

TfL's response to the RDG fares consultation

29 August 2018

Our response to the RDG consultation is set out below. We note that the consultation does not relate to the level of rail fares.

Our core position on the rail fares structure is set out in paragraphs 1 to 29.

Paragraphs 30 to 49 relate to the specific fare structure questions in part 1 of the consultation.

Paragraphs 50 to 56 relate to the ticket purchase questions in part 2 of the consultation.

Our core response

Fair, reasonable and transparent

1. We agree that reform of Britain's rail fare structure is long overdue. Alongside better transport services across the country, we believe that reform is fundamental to making public transport a more attractive and affordable option for passengers.
2. The issues we believe should be considered include:
 - What kind of fare structure should we aim for?
 - What are the priorities for reform?
 - How can fares reform be introduced given the existing complex set of agreements and regulation within the industry?
3. In our view, a new framework for making changes to rail fares is required. This needs to resolve, among other things, the tensions between the needs of passengers and transparency and the industry's commercial interests.
4. Fares revenue is essential to fund and railways but the level and structure of fares and the way they are changed need to be seen to be fair, reasonable and transparent. The railways need to be trusted to deliver their service promises and to automatically charge the right fares.

Fares regulation: the need for reform

5. Fares regulation is at the root of existing complexity. Initially, from 1995, Train Operating Companies (TOCs) were permitted to vary individual fares within quite wide limits provided that the overall increase did not exceed the Retail Price Index related fare regulation cap.
6. The hope was that the individual TOC franchisees would use their autonomy to vary fares and discounts and create new tickets that would substantially improve the pre-privatisation fare structure.
7. New fares and tickets were expected to benefit users and Train Operators alike, generating increased travel and revenue. Competitive pressure between the Operators was expected to ensure that best practice was widely adopted.
8. In practice, these benefits have not been realised. For the most part change has been limited to pricing tweaks to boost revenue, fend off competition or exploit gaps and weaknesses in fares regulation. Today's fares anomalies and complications are the result.
9. Public discontent at the way the fares were increasing has led the gradual tightening of regulation. This constrains the TOCs' freedom to vary individual fares. This culminated in the current "zero flex" regime, which constrains every individual TOC fare to increase by no more than the fares regulation cap. While zero flex aims to prevent further price tweaking, it also blocks any progressive evolution of the fare structure.

TOC fares in London

10. To take some examples of TOC fare policies from London, the off-peak Travelcard was not regulated in 1995. Franchisees pushed for higher prices – increasing franchise profits but reducing the incentive to travel off-peak, even as peak crowding was rising.
11. Oyster pay as you go (PAYG) was only accepted by the London TOCs in 2010, seven years after its introduction on TfL services. The TOCs made it a condition that they set their own fares, making PAYG more complex, with three separate fare scales for TfL journeys, TOC journeys and journeys made on both TfL and TOC services.
12. Once rail PAYG was launched, the TOCs set fares which made PAYG uncompetitive with the traditional point-to-point season ticket. Six or seven peak PAYG rides cost as much as a seven day season ticket. The opportunity to offer a better deal to part-time commuters and flexible workers was missed.

13. Even after zero flex was imposed, the “10 pence rule”, which means that 10p increases in individual fares are always permitted, enabled the London TOCs to increase their PAYG prices by more than the rate of inflation, making PAYG even less competitive with season tickets.
14. The combination of zero flex and the 10 pence rule has meant both single and return ticket prices increasing by 10p. This has increased the discount offered by return tickets compared with two singles and distorted the relationship with PAYG where there are no price discounts for “returns”.

Longer distance fares

15. The longer distance market accounts for around 10 per cent of rail customers. At around £25, the average fare paid is 5 or 6 times as high as in the urban market. Long distance customers’ priorities and issues are different to those in the urban markets. Significant numbers pay first class fares.
16. It is in the longer distance market where passenger confusion and dissatisfaction with fares appear greatest. It is here that split ticket opportunities are most evident and where multiple choices and other anomalies are most common.
17. In this market, there is a case for premium fares for premium service and convenience. However, in our view, the current multiplicity of fares and restrictions is simply not necessary to manage demand and raise the revenue the industry needs.
18. Too many current price variations in the long distance market seem to involve restricting competition by binding customers to particular operators. Such restricted offers do not open up the market and it is hard to see that they help manage demand.

