



Rail Value for Money Study
Submission from Passenger Focus

July 2010

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1. Introduction

Passenger Focus is the independent consumer body representing the interests of rail passengers in Great Britain. We exist to get a better deal for passengers and to ensure that their voice is heard by all the different parts of the industry.

We understand the financial and economic arguments underpinning the study but we believe it is crucial that the study does not marginalise the ultimate customer. It is passengers who will be travelling on services and who will pay the fares - so it is right and proper that their views are taken into account when determining the priorities. Passenger Focus – with its independent, evidence based approach - is in a unique position to both capture these views and ensure that they are heard. To this end our submission begins with a broad outline of passengers' priorities.

Passengers do not exist in a vacuum. They know that tough decisions on public spending are having to be made and that transport will not be immune. It is widely acknowledged that costs within the industry are still too high and that it is still not as efficient as it should be. There is a clear sense from passengers that the industry must look to address these before thinking about passing any of the 'pain' onto passengers in the form of higher fares or a reduction in services. The rest of our submission focuses on two specific areas where we feel this can be achieved.

Section three looks at the issue of cost and efficiency and outlines three areas where we feel better value can be obtained:

- Getting more out of enhancement/renewal schemes
- Generating additional demand (and revenue) by reducing engineering possessions
- Generating demand by aligning industry incentives

Section 4 moves on to the question of revenue optimisation. It argues that there are many aspects of the existing structure that suppress demand and which, if addressed, could generate additional income:

- Introduce single-leg pricing to facilitate a mix-and-match approach to buying tickets
- Providing greater transparency and reassurance when purchasing

2. Passenger priorities – what do passengers want?

As part of its input into DfT's High Level Output Specification (HLOS) process Passenger Focus commissioned research into passenger priorities for improvement. Around 4000 passengers were asked to rank 30 different aspects of rail travel¹. The work was repeated in 2009².

¹ [Passengers' priorities for improvements in rail services](#) . July 2007

² Passengers' priorities for improvements in rail services. March 2010

The table below shows the top ten priorities in 2009 compared to 2007. It also shows the relative importance of each attribute ranking relative to punctuality - the higher the score, the greater priority passengers assign to that service aspect.

Service Improvement Preference	2007	2009	2009 'Score'
Price of train tickets offer excellent value for money	1	1	1.08
At least 19 out of 20 trains arrive on time	3	2	1
Sufficient train services at times I use the train	2	3	0.98
Passengers are always able to get a seat on the train	4	4	0.86
Company keeps passengers informed if train delays	5	5	0.79
Information on train times/platforms accurate and available	7	6	0.75
Maximum queue time no more than 2 mins	6	7	0.69
Trains consistently well maintained/ excellent condition	8	8	0.69
Seating area on the train is very comfortable	9	9	0.67
Station staff are available whenever required	17	10	0.67

In the 2009 research there were three clear priorities for improvement: value for money, punctuality and service frequency. These, coupled with seats/capacity in fourth place, emphasise the importance passengers place on the 'core product.'

Passenger Focus also conducts the National Passenger Survey (NPS). We consult over 50,000 passengers a year to produce a network-wide picture of passengers' satisfaction with rail travel.

Multivariate analysis of the overall satisfaction and dissatisfaction scores reveals that punctuality is the single biggest driver of overall satisfaction while the biggest driver of dissatisfaction is the way that the industry manages delays. In very simplistic terms, this means that the best way to improve overall passenger satisfaction is to get the trains to run on time.

It is clear from this research that changes to the core service could have a major impact on passengers. This applies to the price of tickets as well as the service level. In the latest NPS wave (Spring 2010³) while 83% of passengers overall were satisfied with their journey only 48% expressed satisfaction with value for money (a figure that drops to just 35% with commuters). Additional research⁴ shows that, from the passenger perspective, value for money is inextricably linked with price. Quality also matters - the three most important factors being punctuality, being able to get a seat and information during times of disruption – but price clearly plays its part.

Changes to the core product (including the cost of travel) will have a greater impact on commuters, particularly those in London, who have made decisions on where to live or work

³ NPS summary report. Spring 2010

⁴ Fares and Ticketing Study. February 2009

on the basis of the train service provided and who simply can't change behaviours in the short-term. The lack of a viable alternative mode of travel (especially into Central London) coupled with the lack of genuine competition between train companies means that such passengers are in a captive market. Where the market can't provide choice it is right and proper that other mechanisms exist to stop such passengers being exploited.

3. Reducing costs and inefficiencies while securing better value for passengers

At the time of the last structural review of rail in 2004 we asked passengers what they wanted from any new structure⁵. Their answer was clear – as well as improvements to services they wanted a sense that ‘somebody’ had a strategic vision for the railway and the power to ‘get a grip’ when necessary. This includes issues of costs and efficiency.

