



Rail Fares

Moving Beyond Simplification

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ASSOCIATION of TRAIN OPERATING COMPANIES



Rail Fares: Myths, Truths and Some Forward Steps!

- Value for Money
- Complexity
- Trust

Value for Money

- In 2007/8, the average fare paid per single journey was just **£4.60**
- Only 2% of customers are using full fare tickets on long distance routes, yet it is these customers and the relatively expensive fares that they pay which tend to be highlighted by the media
- 63% of customers are travelling on a fare that is regulated by the Government
- 80% of customers are travelling on some form of discounted fare (including Season tickets)

Value for Money

- Since privatisation, the average fare paid has increased by **35%** from £3.21 to £4.60
- Over the same period, inflation (RPI) has increased by 29%, meaning that overall, fares have risen by **6%** above inflation in 11 years
- The average increase in fares above inflation since privatisation is just over **0.5%** **per year**
- Within this, there have been significant variations with full fare tickets rising significantly above average but conversely Advance fares falling in real terms

On Many Routes Advance Fares are Now Cheaper in Real terms than they were in 1996...

| Journey | Fare Sept 1996 | Fare Jan 2008 | % change (real) | % of journeys made using this ticket on this route |
|-----------------------|----------------|---------------|-----------------|--|
| London to York | 25.00 | 22.50 | -44% | 10% |
| London to Leeds | 20.00 | 22.50 | -22% | 17% |
| London to Edinburgh | 29.00 | 31.40 | -26% | 6% |
| London to Cardiff | 24.00 | 24.00 | -34% | 7% |
| London to Weymouth | 21.00 | 25.30 | -14% | 19% |
| London to Manchester* | 19.00 | 26.00 | +3% | 10% |

Source: ATOC

Note: Advance purchase ticket conditions are in many cases less restrictive now, with many tickets available up until the day prior to departure

* £5 print at home ticket also available on London – Manchester route

Most Customers are Not Buying the More Expensive Full Fare Tickets

- Full fare Standard and First Class fares are expensive on longer distance routes (although where air competition exists, they are usually broadly comparable to fully flexible air tickets)
- However, most customers are not paying these fares. We have given examples of four routes below:

| Proportion of Customers Paying Single Fare Shown or Less | | | | |
|--|-----|-----|-----|----------------------|
| | 25% | 50% | 75% | Full Standard Single |
| London – Cardiff | £20 | £30 | £40 | £79 |
| London – Manchester | £25 | £35 | £45 | £115 |
| London – Edinburgh | £30 | £40 | £55 | £126 |
| Bristol – Newcastle | £20 | £35 | £60 | £95.50* / £175** |

Source: ATOC / Lennon 2007/8 data

* Cross Country

**Any permitted

- On the routes shown, between 85% and 96% of customers were travelling on a discounted ticket of some kind

