

# Rail Fares and Ticketing Review: Initial consultation

March 2012

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# Foreword

More passengers are using our rail network than ever before and they rightly expect it to adapt to meet their changing needs. Yet the way the rules on fares and ticketing work has remained largely unchanged for many years. New track and more trains are only part of the story for improving the railways: our vision for a modern, customer-focused railway includes updating fares and ticketing to reflect advances in technology and the variety and flexibility of modern working patterns.

Season tickets were designed to meet the needs of commuters working 9am to 5pm, Monday to Friday. For many that is no longer the reality, and the system must provide a more attractive offer for commuters travelling fewer than five days a week or outside peak hours – as well as encouraging other commuters to consider whether they might be able to change any of their travel patterns.

The smart ticketing technology now becoming available has the potential to deliver this, transforming the way we think about and pay for rail travel. Given that many commuter services are already crowded and demand is only forecast to increase, we need to complement our continued commitment to capacity expansion by looking seriously at how fares could be used to spread demand more evenly - to reward those passengers who allow the railway to make more efficient use of capacity by choosing to travel at quieter times.

Ultimately this should benefit passengers, taxpayers and employers. It will also require a cultural shift, because many commuters do not, or do not yet, enjoy the ability to work flexibly that would allow them to take advantage of cheaper fares on less busy trains.

Fares revenue is crucial to funding day to day railway operations and the massive upgrade programme we are delivering. However, this Government recognises the serious concern about rail fares. That is why we secured the funding to keep the increase in regulated fares to an average of RPI+1% for 2012, and why we have committed, once savings are found and the improvement in the wider economic situation permits, to reducing and then abolishing above-inflation rises in average regulated fares.

This review is not about squeezing more revenue out of regulated fares. It is about the structure of fares – what one group of passengers is asked to pay compared with another – and any changes stemming from it would need to be balanced and fair. We will also continue to require train operators to offer the regulated, discounted, off-peak fares for longer-distance travel that have helped keep rail travel affordable for a large number of people.

Our goal for this review is to identify ways in which we can allow more passengers to travel and to have a better experience of rail, at the same time as bringing down industry unit costs. A more efficient rail industry can deliver more benefits for passengers and allow rail to grow, while minimising the public subsidy for rail.

The long-standing concerns about complexity in the system must also be addressed. We believe strongly that buying a rail ticket should be a straightforward transaction, not an obstacle course; and that passengers should be able to choose confidently from a range of fares, finding the best one for their journey without having to understand every nuance of the fares and retail structure.

I am grateful to Passenger Focus whose analysis of passenger needs and preferences in relation to fares and ticketing has informed much of this document.

As the number of passengers using our railways each year continues to grow, it is more important than ever that we get fares and ticketing right, and I look forward to hearing your views.

**Rt Hon Justine Greening MP, Secretary of State for Transport**

# Respond to the consultation

The consultation began on 8 March 2012 and will run until 28 June 2012. Please ensure that your response reaches us before the closing date.

When responding, please provide your name and contact details and state whether you are responding as an individual or representing the views of an organisation.

If the organisation is a representative organisation, please make it clear who it represents and, where applicable, how the views of members were assembled. If you have any suggestions of others who may wish to be involved in this process, please let us know.

## Online

Consultees are encouraged to respond using the [rail fares and ticketing review online response form](#) wherever possible.

Alternatively, a copy is included in the consultation document, please complete and send consultation responses to

## Post

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Hard copy or alternative formats (Braille, audio CD, etc) are available on request via the email address below

## Contact details

If you wish to respond online, please use [the response form](#).

Queries about the consultation can be directed to:  
[railfaresandticketingconsultation@dft.gsi.gov.uk](mailto:railfaresandticketingconsultation@dft.gsi.gov.uk)

The Government recognises the serious concern about rail fares and has already stated its goal of limiting and eventually eliminating above-inflation rises in regulated fares. As a result the RPI+ formula for annual fares changes is excluded from the scope of this fares and ticketing review and views on this are not being sought in this consultation.

A summary of responses will be published as part of the review's findings and recommendations. However, we are unable to enter into individual correspondence in relation to the issues raised in your consultation response.

If you would like further copies of this consultation document, it can be found at [www.dft.gov.uk/consultations](http://www.dft.gov.uk/consultations) or you can contact the Fares and Ticketing Review at the postal or email address above if you would like a paper copy or alternative formats (Braille, audio CD, etc).

## Freedom of Information

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the Freedom of Information Act 2000 (FOIA) or the Environmental Information Regulations 2004.

If you want information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence.

In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Department will process your personal data in accordance with the Data Protection Act (DPA) and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

# Introduction

1. The rail fares and ticketing review and this consultation form part of the Government's response to the findings of Sir Roy McNulty's Rail Value for Money Study<sup>1</sup>, which highlighted the high unit cost of Britain's railways – up to 40% more expensive than our European neighbours. The Study emphasised the need for a significant reduction if the railways are to be put on a sustainable footing for the future.
2. This consultation is published alongside the Government's Command Paper on rail reform, *Reforming Our Railways: Putting the Customer First* [www.dft.gov.uk/rail-reform](http://www.dft.gov.uk/rail-reform) (www.dft.gov.uk/rail-reform), which sets out the Government's wider vision for the railways.
3. Our goal for rail fares and ticketing is to allow more passengers to travel and to have a better experience of rail, at the same time as bringing down industry costs. These two things go hand in hand. Smarter, more cost-effective approaches can provide immediate benefits to passengers, for example quicker ticket purchase and greater ease of use. In the medium to longer term, smarter ticketing should provide more accurate data about usage, allowing train operators to improve their ticketing offer and service design by tailoring it more closely to passenger needs and preferences.
4. With support from Government, the rail industry must keep up with the pace of technological change and the huge opportunity it presents to improve the ticket-buying experience, allow fares structures to more accurately reflect modern working patterns and reduce industry unit costs. For example, smart ticketing can in parallel offer passengers more choice, reward those who travel at less busy times and help to make the railway's finances sustainable for the future.

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*Realising 1 the potential of GB rail - Report of the Rail Value for Money Study*, May 2011, available at <http://www.dft.gov.uk/publications/realising-the-potential-of-gb-rail/>



5. Many commuters are constrained by the nature of their employment and not able to change the time they travel. However for those who can, the fares and ticketing system could offer them a much stronger financial incentive to do so.
6. While we reject the idea of using demand management to price people off the railways, the very high cost of providing ever more infrastructure to meet increasing peak demand means that we do need to look seriously at the possibility of rewarding passengers who do not travel on the most crowded trains, and asking those passengers who drive the need for capacity enhancements by travelling at the busiest times to pay more over time for their journey by comparison.
7. This would allow for better use of capacity, complementing our continued commitment to capacity expansion. However, this review is not about squeezing more revenue out of regulated fares: it is about the structure of fares – what one group of passengers is asked to pay compared with another – and any changes stemming from it would need to be balanced and fair. Any changes that would result in some passengers paying more would obviously require very careful consideration.
8. Revenue generated by fares is playing a crucial role in funding the operation of the railways and the massive upgrade programme we are delivering. This includes over 2,700 new carriages and a major electrification programme. However, the Government fully recognises the concern felt about the level of rail fares. We have secured the funding to keep the increase in regulated rail fares to an average of RPI+1% for 2012, and we have committed, once savings are found and the improvement in the wider economic situation permits, to reducing and then abolishing above-inflation rises in average regulated fares, while minimising the public subsidy for rail. The RPI+ formula for annual fares changes is therefore excluded from the scope of this consultation and review. Reducing and then abolishing above-inflation rises in average regulated fares will depend on finding these efficiency savings, because the fiscal position demands that the high levels of subsidy over recent years is reduced.

9. Improving fares and ticketing options may require changes to regulation. More passengers are using the railway than ever before<sup>2</sup>, and it is right that we consider whether the regulation put in place at privatisation (and changed very little since) remains fit for purpose for today's railway.
10. While we have a broader cross-government aim to remove unnecessary red tape, we are clear that where regulation is serving an important purpose, we will retain it. Fares and ticketing regulation provides vital protection for passengers. So this review is not focused on abolition of fares and ticketing regulation but on updating and making it more efficient<sup>3</sup>.
11. In addition, many passengers find the fares structure excessively complicated. Very real concern has been expressed on this issue over a number of years. Complexity is not necessarily negative for passengers. There are a range of fares to suit different passengers who place different priority on speed, cost, flexibility and comfort. We must ensure information is communicated in a straightforward way, to enable passengers to take advantage of the choices on offer, without having to understand every nuance of the system.
12. The review's terms of reference are set out at the end of this chapter. This consultation document is structured as follows:
  - **Chapter 1 on the principles of fares and ticketing regulation** considers why we regulate, whether the current regulation is fit for purpose and which categories of fares we regulate and why;

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<sup>2</sup> Passenger journeys have increased from 976 million in 2002-03 to 1,354 million in 2010-11 (National Rail Trends, LENNON rail ticket sales database)

<sup>3</sup> A summary and explanation of fares regulation can be found at Annex A.

