

Fares and Ticketing Review Summary

April 2012



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Rail Fares and Ticketing Review: Initial consultation

In March 2012 the Department for Transport launched a review of rail fares and ticketing. This forms part of the Government's response to the findings of Sir Roy McNulty's Rail Value for Money Study¹ and sits alongside the Government's Command Paper on wider rail strategy (Reforming our Railway: Putting the Customer First²).

The full report can be seen at:

<http://assets.dft.gov.uk/consultations/dft-2012-09/main-document.pdf>

This is a consultation – the deadline for responses is 28 June 2012. The DfT is encouraging responses on line – follow this link for details https://consultation.dft.gov.uk/dft/2012-09/consult_view. Alternatively the response form – which can be found in the consultation document - can be completed and posted to: Department for Transport, Rail fares and ticketing review, 3/15 Great Minster House, 33 Horseferry Road, London SW1P 4DR.

What follows is a brief summary of the document. Its aim is to give a flavour of some of the core issues rather than provide a detailed analysis. Nor does it provide a view on Passenger Focus's response to the proposals - this being something we are currently working on. However, our earlier response to the 'McNulty' study will give an outline of Passenger Focus's policy on a number of relevant issues³.

Chapter 1: Principles of fares regulation

This chapter looks at why Government regulates fares and whether the current system of regulation is fit for purpose.

The key principles for regulating fares are:

- *To protect passengers from possible market abuse and ensure that rail travel remains affordable for a wide group of people.*

Government believes that regulation is important and plays a key role in helping to keep rail travel affordable for a wide group of people. But it also feels that the current system of regulation does not always manage demand in the most efficient way either for the commuter high-peak or for off-peak long distance travel.

- *To allow more scope for innovation in fares and ticketing and encourage train operators to make better use of the capacity that is available.*

Government thinks that the current structures do not encourage or allow train operators to offer new fares and tickets that could enable them to make better use of capacity – i.e. to

¹ <http://www.rail-reg.gov.uk/server/show/ConWebDoc.10401>

² <http://assets.dft.gov.uk/publications/reforming-our-railways/reforming-our-railways.pdf>

³ <http://www.passengerfocus.org.uk/news-and-publications/document-search/document.asp?dsid=5532>

incentivise commuters to travel on less busy services. Nor do they think the product base matches today's travel patterns – e.g. those who don't travel 9am-5pm, Monday-Friday.

- *To ensure passengers are treated fairly when they are buying tickets, and have easy access to a complaints handling system if problems occur when buying or using tickets.*

Government believes that the industry could and should do more to make ticket-buying more user-friendly, but that more regulation is unlikely to be the best way to achieve this.

- *To ensure that from a passenger perspective the rail network operates as an integrated whole.*

Government believes that current regulation has ensured that rail services operate as an integrated national network despite the number of different train operators running passenger services. However, it thinks that there is likely to be scope to rationalise some of this regulation in future in response to changing retail patterns.

In essence, the Government is not looking to abolish fares regulation but it will look to refine it, especially for off-peak fares.

Chapter 2: Smart ticketing and season tickets

This chapter sets out current and future developments in smart ticketing technology and explains this could allow train operators to introduce new flexible and more tailored season tickets better suited to the way people work and travel today.

- **Smart ticketing**

Government definitely sees smart ticketing as the future. It is seen as the enabler/catalyst behind much of the change outlined in the review.

Government wants to see smart ticketing rolled out as widely and as soon as the technology permit. This will allow train operators to develop new flexible and more tailored tickets, starting with season tickets where a “one size fits all” approach is increasingly out of kilter with the way many people now work. It is also seen as a means of reducing the cost of retailing.

Government is working with train companies to understand the kind of smart tickets that appeal to passengers. This could include different models for different types of passengers:

- Smart seasons for commuters.
- Personal ‘accounts’ potentially including some form of pay-as-you-go (PAYG) or multi-use discount /frequent flyer points for less frequent users.
- A form of PAYG for short trips including a multi-modal element.
- A form of advance booking with some flexibility for longer trips.

The review acknowledges the need for any smart-ticketing system to:

- ensure passengers understand the range/options of tickets available.
- be inter-operable (i.e. usable with different operators)
- store personal data safely.

- **Season tickets**

The review acknowledges the concerns of existing commuters and proposes two initiatives:

- Employers will be encouraged to offer season ticket loans and train companies to offer monthly payment schemes – i.e. direct debit scheme - to enable more passengers to get access to the savings offered by annual season tickets.
- Offer seasons aimed at part time workers (either by day of week or even peak/off-peak seasons). They particularly refer to the impact on gender equality (i.e. women being more likely to be part time workers). Existing season tickets tend to reflect a more traditional five-day week.

Both of these are initiatives Passenger Focus championed in our 2009 fares report⁴.

Chapter 3: Using fares to achieve more efficient use of rail capacity

This chapter considers the case for using 'price signals' to smooth demand across the commuter peak in order to make more efficient use of capacity; and to smooth demand peaks at certain times of the day on long-distance services.

