

SRA FUTURE FARES POLICY

This response has been prepared by PTEG on behalf of the 7 Passenger Transport Authorities and Executives in England and Scotland. We welcome the publication of the consultation paper on Fares Policy and look forward to working with the SRA over the next twelve months in determining the way forward. Whilst the review is focusing on the way in which Fares Policy is implemented, that policy can not be divorced from the overall funding context within which the SRA is working and other policy objectives particularly the two key SRA objectives:-

- ◆ to increase rail use by 50% and;
- ◆ to reduce overcrowding

As a consequence we would wish to make the following key points in regard to the consultation alongside the response to the individual questions:-

- ◆ We are concerned that the general cost of rail travel is too high in comparison with other modes. Whilst welcoming the initiatives by train operators to reduce pre-booked fares, many walk on-fares are unattractive. We would not, therefore, wish to see the overall contribution fares make to the cost of running the railway increased, even though we recognise the funding problems facing the SRA.
- ◆ Fare levels themselves are not consistent and in part reflect ossification of pre-privatisation BR fare levels. The review should take the opportunity to address these inconsistencies particularly for medium distance journeys such as those on Transpennine and other cross country routes.
- ◆ Fare structures are complex and confusing. An outcome from the review must be a range of simpler and fairer fares.
- ◆ Fares policy should not be a means of reducing overcrowding – the issue must be addressed in its own right.
- ◆ The railway must retain the existing walk-on “turn up and go” concept, and not become a pre-booked only facility. The proportion of seats available for such passengers should not be reduced. In urban networks, this can be an important attraction in terms of offering car-competitive products. Passengers paying for a ticket, particularly on longer distance services, also want certainty of a seat.

- ◆ The consultation is broadly based around the present position. We are entering a period within which several franchises will be replaced. This presents an opportunity to improve fare policy and ensure the consultation outcomes. It is important, therefore, that the timetable is adhered to in order to dovetail with franchises being reviewed in the period up to 2004. It should also be done in a way that does not add uncertainty to the franchise replacement process and reduce market confidence.

Finally, in responding, we have concentrated on those issues most relevant to the conurbations outside London. As a consequence, we have not commented on the issues within London and the South East. Although we recognise the importance of this as an issue to the SRA it should not be used to determine policy outside the South East where the market and other conditions are very different.

SRA QUESTIONS FOR CONSULTATION 1 – The Scope of Regulation

This section considers the first major decision – the range of fares which should be regulated, whether the current balance between regulated/ unregulated fares is correct, whether a different range of fares should be regulated and/or increased, how the cost of increased regulation could be paid for, the benefits of doing so, the effect on overcrowding, whether the range of regulated fares can be reduced (which ones and why) and the effects of doing so. Finally, whether regulation applied to ticket restrictions is sufficient and whether increasing it would be good value for money.

Response:

The balance between fares that are regulated and fares that are not is important. However, the key issues are the level of fares (see Q2), their simplicity and transparency and adding value to rail market development.

Standard single/return fares are regulated as part of a fares basket in the South East whereas in other regions (outside PTEs) they are not. This means that funds for investments outside the South East can be raised through the fares boxes such as business users (eg West Coast Mainline Line and Virgin's nearly doubling the costs of a Manchester to London return), while in the South East this cannot happen so funds must be provided directly by the SRA and this can distort investment priorities. Commuters into PTE areas can get a worse deal than commuters into London. This current arrangement also distorts the relationship between regulated (eg saver) fares and unregulated fares for the same journey.

The current system and the relationship between regulated and unregulated fares is, even within the industry, perceived to be highly complex, difficult to understand and a barrier to positive and constructive changes. If fares continue to be regulated it is important to simplify the extent and range of fares regulated to allow more scope for operators to respond to the market and to grow the market for rail use.

Experience has shown that operators will innovate off-peak where they consider any additional income is incremental and, therefore, prices will be kept relatively low to stimulate optional travel. On other parts of the network, there is a concern that in some areas, particularly the urban conurbations and feeder services from socially excluded areas where rail is perhaps the only mode available, that operators may increase fares disproportionately on off peak unregulated flows. This would further reduce the existing demand (limited though it may be), in order to justify the case for removing or reducing such services and using the resources on busier (more profitable) services. Whilst supporting the effective use of resources, the result of this will not be in the wider public interest and would not deliver the objectives of regional authorities in terms of reducing social exclusion and providing transport choice. Leaving off-peak fares unregulated also risks operators exploiting this segment of the market who, whilst they may be limited, have a genuine need for travel.

