in terms of funding support, and in the absence of other supported options, it is the default plan which BÉ Board and Management are prepared to proceed with as an alternative to doing nothing.

Mitigating the risks of the restructure will require higher once-off costs based on accepted BÉ / FIFO model

- The "Unconstrained" re-structure plan is the default plan in the absence of funding to support better redundancy terms. It has high IR risk

- Implementing a more constrained plan will involve the same proposed actions, but at a higher once-off cost to achieve the required staff exits and cost savings (so as to minimise IR impact)

- The "Constrained" costings for restructuring Expressway are based on moving to the accepted practice to date in Bus Éireann for voluntary redundancies and using FIFO
    - *The scenario here is not exactly the same as previous voluntary redundancy schemes in Bus Éireann in that the redundancies required would have to be compulsory*
    - *Accordingly, it may be necessary to further increase the cost of the once-off costs*

- Increasing the cost of the redundancy terms offered to facilitate the restructure directly mitigates the IR risk. It <u>indirectly</u> reduces the risk of execution of the rest of the plan in that it achieves buy-in and support, and allows for faster execution, thus achieving the savings earlier

To mitigate the risks of the unconstrained Restructure plan, higher restructure costs will apply

Restructure Plan Measure	Target Net Impact Expressway	One Off Costs Unconstrained	Mitigate By
1- Sub Contracting (6 routes)	€3.4m	€4.5m	An element of constrained costs in this since it is costed at BÉ voluntary severance
2 – Conditions of employment	€2 m	Nil (unconstrained)	Buy out terms
3 – Corporate Expressway Structure (Support payroll, Non payroll, Inspectors & pensions)	€1m	€1.4m (unconstrained WIP)	Move from unconstrained exit cost to BÉ
4 – Commercial Commuter Routes	€0.5m	n/a	Revenue growth – no change
Total Range	**€6.9m**	**€ 5.9 m**	

Restructure BÉ

To mitigate the risks of the unconstrained Restructure plan, higher restructure costs will apply

Restructure Plan Measure	Target Net Impact Expressway	One Off Costs CONSTRAINED BÉ / FIFO	Description of Mitigation
1- Sub Contracting (6 routes)	€3.4m	€4.5m	An element of constrained costs in this since it is costed at BÉ voluntary severance
2 – Conditions of employment	€2 m	€ 13.3 m	Buy out terms
3 – Corporate Expressway Structure (Support payroll, Non payroll, Inspectors & pensions)	€1m	€ 5-6m	Move from unconstrained exit cost to BÉ
4 – Commercial Commuter Routes	€0.5m	n/a	Revenue growth – no change
Total Range	**€6.9m**	**€ 23.4 m**	

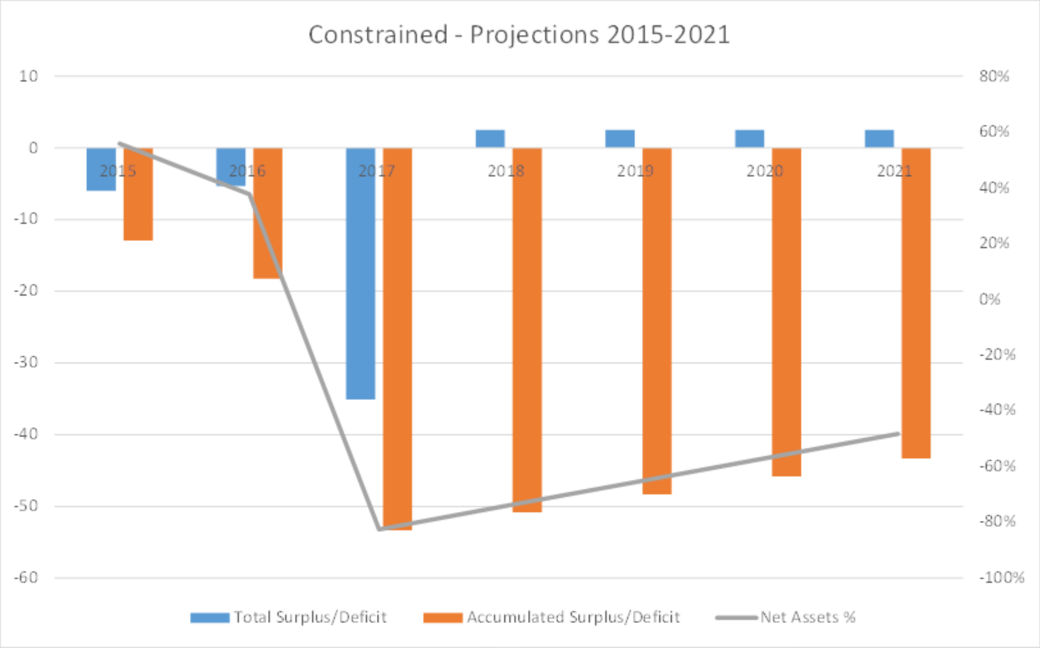
A constrained restructure plan has higher once off cost