Value for Money

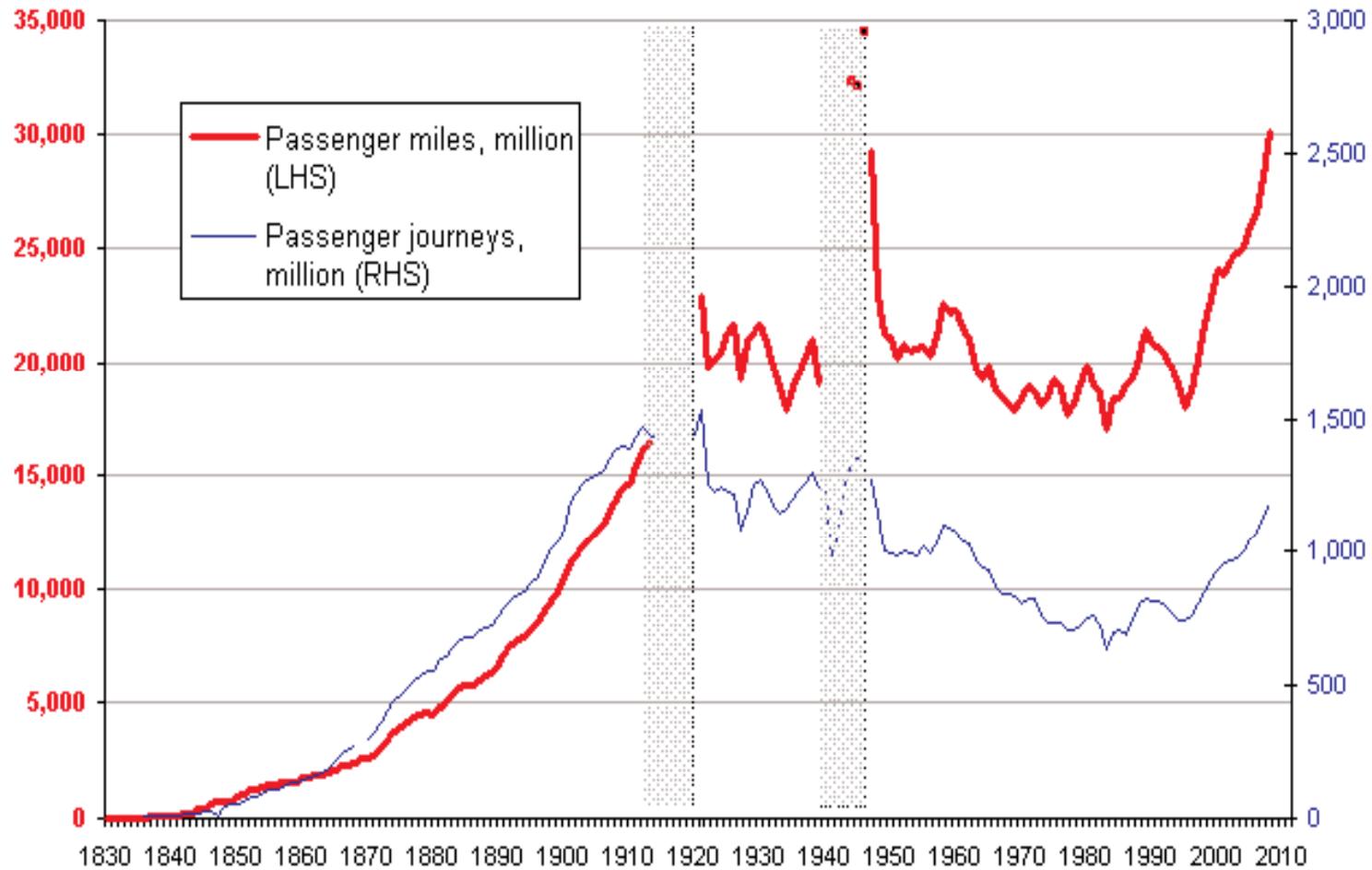
- The growth in demand over the last twelve years suggested that customers are finding value for money tickets
- Since privatisation, usage has increased at a faster rate than at any time since the 19th century
- Growth has been seen in all our main markets:

| % Increase in Volume Since Privatisation | | |
|--|------------|------------|
| Market | Journeys | Miles |
| Single and Return Tickets | 55% | 39% |
| Season Tickets | 39% | 61% |
| Total | 47% | 45% |

Source: ORR National Rail Trends

- The strongest growth has been seen during weekday mornings and evening peaks

The Passenger Railway since the beginning - Passenger Miles and Journeys



Value for Money – Rail Compares Well With Other Modes and Other Services

| Type | % Change since 1996 | % Real Change since 1996 After Inflation |
|----------------------------------|---------------------|--|
| Rail fares | 35% | 6% |
| Bus fares | 45% | 18% |
| Business air fares | 61% | 33% |
| Motoring – Maintenance costs | 66% | 37% |
| Motoring – Tax & Insurance costs | 52% | 23% |
| Motoring – Fuel costs | 63% | 35% |
| Motoring – Car purchase costs | -33% | -52% |
| All services | 77% | 48% |
| All goods | 10% | -19% |
| RPI | 29% | |

Source: ONS, ORR – National Rail Trends, ATOC, Oxford Economics

If All This Is True Why Do Passengers Rate Value For Money So Poorly?