If off-peak fares are to be regulated, it is recommended that they be placed in a separate basket to peak fares to avoid price reductions at times of optional travel being used to enable significant price rises for commuters. This will provide the opportunity to promote regulation of fares across the board with maximum increases both peak and off-peak.

In regard to the question of increasing the range of regulated fares, it would seem preferable to have a form of regulation that encompassed all walk-on fares which was simple to understand, simple to implement and understandable to operators, passengers and potential passengers alike. This regulation, whilst being general, could have a cap that provided operators with more scope to change fares within certain limits which would maximise their competitiveness, their revenue and enable them to build the market in areas of potential. There should be no erosion of conditions on tickets such as savers.

Fares policy should not be a means of reducing overcrowding - the issue must be addressed in its own right. Since the objective of increasing rail use by 50% cannot be targeted entirely at currently under-used services, it follows that overcrowding is likely to increase in some cases simply because attracting car users to rail travel is likely to be onto such services. Overcrowding should be addressed positively, ie additional resources provided to reduce levels.

SRA QUESTIONS FOR CONSULTATION 2 – The Level of Regulated Fares

This section considers the level at which regulated fares will be set and how they will be allowed to change each year with inflation. Currently all fare caps are based on British Rail fares charged in 1995, increased by inflation each year until 1998, then 1% less than inflation each year, indefinitely.

The review considers maintaining this (RPI-1%), changing to RPI for all regulated fares, changing to RPI+x% or RPI-x%, changing to RPI for commuter fares but maintaining RPI-1% for other fares, varying permitted increases by route according to the level of overcrowding or spare capacity, allowing an increase above basic policy where investment has delivered demonstrable passenger improvements.

Fundamental questions are posed: whether fare increases should be permitted to fund investment, what circumstances might justify what scale of increase, whether the increase should be applied after the investment has taken place, or before in some circumstances: also, whether fares policy should be used to ease overcrowding, and if so, how: whether the same policy should apply to all fares in all areas, or different policies in different areas to reflect capacity constraints, the need for investment, or to deliver quality improvements: what problems if any are caused by differences in fares policy between the SRA, TfL and PTEs and how these might be resolved.

Response:

There is a real concern that in comparison with other modes (and other parts of Europe) rail fares are too high. Many PTA/PTEs have seen excessive rises in long distance full fares which have exploited captive markets and the monopoly position of train operators. Control needs to be in place to ensure comparable fares for similar distances on the East and West Coast Mainlines.

Similarly, there is concern over the relatively high cost of medium distance inter-urban fares. Often this reflects anomalies from BR that pre-date rail privatisation. One solution may be their inclusion within conurbation fares baskets.

Whilst fares policy whereby regulated fares have been capped at RPI -1%, is commendable and has led to real increases in rail patronage. The SRA believe that this may not be sustainable in the longer-term. Notwithstanding the difficulties inherent in 25 live franchises there needs to be a mechanism for moving towards 'fairer' fares. It would appear reasonable to allow fares to be increased in line with inflation. Some PTEs have benefited from raising fares for investment. In moving from RPI-1% to RPI the revenue gain should not be a windfall to operators but should be channelled into investment and benefits for passengers. Similarly the benefits from the Regulators requirement for Network Rail to reduce costs should be passed on.

There may then be justification for further increasing fares in certain areas to fund investment in specific projects. However, any such increase in fares must only be applied after the investment has taken place. It would be a major risk to allow such increases before investment had taken place and before improvements had actually been delivered. This should be subject to PTA/PTE agreement in their areas.

A fares basket approach should be maintained in urban areas to allow innovation and give flexibility to cater for local variation in market conditions.

The differences in fares policy between the SRA, TfL and PTEs could be eased through the current round of franchise replacement which affects most PTE franchises. It could overcome current boundary anomalies such as those outside PTE areas and for example where there are gaps such as between Greater Manchester and West Yorkshire. The SRA should seize this opportunity to address these differences in a positive manner.

SRA QUESTIONS FOR CONSULTATION 3 – The Link Between Fares and Performance

This section considers whether fares should continue to be linked through the existing regime, or linked to performance through an alternative regime perhaps based on absolute levels of performance with a linkage to resolve the cap problem.

Alternatively, whether a link between fares and performance be discontinued, and if so, how passengers should be compensated for poor performance. Whether the current passengers charter arrangements are sufficient or require improvement.

For replaced franchises, whether performance incentive payments need to be increased to compensate for the effect of losing the link.

Generally, whether there are other aspects of train service quality that should be linked to fares.