- **Chapter 2 on smart ticketing and season tickets** sets out current and future developments in smart ticketing technology, the benefits and the risks and issues of smart ticketing to both passengers and operators, and the limitations of the “one size fits all” season ticket particularly for those who work flexibly or part-time. It explains how smart ticketing technology could allow train operators to introduce new flexible and more tailored season tickets better suited to the way people work and travel today;
- **Chapter 3 on making better use of rail capacity** considers the case for using price signals to smooth demand across the commuter peak in order to make more efficient use of capacity, some of the practical issues associated with this and what previous analysis tells us about the level of fares needed to incentivise passengers to change their travel patterns; finally it considers the case for using price signals to smooth demand peaks at certain times of the day on long-distance services;
- **Chapter 4 on fares and ticketing complexities** sets out some of the main reasons why the current fares structure can cause confusion, explains that some of these apparent complexities are due to commercial pricing and identifies which of these complexities we plan to consider further. This chapter also sets out pros and cons of removing the requirement to obtain a licence in order to access rail fares data;
- **Chapter 5 on buying tickets** 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;

- **Chapter 6 on implementing change** summarises our next steps as a result of this document and sets out our initial thoughts on how new ticket types and fares structures could be implemented. As this is an initial consultation, there is a lot more work that needs to be done to understand and explore the issues presented here before we can develop detailed proposals for reforming fares and ticketing.
13. The review will have implications for Scotland and Wales, because rules around ticket retailing, the mechanics of setting fares and settlement of revenues between train operators is regulated by the Secretary of State across England, Scotland and Wales; and because generally fares on cross-border services into Scotland or Wales as well as some other fares set by Arriva Trains Wales are regulated by the Secretary of State. Railways in Northern Ireland are regulated separately and are not part of this review.
14. The Government is also consulting on options for devolving more responsibility and budgets for commissioning local and regional rail services in England away from central Government to more local bodies. This consultation is available on the DfT website - [Rail Decentralisation: Devolving decision-making on passenger rail services in England](http://www.dft.gov.uk/consultations/dft-2012-10) (<http://www.dft.gov.uk/consultations/dft-2012-10>)

# Terms of reference

In line with the Government's objectives for a safe, customer-focused rail system that supports a growing economy while delivering value for passengers and taxpayers:

- To consider whether rail fares and ticketing regulation remains fit for purpose and to identify options for improving it to:
  - better serve the needs of passengers;
  - encourage operators to make better use of capacity; and
  - drive down the cost of the railways to remove obstacles to future passenger growth.
- In particular to make recommendations for reform which:
  - maximise the opportunity presented by smart ticketing technology to improve the ticket-buying experience for passengers and better serve the needs of the many commuters who no longer work the “traditional” 9am-5pm, Monday to Friday, as well as rewarding other commuters for avoiding the very busiest periods;
  - address the shortcomings of a system that many find complex and confusing to make it more user-friendly; and
  - permit a more flexible and responsive fare system with the ability to spread demand more efficiently across the day.
- To make recommendations for implementing these reforms.

# Chapter 1: Principles of fares and ticketing regulation

## Chapter summary

This chapter considers our overall objectives for regulating fares and ticketing; how well the current regulation achieves these objectives; and which particular categories of fares we regulate and why.

## What is fares and ticketing regulation?

15. The term “fares regulation” is a commonly used shorthand for the clauses in the Government’s franchise agreements with train operating companies which specify the range of fares each train operator must offer, the conditions that attach to them and the maximum overall level of these fares<sup>4</sup>.
16. “Ticketing regulation” refers to the industry-wide agreements which all train operators (including non-franchised, open access operators) are required to adhere to as a condition of their operating licence issued by the Office of Rail Regulation, as well as some clauses in franchise agreements, to ensure rail services continue to operate as an integrated network despite the existence of 21 different train operators.
17. These regulations provide important protections for passengers. For a more detailed explanation of fares and ticketing regulation, see **Annex A**.

## What type of fares and tickets do passengers use?

18. An average over the past five years of National Travel Survey data shows that the majority of rail trips are for commuting (54% including travel for education) with 38% of trips made for leisure. The remaining 8% are business trips.

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<sup>4</sup> Schedule 5 of the National Rail Franchise Terms

19. **Figure 1** below shows the proportion of rail journeys made using each of the main ticket categories. A significant proportion of rail journeys (43%) are made using season tickets, typically for commuting<sup>5</sup>. Off-Peak and Super Off-Peak tickets (31%) are used by leisure travellers but also by some commuters.

**Figure 1: Journeys by ticket category**

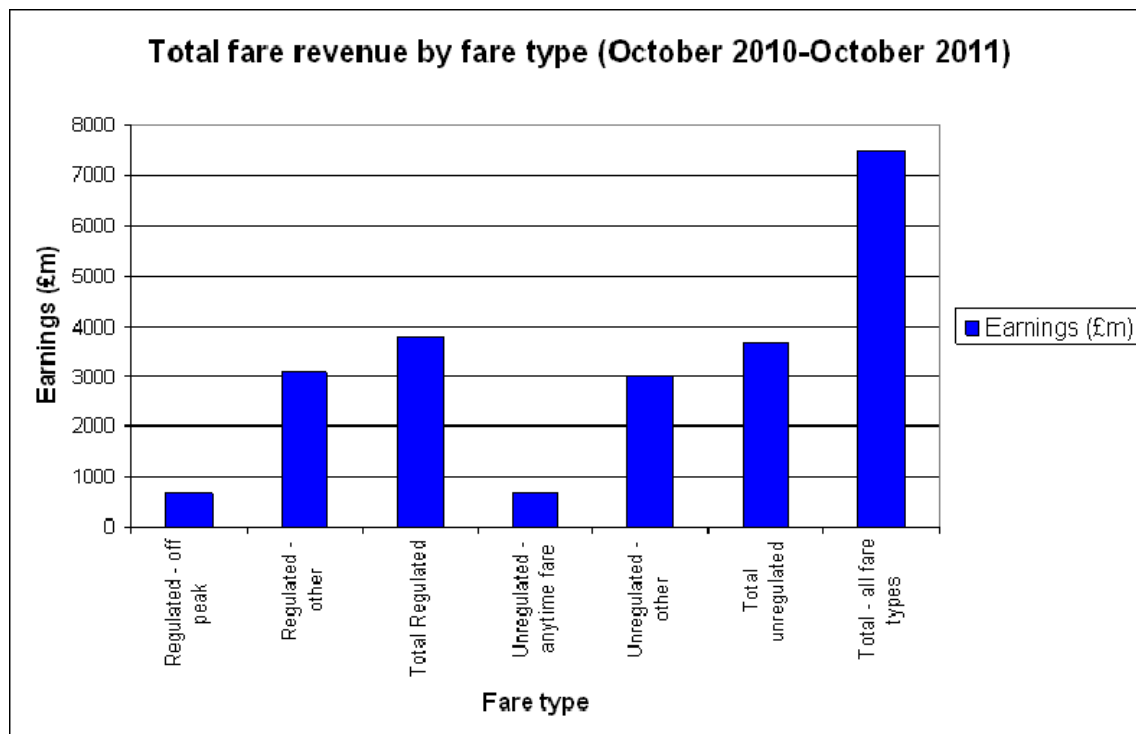
Ticket category	Journeys
Seasons	43%
Off-Peak and Super Off-Peak	31%
Anytime	23%
Advance Purchase	4%

Source: LENNON rail ticket sales database, November 2010-November 2011

20. **Figure 2** below shows the approximate market share of each of the major fare types. Regulated fares make up roughly 50% of the market.

**Figure 2: Total fare revenue by fare type**

Source: LENNON rail ticket sales database



<sup>5</sup> As season tickets allow free travel on the specified network at any time, any day of the week, they are also used for leisure travel

## Why does the Government regulate rail fares and ticketing?

21. The statutory basis for fares and ticketing regulation is to fulfil the obligations placed on the Secretary of State and the Office of Rail Regulation (ORR) under section 28(2) of the Railways Act 1993. These include:
- to make sure that rail fares are reasonable; in determining what is reasonable she may take into account the interests of rail users and potential rail users and the financial situation including the amount of funding required to operate, maintain, renew and upgrade the railway; and
  - to promote the use of services of more than one train operator, in general and, specifically, by protecting through-ticketing.
22. The wider policy reasons for regulating are to:
- protect passengers from possible market abuse and ensure that rail travel remains affordable for a wide group of people, particularly where they do not have a realistic alternative;
  - allow more scope for innovation in fares and ticketing and encourage train operators to make better use of the capacity that is available;
  - 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; and
  - ensure that from a passenger perspective the rail network operates as an integrated whole.
23. The following paragraphs take these points in turn and consider how effectively current regulation achieves these objectives.



24. **Protect passengers from possible market abuse and ensure that rail travel remains affordable for a wide group of people:** Overall we believe that the existing rules protect passengers from possible market abuse. Whilst we recognise the concern about the level of rail fares generally, we believe that regulation does play a very important role in helping to keep rail travel affordable for a wide group of people. However, we do have concerns about the incentives on train operators to price off-peak long-distance travel in a way that best manages demand. This is covered in more detail in Chapter 3.
25. **Allow more scope for innovation in fares and ticketing and encourage train operators to make better use of the capacity that is available:** We do not believe that current structures sufficiently encourage or allow train operators to offer new fares and tickets that could enable them to make better use of capacity, in particular by offering commuters greater financial incentives to travel on less busy services. Nor do they do as much as we would like to support the growing number of commuters who do not work the traditional 9am-5pm, Monday-Friday. This is covered in more detail in Chapter 2.
26. **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:** The main way the Government protects passengers when buying and using tickets is through general consumer law, enforced against train operators by the Office of Rail Regulation (ORR). The ORR has powers to stop breaches of a range of consumer protection laws where there is evidence of passengers as a group being put at an unfair disadvantage. Passengers can ask the ORR to investigate problems occurring when they were looking for or buying a ticket, making a journey or making a complaint about a journey, and which they think is likely to happen to other passengers. Regulation also requires train operators to sell tickets for all services (including those of their competitors) in an unbiased manner, and minimum ticket office opening hours are regulated.

27. We believe 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. Ticket-buying is covered in more detail in Chapter 4.
28. **Ensure that from a passenger perspective the rail network operates as an integrated whole:** We think the current regulation has done an effective job of ensuring that rail services operate as an integrated national network despite the number of different train operators running passenger services. However, there is likely to be scope to rationalise some of this regulation in future in response to changing retail patterns. This is covered in more detail in Chapter 5.
29. Finally, any regulation should be proportionate and minimise administrative burdens on business and other organisations. We are keen to hear the industry's views on the scale of administrative burdens and any suggestions about how to reduce them.

## Which commuter fares are regulated and why?

30. **London commuter fares:** These were regulated at privatisation because London commuters were considered to be a 'captive market' with no realistic alternative to the train for travelling into London. It was considered that this group of passengers needed to be protected against the risk of possible exploitation by train operators, who exercise a de facto monopoly position on commuting routes into London from many locations.
31. Over recent years, commuting into London by car has become slower and more expensive. As a result, the capital's commuters are even more captive to rail than when fares regulation was first established. So it is clear that we need to continue to use regulation to protect commuters from possible exploitation.