'Once-off' costs of €23.4 m incurred in 2017 result in improvements to Expressway bottom line of €6.9m from 2018 onwards

Net assets reduced to -91% in 2017, and improve thereafter.

Residual costs of €4.5m mitigated by one of:

a. Increase in funding from PSO / Schools
b. Change in reasonable profit model for PSO / Schools to cover these
c. General pay reduction across the company to achieve reduction of €4.5m



See Appendix 3 for supporting data

Funding Required

There are a number of items which would need to be funded as part of the wider BÉ restructure plan

Once Off Constrained Restructure Costs	€ 23.4 m	• Incurred in 2017 primarily [€20m restructure]

Residual Fixed Costs for PSO / Schools	€ 4.5 m p.a.	• To address by one of
		  • Paid by PSO/Schools
		  • Change in reasonable profits model to cover
		  • General pay reduction of remaining BÉ staff

On-going capex	€ 3-4 m p.a. going forward	• The Expressway fleet is aging, and will require replenishment of €3-4m p.a. going forward • Outsourcing routes reduces Capex requirements
Cost to achieve further restructure	€ tbc *See Appendix 5 for supporting data*	• Target of achieving <u>further</u> annual reduction in regional structure costs of € 2.5m p.a. [not incl. yet] • Investment cost to achieve this not confirmed yet

This wider BÉ restructuring plan reduces the cost base for Schools and PSO, achieves structural changes for BÉ, as well as helping restore Expressway to profitability.

Potential Funding Sources

What other options are there for funding the re-structure?

CIE / BÉ reserves	• Rely on any remaining reserves within CIE group to fund
Bank Loan through CIE	• A bank loan, secured on future cash flows from BÉ, to pay for the restructure • This would need to be backed up with reliable future cash-flows
Shareholder investment	• Once off re-structuring costs are paid for by the State as a once-off State Aid package covering a restructure of all of BÉ services (incl. PSO, Schools)
BÉ allowed to use across the board savings	• Currently any across the board savings BÉ makes on Schools and PSO do not benefit BÉ - the funding from these two products are reduced accordingly • Allow BÉ to use across the board savings to fund the re-structure
Revised Funding Model for BÉ	• Move to a reasonable profit of 5% (for example) of revenue for Schools and PSO. It is the view of BÉ Board that it is not appropriate not to have an adequate reasonable profit model for these two products
Other	• Alternatives here rely on previous policy measures such as fuel duty rebates, etc. (which are industry wide as opposed to BÉ specific)