The main thrust of this chapter is about using price to change the time people travel. The ultimate aim is to reduce some of the crowding pressures on busier services. Government argues that the current fares system/structure is a very blunt instrument and doesn't permit more sophisticated demand responsive pricing. They think there is scope to do more with both peak and longer-distance fares.

- **Peak**

One option is to introduce "shoulder-peak" fares priced somewhere between the "high-peak" and the off-peak fare. This would allow pricing to reward passengers who already avoid the busiest service and draw some of the existing peak passengers to the shoulder-peak. But to provide a stronger incentive for behavioural change Government asks whether a higher, "high-peak" fare should be introduced. This was something modelled in the McNulty review - they estimated that you could reduce average peak demand by 5% by increasing high peak fares – but it took a 40% increase over five years to do so. The review points out that, even if Government was to implement any form of demand management using pricing, it is likely that they would require operators to make any changes incrementally over a number of years, to avoid the disruption and disproportionate impact of a major one-off change.

The report also sets out some of the other challenges and concerns that would need to be addressed if such a proposal went ahead. Perhaps chief amongst these is the question of

⁴ Fares and Ticketing Study. Passenger Focus. 2009. <http://www.passengerfocus.org.uk/news-and-publications/document-search/document.asp?dsid=2526>

whether passengers do indeed have the flexibility to change work travel patterns. This is likely to be the main focus of debate.

Government accepts that asking passengers how they would respond to hypothetical fare changes is no substitute to observing how passengers actually behave in the real world. So before introducing any new fares structure nationally they would “first want to understand how it worked on a smaller section of the network”. This hints at some form of trial or pilot.

- Long Distance / Intercity services

Government believes that there is scope to introduce some smarter demand management on long-distance services. This is to address the peak/off-peak ‘cliff face’ whereby the last peak train is empty and the first off-peak is full.

DfT will work with train companies to assess the scale of the problem. It will expect operators to see what can be done within the current franchise terms but if this fails they will look at whether they can provide “any additional incentives on train operators to manage demand more effectively in these cases.”

The review makes it clear that moving to “universal book-ahead only trains” is not one of the options that would be considered. They endorse the argument made by Passenger Focus and others: why invest so heavily in a turn-up-and-go level of frequency only to make people book ahead. But they will consider:

- Extending the window for booking Advance Purchase fares closer to the actual point of departure (they mention up to an hour before).
- Whether there might be some benefit in permitting operators to apply regulated restrictions on the use of longer-distance off-peak tickets on evening peak departures from major commuting centres outside London. In other words restricting the use of certain tickets at peak times.
- Whether better incentives could spread demand more evenly on weekends. They point to crowding on some Sunday afternoon/evening long-distance services. Weekends are currently designated as off-peak – so providing some form of incentive would presumably require differentiated pricing.

Chapter 4: Fares and ticketing complexities

This chapter sets out some of the main reasons why the current fares structure can cause confusion.

Among the key points are:

- **Fare restrictions**
Government says it will consider the case for reforming regulation in relation to time restrictions. It does not, however, give a sense of what is being considered.
- **Fares basket flexibility**
The existing cap on regulated fares is implemented by train operators as an average across a 'basket' of different fares. Some flexibility is allowed on individual fares (by up to 5% - apart from Southern where it is 2% – as long as the average stays at the regulated levels.

Government is not proposing to scrap this flexibility as it sees it as one way in which operators can manage demand more effectively. It does not, though, explicitly commit Government to the full +/- 5% flexibility.

- **The terms and conditions for Advance fares**
The review mentions the concerns expressed by Passenger Focus and others about the restrictive nature of Advance tickets. We would like passengers with Advance fares who miss their train or board the wrong train to "pay the difference" rather than be forced to buy a whole new ticket. Government says it will consider this.

In the meantime Government accepts that operators should do more to explain the restrictions to passengers at the point of purchase.

- **Fare inconsistencies**
With as many as 100million through fares the DfT accepts that there will be some inconsistencies. However, Government states that it will maintain the current commercial approach to fare setting rather than shift to a distance based approach advocated by some. This does, though, make it all the more important to be clear about fares and restrictions.

The review also addresses some specific causes/examples of such 'inconsistencies':

- While not intending to revert to any 'pence-per-mile' structure, Government does believe that there is a case for reducing any significant regional imbalance in fares levels. They do not advocate a particular solution – though they do rule out lowering London fares to regional levels or raising regional fares to London levels.

As part of the devolution agenda Government is willing to consider whether responsibility for setting local fares should be devolved along with the service specification function. This could give a local body responsibility for determining the right balance between fares levels and the amount of funds available for improving rail services, with central Government responsible for ensuring that the budget allocated to a local body was fair and reasonable overall.