32. **Glasgow and Cardiff area commuter fares:** These were regulated at privatisation because these cities are of strategic importance to the Scottish and Welsh economies. It was felt that reliance on rail for commuting created a semi-monopoly position for the train operator and hence passengers needed protection. Commuter fares in these cities are now a matter for the Scottish and Welsh Governments respectively (they are regulated through the Scottish and Welsh Government franchise agreements with First ScotRail and Arriva Trains Wales) and will not be considered in this consultation.
33. **Commuter fares in Passenger Transport Executive (PTE) areas:** The PTE areas are the West Midlands, Merseyside, Greater Manchester, South Yorkshire, West Yorkshire and Tyne and Wear. At privatisation, these areas were also considered to have a dependence on rail for commuters, resulting in a semi-monopoly position for train operators and a presumption in favour of protecting commuters by controlling the structure and level of fares. There are separate regulated fares baskets covering each of these areas, with fares in these baskets generally regulated or set by the respective PTE, but there is some variation in regulation between the PTEs – more detail is provided in **Annex A**.
34. Many of these conurbations have seen jobs growth in their city centres and significantly increased levels of commuting by rail. We believe that rail commuters in our major conurbations should continue to be protected by fares regulation.
35. We also believe that in principle PTEs remain best placed to set the framework for their local fares based on local needs. However, over many years this has been one of the factors which has resulted in a significant imbalance between fares in the London commuting area and fares in other parts of the country including (but not limited to) PTE areas. The result is that passengers on higher yield services are, to some degree, cross-subsidising passengers on lower yield services. This is explored in more detail in Chapter 4.

36. **Other commuter fares:** This category includes weekly season tickets for journeys outside the London, Cardiff, Glasgow and PTE areas (with those in Wales and Scotland now regulated by the Welsh and Scottish Governments through their franchise agreements with Arriva Trains Wales and First ScotRail). Commuters outside London and the other major conurbations were not generally considered to be quite as ‘captive’ a market. Nevertheless it was felt that they needed protection against possible exploitation by train operators where they had no realistic alternative to the train.

### Which other fares are regulated and why?

37. Aside from commuter fares, a regulated fare is generally available for every journey, but is not necessarily valid at all times of the day. For long-distance journeys, the off-peak more restrictive fare is usually regulated. These must be available as a minimum for use after 10.30 on weekdays and all day at the weekend, except for journeys out of London where operators are permitted to restrict their use between 15.00 and 19.00 Monday to Friday. However for short-distance travel (typically journeys under 50 miles or wholly within the old Network SouthEast area), the “Anytime” Day fully flexible fare (the fare likely to be used by less regular commuters) is usually regulated.
38. Given the uncertainty as to how the newly privatised train operating companies would act, it was considered prudent to regulate to ensure that an affordably priced walk-up fare continued to be available for long-distance travel during the off-peak, and on at least one fare for shorter journeys. This was to ensure that rail continued to offer an affordable alternative to the private car for such trips, reflecting the wider social benefits of leisure-related travel such as visiting family and friends.
39. The steady growth in passenger numbers in recent years suggests that these protections have been effective in sustaining and increasing rail use with its associated wider benefits. Even people who never travel by rail benefit from lower road congestion and carbon emissions because other people choose rail over road or air.

40. Other regulated fares for journeys in Wales and Scotland are regulated by the Welsh and Scottish Governments through their franchise agreements with Arriva Trains Wales and First ScotRail. The Welsh and Scottish Governments have applied a similar approach to regulating these fares as in England, although it would be open to them to apply a different approach. However fares for most cross-border journeys continue to be regulated by the Secretary of State because the “lead operator”<sup>6</sup> for those journeys is a train operator under franchise to the Secretary of State (First Great Western for journeys into Wales; East Coast, Virgin, CrossCountry and First TransPennine Express for journeys into Scotland).

## Which fares are unregulated?

41. The main categories of unregulated fares, which operators are free to determine according to market forces and willingness to pay, are described below.
42. **Advance fares:** valid on only one specified departure; offered mainly on longer-distance journeys with a limited “quota” of tickets available at each price on each service. These fares can be very cheap indeed when bought well in advance, although they generally become more expensive closer to the date of travel. Train operators offer them on a commercial basis in order to fill seats that they might otherwise be empty. Since there is a commercial incentive to offer such fares, and prices are generally restricted by those of regulated fares on the same service, it was not considered necessary to regulate them when the fares system was set up. The availability and use of advance fares has increased dramatically in recent years and research has shown they are particularly popular with students and retired people.
43. **Off-peak fares for short-distance travel** were also unregulated because they are generally constrained by a more flexible regulated fare and this is still the case today. In addition, this market is less captive to rail than the commuting market – passengers are more likely to have realistic alternatives such as bus, car or bike so operators are already incentivised to price at a level that attracts passengers to these services.

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<sup>6</sup> See Annex A for an explanation of lead operator

44. **First class fares:** For a number of reasons, these have never been regulated. For all journeys made in first class, a cheaper standard class fare would also be an option. First class was seen as an optional upgrade to a higher level of comfort and not something that needed to be protected by Government. We believe that this remains the case. Following a decline during the recent economic downturn, first class travel is now increasing again. This may be partly attributable to train operators offering discounts to attract more passengers to first class. This provides an example of commercial principles being applied to the benefit of both passengers and operators.
45. **Anytime long-distance return fares** were unregulated as passengers have the option of a cheaper regulated fare, albeit with less flexibility (i.e. restricted departure times). This still holds.

## Summary of findings and proposals so far

We have defined our broad objectives for fares and ticketing regulation and assessed how well we think the current regulation meets those objectives. Where we believe there is scope to improve the effectiveness of this regulation, we will be exploring options as part of this review.

We have set out which categories of fares have been regulated since privatisation, the rationale for doing so and why we believe that these are the right categories of fares to continue regulating.

# Chapter 2: Smart ticketing and season tickets

## Chapter summary

This chapter sets out current and future developments in smart ticketing technology, the benefits and the risks and issues of smart ticketing for passengers and operators, and the limitations of the “one size fits all” season ticket, particularly for those who work flexibly or part-time. It explains how smart ticketing technology 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

46. While other industries are increasingly moving away from paper-based ticketing, passengers on short local rail journeys are often still required to buy and carry a paper ticket that would be familiar to the Victorians who built our railways. Technology has revolutionised many aspects of our lives, but our railways are still largely reliant on paper ticketing.
47. This means that there is a huge untapped potential to improve the experience of buying and using rail tickets for passengers while reducing industry costs, through what is commonly referred to as “smart” ticketing technology. Our vision is for a ticketing system which is flexible and adaptable to modern travel requirements and where paper tickets are no longer required.
48. Smartcard ticketing doesn’t just offer greater speed and convenience to passengers; it will allow operators to develop innovative new tickets to suit the way passengers travel today, with the potential to attract more passengers to the railway and to make more efficient use of rail capacity.

49. **We want to see smart ticketing rolled out as widely and as soon as the technology permits**, not least because it 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.
50. The potential to develop a range of new flexible and more tailored season tickets is considered later in this chapter. This first section sets out the progress so far and considers some of the broader issues around introducing smart ticketing.
51. The most common form of smart ticketing is the smartcard, an electronic device with a chip which stores a ticket which can be checked or ‘read’ by a scanner or ‘reader’. This is familiar to passengers in London who use Transport for London’s Oyster system. Other forms of smart ticketing in use now include mobile phone and bar code. A “wave and pay” contactless bankcard payment method has been introduced by some retailers and Transport for London are planning to introduce it for ticketing on their network in future.

### **Oyster and ITSO**

Transport for London’s Oyster smartcard has been highly successful and demonstrated to millions of passengers some of the benefits of smart ticketing, including the convenience and reassurance of daily fare capping on Pay As You Go. It operates across TfL’s network and since January 2010 on national rail services in and around London as well.

Although extremely popular, Oyster is a TfL proprietary product. DfT has established “ITSO” as an open specification for smart ticketing which can be used across the country and on services provided by different operators. DfT is supporting the development of ITSO-compliant smart ticketing, which will also allow more integrated ticketing where the same tickets can be used on different forms of public transport, not just the railway.



In order for ITSO to be used in the London area it needs to be compatible with Oyster; DfT is funding the ITSO on Prestige programme, working with TfL, to enable Oyster equipment to accept ITSO smartcards by 2014. This will allow passengers to travel to, from and through London using a single ITSO smartcard or product.

52. The Department is on track to meet its commitment to delivering the infrastructure to enable most public transport journeys to be undertaken using smart ticketing by 2014<sup>7</sup>.
53. As with any new technology, developing and trialling systems will be challenging and take time. The rail industry will need to be confident in the functionality and security of new systems and products in the complex rail environment before using them to take payments from passengers.
54. Implementing new systems within the rail industry has the added challenge of requiring appropriate collaboration between different operators. Inter-operability is crucial to ensuring that from the passenger perspective the network remains a national network despite the existence of 21 different train operators.
55. The Government is already working with train operators and others to understand better the kind of smart tickets that are likely to appeal to passengers and to develop new smart tickets that better meet their customers' needs and are commercially viable. These could include:
- Smart season tickets for commuters (considered later in this chapter);
  - Personal "accounts", potentially including some form of Pay As You Go or multi-use discount/ "frequent flyer points" for less frequent users;
  - A form of Pay As You Go for short trips including those using more than one mode of transport;
  - A form of advance booking with some flexibility for longer trips.

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<sup>7</sup> White paper, *Creating Growth, Cutting Carbon: Making Sustainable Local Transport Happen*, January 2011

56. So far smartcard ticketing has been introduced on the following franchises:

- South West Trains introduced the first smartcard system on the GB rail network in 2008 and has now equipped 141 stations with ITSO equipment. ITSO smart ticketing is available to holders of season tickets on the following sections of its network: Staines to Windsor & Eton Riverside and Wokingham; Woking to Havant and Alton; Isle of Wight; Lymington Branch; and Ascot to Ash Vale;
- Southern's "the Key" ITSO smart ticketing scheme began trialling with 100 users on the Brighton to Seaford line in autumn 2011;
- London Midland introduced its version of "the Key" for certain tickets on selected routes into Birmingham Snow Hill from January 2012;
- East Midlands Trains has installed ITSO readers on gates or validators at 26 stations on the St Pancras to Sheffield line and up to Mansfield on the Worksop branch, although not every station on those routes has been enabled at this stage. EMT launched its "stagecoach smart" ticketing scheme on a limited basis between Derby and St Pancras in 2011 and is progressively expanding the scheme across its smart-enabled network. It is currently available to season ticket holders but there are plans to expand the smart product range.

57. Although relatively small-scale, in addition to practical lessons these schemes will yield valuable travel pattern data and we will work with franchisees to evaluate them.