Potential Funding Sources

High Level Cash flow Generation model

Cash flow - High Level	2017	2018	2019	2020	2021
Re-structure Costs	-23.4				
Residual Fixed Costs	0.0	0.0	0.0	0.0	0.0
Fleet Capex	0.0	-4.0	-4.0	-4.0	-4.0
Total Cash Required	-23.4	-4.0	-4.0	-4.0	-4.0
CIE Reserves	6.0				
Resonable Profits PSO	5.0	5.0	5.0	5.0	5.0
Reasonable Profits Schools	8.0	8.0	8.0	8.0	8.0
Profits Expressway		1.8	1.8	1.8	1.8
Total Cash Generated	19.0	14.8	14.8	14.8	14.8
(Short fall) / positive cash	-4.4	10.8	10.8	10.8	10.8
Cumulative Cash position	-4.4	6.4	17.2	28.0	38.8

Funding the changes

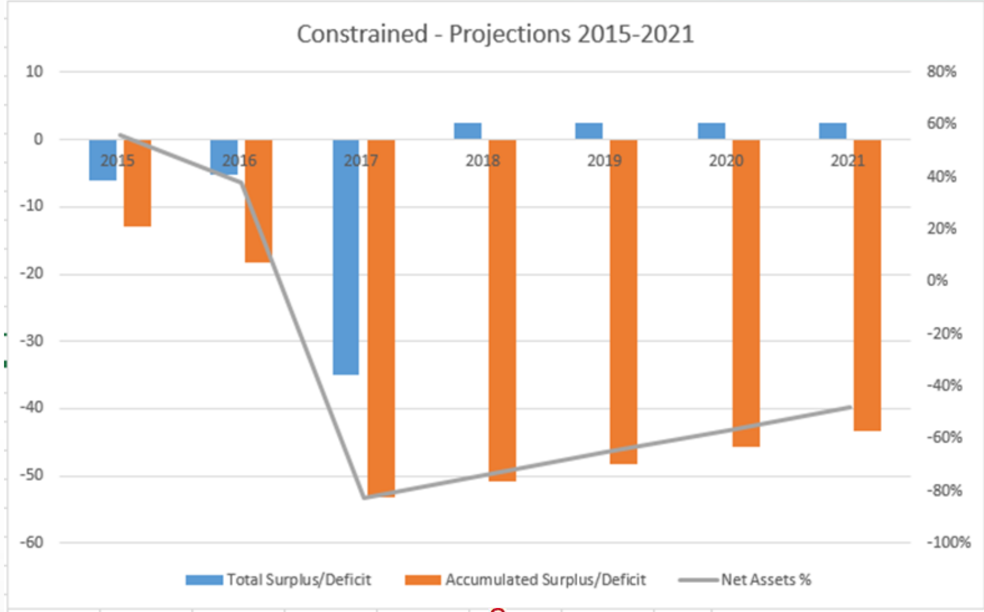
Projected P&L and B/S impact of Constrained Expressway Restructure with Reasonable Profits

'Once-off' costs of €23.4 m incurred in 2017 result in improvements to Expressway bottom line of €6.9m from 2018 onwards

Reasonable profits of 5% on turnover allowed for BÉ for PSO and Schools

Residual costs of €4.5m mitigated by one of:

a. Increase in funding from PSO / Schools
b. Change in reasonable profit model for PSO / Schools to cover these
c. General pay reduction across the company to achieve reduction of €4.5m



See Appendix 4 for supporting data

Exit Expressway

A profitable commercial business unit is valuable for the wider BÉ and CIE business.

- Exiting Expressway has significant once off cost and execution risk, which would require funding.
- There are significant remaining residual costs which would require considerable action to address over time, and would require increased funding from PSO and Schools to cover until such time as these costs can be eliminated.
- There will be immediate new PSO costs to cover segments covered by Expressway currently
- BÉ believe that exiting Expressway will have a significant impact on inter-regional public transport capability, particularly in those areas which have no rail link.
- There is a reasonable prospect to restore Expressway to profitability on a sustainable basis, at a lower once off cost and lower residual costs.
- Therefore the BÉ Board and BÉ management team believe that this is the route which should be followed, and are recommending it accordingly.

