

London TravelWatch Response to ATOC Review of Rail Fares Policy

March 2010

London TravelWatch response to the ATOC review of rail fares policy



London TravelWatch is the official body set up by Parliament to provide a voice for London's travelling public.

Our role is to:

- Speak up for transport users in discussions with policy-makers and the media;
- Consult with the transport industry, its regulators and funders on matters affecting users;
- Investigate complaints users have been unable to resolve with service providers, and;
- Monitor trends in service quality.

Our aim is to press in all that we do for a better travel experience all those living, working or visiting London and its surrounding region.

Published by:

London TravelWatch
6 Middle Street
London EC1A 7JA

Phone: 020 7505 9000
Fax: 020 7505 9003

Contents

Executive Summary.....1
Introduction.....2
London TravelWatch Response to ATOC's Consultation Questions.....3

Executive Summary

London TravelWatch welcomes the opportunity to respond to the Association of Train Operating Companies' (ATOC's) consultation on its 'Review of Rail Fares Policy'. London TravelWatch's remit extends purely to London and its immediate hinterland, within which a high proportion of rail travel consists of commuting and leisure trips to and from central London (plus a few specialist flows such as those to and from airports). Our comments to ATOC's consultation are confined to the requirements of transport users in this specific area and market.

From London TravelWatch's perspective ticketing as a whole forms over 50% of the appeals received about National Rail travel. It is therefore clearly an issue of considerable significance to consumers. Rail fares policy raises a number of complex issues which break broadly into two areas:

1. The pricing policy – what are rail fares for and what do they seek to achieve? London TravelWatch believes that there is not currently a clear answer to that question, particularly in London with the overlapping roles of Transport for London and the Department for Transport. We therefore welcome ATOC's attention to this area and hope that it may be the impetus for a debate leading to a coherent London wide review of fares.
2. The complexity of the fares products on offer to the passenger – ticket types have been simplified on the National Rail network. However, there is still considerable complexity and ticket names are often meaningless for passengers. This results either in fares being purchased that are not the best value available, or the perception thereof. With the move towards retailing of tickets away from ticket offices to the ticket vending machine or the internet, the passenger needs to have a greater understanding of the fares system in order to correctly identify the best value. For this reason it is increasingly important that the system as a whole becomes more easily understood to ensure consumers are able to access the best value fare.

Deregulation can be good for the passenger where direct equivalent competition exists. In reality for a large number of London commuters, rail represents the only practical option to travel to work and there is no competition on most flows between operators. For this reason London TravelWatch believes that to a greater or lesser extent a monopoly exists on many core ticket flows in the London and South East and it is therefore essential that the consumer is protected by regulation to define the limits of fare rises.

Introduction

London TravelWatch's remit in relation to the National Rail network is shown in the diagram below. Much of rail fares policy has nationwide implications. London TravelWatch has confined its response to this consultation to points of general impact and has only made specific comments about issues affecting the London area.

Figure 1 - Diagram of London TravelWatch's Remit in Relation to National Rail



London TravelWatch is currently conducting research into the issues surrounding First Class travel. It is anticipated that this study will conclude in the early summer of 2010. The customer research is being carried out in order to understand the needs of First Class passengers and the trade-off between premium services and capacity.

London TravelWatch Response to ATOC's

Consultation Questions

1. What are the strengths and weaknesses of the current fares structure?
Please give examples where possible.

- **Strengths:**

For journeys wholly within London, it is now zonally-based and partially integrated with that of the Underground and Docklands Light Railway (DLR), which makes it simple to understand and to offer integrated ticketing, notably via Oyster card.