- While Anytime fares are often priced on a single-leg basis i.e. with the single priced at half the return, off-peak singles can cost as little as ten pence less than the return. We (and others) have advocated a move to single-leg pricing. DfT states that it will not impose a single: return price ratio but it is happy for train companies to explore this themselves.
- Fares data transparency
The DfT is working with the Association of Train Operating Companies (ATOC) to consider how to provide open access to rail fares data (which is currently available only by obtaining a licence). They see this as a potential barrier to private sector companies developing more innovative approaches to delivering rail fares information. They feel that expanding the range of businesses providing this information could result in savings for passengers and business and potentially boost passenger numbers, particularly on less busy services where the cheapest deals are usually available.

But Government also accepts that there is a need to ensure accuracy – they don't want third-parties giving incorrect advice on fares- and talks. One possible option may be requiring some 'quality control' measures that ensure information is up to date and reliable.

The review also acknowledges that such fare-finding services could result in more widespread use of combinations of tickets for a single journey (i.e. split-ticketing). They state that they want to understand how train operators are likely to respond to this impact on their revenue, and whether there is a risk that prices for some journeys could actually rise. They use the following by way of an example: "in some cases a journey A to C can be made more cheaply by buying separate tickets from A to B and from B to C. In many cases this inconsistency stems from the fact that demand for one or both of the 'legs' is lower than for the journey as a whole so those 'legs' are priced at a lower level than the through journey from A to C, even where all of those fares are set by the same train operator".

Chapter 5: Buying a ticket

This chapter sets out the shortcomings of existing ticket sales channels (self-service ticket machine, online) that need to be addressed; how passengers could benefit from being able to buy tickets from a wider range of outlets, not just at the railway station; and why a more flexible approach to person to person ticket sales and ticket office opening hours might be appropriate in future.

The review says that making ticket buying easier and more user-friendly is one of the most important things the rail industry could do. This is for two reasons:

- Passengers find the fare structure too complex. Government is comfortable with choice (which inevitably brings complexity) but it must be communicated to passengers in a straightforward way.
- The McNulty study saw ticket offices as a major area for cost and efficiency savings.
- Ease of purchase
The review summarises the different ways of buying a ticket:

- Ticket offices.
These are seen by passengers as the 'failsafe' way of buying a ticket because staff are able to answer questions about restrictions and help ensure you get the most appropriate ticket. However, the review asks whether staff could potentially provide more reassurance if they were out on the station instead of behind a ticket office window. It also points to the costs involved.
- Self service ticket machines
These are seen as popular for routine purchases and can offer a quick and convenient way of buying (or picking up) a ticket. However, they do not always sell the full range of tickets, can be hard to navigate and sometimes make it hard to understand information about ticket validities. Government acknowledges existing work to improve ticket machines but states that more needs to be done.
- Internet
The review points out that the internet offers a fast, convenient way of buying a ticket but that it has some of the same short-comings as ticket machines – e.g. the use of jargon, the full range of tickets not being available and functionality varying in quality. As with ticket machines these things may present particular difficulties to certain user groups including older people or those with certain types of disability.

While recognising the increased spread of the internet Government believes that it must take account of the needs of all users, and accepts (for the moment at least) "there is still a limit to the extent to which online sales channels can provide an acceptable alternative to ticket offices."

- New ways of selling tickets
Government believes that encouraging train operators to think innovatively about how best to sell tickets, for example linking ticket sales with other retail opportunities, would have benefits for passengers. Passengers could also benefit from being able to buy tickets from a wider range of outlets – e.g. post offices, supermarkets or libraries. This could involve 'topping up' smartcard or even printing tickets from an internet terminal at a library.

Government believes there are lots of possible options and wants to see operators taking the lead on exploring them. They would be happy to work with operators to consider how any regulatory barriers could be addressed.

- Ticket office opening hours
The review returns to the issue of ticket offices and, in particular, to the cost of operating them. It refers to the McNulty study's recommendation that ticket offices are removed from Category E stations and opening hours elsewhere be reduced.

The report states that train operators will be expected to reduce their costs and this is one important option they will want to consider, in parallel with improving alternative retail channels so that more passengers can feel confident using them. Government feels this is

an appropriate point to revisit the procedure operators are required to follow to make changes to ticket office opening hours.

However, the review does state that before Government could agree to change they would need to be confident that passengers would continue to enjoy ready access to ticket-buying opportunities. They also recognise that older and/or disabled users find it harder to use machines and want face to face contact. They talk about the potential for 'assisted purchase' channels in such instances.

Chapter 6: Next Steps

Government's next steps are:

- Push ahead with rolling out smart ticketing technology and work with train operators and local/regional transport authorities to develop new flexible and more tailored ticket types;
- Explore in more detail the scope for using price signals to smooth demand in order to make more efficient use of capacity (including but not limited to the commuter peak);
- Consider options for addressing the issues identified in relation to time restrictions; terms and conditions of Advance tickets; the case for reducing any significant regional imbalance in fares levels; and
- Encourage operators to improve ticket machine and online sales channels and, as ticket-buying habits change, to consider how best to deploy their station staff to provide the most benefit to passengers while reducing costs and providing a safe environment; consider the process operators are required to follow to make changes to ticket office opening hours; and consider how the number and range of outlets selling train tickets could be radically expanded.

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