58. Government has an important role in protecting the overall passenger interest and driving forward the roll-out of new ticketing technology. Current and planned measures to support smart ticketing include:

- specifying ITSO as a common standard;
- funding ITSO on Prestige to enable Transport for London's Oyster equipment to accept ITSO so passengers can travel to, from and through London using a single ITSO smartcard or product;
- including binding obligations to introduce ITSO-compliant smart ticketing in each of the new franchises due to be awarded over the next few years;
- providing £45m of funding, announced in the Chancellor's 2011 Autumn Statement, to extend ITSO-compliant smart ticketing across London and the South-East;
- offering additional support where appropriate to developing new approaches to smart ticketing.

59. Operators are initially rolling out the existing range of season tickets for their network on smart technology on selected routes as they are equipped. Therefore while passengers using these smartcards have benefited from greater speed and convenience, they have not yet been able to take advantage of new ticket types/choices. As passenger acceptance grows and more sophisticated technology becomes available, we would expect the choice of ticket types available using smart technology to increase.

60. Permitting or requiring franchisees to offer new ticket types could require changes to fares regulation; we are keen to work with franchisees on their proposals and to consider requests for such changes with an open mind. To maximise the opportunities of smart ticketing we would expect franchisees to share the resulting operational savings and travel pattern data with Government, so that we can pass on savings to the taxpayer and use the data to gain a better understanding of travel behaviour and how passengers respond to price signals and new ticket options. Data could be shared on a "blind" basis to protect personal and commercially sensitive information.

### **Smart ticketing in Tyne and Wear**

Nexus in Tyne and Wear launched its “Pop” smartcard in February 2011. Under 16 Cards are the first passes to switch to Pop this year, with plans to extend Pop to annual season tickets next.

### **Smart ticketing in Merseyside**

MerseyTravel launched their ITSO-compliant smartcard, the “Walrus”, in September 2011. Their aspiration is for passengers to be able to save time and money by using the Walrus on MerseyTravel’s trains, buses and ferries. Initially the Walrus will offer the existing “Trio” multi-modal pass, with more ticket types planned to be made available on the Walrus up to the introduction of full smartcard Pay As You Go, planned for 2013.

61. There are many possible approaches to smart ticketing. While Pay As You Go / daily fare capping is well suited to relatively short but frequent urban trips, it is not necessarily the best model for the national rail network, particularly for longer-distance journeys. Passengers may be prepared to pay as they go when they can be sure that no fare is more than a few pounds. However, for longer journeys with higher fares they are likely to want to know exactly what they will be charged before swiping in, and perhaps even before they arrive at the station. Moreover, neither Oyster nor “wave and pay” contactless bank cards can store the wider range of tickets available on the national rail network, such as seat reservations and first class tickets.
  
62. Examples of other types of smart ticketing include the Chiltern Trains and CrossCountry schemes which permit passengers to purchase tickets using their mobile phone. With 91% of the population now owning a mobile phone and 27% of adults and 47% of teenagers owning a smartphone<sup>8</sup>, more passengers may opt to buy their ticket this way in future.

63. Other operators allow passengers to print their ticket at home (as opposed to just printing a reference number and using it to collect the ticket at the station). In future passengers who buy their ticket online or by mobile phone could be able to upload it to their smartcard or smartphone using an app or a device connected to their computer. Alternatively they could have the ticket automatically uploaded when they touch in at a gateline or validator. These methods would allow passengers to buy and collect their ticket at a time that suits them – removing the need to queue to use a machine and type in a reference code to collect tickets, which can sometimes be an unnecessarily lengthy and frustrating part of a passenger’s journey.
64. Finally, Transport for London is developing a “wave and pay” contactless scheme for its network that will allow passengers to use debit and credit cards to touch in and out, similar to the existing Oyster system but removing the need to top up Oyster as payment would be taken direct from the debit/credit card.
65. The potential benefits of smart ticketing for passengers are significant, starting with greater convenience in buying and using tickets:
- fewer transactions (e.g. with the possibility of auto renew) and transactions available via ticket machine, online or other channels rather than queuing at a ticket office (as currently required to purchase many season tickets);
  - greater resistance to wear and tear, for example paper season tickets that are fed through a ticket barrier several times a day can be subject to such wear and tear that they need replacing before the ticket has expired;
  - improved security features e.g. a lost or stolen card could be quickly and easily de-activated, minimising the risk of fraudulent ticket use;
  - reduced risk for passengers of buying a more expensive ticket than they need, just to be on the safe side, when they are unsure about validity;

- the savings from lower cost of sales (fewer person to person transactions) and less ticketless travel could ultimately be passed back to farepayers;
- the ability to store data on the smartcard allowing for customisation – a wider range of products including products better suited to the needs of part-time workers many of whom are women, and potentially offering better value for these passengers than the traditional season ticket. Smart ticketing is a pre-requisite for reforming the fares system to allow for smarter, more tailored season tickets, which would be cumbersome to implement via paper ticketing.

66. The technology would also provide accurate information about actual journeys made on the network, allowing revenues to be allocated more accurately between operators and for administrative savings in the revenue allocation process.

67. As with any new technology there are risks and issues that will need to be addressed, for example to ensure that:

- Information about a wider range of ticket options is communicated clearly to passengers so they can select the best ticket for their journey without having to understand every nuance of the ticketing system;
- All smart tickets are inter-operable, with 'back office' systems able to handle data and payments correctly;
- Personal data is stored and managed to the standards that passengers would expect.

68. Because of the benefits to passengers and the potential for industry efficiencies, supporting and promoting the development of smart ticketing schemes will be a priority for the Department over the coming years. A fully smart-enabled network is still some way off, but the £45m announced by the Chancellor in his 2011 Autumn Statement will provide a real boost to the roll-out of smart ticketing on commuter routes in London and the South East, so that more passengers can benefit more quickly from smart ticketing.
69. We are working with operators on installing the equipment so that existing season tickets can start to be transferred to ITSO smart ticketing on some routes in London and the South East from January 2013. The ITSO on Prestige (ITSO/Oyster compatibility) project will not deliver full functionality until December 2013, but some functionality will be available by January 2013 to allow this to happen.
70. In some other parts of England, especially in our other major conurbations with significant rail commuting, the roll-out of smart ticketing is already happening or planned for the near future, and we will continue to work in partnership with transport authorities such as Transport for Greater Manchester and Centro as well as with train operators to facilitate this. Across the country, we will need to work collaboratively with the rail industry and local and regional bodies to protect inter-operability and other network benefits for passengers.
71. With a large number of franchises due to be re-let over the next few years all containing smart ticketing specifications, incumbents of franchises with longer left to run could decide themselves to implement smart ticketing on their route network. We believe there is a good chance that a significant proportion of the network will be fully smart-enabled well before the last of the current franchises is due to be re-awarded.

## Season tickets

72. Around 600 million journeys a year or 43% of all rail journeys are made by season ticket<sup>9</sup>. However Passenger Focus research shows that significant proportions of passengers either remain unclear about the extent of savings offered by season tickets or simply find the upfront cost prohibitive<sup>10</sup>.
73. The longer the season ticket, the greater the discount. However, more passengers choose to buy weekly/monthly than longer season tickets. For some their work patterns may make this the best option, for others this is simply an issue of cost and the challenge of affording such a large expense in one go.
74. Some employers offer interest-free salary loans for the purchase of season tickets and some train operators such as Abellio Greater Anglia (see Chapter 5) allow season ticket holders to pay in monthly instalments over the course of a year via direct debit. Both of these are helpful developments and we would encourage more employers to offer interest-free salary loans. We will also work with ATOC to encourage more operators to allow for payment in monthly instalments.
75. Season tickets were designed for people travelling to their workplace five days a week for a “traditional” working day from 9am to 5pm. Many people still work that way and of course some people work more than five days a week – the season ticket still suits these groups. However, many other people no longer work in this way and for them the traditional season ticket offer falls short.
76. Season tickets can offer a considerable saving over the cost of buying Anytime (peak) day tickets:
- A weekly season ticket offers 7 days’ worth of travel at a discount ranging from less than 2 to no more than 5 times the price of an Anytime day return, depending on the journey;

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9 Source: LENNON rail ticket sales database, November 2010-November 2011

10 Passenger Focus *Fares and Ticketing Study: Final Report* (February 2009)



- A monthly season ticket offers a month's worth of travel for 3.84 times the cost of the equivalent weekly season ticket;
- An annual season ticket is priced at 40 times the cost of the equivalent weekly season ticket<sup>11</sup>.