Perhaps unsurprisingly passengers would prefer the industry to identify efficiency savings rather than cut services or increase prices.

There are three particular areas we would like to comment on:

a) Improving value for users from the railway engineering/operations interface

We believe the industry misses opportunities for greater synergies between renewals and enhancement work. For example:

- When renewing the track between Settle and Carlisle why didn't the industry take the opportunity to increase the speed limit from 60mph?
- We understand that significant renewals work on the Stanningley Tunnel (Between Leeds and Bradford) has been completed and yet a 30mph speed restriction remains in force.
- The capabilities of new rolling stock (e.g. greater acceleration, higher speeds and better braking capabilities) are not fully exploited because potential infrastructure capabilities are not simultaneously released.

Not addressing these issues means that we lose the opportunity to create additional passenger benefits (in these examples it would mean providing faster or more frequent services) which in turn would create additional demand and revenue.

The renewals budget accounts for nearly 50% of Network Rail's expenditure in CP4 - around £12billion - and yet there is no particular incentive upon Network Rail to improve infrastructure outputs to passengers after the renewal work. It is, of course, important to maintain the network but with the sheer sums involved it must be asked whether it could also deliver *additional* benefits for passengers rather than ‘maintain the status quo’.

To this end we would ask:

- Whether Network Rail should be required to review renewals work to see where additional benefits can be achieved? As mentioned, a good example is ensuring line

⁵ Putting passengers at the heart of rail services. RPC. 2004

speed matches the capabilities of rolling stock. This could be monitored/incentivised using timetabled average journey times between key centres.

- To what extent could ORR define what might reasonably be expected from modern equivalent form renewals of infrastructure?
- Would improved (and earlier) stakeholder engagement in the renewals and enhancement help to leverage improved outputs without additional cost?

b) Generating additional demand by reducing engineering possessions

Passengers understand that there will be times when engineering work will result in disruption to services. Passengers' acceptance of disruption increases if they believe the works are being planned efficiently and in a way that would reduce the overall timescale of the disruption⁶. However, weekends have become synonymous with increased journey times and rail replacement buses. The sense of 'digging up the railway' every weekend is bound to suppress demand for rail.

However, the current regulatory incentive regime for disruptive possessions (Schedule 4) does not seem to incentivise Network Rail to keep possessions to the minimum. It has been said that by seeking the largest possible blockade and by providing the maximum possible notice Network Rail gains significant discounts on the compensation rates payable to train companies. This is neither efficient (in terms of network availability) nor does it necessarily stimulate the lowest overall industry cost for implementing engineering work.

Addressing engineering possessions will help to grow existing demand and boost revenues. We know from discussions with Virgin changes to the possessions strategy on the West Coast Main Line have resulted in significant passenger growth at weekends.

c) Increasing demand and promoting long-term benefits by aligning industry incentives

There is a need to balance the conflict of interest between the shorter-term "bottom-line" demands of franchises and the longer-term user benefits and efficiency that come from the railway infrastructure and long-term planning cycles. For instance:

- In the final months/years of a franchise is a TOC's focus more on its own financial results than on maximising future benefits to passengers?
- Would TOC's resist or fail to engage productively on any proposals which have an adverse impact on the bottom-line (e.g. through engineering blockades) even if it offers benefits in the longer-term?
- Do franchised train companies receiving 'revenue support' from DfT have enough incentive to reduce costs, improve services and grow passenger numbers?
- Shorter-franchise periods do not incentivise train companies to invest for the long-term. Would addressing the issue of 'residual value' encourage more investment – e.g. more rolling stock?

⁶ Passenger attitudes to engineering work. 2003

These issues have a direct impact on passengers. Removing barriers that suppress current demand will help to boost immediate revenues while accelerating the delivery of additional passenger benefits which will ensure that the market continues to grow.

Passenger Focus believes that:

- Longer franchises *could* bring benefits but there must be a mechanism for removing poorly performing operators and for reacting to significant change over the course of its life. Any subsequent proposals to decrease service levels should be subject to full public scrutiny/consultation
- Incumbent franchises must be incentivised to deliver continuous improvements throughout the life of the franchise and not be discouraged from investing towards the end of a franchise. We want to see train companies spending money on capital investment but clearly they will not do so if they risk losing the value of that investment towards the end of the franchise period. We welcome the fact that the issue of 'residual value' is being addressed in DfT's current consultation on franchise reform. Unless this can be resolved it will be very difficult to persuade franchisees to provide capital investment on the scale desired
- Assessments of performance should include qualitative criteria as well as the traditional hard measures of punctuality and crowding. The Southern franchise, for instance, contains NPS targets score for Customer Service, Train and Station measures. There is potential to develop the use of such targets and to weight criteria according to their level of importance. The use of such 'output' measures could help to create accountability while allowing TOCs more freedom to innovate.
- There must be more transparency – the franchising regime must ensure that it provides sufficient information such that passengers can hold the TOC to account for the service it provides. This means greater disaggregation of the hard targets used in a franchise – e.g. performance and crowding data provided at least on a route by rote basis