- **Weaknesses:**

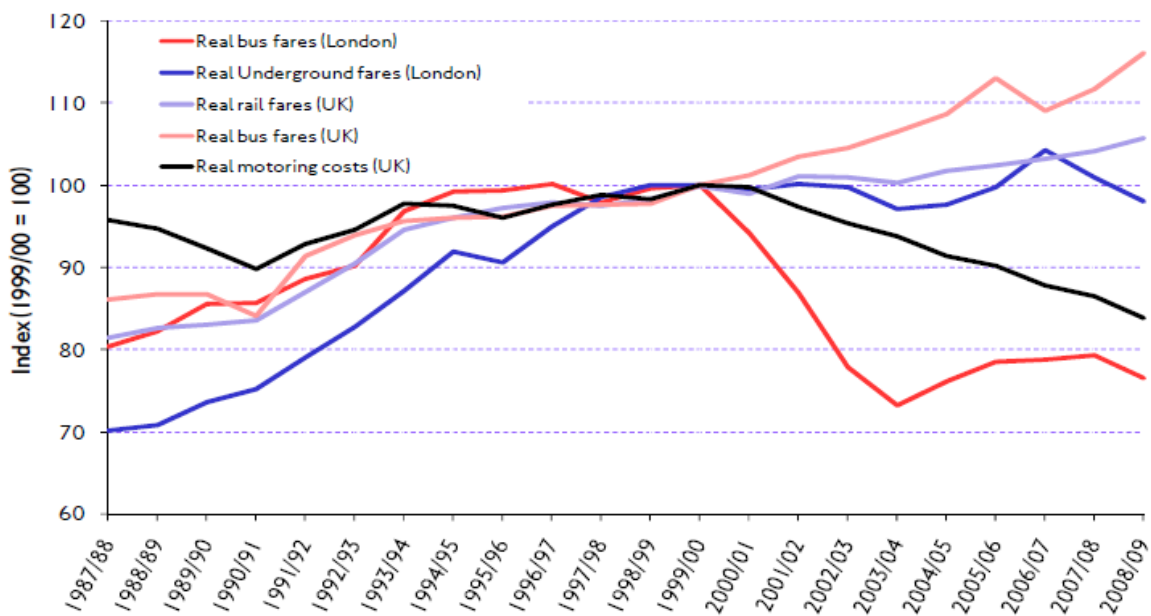
The integration is only partial – on most Train Operating Companies zonal prices still differ from those on TfL's (Transport for London) railways, and users pay a penalty for interchanging between them. In addition, there is a cliff-edge at or near the boundary of London although this has little relevance in terms of railway operation or passenger flows. This is because TfL and DfT (Department for Transport) apply different fare-setting regimes, resulting in different ticket types and prices and often in fares anomalies which can unintentionally distort demand. An example of the effect of this can be encouraging rail-heading to stations just within London.

The difference between TfL and DfT fares are illustrated in the graph overleaf from TfL's Travel in London Report 2 (2008/09). The graph shows the trends in fares for:

- Buses in London,
- Underground,
- Rail nationally,
- Bus nationally, and
- Motoring costs.

The graph shows the divergence in fares and costs of motoring since the end of the 1990s. The real cost of rail fares have increased more significantly than Underground and London Bus fares since the 1999/2000 index base year.

Figure 2 - Real Terms Cost of Public Transport Fares 1987-2009¹



Source: TfL Fares and Ticketing

Market segmentation is limited basically to peak, off-peak and season tickets. The pricing signals are not designed to encourage greater use of, for example, spare capacity on contra-peak services. Within London, the zones were devised originally for TfL's rail and bus networks (though are no longer required by the latter) and in some cases the attribution of National Rail stations to zones is overdue for review.

2. Are current fares levels too high or low? You may wish to consider this question in terms of specific types of fare or specific rail travel markets

There is no objectively "correct" level for rail fares, taken in isolation. They are a tool for pursuing any of a number of commercial or policy purposes, for example:

- In simplest terms the purpose of fares levels are to maximise of revenue generation to fund all or part of the railways' operating and/or investment costs,

¹ Source: TfL Travel in London Report 2 - http://www.tfl.gov.uk/assets/downloads/corporate/Travel_in_London_Report_2.pdf

- Setting price signals to influence users' modal choice and travel behaviour in order to serve wider economic or environmental objectives,
- Setting price signals to match demand more closely with available capacity, for example between peak and off-peak, or with and contra-peak,
- Pricing for different market segments from premium services such as First Class travel to Standard Class,
- Setting price signals to encourage brand loyalty, for example season tickets and railcards, or
- Subsidising travel by particular categories of user, such as retired people, children and job seekers, as a tool for achieving wider social policy goals.