- Overall value for money scores from the National Passenger Survey (NPS managed by Passenger Focus) show overall satisfaction with value for money at around 45% and on a rising trend (the Autumn 2007 results were the best ever)
- **This is a concern and we would like to do better**
- However, value for money is a more complex issue than superficial analysis might suggest
- Within this trend are very considerable variations:
 - Overall average brought down by commuters in London and South East. Higher scores for longer distance, regional and leisure travellers
 - Amazing variation by age. Over 60s are 80% satisfied whereas the under 30s are 30% satisfied!
 - Only 88% of customers who travel entirely free (London Freedom Pass holders) are satisfied with value for money!

Value for Money

- Passenger Focus have undertaken (multivariate) analysis that provides a further interesting insight into 'value for money'

| Top Five Issues for Dissatisfied Customers | |
|--|-----|
| Delay arrangements | 53% |
| Punctuality | 20% |
| Journey time | 7% |
| Overcrowding | 4% |
| Ability to board train | 3% |
| Value for Money | <1% |

Source: NPS Passenger Focus

- It seems possible that despite the way in which the value for money question is asked in the NPS that customers respond on the basis of the general perception of rail fares rather than the journey they are making
- Public perceptions are influenced by the media and its generally negative coverage of rail fares
- Passenger Focus and, possibly, ATOC are planning further customer research on this issue

Value for Money – Differential Price Increases

- Around 68% of the fares purchased by customers by volume regulated at RPI+1
- The fares baskets used by train companies and supervised by the DfT allow differential changes provided the ceiling is not breached for all fares in total
- Where some fares increase by more than RPI+1, it means that other fares must increase by less than PRI
- The ability to be able to raise prices differentially allows train companies to:
 - Raise revenue in line with franchise agreements, pay for investment and support premium payments to the DfT
 - Remove anomalies

Complexity

- Fares simplification has squarely addressed issues of complexities and has involved train operators sacrificing commercial flexibility for uniformity and consistency
- Simplification has been supported by changes to the ways in which fares are presented on the internet to make it simpler and easier for customers to get the best value fare for their journey
- The new structure has been based on customer research undertaken by ATOC and further validated by Passenger Focus research
- We have made big steps forward in addressing complexity and will continue to strive for simplicity but as the railway develops (it's going to become a smarter world), we will need to adapt

Trust

- Constant allegations in media and by commentators, that train companies deliberately sell customers more expensive tickets than necessary, train companies do **NOT** deliberately sell more expensive tickets to customers than necessary
- These claims are usually unsubstantiated. The Which survey of 2007 was based on a survey of **25** transactions, which they declined to share with ATOC / TOCs
- ATOC undertakes an extensive programme of retail mystery shopping every year as part of the industry's regulatory framework:
 - 7,500 mystery shops
 - Stations, call centres and the internet
 - Scenarios laid down by DfT
 - Undertaken by independent research company
 - Results reported formally to DfT

Trust

- In 2007, the mystery shopping programme demonstrated extremely high levels of retailing accuracy:

| Channel | % Accuracy |
|--------------|--------------|
| Stations | 99.1% |
| Call Centres | 99.3% |
| Internet | 100% |
| Total | 99.5% |

- The 2007 Passenger Focus report in train company retailing found high standards of accuracy and no evidence of misselling... “in the vast majority of cases, staff provided accurate prices for tickets”

Trust

- Train companies do not deliberately mis-sell but we do make mistakes
- 0.5% or 1% of 1.2 billion passenger journeys still a big number
- Reasons for mistakes vary:
 - Prosaic such as mishearing
 - Miscommunication
 - Data errors
 - Limitations inherent in some forms of retailing
- These issues, wherever possible, are being addressed

Trust

- In order to improve trust, we must:
 - Make every effort to make information on fares clear to customers and allow them to make an informed choice
 - Keep fares simple to allow people to choose the right fare with the minimum of effort
 - Communicate better that we do sell accurately to address current misconceptions
- Much has been done to address this but we must continue to focus on improvement