Innovation in fares and ticketing

19. To respond to the changing needs of customers and the city, London has implemented a number of reforms to fares and ticketing:
 - magnetic stripe tickets in the 1970s
 - zonal fares and Travelcards in the 1980s
 - the Oystercard in the 1990s
 - PAYG in the 2000s
 - contactless payment card (CPC) acceptance over the last 10 years

Over time, these reforms have transformed ticketing in London, with customers today able to pay their fares through the latest mobile phone payment Apps.

20. Ticketing requires long term, consistent planning, grounded in a clear vision of the public service goals of the railway. This long-term perspective needs to be capable of dealing with the fact that franchises themselves are only awarded for relatively short periods of time. Innovation has to be built into the system for the long term.

Reforming fares regulation

21. There are areas where regulation could be rapidly improved. For example, the distinction between regulated and non-regulated fares could be dropped and replaced with rules governing all the fares in an area or all those controlled by a single operator.

22. This would prevent gaming of the two sets of fares and create a “space” within which each TOC could be given a degree of autonomy. Fare regulation “baskets” could then be set up for each operator or operating area.

23. Regulation could focus on the overall yield from each of these baskets. The zero flex and the 10 pence rule could be dropped and new guidance introduced to allow Operators some discretion in setting specific fares. Significant structural changes would be permitted subject to the approval of the DfT or the devolved authority.

Reforming the fares structure

24. Technical adjustments to fares regulation alone seem unlikely to deliver the step-change in the transparency of fares that is being demanded. In our view, such a step-change in transparency needs to eliminate overlapping and restrictive offers and introduce:

- single leg prices to ensure that single ticket fares are not undercut by returns;
- distance based fares to prevent customers being charged more for one ticket for the whole of their journey than if they buy tickets for each part;
- Contactless PAYG to enable customers to tap-in and go without needing to buy a ticket or acquire a special card in advance.

25. In our view, nothing fundamental will change if smart ticketing is simply a new platform for the old structure, with printed tickets supplemented by e-tickets to create even more offers and options. Fares structures need to take advantage of today’s technology. A change to ticketing technology as radical as CPC creates

the opportunity for radical and customer-focused changes to fare structures across the UK.

The control of fares

26. In our view, the system of fares regulation needs to enable real reform.
27. A decisive step in this direction could be delivered if the control of rail fares were devolved to the local authority, Mayor or equivalent. This would mean the Train Operators becoming price takers as on the London Overground today and, as will be the case on the Elizabeth line.
28. Long distance fares cannot be devolved to a local body. However, equivalent changes to the way long distance fares are controlled could be made – for example through a public-private partnership with a clear fares remit and public oversight as envisaged for the London North Eastern railway in the future.
29. In all cases, the aim of reform should be to strike a better balance between the public's desire for fair, reasonable and transparent fares and the industry's need to raise revenue to fund the railways. This should be the aim in both the urban and the long distance markets,

TfL comments on Part 1 of the RDG consultation - the structure of fares

The 3 fare structure options

30. The consultation asks respondents to express their preferences between the fare structure options A to C summarised in Table 1 below. However, these are very high level which makes it difficult to comment. None of them in our view explore the full range of reform that is possible.
31. For example, peak time walk-up single fares in the longer distance markets are often already very high. Additional increases are not attractive. On the other hand, in the commuter markets, the cost of a weekly point-to-point season ticket is often less than 10 peak single tickets. In this case, there is a case for re – balancing prices over time.
32. Early-bird tickets, contra-flow fares, and the way many rail tickets treat the afternoon peak as part of the off-peak, are all specific peak time fare issues that could be explored to deliver real reform. So we believe that a much broader range of options should be explored.

Table 1: the consultation’s three fares options

Option A	No discounted tickets, standard ticket price lower than now A single fare between any two stations always costs the same. No difference in price between travelling at busy times and less busy times.	This may mean: lower fares on busy services; higher fares on less busy services; trains busier than now at peak times.
Option B	Discounted fares same as now, standard ticket price same as now The cost of a single fare between two stations will vary as now. Cheaper tickets at less busy times where these are currently offered. Discounts for tickets for specific trains booked in advance where these are currently offered.	This may mean: fares similar to now on busy and less busy services; trains likely to carry the same number of passengers as now.
Option C	Greater discounts than now - standard ticket prices higher The cost of a single fare between two stations may vary, as now. The difference in the cost of a single fare at busy times and less busy times will be greater. Deeper discounts for pre-booking a specific train - higher fares for fully flexible tickets.	This may mean: higher fares on busy services; lower fares on less busy services; trains less busy in the peak.