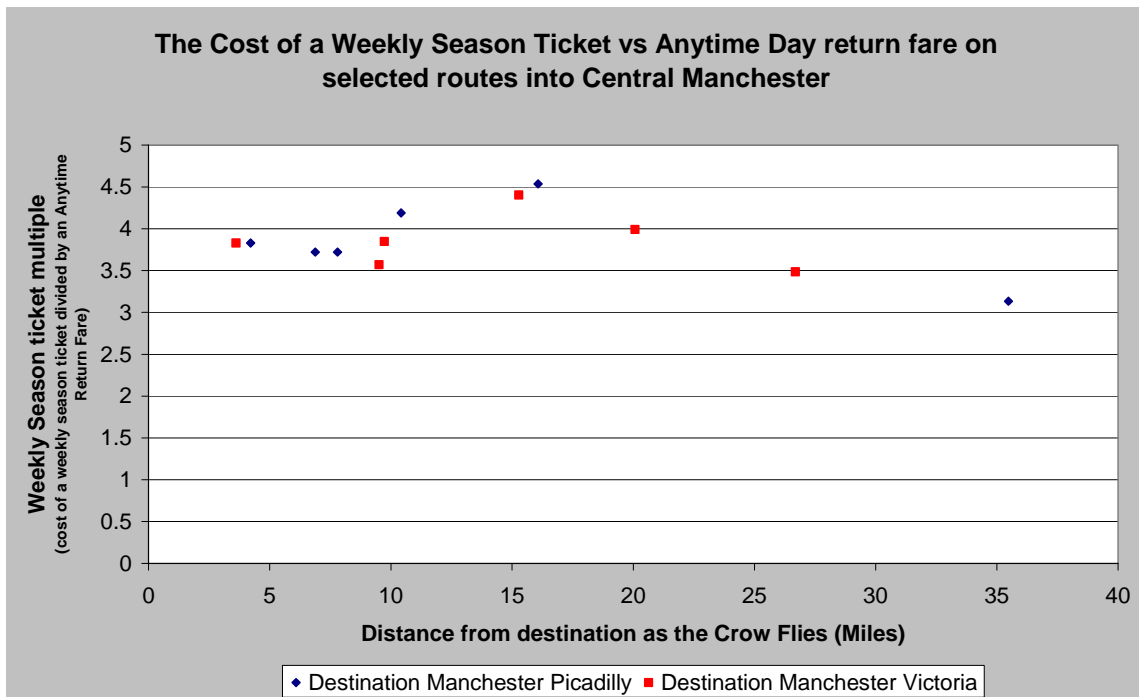
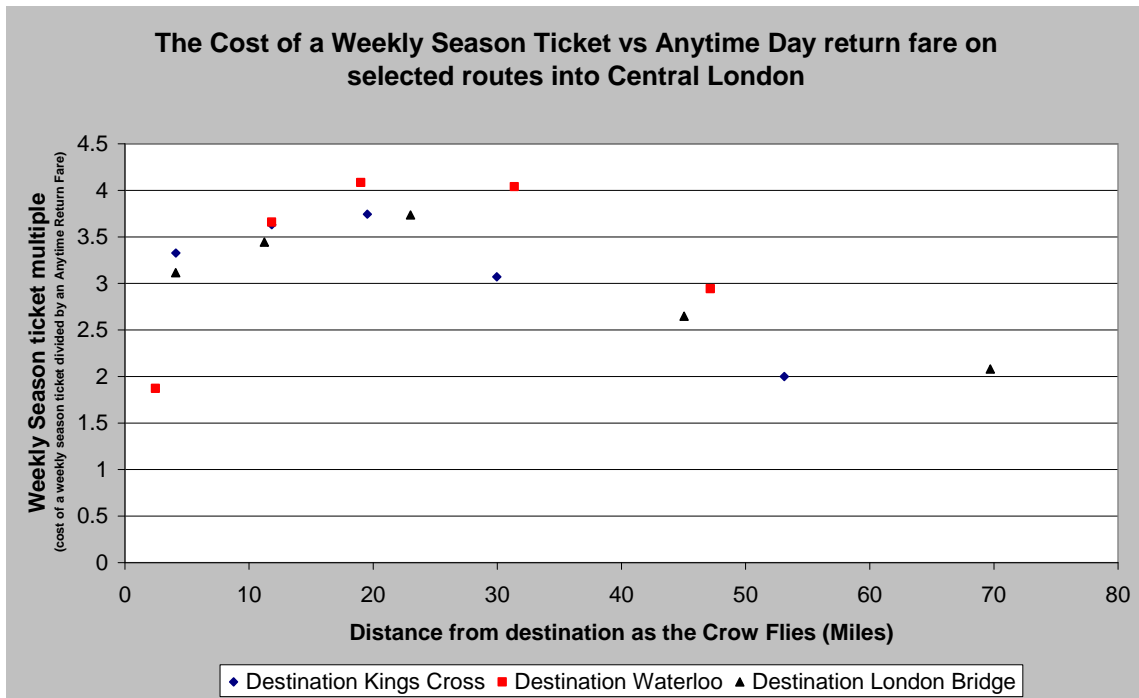
77. In many cases season tickets offer a discount against the cost of buying daily Anytime returns for commuters who work four, three or even in some cases two days a week (the lowest multiples tend to be on long-distance season tickets). **Figure 3** below shows for a sample of London and Manchester area commuter stations how the number of peak return trips that would need to be made each week to make it worth buying a weekly season ticket can vary depending on the journey being made. The weekly season ticket multiple is calculated by dividing the cost of a weekly season ticket by the cost of one Anytime Day return (all standard class).

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<sup>11</sup> The 3.84x and 40x multiples on monthly and annual season tickets are not fixed, but have become custom and practice across the industry as a result of the constraints imposed by the fares basket mechanism.

**Figure 3: Cost-effectiveness of a weekly season ticket on selected routes into central London and Manchester**

Source: DfT



78. However:

- Commuters travelling fewer than five days a week pay more per journey / receive a smaller discount in proportion to the amount of travel they actually do and the amount of strain they place on the network, compared to 5-day a week commuters;
- For commuters who may be considering working (or travelling into their workplace) fewer than five days a week, for example in order to meet family or caring commitments or simply to achieve a better work/life balance, their season ticket offers them no financial incentive to do so – indeed there is often a perception that a season ticket not used five days a week represents money “down the drain”.

79. Similarly, because all season tickets are valid for travel at anytime including the morning peak, commuters who start work later in the day (or very early in the day) may also feel that they lose out compared with those travelling in the peak. There is no “off-peak” season ticket, so early/late commuters have to pay to use the network during the busiest period even though they do not actually do so. Although some annual season tickets are no more expensive than buying off-peak day returns each day, this is not always the case. Conversely the system offers no financial incentive for commuters who can travel earlier or later to do so.

80. In effect the season ticket price is “blind” to both the number of times a week it is used and to the time of day it is used for travel, and this has some serious implications.

81. First, this means the current fares and ticketing system does not do as much as it could to support part-time and alternative working patterns which may be more convenient for many commuters juggling work and family, caring or other commitments. As women are more likely to work part-time than men, this raises issues of fairness and gender equality<sup>12</sup>. Even with a season ticket discount, part-time workers pay more per journey than full-timers with season tickets, despite putting less pressure on the network.

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<sup>12</sup> 43% of women in employment work part-time compared with 12.5% of men in employment – Office of National Statistics, 2011

82. For part-time workers, the proportionately higher cost of commuting by rail may be a deciding factor against entering or re-entering the workplace. For example, for women weighing up the costs and benefits of returning to work after having children, this existing transport cost could potentially tip the balance against a return to work. This Government has introduced a range of measures to support a flexible working culture, including a commitment to extend the right to request flexible working to all employees in 2014, and rail ticketing must support that effort, to make life easier for hard-working families as well as other employees.
83. Second, the current system does not provide any financial incentive for passengers to change their travel patterns, and this is a missed opportunity to make the railway more sustainable. The scope for greater efficiency in capacity utilisation – which becomes more important the more passengers we attract to the railway – is considered in more detail in Chapter 3 on demand management.
84. Getting the incentives on rail fares right through a wider range of fares and/or passenger reward schemes could open up opportunities for more people to enter the labour market, and be a major driver in supporting a more flexible approach to working life more generally - benefitting all workers not just those who already work flexibly or part-time.

### **Alternatives to travel**

The Government is developing policy to promote alternatives to travel – making greater use of Information and Communication Technologies and flexible working patterns to reduce or remove the need to travel – and will be working with businesses to encourage them to consider different working patterns.

The Department for Transport recently set out its next steps on promoting alternatives to travel (available at <http://www.dft.gov.uk/publications/alternatives-to-travel-next-steps>). This identified more flexible ticketing options as an important way of promoting more flexible working patterns – and ensuring that working at home or an alternative work location closer to home for part of the week is not seen as “losing out” on season ticket savings compared with those who travel to the same place of work each working day.

85. Many public and private sector employers have already recognised the benefits of more flexible working patterns for the business, the environment and employees and now allow their staff to work more flexibly and reduce the amount of commuting they do, by working from home or a different location some days a week or changing their working hours. 63% of employers surveyed by the CBI said that flexible working practices had a positive effect on recruitment and retention<sup>13</sup>.

### **Flexible working: good for employers, good for employees**

90% of **Microsoft**'s UK staff work flexibly, supported by communications tools including e-mail, instant messaging, telepresence, conferencing, telephony and unified messaging which allow remote workers to operate as if they were in the office. As a result Microsoft has improved business outcomes, reduced costs and reduced carbon emissions.

The **Environment Agency** has set itself a target to reduce its overall mileage by 25%. To help staff meet the target, the Agency has promoted alternatives to travel including home working and technology.

**BT** is another major company that has implemented flexible working policies. It commented: “Where it is right for our customers, our business and our people, flexible working can offer potential benefits, such as accommodation savings, increased productivity and reduced sick absence. Our flexible working policies can achieve a better balance between work and family commitments, which can be especially important for those with young families or caring responsibilities. Our flexible working experience and conferencing solutions generate revenue from organisations who use our services.”

86. Research by the CBI found that since the start of the economic downturn more than two thirds of employers had increased flexible working (50%) or intended to in the near future (30%) as Human Resource teams looked to these as alternative measures to redundancy<sup>14</sup>.
87. While some employers will continue to need staff in a particular location at a particular time for business or customer service needs, we believe that many more employees could benefit from changing their travel patterns and many more employers from offering their staff more flexible working arrangements.
88. As highlighted above, the technology to offer new flexible and more tailored season tickets that would support people who want to work more flexibly is now becoming available.
89. Compared with other service providers/retailers, train operators currently collect very little information about how their customers use their services<sup>15</sup>. Smart ticketing technology will allow them to capture trip data and gain a much better insight into their customers’ needs. Train operators will then be able to tailor their ticketing offer and service design more closely to passenger needs; for example by charging different prices for travel at different times or offering discounts to passengers who don’t use the network during peak hours five days a week.

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14 Confederation of British Industry 2009 *Employment Trends Survey: Easing Up*

15 Only from registered season tickets and then only the fact that a season ticket has been purchased, not the journeys made

90. The £45m announced by the Chancellor in his 2011 Autumn Statement to support the roll-out of smart ticketing on commuter routes in London and the South East will also allow us to work with operators to develop new flexible and more tailored season tickets for use on ITSO smart ticketing by as early as 2014 on some routes.

91. The cost implications of introducing more tailored season tickets are considered alongside the cost implications of more effective demand management at the end of the next chapter.

## Summary of findings and proposals so far

The upfront cost of a season ticket can be significant and we would encourage more employers to offer interest-free salary loans. We will also work with ATOC to encourage more operators to allow for payment in monthly instalments.

Smart ticketing technology offers huge untapped potential to improve the experience of buying and using rail tickets for passengers while reducing industry costs, and we want to see it rolled out as widely and as soon as the technology permits, not least because it will allow train operators to develop new flexible and more tailored tickets, starting with season tickets which in effect are “blind” to both the number of times a week and the time of day it is used for travel. This raises fairness issues (as more women work part-time than men) and means there is no financial incentive on passengers to travel on less busy trains within peak periods. We will work with operators and local/regional transport authorities to develop new flexible and more tailored ticket types, including considering requests for derogations from fares regulation where this is necessary to introduce new types of tickets.