Recommendation

On balance, retaining and restructuring BÉ gives a better prospect of a successful outcome that exit

	Exit	Restructure
Once off Costs	• € 14m – 60m	• €23.4m
Residual Costs	• € 6.2 m p.a.	• € 4.5 m
Additional NTA Costs	• € 5.0 m p.a. (PSO segments covered by Expressway)	• n/a
Funding Options	• Fleet sale + reserves + shareholder for short fall	• Reserves + Potential future commercial cash flow
Risk	• High	• High – but prospect of positive outcome for remaining staff
End Result	• Purely PSO remaining business	• Opportunity of commercial business to complement PSO
Recommendation	• On balance, BÉ management recommend to shareholder to retain Expressway within a wider restructured BÉ	

Appendices 12th September

1. Breakdown of P&L for Do Nothing
2. Breakdown of P&L for Unconstrained restructure
3. Breakdown of P&L for Constrained restructure
4. Breakdown of P&L based on earning reasonable profit for PSO and Schools of 5%
5. Outline of further support cost reduction target
6. State Aid
7. High Level Implementation Plan

Appendix 1

Supporting P&L data in Do Nothing scenario

As is Scenario	2015 Actual €m	2016 Forecast €m	2017 Forecast €m	2018 Forecast €m	2019 Forecast €m	2020 Forecast €m	2021 Forecast €m
Surplus / Deficit							
PSO	-0.351	0.700	0.700	0.700	0.700	0.700	0.700
School Transport	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Commercial	-5.640	-6.000	-6.000	-6.000	-6.000	-6.000	-6.000
Total Surplus/Deficit	**-5.991**	**-5.300**	**-5.300**	**-5.300**	**-5.300**	**-5.300**	**-5.300**
Accumulated Surplus/Deficit	-12.903	-18.203	-23.503	-28.803	-34.103	-39.403	-44.703
Equity Base	16.301	11.001	5.701	0.401	-4.899	-10.199	-15.499
Called Up Share Capital	29.204	29.204	29.204	29.204	29.204	29.204	29.204
Net Assets %	**55.82%**	**37.67%**	**19.52%**	**1.37%**	**-16.78%**	**-34.92%**	**-53.07%**
Estimated Cash Flow		-5.300	-5.300	-5.300	-5.300	-5.300	-5.300
Adjust for Non Cash Items		6.000	6.000	6.000	6.000	6.000	6.000
Cash Movement PA		0.700	0.700	0.700	0.700	0.700	0.700
Assumes no significant own funded Cap Exp							

Appendix 2

Supporting P&L data for Unconstrained restructure

Unconstrained Plan with general pay decrease	2015 Actual €m	2016 Forecast €m	2017 Forecast €m	2018 Forecast €m	2019 Forecast €m	2020 Forecast €m	2021 Forecast €m
Surplus / Deficit							
PSO	-0.351	0.700	0.700	0.700	0.700	0.700	0.700
School Transport	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Commercial	-5.640	-6.000	-11.900	1.800	1.800	1.800	1.800
Total Surplus/Deficit	**-5.991**	**-5.300**	**-11.200**	**2.500**	**2.500**	**2.500**	**2.500**
Accumulated Surplus/Deficit	-12.903	-18.203	-29.403	-26.903	-24.403	-21.903	-19.403
Equity Base	16.301	11.001	-0.199	2.301	4.801	7.301	9.801
Called Up Share Capital	29.204	29.204	29.204	29.204	29.204	29.204	29.204
Net Assets %	**55.82%**	**37.67%**	**-0.68%**	**7.88%**	**16.44%**	**25.00%**	**33.56%**
Estimated Cash Flow		-5.300	-11.200	2.500	2.500	2.500	2.500
Adjust for Non Cash Items		6.000	6.000	6.000	6.000	6.000	6.000
Own Funded Capital Expenditure		0.000	0.000	-4.000	-4.000	-4.000	-4.000
Cash Movement PA		0.700	-5.200	4.500	4.500	4.500	4.500
Assumes PSO profit capped at €0.7m and Schools does not make a profit							
Net Impact Expressway				6.900	6.900	6.900	6.900
One Off costs							
Subcontracting			-4.500				
Terms and Conditions			0.000				
Corporate Expressway Structure			-1.400				
Commercial Commuter Routes			0.000				
			-5.900				