4. Revenue Optimisation

a) *Current structure of fares and ticketing*

In 2009 Passenger Focus published a major piece of work on fares and ticketing⁷. This identified a fare structure characterised by:

- i. Poor perceptions of value for money
 - Low levels of satisfaction with value for money, especially among commuters. Only 48% of passengers are satisfied with the value for money for their ticket – a figure that drops to only 35% for commuters⁸. Part of our study compared fares in Great Britain with other European countries. It found that commuting to London was considerably more expensive when compared with commuting to other principal European cities⁹. This wasn't just a London issue, even the regional cost of commuting (i.e. to Cambridge, Nottingham, Newcastle,

⁷ Fares and Ticketing Study. Passenger Focus. 2009

⁸ NPS summary report. Spring 2010

⁹ Comparisons between fares in Great Britain and continental Europe. Passenger Focus. 2009

Nottingham, Bristol, Birmingham and Leeds) was higher than the cost into those principal European cities¹⁰

- On long-distance journeys the price of flexibility is too high. Our study found that on long distance trains it was possible to travel more cheaply in Britain than elsewhere in Europe – provided you were able to buy an Advance purchase ticket *at the lowest price*. If these were not available the GB price was significantly higher than in other countries. For instance, in looking at long distance walk-up, fully flexible day return fares to the principal city, fares to London were 1.87 times higher than in the next most expensive country, Germany. This can create a huge gap between the cheapest and most expensive fares on the same train.

ii. Complexity

Existing attempts at simplifying the structure were more about presentation only – the underlying structure is still seen as too complicated. For example:

- a return may only be £1 more than a single
- it can cost less to get off at a station further down the line
- a combination of tickets can cost less than the through-fare

iii. Lack of trust and transparency

There is a perception of:

- The cheapest ‘headline’ tickets never being available
- Not being sold the cheapest tickets
- Not being able to find out when tickets are valid (e.g. difference between peak, off-peak and super off-peak)

b) Regulation

There are many within the rail industry who argue that the best way of boosting revenue from fares is to simply put them up; and that removing fare regulation and moving to airline style pricing models allows better utilisation of capacity (particularly during the ‘shoulder peak’ period). We believe this misses two fundamental points:

i. Captive consumers.

Many commuters have little (or limited) ability to change travel patterns in response to rising fares. Such decisions are often tied into longer-term choices on where to work or live. Some may be able to change modes of travel but others, especially when commuting into London, have little in the way of a viable alternative.

Increasing commuting fares can, therefore, lead to either an increase in car use or the passenger having no option but to bear the cost in the short to medium term.

Where competition within an industry is insufficient to control price then it is important that the market is regulated to stop captive consumers being exploited.

ii. Railways are not airlines

¹⁰ Regional commuting fares and ticketing comparisons in Great Britain. Passenger Focus. 2009

Our fares and ticketing study showed that Great Britain benefits from some of the most frequent services in Europe. The benefits of this are lost if you are tied to a specific train. Turn-up-and-go frequencies do not align themselves well to airline style book-ahead restrictions. Not everyone is able, or wants, to plan their precise train journey weeks or days in advance.

Airline cost models are not applicable to much of rail travel. For instance how many people commute daily by air, would an airline have flights every 20 minutes between London and Manchester? They are different products with different expectations.

There is much talk of a 'cliff-face' between peak and off-peak travel. The argument is that this prevents a more efficient use of capacity – e.g. relatively poor loadings on the last 'peak-fare' trains while the first 'cheap-day' trains are packed. The argument continues that removing regulation from off-peak fares (i.e. the Saver) will allow train companies to implement a more graduated structure similar to airlines which will generate more revenue while promoting better network utilisation.

However, to a large extent this cliff-face has been man-made. It is a consequence of train companies (outside the London commuter sector) being free to increase the cost of the peak unregulated peak single/return. The Rail Regulator's fares index¹¹ shows the increase in the average price of rail fares in real terms between 1995 and 2009. For long distance operators regulated standard class fares (i.e. Saver) went up by 4.6% while unregulated fares (including Anytime) went up by 51.1%. Peak single/return fares on longer distance journeys can now be so expensive that, by train companies own admission, relatively few tickets are sold.