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

## Chapter summary

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, some of the practical issues associated with this and what previous analysis tells us about the level of fares needed to incentivise passengers to change their travel patterns. It also considers the case for using price signals to smooth demand peaks at certain times of the day on long-distance services.

## The cost of carrying passengers during the commuter peak

92. Passenger demand varies significantly over the course of the day. Periods of high demand are called “peaks”. **Annex B** provides some background information about peaks and explains the concept of high-, shoulder- and off-peak periods.
93. Providing enough train capacity to meet peak demand is very expensive, and those trains can then spend large parts of the rest of the day either out of service or carrying relatively small numbers of passengers. Despite the busy peaks, once overall usage across the day is considered Britain has the lowest average volume of passengers per train of any major European railway.
94. By their nature, crowded peak commuter trains score very well on running costs per passenger. However, where capital infrastructure or new trains or carriages are ultimately needed to increase peak capacity, the costs of providing this can be very high. This is probably true for most new infrastructure provided to meet demand for only a small part of the day.



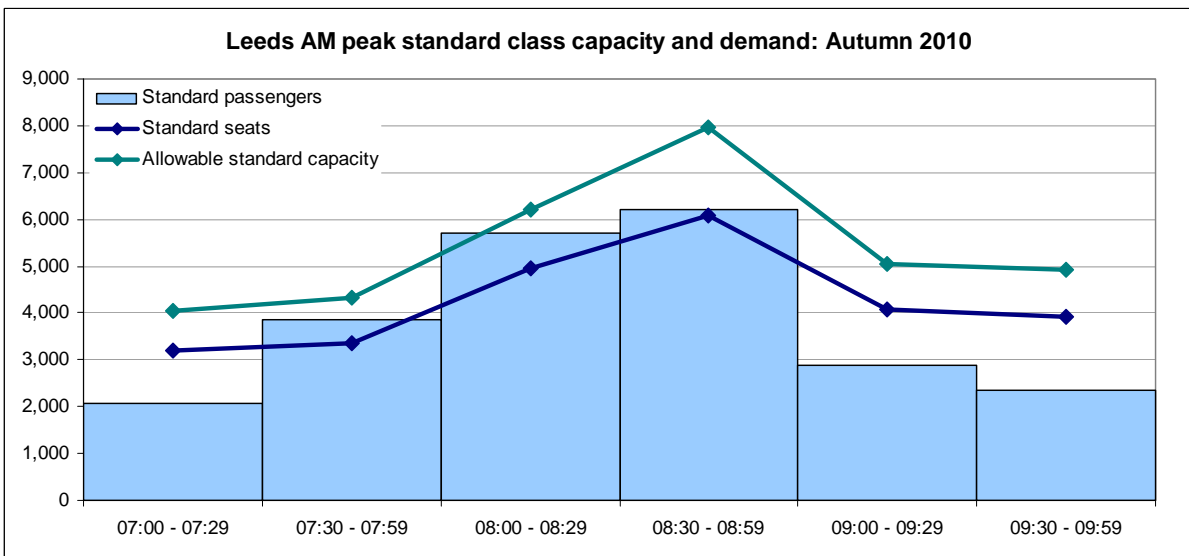
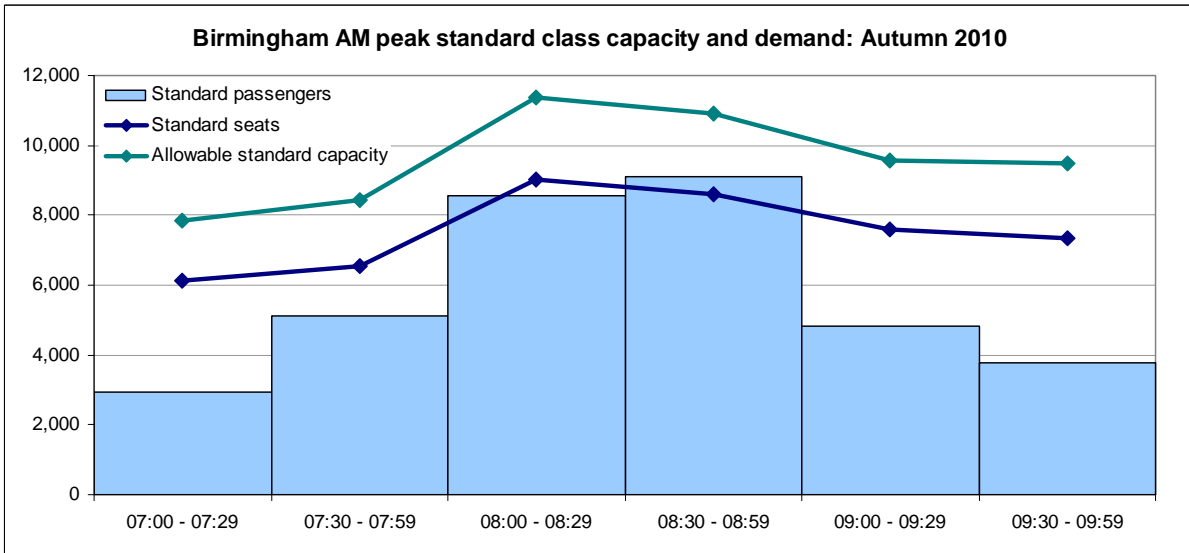
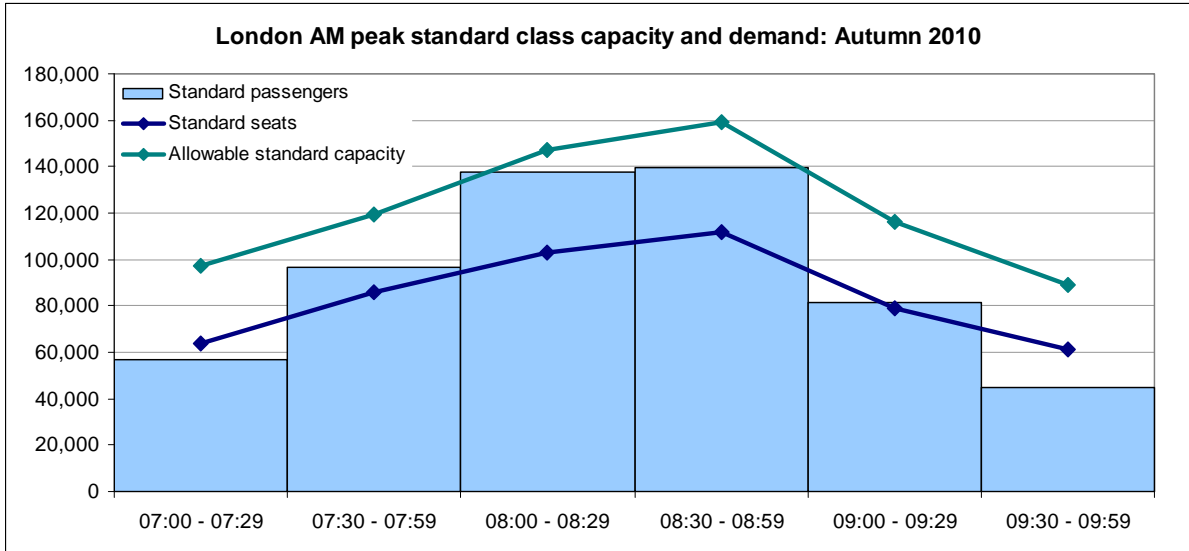
95. In some cases, shorter-term, smaller-scale options offer scope to increase effective capacity and should be explored in advance of infrastructure schemes. Failing to optimise use of capacity in these instances could mean placing more strain – and more costs – on the network during ‘peak’ periods than is really necessary. If commuter demand could be “smoothed”, even within the 7-10am and 4-7pm windows, this would enable capacity to be used more effectively and could allow more people to travel by rail overall.

**The limitations of using fares to manage demand**

The scope for demand management through price-setting to postpone the need for large infrastructure schemes is likely to vary significantly by route as well as other factors. For example, on mixed-use lines, where tracks are shared between intercity, commuter and freight services, addressing capacity constraints in just one market may not resolve longer-term capacity issues. Given the significant lead-in times for new transport infrastructure, where short-term interventions are unlikely to provide a long-term, strategic solution we need to plan well ahead to accommodate forecast growth in demand.

96. The charts at **Figure 4** below illustrate the extent of the current “inefficiency” in terms of capacity utilisation on commuter services by looking at patterns of morning peak travel into London, Birmingham and Leeds. Even during the very busiest period of the morning peak there is on average still some spare standing capacity on services arriving into these cities. But there is much more spare capacity before 8am and after 9am which could be used by passengers currently travelling in uncomfortable crowded conditions during the “high peak”.
97. Allowable standing capacity includes a standing allowance on short-distance commuter trains in addition to seats. For London a standing allowance has been included on all short-distance commuter services; for Birmingham a standing allowance has been included only for services operated by London Midland and Chiltern Railways and for Leeds only for services operated by Northern. London passenger numbers are shown at the points on approach to the city where they are highest (which is not always the London terminal); for Birmingham the number of passengers arriving at Birmingham New St, Moor St or Snow Hill is shown and for Leeds the number of passengers arriving at Leeds station.

**Figure 4**



Source: Department for Transport

98. To some extent, crowding reflects the railway's success in attracting new passengers after a long period of decline. However the Government is clear that crowding is a key concern for passengers affected by it, and there is no doubt of the detrimental impact it has on their quality of life and comfort.
99. The railway allows people to get to and from work to generate GDP and contribute to economic growth<sup>16</sup> - it is an essential part of our national infrastructure. Alongside fairness, this is one of the reasons why we protect commuter fares. It is also why this Government is committed to investing in the railways where this offers value for money and delivers wider economic benefits. We are currently undertaking the biggest programme of capacity expansion and enhancement since the Victorian era, and are investing £18bn to expand and improve our rail network over the current Spending Review period alone.
100. However, investment cannot be the entire answer. As the "easier" investment options are used up, those that are left tend to be more difficult in terms of engineering and cost. There is a limit to how far trains and platforms can be extended, and how much extra capacity signalling upgrades can provide.
101. There is every reason to believe demand will continue to increase as our population and our economy grow. We need to supplement our extensive programme of infrastructure investment with schemes aimed at ensuring that existing rail capacity is used more efficiently. This includes smarter management of demand through a wider range of fares to encourage passengers to think differently about how they travel.
102. The closer we can match the number of people wanting to travel at any given time with the railway's capacity to carry them, the more efficient and cost-effective the railway and the better value for passengers and taxpayers alike. It could also mean more comfortable journeys.