Appendix 3

Supporting P&L data for Constrained restructure

Constrained Plan with general pay decrease	2015 Actual €m	2016 Forecast €m	2017 Forecast €m	2018 Forecast €m	2019 Forecast €m	2020 Forecast €m	2021 Forecast €m
Surplus / Deficit							
PSO	-0.351	0.700	0.700	0.700	0.700	0.700	0.700
School Transport	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Commercial	-5.640	-6.000	-29.405	1.800	1.800	1.800	1.800
Total Surplus/Deficit	**-5.991**	**-5.300**	**-28.705**	**2.500**	**2.500**	**2.500**	**2.500**
Accumulated Surplus/Deficit	-12.903	-18.203	-46.908	-44.408	-41.908	-39.408	-36.908
Equity Base	16.301	11.001	-17.704	-15.204	-12.704	-10.204	-7.704
Called Up Share Capital	29.204	29.204	29.204	29.204	29.204	29.204	29.204
Net Assets %	**55.82%**	**37.67%**	**-60.62%**	**-52.06%**	**-43.50%**	**-34.94%**	**-26.38%**
Estimated Cash Flow		-5.300	-28.705	2.500	2.500	2.500	2.500
Adjust for Non Cash Items		6.000	6.000	6.000	6.000	6.000	6.000
Own Funded Capital Expenditure		0.000	0.000	-4.000	-4.000	-4.000	-4.000
Cash Movement PA		0.700	-22.705	4.500	4.500	4.500	4.500
Assumes no significant own funded Cap Exp							
Assumes PSO profit capped at €0.7m and Schools does not make a profit							
Net Impact Expressway				6.900	6.900	6.900	6.900
One Off costs							
Subcontracting			-4.500				
Terms and Conditions			-13.328				
Corporate Expressway Structure			-5.577				
Commercial Commuter Routes			0.000				
Total Once off costs			**-23.405**				

Appendix 4

Breakdown of P&L based on earning reasonable profit for PSO and Schools of 5%

Constrained Plan with general pay decrease and 5% Reasonable Profit	2015 Actual €m	2016 Forecast €m	2017 Forecast €m	2018 Forecast €m	2019 Forecast €m	2020 Forecast €m	2021 Forecast €m
Surplus / Deficit							
PSO	-0.351	4.302	4.429	4.674	4.911	5.154	5.321
School Transport	0.000	8.334	8.735	8.919	9.126	9.283	9.490
Commercial	-5.640	-6.000	-29.405	1.800	1.800	1.800	1.800
Total Surplus/Deficit	**-5.991**	**6.635**	**-16.242**	**15.394**	**15.837**	**16.237**	**16.610**
Accumulated Surplus/Deficit	-12.903	-6.268	-22.509	-7.116	8.722	24.959	41.569
Equity Base	16.301	22.936	6.695	22.088	37.926	54.163	70.773
Called Up Share Capital	29.204	29.204	29.204	29.204	29.204	29.204	29.204
Net Assets %	**55.82%**	**78.54%**	**22.92%**	**75.63%**	**129.86%**	**185.46%**	**242.34%**
Estimated Cash Flow		6.635	-39.647	15.394	15.837	16.237	16.610
Adjust for Non Cash Items		6.000	6.000	6.000	6.000	6.000	6.000
Own Funded Capital Expenditure		0.000	0.000	-4.000	-4.000	-4.000	-4.000
Cash Movement PA		12.635	-33.647	17.394	17.837	18.237	18.610
Net Impact Expressway				6.900	6.900	6.900	6.900
One Off costs							
Subcontracting			-4.500				
Terms and Conditions			-13.328				
Corporate Expressway Structure			-5.577				
Commercial Commuter Routes			0.000				
Total One off costs			**-23.405**				
General Pay Decrease to mitigate Residual Costs							
PSO	40%		**0.000**				
School Transport	40%		**0.000**				
Commercial	20%		**0.000**	0.900	0.900	0.900	0.900
General Pay decrease of €4.5m (BE benefit shown)	**100%**	**4.500**	**0.000**	**0.900**	**0.900**	**0.900**	**0.900**