It is only possible to say whether any fares are too high or too low once these purposes have been clearly identified and agreed, and the effects of the current fares levels and structures have been analysed in relation to them.

The question alludes to the issue that the levels of fares may also be specific to the characteristics of the market segments. There are clearly an enormous number of market segments served by the rail industry but in high level terms the market is broken into three main areas:

1. Commuters,
2. Business travellers, and
3. Leisure travellers.

Passenger Focus's research into 'Passengers' Priorities for Improvements in Rail Services' (<http://www.passengerfocus.org.uk/news-and-publications/document-search/document.asp?dsid=1132>), found that the passengers viewed improving the value for money of the ticket as the top priority in every region of the UK. Commuters and Leisure travellers ranked value for money ticket price first in order of priority for improvement, where as business travellers ranked it second. However, when looked at in terms of market segment by average expectation the results were more varied:

- Commuters – on average perceived value for money of tickets based on their expectations to be far worse than other market segments. This is probably because they have the least ability to vary the mode or time of day of their journey and therefore have little choice but to pay peak prices.

- Business Travellers – were in the middle between commuters and leisure travellers in terms of their perception of ticket value for money. However, they are as a group a relatively inelastic market as they are often not paying for their own tickets. This is partly reflected in the ranking of ticket value for money second in their ordering of priority for improvement. Business travellers may also have the choice of alternative modes such as air or the private car.
- Leisure Travellers – while on average their expectations of value for money of ticket prices were not met, they were far less negative about ticket price than commuters. This probably reflects the greater flexibility of leisure travellers who can take advantage of advanced fares, off-peak fares and railcard discounts. They are also often able to make the choice of travelling on an alternative mode, such as the bus, cycling or private car.

In some senses it is not surprising that passengers, when asked, say that their expectations of value for money are not being met. This does not in itself indicate that the actual ticket is poor value for money as to make that judgement requires a point of relative comparison and a clear understanding of the objectives of the pricing policy for fares.

In order to do this, it is necessary to establish a coherent multi-modal pricing policy as a key element in the transport strategy for London and its region as a whole. The Mayor has power to do this, but has not exercised it except in the case of the London Overground concession.

The consultation draft of the Mayor's revised Transport Strategy offered no definite view of pricing, merely stating that "The Mayor, and TfL will ... subsidise services at appropriate levels ... while reviewing fares levels to provide, if required, a residual means of achieving the goals of this transport strategy."²

Another reason why fares policy in London lacks coherence is that (other than briefly, in the era of "Fares Fair") fares changes have usually been made incrementally, in response to short-term budgetary or electoral pressures, rather than as part of a consistent long-term strategy. A review of fares policy, from first principles, is overdue. As part of such a review, it would be useful to discover the reasons which cause the cost of rail travel to the user in most other comparable cities to be markedly lower than in London and the corresponding cost to society as a whole, through taxation, to be higher.

² Source: Page 296, Policy 31, Mayor's Transport Strategy, 2009, <http://www.tfl.gov.uk/assets/downloads/corporate/mts09-complete.pdf>

3. The Government's approach in the 2007 White Paper was that a higher proportion (perhaps as much as 75%) of the rail industry costs should be funded by farebox revenue. Do you believe this policy to be achievable or desirable? If not, what contribution do you believe fare payers should make to the operation of the railway and future investment?

The White Paper, like the Mayor's Transport Strategy, has short comings in that it offers no coherent justification for either the current ratio of fares to other income or for the discrepancies in the pricing and funding arrangements for different transport modes. It is therefore impossible to understand how the projected 75:25 split has been arrived at or what policy goal it is intended to serve. The contribution that fare payers should make, if any, should be the end point of a root-and-branch review of the purpose of rail fares, not the starting point.