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<sup>16</sup> The railway also carries large volumes of freight which also contributes to economic growth, but this review is looking at passenger fares only.

103. While in many cases measures to spread demand away from the high-peak hour would be unlikely to provide a long-term solution to capacity issues, they could still be of value in addressing more immediate demand growth pressures. By contrast, to continue to make investments in expensive new infrastructure/trains or carriages to meet increasing high-peak demand in the short to medium term when there is still spare capacity just before and just after the high-peak cannot be the most efficient way to spend the taxpayer's money and nor does it offer the best overall value for money for passengers.
104. One way to encourage passengers to travel in a way that would help make better use of capacity might be to publish more information about crowding levels on different services. Train operators could highlight the option of a more comfortable journey at a different time – after all, passengers who always travel on the same train might not be aware that other trains are more or less crowded.
105. However, it seems likely that a significant improvement in efficient capacity utilisation would also depend on the introduction of more sophisticated financial incentives for passengers to travel at less busy times, which fares regulation does not currently permit.

## How could we set fares to make better use of commuter rail capacity?

106. Under the current system, passengers who can travel at less busy times and use capacity that would otherwise be even less well utilised are rewarded with a cheaper fare, but for commuters this generally comes down to a choice between peak and off-peak, e.g. before or after 9.30am (the peak varies by route/operator).

107. This is a fairly blunt instrument, and the cut-off point is likely to be too late for many commuters to take advantage of cheaper off-peak fares, at least under current working patterns. Peak restrictions may be in place for as long as five hours, from start of service to after 10am. On many routes there is a big difference in crowding levels at 7am, 8am and 9am, but no difference in fare bands to reflect these different levels of demand. On a weekday, it can cost the same to travel into a city centre at 5.30am on an almost empty service as it does at 8.30am on an extremely busy one.
108. In short, fares and ticketing regulation does not permit the sort of sophisticated, demand responsive pricing for commuter rail that has been successfully applied on longer-distance rail services for many years now, with train operators pricing book-ahead advance fares in a way that helps them fill empty seats and offers passengers some very good deals.
109. We believe there is scope to apply some of the principles of demand responsive pricing to commuter fares, in a modified form. Within the current constraints on overall fare levels, we will consider whether offering a wider range of fares (including rewards now) and/or passenger reward schemes (rewards in the future) could encourage more efficient use of rail capacity.
110. One option would be to introduce a new category or categories of fares for travel in the “shoulder-peak”, priced somewhere between the “high-peak” and the off-peak fare. This would allow pricing to reward passengers who already avoid the busiest services; attract more existing high-peak passengers to the shoulder-peak; and encourage projected growth in passenger volumes to take place in the shoulder-peak. To provide a stronger incentive for behavioural change and more even usage of peak capacity among existing passengers, a wider “menu” of fares could – although we would need to consider this very carefully – also include a “high-peak” fare priced higher than the current Anytime day fare/ a season ticket priced higher than the current season ticket.

111. Enabling existing capacity to carry more passengers would reduce unit costs, allowing us to deliver more for passengers overall and better value for the taxpayer – the key reason behind the Rail Value for Money Study recommendation to carry out a review of fares policy. However, any changes that would result in some passengers paying more would require very careful consideration. Cost implications are considered in more detail later in this chapter, but one of the aims of this consultation is to seek views on how changes to fares structures could be implemented in the fairest possible way.
112. Allowing train operators to introduce new categories of commuter fares with stronger price incentives and/or passenger reward schemes would be a significant change to fares regulation. We are at the early stages of considering this and it is not something the Government would commit to without a much better understanding of the likely impacts. Some of the main issues are discussed below.

**Rail Value for Money Study analysis<sup>17</sup>**

The Rail VfM Study modelled several hypothetical fares scenarios, including one aiming to incentivise “peak spreading” where the *total* value of regulated fares baskets was permitted to increase by 2.3% each year for five years on top of the existing assumed fares changes using the “RPI+k” formula; with some fares (in the high-peak) rising by an additional 7% annually (an additional 40% over the course of five years), while other fares rose at a slower rate.

This is only one scenario described here to illustrate the principle of demand management using pricing – not a Government proposal or plan.

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<sup>17</sup> The parameters quoted here are simply the ones applied in the independent Rail Value for Money Study and should not be considered as in any way preferred or endorsed by the Department as the optimal set of parameters for a demand management scheme. Other parameters could be applied e.g. targeting a reduction in average peak demand of higher or lower than 5%.

However this model suggested that after five years this would have resulted in sufficient passengers changing their travel patterns to reduce average peak demand by at least 5%, and that this could be enough to generate some savings on planned infrastructure investment, although with underlying growth in passenger volumes at around 3-4% a year a fares change like this might not “buy” significant amounts of extra time before the busiest trains reverted to previous crowding levels.

The Study suggested the potential for delay of up to two years, but pointed out that it was unlikely to be possible to delay or avoid infrastructure works at major constraints as the timing of these is generally determined by life expiry of assets rather than by the level of passenger demand. It is also difficult to translate a potential delay into financial saving as the level of saving would depend heavily on the nature of the works avoided.

113. Given the high cost of providing additional infrastructure and trains or carriages, even a relatively short deferral could achieve significant savings. However, clearly an additional 7% increase annually on top of existing assumed fares changes using the “RPI+k” formula would be unaffordable for many commuters, particularly in the current climate of wage freezes and rising cost of living.
114. The scenario modelled for the VfM Study was designed to generate some additional revenues (£200m over five years), but we have been very clear that this review is not about squeezing more revenue out of regulated fares. It is about the structure of fares – what one group of passengers is asked to pay compared with another – and any changes stemming from it would need to be balanced and fair.
115. However, even if the maximum additional fares increase required to deliver the desired reduction in average peak demand was less than 7%, this could still be a significant increase that would be very difficult for many commuters to accommodate, and impossible for some.

116. A new pricing structure could be designed with a lower additional annual increase so as to achieve the forecast reduction in average peak demand more gradually over time, mitigating the impact on commuters. The more difficult issue is how to manage the impact on commuters who would find it difficult to pay such a premium, or who did not think the ability to travel on that particular train was worth that premium. While these commuters would have alternative and potentially more attractive options for avoiding the very busiest trains, other constraints (e.g. work or school starting times) may prevent them from taking advantage of these.
117. Clearly this is an extremely sensitive area. In designing any new commuter fares structure a decision would be needed as to the optimal balance between overall efficiency, and affordability for individual passengers, and any changes that would result in some passengers paying more would require very careful consideration.
118. A second very significant issue is the difficulty of predicting passengers' willingness and / or ability to change the time they travel. Some employees may be able to travel at different times, but be unwilling to do so from force of habit. However, others who are required to work fixed hours and/or need to work around other constraints such as school start times could find changing the time they travel difficult or impossible. In developing proposals we would need to gain a better understanding of which groups could be most affected, so that we could properly assess the impact and fairness of any proposed change.
119. Train operators' pricing policies are much more likely to succeed in spreading demand more evenly if there is a shift in employers' approach to working hours and flexible working hours become an option for more commuters. We have seen some positive change on this in recent years but there is a great deal more that can be done. As the previous chapter highlighted, DfT is actively considering this issue in its work on Alternatives to Travel. The transport pressures of the Olympics are also prompting Londoners to think about how they can travel differently during the Games. Other constraints including school start times could prove more challenging.
120. There would be many other practical issues to consider as part of developing any form of demand management involving multi-tier pricing, e.g. how to:



- manage the interface between national rail and local networks such as London Underground;
- manage the operational complexity of services that might need to offer fares at different price tiers for different parts of the journey, or where price tiers need to be redefined with every timetable change;
- manage the potential disproportionate impact on commuters with longer journeys, who may find it more difficult to travel earlier than commuters with shorter journeys;
- manage the potential disproportionate impact on commuters with less frequent service, who would have fewer alternative services to choose from;
- ensure passengers aren't charged a higher fare because their train is late; and
- communicate information about a wider range of fares to passengers in a way which minimised confusion and reassured them that they would not be overcharged for their journey.

121. These and other issues would need to be considered very carefully, with common principles established and applied between operators to minimise complexity for passengers. In addition, asking passengers how they would respond to hypothetical fare changes is no substitute to observing how passengers actually behave in the real world. Before introducing any new fares structure nationally, we would first want to understand how it worked on a smaller section of the network.

122. To a lesser extent, demand also varies over the course of the week. Commuter volumes on Friday mornings are significantly lower than other weekday mornings because many of those who work/travel fewer than five days a week don't work/travel on Fridays<sup>18</sup>. This means that in practice capacity requirements are driven by peak demand Monday to Thursday.

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<sup>18</sup> However, additional leisure travel on Friday afternoon/evenings means total travel volumes during the Friday evening peak are not significantly different to the Monday-Thursday evening peak (National Travel Survey).

123. Just as fares structures could be used to incentivise some commuters to change the time they travelled, they could be used to encourage a smoothing of demand across the week by rewarding passengers who avoid travel on the busiest days. Smoothing demand across the week would probably be more complex to design and implement so this is probably a longer-term aspiration, but the optimum model would smooth demand across each day and across the days of the week. As employees who already work at home or not at all some days a week may well have the flexibility to change which days of the week they do this, this is something we are keen to explore.

### **Managing demand during the Olympic and Paralympic Games**

We are expecting up to 600,000 ticketed spectators daily on London's transport network during the Olympic and Paralympic Games, in addition to 55,000 'Games Family' and many more who will come to London and other venue cities to join in the wider celebrations. On the busiest days there will be an additional 3 million journeys on London's transport network, meaning that at certain times and places travel will be disrupted.

Transport for London is working with businesses to encourage organisations and individuals to plan ahead to change the way they work and travel next summer. This includes considering whether they can vary their travel times or the route they use; switch to walking or cycling for all or part of their journey; or avoid specific locations when they will be particularly affected. It might also include considering whether they need to travel at all, for example by taking opportunities to work remotely on especially busy days.

Other Olympic cities have found that programmes to manage travel demand had an ongoing impact on people's travel choices. Catalysing a lasting change in the choices we make about how, when and why we travel is therefore an important part of the legacy the Games could leave us.