Why have non-full peak trains priced at levels only suitable for the high peak? If you want to fill up seats prior to the 'cliff-edge' why not consider lowering some of the peak-prices on the empty trains and generating new business and new customers? It doesn't always have to be a case of increasing the off-peak to the level of the peak - you can 'lower the cliff' as well as 'raise the sea-level.'

c) Recommendations

Before looking at significantly increasing fares or fundamentally changing the nature of rail travel we would argue that there needs to be a closer look at addressing some of these issues. We believe that some of the rigidities in the existing structure, and the complexities surrounding its use, suppress existing demand and revenues. We offer the following suggestions:

- i. Introduce single-leg pricing for the walk-up railway
On many journeys passengers can commit to a firm outward travel time but are less able to fix the time of the return journey. Our research on business travel¹² found this to be one of the main barriers for business passengers.

¹¹ National Rail Trends 2008-9 Yearbook. Office of Rail Regulation

¹² Employer's business travel needs from rail. February 2009.

Properly structured single-leg pricing allows passengers to use a mix-and-match approach to journey planning without being penalised by the disproportionately high cost of the off-peak single ticket (which may only be 10p or £1 less than the return fare).

- ii. Introduce an element of flexibility in Advance Fares
 - Allow Advance Fares to be 'upgraded' if you miss your booked train. Passengers should be able to pay the difference between what they have paid and the price of the ticket valid at the time, subject to an administration fee. This would address the sense of grievance that many passengers feel when they are confronted with paying the full cost of the most expensive walk-up fare when they miss their train. Such flexibility could indeed be offered as a premium to the basic ticket.
 - Improve access to Advance Fares
Ideally, passengers should be able to purchase Advance Fares at any time before a service departs. However, we recognise that this is not achievable with the rail industry's current systems. So in the interim we would like to see the cut off time for the purchase of Advance Fares moved from 1800 to no earlier than 2359 on the eve of travel. This would at least allow people to get home from work and plan their affairs for the following day without automatically paying higher prices. Efforts must also be made to increase Ticket On Departure (TOD) schemes and e-ticketing as there are parts of the country where access to Advance Fares is dependent on delivery by post or involves a lengthy round trip to a station with reservation facilities.
- iii. Improve value for money for commuters by:
 - Developing discounted travel for frequent commuters for whom a traditional season ticket is not cost effective (e.g. carnet books).
 - Develop and promote a facility to spread the cost of an annual season ticket – allowing more people to take advantage of the benefits offered by an annual ticket.
- iv. Provide greater transparency and reassurance
Our research on integrated transport¹³ found that one of the principle reasons for not using rail other than other modes was the cost of the ticket/ perception of value for money. Research by DfT¹⁴ among non- and irregular users of rail identified cheaper travel as the most important improvement in encouraging them to use trains for short distance trips more often. And yet, when asked the cost of fares, many passengers will over-estimate the true cost¹⁵. This shows that the perception of cost and value is important – if passengers perceive the cost to be higher than it is, or the value to be lower, then the industry is losing potential customers and revenue.

¹³ Integrated transport: perception and reality. February 2010

¹⁴ Public experiences of and attitudes towards rail travel: 2006 and 2009 DfT. September 2009.

¹⁵ Employer's business travel needs from rail. February 2009.

We believe that more can be done to provide the necessary reassurance and information:

- Reassure passengers that they have received the best deal
Display at the station the cheapest 'buy on the day' price for a through ticket to key destinations. Off-peak fares can be considerably cheaper than peak fares - this will help inform perceptions.

Similarly, we believe the flexibility of the off-peak ticket is often misunderstood. When booking a ticket it can be easy for some passengers to confuse the seat reservation as meaning that they can only travel on that train. The ticket itself does not indicate that it is a flexible ticket allowing travel on a range of trains. This under sells the true value of the product, which in turn suppresses demand and revenue.

There is also a need to address the perception that 'cheap tickets' are never available. Publishing details of the actual quotas and/or the percentage of discounted fares sold (e.g. 80% of fares between London and Manchester cost less than £25) will help address the perception.

- Give passengers the information on which to make an informed purchase
Ticket restrictions and validities must be supplied at the point of purchase. Passenger Focus' recent research¹⁶ on ticket vending machines showed that some passengers struggle to buy a ticket from a machine as they were not provided with precise enough information to ensure they got the correct ticket at the right price. This potentially results in passengers buying the more expensive ticket, utilising a 'better safe than sorry' mentality, or taking a chance on the cheaper ticket and risking a penalty or excess fare.

We believe that validities should also be printed on the ticket itself to provide continuing reassurance to passengers

- Make it easier to actually buy a ticket
The success of Oyster PAYG in London shows that passengers will embrace new technology. The continuing development of ticketing via mobile phones and 'print at home' technology can help to increase access to fares and reduce the overall cost of retailing.

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¹⁶ [Ticket Vending Machine usability](#). July 2010.