Response:

Any link between fares and performance is fraught with risk. This is exacerbated by the unresponsiveness of the system since there is such a long lead time for changing fares. There is, therefore, no timely ability to match fare changes quickly to poor performance. Ideally existing passengers who suffer from poor performance, should be reimbursed or compensated immediately if they are to be valued as customers. This would seem to indicate that an enhanced Passengers' Charter would be the best mechanism.

The required outcome of any link between fares and performance must be seen solely from the passengers' viewpoint and deliver immediate compensation for poor performance. However, the current Passengers' Charter arrangements are perceived by passengers to be highly unsatisfactory. An enhanced Passengers' Charter mechanism which is responsive on an immediate basis to passengers is required.

Linking additional aspects of train service quality to fares is not supported since this is likely only to increase bureaucracy and the complexity of the current rail system, whilst adding no benefits for the passenger.

SRA QUESTIONS FOR CONSULTATION 4 – The Way Fares are Regulated

Currently fares are regulated on an individual basis (“protected fares”) and other means (“fares baskets”). Protected fares are regulated on an individual basis, rigidly, within a specified “cap”. Fares baskets allow less rigid regulation, with fares within allowed to increase by more or less than the basket as a whole, providing the aggregate value does not exceed the cap.

The review questions whether regulating fares through a mixture of individually regulated fares and fares baskets should continue or another mechanism adopted for all regulated fares, and the likely implications on operators and passengers.

If baskets continue, which fares should be included and whether travelcards and multi-modal fares should be excluded.

Whether weightings within baskets remain at 1995 levels or updated as a “one-off” at regular intervals or when circumstances arise.

Response:

Non-rail operators are part of multi-modal fares schemes and also multi-modal fares are structured to deliver objectives of other parties, for instance PTEs and Local Authorities. PTEs are often unable to control the prices of multi-modal tickets due to pressure from operators of un-regulated modes. The inclusion of multi-modal tickets in the fares baskets should therefore reflect local circumstances. In some PTE areas the market is such that unless multi-modal tickets are excluded, higher increases in their price would force proportionately lower rises in the price of rail-only tickets to maintain the regulated overall average in the peak fares basket. At times of growing demand, this would exacerbate overcrowding. In other PTE areas this has been able to be used to control the headroom and allow agreement outside the basket to fund investment. There should also be provision for regular reviews of the weightings in fares baskets.

SRA QUESTIONS FOR CONSULTATION 5 – Other Interaction Between Different Fares Regulation Regimes

This considers the problems caused by the interaction between protected fares/basket fares and regulated/unregulated fares. Tensions in fares structures can arise at the boundary between areas where fares are set by PTEs and surrounding areas where fares are set by the operator with SRA regulation. This can create fare anomalies.

Response:

There are many examples whereby the interaction between a complex system of fares regulation can cause problems particularly for the passenger. This supports the case, referred to earlier, for simplifying the fares policy, the fares and fares baskets. Particular problems have arisen in PTE areas at boundaries as referred to above. One solution would be for PTE multi-modal ticket and fares baskets to be extended to logical travel to work areas.

SRA QUESTIONS FOR CONSULTATION 6 – Fare Regulation Processes

This question is for Train Operators about the day to day working of fares policies and regulation processes.

Response:

Whilst this is directed to representatives of train operators it is clear, as a third party linked by the Franchise Agreement, that the mechanics and processes involved in fares regulation require improvement. Further work needs to be done.

SRA QUESTIONS FOR CONSULTATION 7 – Fares Structure

This final section asks whether the complexity of the fares structure is a significant problem or not, and why. Further, how the conflict between offering passengers a wide choice of fares and making the range of fares understandable, can be resolved. Similarly, how the conflict between simplifying fares and preserving operators commercial freedom can be resolved.

Finally, whether the SRA should become directly involved or operators allowed to address this issue for themselves.

Response:

The complexity and perceived complexity of the fares structure is a major problem, particularly in attracting to rail current non-users. Whilst the system itself is complex, there is the additional barrier to use of lack of information and a perception that the

information available is incomplete and unreliable. Even existing passengers often believe they may not have access to the full picture in terms of the fares, and best value options available. Operators also use different terminology for the same targets and tickets.

Whilst there are many customer focused and innovative fares available, again it is essential that full information is available easily to users and potential users. The SRA and ATOC must provide an enhanced role in this area and ensure that passengers and potential passengers have easy, timely and full access to holistic information.

The SRA should become involved directly, with the overriding objective being to deliver maximum awareness of (the simplified) fares and fare structures for the passenger.