Fares – Some Further Thoughts

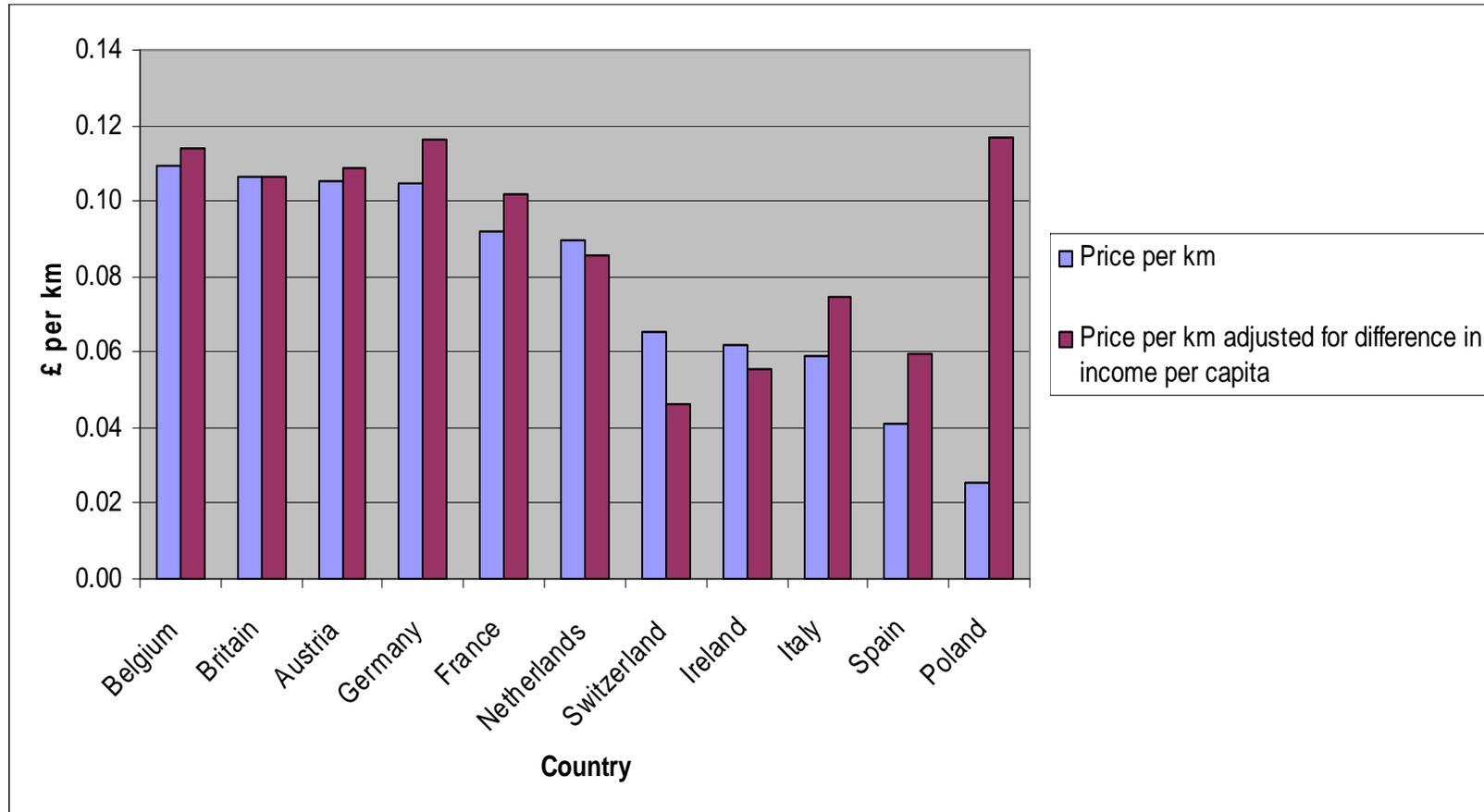
- Most industry commentators calling for lower rail fares omit to highlight the corollaries of increased subsidy, lower investment or reduction in other Government expenditure
- Would customers and taxpayers chose lower rail fares if the trade-offs were properly understood?
- This is a matter for Government, not train companies, but the kind of informed debate to address this issue rarely occurs
- Given the evidence on rail fares presented today, we would argue that the balance is probably about right
- In growth terms and financially, the railways have rarely been so successful. An economically strong, vibrant railway would seem the best basis for continued investment and growth
- But, let's debate!



Workshop Issues

- Value for money – are rail fares value for money?
- Complexity – are rail fares too complicated?
- Trust – can you trust train companies to sell you the correct ticket?

Price per km for Major European Railways – 2006



Source: UIC, Eurostat