Appendix 5

In addition to the restructure changes identified in the plan, a further restructuring target is set for BÉ

Target annual cost savings	€ 2.5 m	• Equating to approximately 50 FTE, across all areas of BÉ
Exit Cost	€ tbc	• Not finalised yet, but will be expected to be on the same redundancy terms as the other restructure
Investment Required	€ tbc	• Not identified yet – project in Q4 2016 to confirm the specifics of where and how to achieve the savings
Timeline	2 yrs	• Confirm specifics of where / how to achieve in Q4 2016 • Achieve savings over 2017/18
Benefits to Commercial	20%	• The targeted savings would be intended to be recurring savings, across all 3 products – 20% of these savings would expect to accrue to Expressway

Appendix 5

State Aid can be justified if used in conjunction with addressing underlying issues

Underlying Issue to Address	Detail	Impact
Proposal re PSO reasonable profit	Recent proposal by NTA on linking reasonable profit rate to equity and not revenue is exceptionally impactful on BÉ because of the reduced net asset base	€5m per annum
Position on Schools reasonable profit	No reasonable surplus allowed for investing back into the business	€ 9m per annum
Loss of full fuel duty rebate	FDR was abolished in 2009, but it was reinstated in a diluted manner in 2013	€4m per annum since 2009
Issuing new Licences	Loss of revenue on impacted routes.	€2m per annum
Activities covered by Expressway that are not related to pure commercial PT services	Expressway undertakes activities in the public interest that would not be undertaken by a commercial operator if they were taking their commercial interests into account e.g. (Stations, Accessibility etc. An economic disadvantage on Expressway/BE)	€1m per annum
Cap on DSP payments	Expressway carrying a high level of DSP passengers on town to town elements of its services, but DSP payment is capped	€1m per annum

Appendix 5

State Aid / Compatibility with internal markets

In assessing whether notified aid can be declared compatible with the internal market, the Commission will consider whether each of the following criteria is met.

Compatibility criteria	Detail	Bus Éireann comment

Objective of common interest	A state aid measure must aim at an objective of common interest in accordance with Article 107 (3) of the Treaty – Not just exit prevention, but avoiding hardship, address market failure, etc.	• Required to guarantee network of integrated of services is maintained – to meet overall PT and regional/social objectives – avoid job losses across urban/rural locations
		• Impact of the closure of Expressway on BE / State
		  • Social hardship
		  • Risk of interruption / continuity of provision
		  • Loss of important technical knowledge and expertise

Need for state intervention	State aid measure must be targeted towards a situation where aid can bring about a material improvement that the market cannot deliver itself, for example by remedying a market failure or addressing an equity or cohesion concern.	• Previous Expressway turnaround plans have brought about survival situation but current liquidity issues cannot be solved entirely through normal revenue generation and cost efficiency measures – BE may collapse if the intervention is not made
Appropriateness of the aid measure	An aid measure will not be considered compatible of other less distortive measures allow the same objective to be achieved.	• The most distortive measures have been analysed and avoided by Bus Éireann and the shareholder/stakeholders
Incentive Effect	In absence of aid, beneficiary would have been restructured or wound up in a way that would not have achieved the objective of common interest.	• Exit strategies have been analysed and assessed
Proportionality	The aid must not exceed the minimum needed to achieve the objective of common interest.	• The restructuring plan makes best use of growth plans and normal cost efficiency initiatives to minimise the level of restructuring support required
Avoidance of undue effects on competition and trade between member states	The negative effects of aid must be sufficiently limited, so that the overall balance of the measure is positive.	• The restructuring package minimises the impact on competition and increases access for SMEs to the marketplace. Certain measures would be competition positive (Station access, FDR/BSOG)
Transparency of Aid	Member states, the Commission, economic operators must have easy access to all relevant acts and pertinent information about the aid awarded.	• Annex II indicative model will be utilised