The two railways

33. An underlying issue which needs to be considered is that Britain's national railway contains two distinct businesses with different fares and ticketing needs:
- (1) Longer distance inter-city trains carry 10 per cent of rail passengers but deliver around 35 per cent of all rail revenue. Here, the average fare per journey is around £25. First class can account for 30 per cent of passengers.
 - (2) Shorter distance urban commuter trains carry 90 per cent of all rail passengers at an average fare of around £4, with the great majority of people paying standard class fares.

Customers in these two sectors have different fares and ticketing priorities. Split ticketing and advance purchase discounts are major issues in the longer distance markets. In the urban markets, season ticket prices, one-day capping and the role of PAYG are the key issues.

34. Simplicity and transparency should be fundamental to the design of fare structures across the board. Passengers' trust, which the consultation accepts is a key priority, can only be built on fares which are simple and transparent.
35. However, the differing nature of the urban and long distance markets mean that fare structures are always likely to differ in the two sectors, despite the common goals of passenger trust, simplicity etc. In framing its fare structure questions, the consultation bundles the two sectors, which we believe stands in the way of real reform.

The consultation's 10 fare dimensions

36. The consultation defines 10 dimensions of fares and seeks views on each of them. These dimensions are set out in Table 2 below. This "one aspect at a time" approach overlooks how complexity builds up as fares are differentiated across more and more of the dimensions.
37. Advance fares, premium fares and off-peak fares are not bad in themselves but a structure which combines these features and then mixes in operator restricted fares, premium fares, super off-peaks, directional fares and discounts for returns leads directly to today's overlapping offers which customers find so frustrating.
38. It is unlikely that there would be support for a general flat fares policy, irrespective of time of day / day of week (dimension 3), or a general policy of eliminating concessions (dimension 9). There is scope for debate about how generous / inclusive concessions should be or about how fares should be

graduated. However, it is arguable whether it is possible to engage on individual dimensions without taking into account the complexity of the full fares structure.

Table 2: the consultation's 10 fare dimensions

1.	Fares based on distance e.g. there is a uniform cost per mile travelled.
2.	Fares based on the level of service e.g. fares for routes with a lower quality service - such as slower, less regular and more basic trains - are lower than fares for routes with a higher quality service.
3.	Fares where the cost is the same at all times of day and for all days of the week.
4.	Fares based on time of booking e.g. fares booked in advance are lower than fares available on the day of travel.
5.	Fares based on the amount of flexibility required e.g. fares for booking travel on a specific train service are lower.
6.	Fares designed so that it is unnecessary to buy a 'split-ticket' in order to get the cheapest deal.
7.	Fares based on encouraging travel to fill up empty seats e.g. more last minute deals to fill available seats. Even if this means different passengers paying different fares for the same journey
8.	Fares based on loyalty e.g. the regular traveller can earn discounts for future purchases.
9.	Fares which provide savings for certain groups in society
10	Fares where both the outward and return journey fares are based on time of day travelled e.g. return tickets replaced with easily combined one-way tickets, purchased together, enabling both outward and return journey fares to reflect time of travel

TfL's priorities for the rail fares structure

39. TfL believes rail fares should be simple and transparent, setting unambiguous prices for passengers travelling from A to B at a particular time of day. This is fundamental to the trust customers have in fares.
40. In London, this transparency and trust is provided through Oyster and CPC pay as you go. There is no reason why similar systems cannot be extended to cover the 90 per cent of rail journeys made in urban areas across the UK.
41. As regards the ten dimensions shown in Table 2, TfL considers that the most worthwhile single step could be to move to single leg pricing (dimension 10). This is one of the key features of London's pay as you go proposition.

The urban markets

42. In the urban markets, single leg pricing produces multiple benefits. In London, eliminating cheap returns and replacing them with single leg pay as you go fares

has been critical to delivering a simplified proposition. Smart PAYG delivers best value automatically, based on customers tap-in and tap-out records.

43. In London, single leg PAYG fares have opened the way to contra-flow prices in the evening peak, with higher prices retained only in the peak direction. More generally, single leg fares strengthen incentives for customers to travel at less busy times when the fare will be lower.
44. In our view, in all the urban markets, the paramount need is a fares proposition which enables customers to travel with the minimum preparation and the maximum certainty of good value and always paying the right fare. Any elements of fares that make best value dependent on a study of “the small print” should be eliminated or avoided.
45. Such “small print” fares elements include:
 - split ticketing opportunities (Table 2 dimension 6);
 - last minute deals (Table 2 dimension 7).
 - pre-booked advance fare discounts (Table 2 dimension 4); and
 - air-miles style discount schemes (Table 2 dimension 8).
46. On the other hand, there seems no reason for requiring fares to be equal in all urban markets across the UK as seems to be implied by Table 2 dimension 1. This could be left to the local authorities depending on their context.