4. In light of response to (3) above, what do you believe to be the right policy for the level of rail fares over coming years (please consider a ten year time horizon)?

For the reason given in our response to (3) it is impossible to answer this question without a comprehensive review of transport pricing. However, a number of considerations will clearly enter the discussion:

- Changes in user pricing have the effect of either encouraging or discouraging demand for a service – so the fares strategy must start from a decision as to whether all or any rail travel is to be promoted or suppressed (and if so, when, where, and for whom), so that the correct pricing signals can be sent.
- Another is that for most rail journeys in and around London, substitutes exist – usually car, coach or bus. So the pricing structure must encourage the desired choice to be made between these. This necessitates, as far as possible, a common charging regime for these modes. This does not exist at present, because car travel has high sunk and low marginal costs to the user, while rail and bus travel (unless made on long-period season tickets) has the opposite. Eliminating this discrepancy will entail either a much larger element of pay-as-you go charging for car use or much lower point-of-use charges for public transport, or both.

5. Should rail fares be regulated and, if so, what form should this regulation take and to which fares should it apply?

On TfL's railways, fares are set by the Mayor. Some operating and/or maintenance functions are outsourced, and the suppliers of these bear the cost and delivery risk, but their revenue is predetermined by the terms of their contracts. The vast majority of the rail operators' revenue growth is driven by factors external to their control, notably the vitality of London's economy.

The balance between Gross and Net cost contracts in relation to revenue risk depends upon the market type. For London based franchises or concessions London TravelWatch suggests that as most of the drivers of revenue are outside of the control of the franchisee/concessionaire and that it is therefore more appropriate for the competent authority to retain revenue risk. So it makes sense for franchises or concessions to be let on a gross-cost basis, and for pricing to be a matter for political decision, not commercial calculation. The principle of contracts should be that the risk is retained with the party best able to handle or influence the risk. Given that the private sector operator has limited impact on the revenue drivers in London it would appear more appropriate for it to be retained.

6. Do you have any specific ideas for how the current structure for rail fares could be improved, bearing in mind your response to the questions above?

If it is the objective to maintain and promote rail use, passengers should be incentivised to pre-purchase their travel in bulk, at a discount, in the form of season tickets and/or stored value (e.g. Oyster pay as you go). The up-front cost of doing so can be offset by offering the facility of payment by instalments (direct debit).

The cost of some travel concessions (such as Freedom Pass) is borne by the taxpayer. The cost of others (such as child fares, and disabled persons' railcards) is borne by the industry – i.e. ultimately by other users. There is no clear logic for this. The continuing justification for such concessions would be weakened if all fares were lower, but if they are still thought to be desirable on social policy grounds, they should be a charge on the state, not other passengers.

7. Can you suggest any improvements to the way in which fares are presented in informational terms or retailed to customers?

TfL's railways have a much simpler (and therefore more easily promoted) system of fares and ticketing than does National Rail. This benefit would accrue to National Rail too, if the harmonisation and integration we have recommended is

implemented. This system lends itself to automated vending (e.g. Oyster auto top-up) which simplifies the retailing process.

Possible areas of improvement include:

- Extension of Travelcard type multi-modal zonal tickets to a greater proportion of the London TravelWatch area,
- Extension of smartcard ticketing across the London TravelWatch area,
- Season tickets for part of the week for part-time workers,
- Availability of a wider range of ticketing technology as appropriate to the market, for example mobile phone or self printed tickets,
- A more accessible and easy understood ticketing routing guide,
- Extension of Network card on a nation-wide basis,
- Railcard discounts and the full range of ticket types to be available from all sources of purchase, and
- Greater information on ticket vending machines about the ticket types and the best value fares.

8. Are there any other specific points you would like us to consider?

Whilst we understand ATOC's reasons for initiating this consultation, and are happy to participate in it, we do not believe that fares policy and fare-setting should be a matter for individual operating companies. We hope, therefore, that you will join us in calling upon the Mayor to assume his powers to determine National Rail service levels and fares in the London travel region.