Appendix 5

Potential Components of Existence plan and other options and whether they would trigger State Aid (1/2)

Element	Detail	Potential to be state aid
Growth plan for remaining Expressway services	Management focus on routes that are currently making a contribution, growth based on economic factors	No - Normal market behaviour
Commercial commuter routes	Demographic trends in the GDA are creating opportunities for premium commuter services	No funding required Normal Market behaviour Neutral impact on competition?
Separation out of non operational activities	Activity costs that are currently allocated to Expressway are transferred out (Stations etc.)	No – stations made accessible to all operators Some restructuring costs may be incurred
Subcontracting / Cancel routes	The most loss making routes are either subcontracted or cancelled Restructuring support for employees impacted	Restructuring costs may be incurred Neutral/positive impact on competition

Appendix 5

Potential components of Existence plan and other options and whether they would trigger State Aid (2/2)

Element	Detail	Potential to be state aid
Corporate Expressway structure	Expressway and organisational approach is restructured / consolidated	Restructuring funds may be required under constrained
Conditions of Employment	Terms and conditions are bought out	Restructuring funds may be required under constrained
Overall Corporate restructuring	Full corporate restructuring to mitigate the cost of residual	Restructuring funds may be required under constrained
Increased Fuel Duty Rebate/BSOG	FDR/BSOG scheme initiated to foster social and economic inclusion on commercial interregional services (town to town) and to reduce transport emissions	No – Available to all operators No restructuring funds required
Reasonable Profit	Allow BÉ to earn a higher reasonable profit in Schools and PSO to fund the restructuring changes	No

Appendix 6

High level implementation plan

Programme	Sub Projects	Outcome	Owner	Indicative timelines Subject to stakeholder agreement
1 - Structural and systems (Bus Éireann)	Develop and Implement new BE corporate structure	Streamlined corporate structure	CEO	Develop Q1 2017 Implement Q1 2018
	New legal structures	Separate subsidiaries	CEO/HOS	Q4 2017
	Staff aligned with Operating Companies	New Ethos/Culture	CHRO	Q2 2018
	New SLA approach for Expressway	Transparency	CFO/HOS	Q3 2017
	Shared Services Charging Model	Transparency	CFO/HOS	Q3 2017
	Legacy costs identified	Stakeholder	CFO	Q4 2017
	MIS systems separation	Optimal performance reporting	CCO/COO	Q1 2018
2 - Growth and Innovation	Commercial Commuter model	Additional revenue/bottom line	CCO	Q1 2017
	Network Utilisation - Route by route changes	Additional revenue/bottom line	CCO	Budget 2016/ Business Plan 2017
	New Booking Systems/eCommerce	Additional revenue/bottom line	CCO	2017/2018
	Commercial revenue generation plan	Additional revenue/bottom line	CCO	Budget 2016/ Business Plan 2017
	New Ancillary revenue generation plan	Additional revenue/bottom line	CCO	Q2 2017
3 - Sustainability and Efficiency	Target Operating Model designed for new corporate structure	Reduced cost per km	COO	End 2018
	New Maintenance Model	Reduced cost per km	CME	Q1 2018
	New Regional Operational Support Model	Reduced cost per km	COO	Q1 2018
	New Central Support Mode	Reduced cost per km	CEO	Q1 2018
	Route subcontracting	Reduced cost per km	COO	2017/2018
	Cost and Efficiency measures:			2017/2018
4 - Flexibility and Change	Conditions of Employment	New Ethos/Culture	CHRO	Q2 2018
	Pensions issues	New Ethos/Culture	CHRO	Q2 2018
5 – Stakeholder Comms	See BE Communication Plan		SMT	