The longer distance markets

47. In the longer distance markets, single leg pricing is also a priority for reform. In our view, it would open up competition between TOCs; widen customer choice where operators compete; and make pricing more transparent and sensitive to train loadings, helping manage demand.
48. In the longer distance markets, a case can be made for premium pricing certain services (Table 2 dimension 2) even though this may reduce customers’ flexibility (dimension 5); and for market pricing rather than a uniform tariff (dimension 1).
49. Even in the longer distance markets, our view is that only a limited case exists for advance fare discounts and air miles style promotions given the need to increase “walk-up fares” as a consequence; the additional complexity; and loss of transparency.

Part 2 of the RDG consultation - buying a ticket

50. We believe that the focus in the consultation's questions on ticket purchasing is a mistake. See Table 3 below. However, only for the longest "inter-city" journeys is there now any need to book a ticket or a seat in advance.

Table 3: the consultation's four ticketing issues

1.	Should a ticket cost the same however you buy it? Passengers using e-tickets (for example tickets on mobile phones, smart travel cards, and on contactless bank cards) could pay slightly less for their travel to reflect the cost savings for the train company, whilst those purchasing tickets at stations would pay slightly more.
2.	Passengers who make the same journey on a regular basis could have a smart or electronic ticket and pay for each journey that they make. Once the total cost of all journeys reaches a maximum amount they won't have to pay any more for the rest of the week, month or year. This is called a 'price cap'. The benefit of a 'price cap' is that passengers automatically get the best value fare for each individual journey, and only pay for the travel that they use
3.	Online accounts could be available which can be used for rail and other of types of public transport e.g. bus, tram, underground and cycle hire. Account holders able to purchase, monitor, review and change travel arrangements online.
4.	On a scale of 1 to 5, where 1 is very necessary and 5 is not necessary at all, to what extent do you consider it necessary to reform the ways in which tickets can be purchased?

51. The questions in Table 3 overlook the contactless pay as you go revolution that has been transforming fare payment in London over the last four years and which is being adopted by cities across the world. This revolution is removing the need to purchase a ticket or top-up a special card. With contactless pay as you go, the customer can simply use their existing contactless payment card to travel.
52. Following the launch on London's railways in autumn 2014, there has been dramatic growth in fare payment using contactless cards and mobile devices equipped for contactless payment using Apple pay and Android pay. The use of Oyster PAYG has been falling as quickly as the use of printed tickets.
53. Contactless fare payments have grown in less than four years to account for around a third of all London Underground fares revenue. See Table 4 below. Contactless is expected soon to account for a half of all TfL's rail revenue. In

London today, and potentially across the UK, ticketing and ticket retailing are now on the verge of obsolescence. Rail customers should be able simply to turn up and present their contactless card or phone at the station in order to tap in and out, with a guarantee that they will get the right fare for their journey.

Table 4 London Underground revenue in 2014 and at end 2017

	Travelcards	PAYG			Other
		Oyster	Contactless	Total	
2014	49%	45%	n/a	45%	6%
2017	30%	32%	32%	64%	6%

54. TfL looks forward to eliminating “tickets” entirely in 5 to 10 years time, with Oyster falling away except for concessions such as the Zip card. In our view, London’s experience could be replicated in the other UK conurbations and across the wider south east area, with contactless potentially catering for 90% of rail journeys in the UK.
55. Given that contactless is already proving so popular on the TOCs’ London services, it feels to us to be a mistake to regard smart ticketing as simply a new platform for the existing fare structure, with printed tickets supplemented by e-tickets (sold “perhaps at a small discount”) to create additional competing offers and options.
56. This approach seems not to recognise that as ticketing technology changes so should the fare structure. To get the most benefit from a change as radical as contactless, requires equally radical changes to fare structure. The questions posed fail to recognise that:
- ticketing choices and the need to transact purchases are hurdles which customers must jump over to get what they really want – which is to travel
 - what customers want is not a maze of special offers and small print but to be able to plan their travel and pay their fare with the minimum of fuss
 - fare structures must evolve to recognise the new fares options and opportunities inherent in new ticketing platforms.

Contactless PAYG is relevant in each of these areas. Contactless minimises the negatives associated with getting a ticket. It provides a simplified user proposition, based on tap-in tap-out turn up and go and guaranteed best value fares. The consultation is, in our view, a missed opportunity to explore reactions to these new opportunities.