124. Introducing a wider range of tickets/price tiers would be cumbersome to implement with the current paper-based system. Delivering better demand management depends on rolling out smarter ticketing technology, for example, to ensure that even those passengers who *normally* still needed to travel on the very busiest trains could be rewarded for travelling on less busy trains when they are able to do so. To maximise the benefits, any new season ticket should ideally allow for occasional travel outside the “normal”, programmed and paid for in advance travel patterns in a seamless way. For example passengers with London Zone 1-2 season tickets can “top up” their Oystercard with additional credit to allow them to use it outside Zones 1-2. The benefits of smarter ticketing were explored in Chapter 2 above.
125. The concept of a daily price cap on travel on the Transport for London network has been well received and smart ticketing could allow for this concept to be applied to national rail. In the longer term, personal travel “accounts” and a weekly/ monthly/ annual cap might provide an attractive option for passengers by giving them the flexibility of a season ticket combined with price incentives on individual journeys. While these scenarios may be some way off, it is clear that the ticketing technology now becoming available offers great potential to do things differently and smarter in future.
126. These kinds of change could allow the railways to carry more passengers at reduced unit cost and offer passengers a better experience. They could also give a better deal to part-time and flexible workers. This is why a more flexible approach to season ticketing goes hand in hand with spreading demand more efficiently throughout the day. We will consider these two objectives in parallel, looking at what may be achievable in the short, medium and longer term.

## Cost implications of changing commuter fares structures

127. Introducing new more tailored season tickets and using price signals to spread demand more efficiently throughout the day would require train operators to be allowed to introduce a wider range of fares, with different fares depending on the time(s) of day, day(s) of the week and number of times a week a passenger travels.

128. This review is not about squeezing more revenue out of regulated fares. It is about the structure of fares – what one group of passengers is asked to pay compared with another – and any changes stemming from it would need to be balanced and fair.

129. We would expect the cost of rewards for travel at less busy times and discounts for less frequent travel to be offset as much as possible by:

- Additional revenue from new passengers for whom a flexible and more tailored season ticket makes the difference between being able to afford to commute by rail or not – where these tickets open up opportunities for more people to enter the labour market;
- Additional revenue from new passengers who can now travel by rail because demand smoothing has freed up space on the very busiest services;
- Savings on trains and infrastructure investment as a result of more efficient capacity utilisation.

130. In parallel we have made a commitment, once wider rail industry efficiency savings are found and the improvement in the wider economic situation permits, to reducing and then abolishing above-inflation rises in average regulated fares.

131. However, as noted above, as well as using new shoulder-peak fares to attract more passengers to the less busy parts of the peak, to provide a stronger incentive for behavioural change and more even usage of peak capacity among existing passengers, a wider “menu” of fares could – although we would need to consider this very carefully – also include a “high-peak” fare priced higher than the current Anytime day fare/ a season ticket priced higher than the current season ticket.

132. Different passengers will reach different conclusions about the relative costs and benefits of changing the time they travel in response to a new fares structure, according to their individual circumstances. Some passengers might already have thought about taking advantage of an employer's flexible working policy, but so far not done anything about it. Some high earners might value the convenience of travelling in the high-peak higher than any additional cost of doing so. Passengers who would like to change their travel patterns but are constrained by employers or other factors would be most affected, and this is where we would be most concerned about possible inequities. At a time of rising living costs especially, any changes would result in some passengers paying more would require very careful consideration.
133. If we were to implement any form of demand management using pricing, it is likely that we 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. A gradual rebalancing of the relationship between different types of fare would give operators time to monitor travel trends and consider any changes to service patterns that might be needed; it would give commuters time to consider their options, where possible to try out a different travel pattern, and to plan ahead. This could mitigate but not eliminate potential inequities. One of the aims of this consultation is to seek views on how changes to fares structures could be implemented in the fairest possible way, and we would particularly welcome consultees' views on this.
134. The approach taken by Transport for London when they introduced Oyster smart ticketing was to price Oyster fares at existing rates and charge a premium for cash fares, providing a clear incentive for passengers to switch to smartcards. Over time the differential between Oyster and cash fares has increased. The fact that new flexible and more tailored season tickets would only be available via smart ticketing (as they would be too cumbersome to implement via paper-based ticketing) would already provide an incentive to many passengers to move to smart ticketing. However, there might be a case for incorporating an element of the TfL approach into any new commuter fares structure on national rail, so that even those passengers who were constrained by their employers or other factors to travel on the busiest services could avoid paying the very highest fare by switching to smart. This would need to be considered as part of the overall design of any new commuter fares structure.

## Demand management on long-distance/ intercity services

135. We believe that there is also scope to introduce some smarter demand management on long-distance services. Services leaving London are subject to regulated ticket restrictions in the evening as well as the morning peak and this can result in severe overcrowding on the last off-peak service of the afternoon and the first off-peak service of the evening – for example, just before 4pm and just after 7pm. On some routes, this has been a particular problem on Friday evenings when there is increased demand from leisure travellers. In extreme cases, passengers have had to be physically restrained from boarding overcrowded trains. If passengers are unable to board the last off-peak service of the afternoon they may have to wait quite some time for the next off-peak departure – or buy a more expensive Anytime ticket to travel during the peak.
136. In contrast, services towards the start and end of the designated “peak” period are sometimes less crowded. This is another example of capacity not being used as efficiently as it could be, adding unnecessary cost to the railway.
137. As a first step we plan to work with train operators to assess the scale of the problem. We will consider the effectiveness of the tools the current fares system gives them for tackling this problem. If there are steps that train operators could be taking within current franchise terms, we will expect them to do so. If they are already doing this then we will need to consider whether Government could provide any additional incentives on train operators to manage demand more effectively in these cases.

### **New approaches to using fares to spread demand**

When **Chiltern Railways** introduced a new timetable with faster journey times from Birmingham to London in 2011, it also revised its fares structure to three easily understandable time and price bands; Peak, Off-Peak and Super Off-Peak. This allowed Chiltern to spread demand more effectively while remaining primarily a “walk up” railway.

In 2009, **First Great Western** introduced a new Off-Peak fare, priced above the regulated Super Off-Peak but below the unregulated Anytime fare. This encourages some passengers who would normally travel on the Super Off-Peak to decide to travel at a more convenient time for them by paying a slightly higher fare but without having to pay the fully flexible Anytime fare.

138. Beyond that, one possible option to manage demand more effectively would be to stop regulating off-peak fares for long distance travel and allow train operators to sell all fares on these services on an Advance basis in line with passengers' willingness to pay. However we do not consider a move to universal book-ahead only trains to be an acceptable solution. The Government has made a significant investment to increase frequency on various long-distance routes, so that passengers can arrive at the station knowing that they are unlikely to have to wait too long for a train to their destination. We do not want to negate the extra flexibility and convenience this has given passengers: rail's ability to offer short-notice travel at an affordable price is one of its strengths, the "turn-up-and-go" railway is much valued by passengers and we believe that it is important to continue to offer "walk-up" fares for travel on the next train. We are prepared to consider refinements and reform of the system for regulating off-peak fares, but not abolition.
139. However, extending the window for booking 'advance' tickets (currently up to 23.59 on the eve of travel) closer to travel, say up to one hour before travel, could extend the benefits of "advance" fares to more passengers while still retaining a walk-up service. We will consider the case for such a change.
140. We will also review the nature of the evening peak restrictions on longer-distance London departures and whether there could be any net benefits (for example, from reduced crowding) from permitting operators to apply proportionate regulated restrictions on the use of longer-distance off-peak tickets on evening peak departures from major commuting centres outside London.

141. Some long-distance services also experience crowding on Sunday afternoon/evening as people return home after a weekend away. There may be a case for considering whether better incentives could spread demand more evenly and achieve better value for money at weekends as well. However, any changes would need to ensure that rail travel remained affordable to as many people as possible.

## Summary of findings and proposals so far

Providing enough capacity to meet peak demand is very expensive. If demand could be smoothed even within the commuter peaks of 7-10am and 4-7pm, this could allow existing rail capacity to accommodate more people overall, reduce rail unit costs and potentially achieve savings from postponing the need for at least some of the new trains and infrastructure that are likely to be required in future years. Introducing a new category or categories of fares could provide the necessary financial incentive for commuters who are able to avoid the busiest services to do so. A similar approach could be applied to spread demand more evenly across the week. The analysis so far suggests that significant price incentives would be needed in order to achieve significant change so this is something we will need to consider very carefully before reaching any conclusions.

We will also explore the possible costs and benefits of allowing restrictions on longer-distance evening peak departures outside London, and consider whether there is scope for more sophisticated incentives in relation to off-peak travel on long-distance services.



# Chapter 4: Fares and ticketing complexities

## Chapter summary

This chapter sets out some of the main reasons why the current fares structure can cause confusion, explains that some of these apparent complexities are due to commercial pricing and identifies which of these complexities we plan to consider further. This chapter also sets out pros and possible cons of removing the requirement to obtain a licence in order to access rail fares data.

142. Research by Passenger Focus suggests that passengers can find it difficult to understand the different fare types and the restrictions that apply to them. For a more detailed explanation of fares and ticketing regulation, see **Annex A**. The 2008 fares simplification reduced the number of fare types so that all of the *main* fare types (other than season tickets, rovers, rangers and special fares) must now fall into one of the following categories:

- **Advance** fare – single tickets valid on one specified service only
- **Anytime** fare – anytime single, anytime return (for return within one calendar month), or anytime day return – all valid on any service, including during peak hours
- **Off-peak/Super off-peak** fare – off-peak single, off-peak return (for return within one calendar month), or off-peak day return – all valid on “off-peak” services only

143. However, passengers still find fares and ticketing complex and this chapter considers why. The Office of Rail Regulation have also been looking at the information provided to passengers and working with the industry to gain a better understanding of why passengers find fares and ticketing complex, and intend to publish a report shortly setting out some of the issues and what the industry is doing to address them.

## Fares restrictions

144. Peak and off-peak periods vary between operators and routes.
145. In general, for long-distance journeys fares regulation sets a maximum window within which operators may define the peak. Currently, this window is defined as from start of service in the morning to 10.30, applicable across the country. For long-distance journeys starting from stations in and close to London, there is also an afternoon/evening peak period from 15.00 to 19.00. Some operators currently use the full window and may even see their actual peak spread beyond this as well; others define their peak as starting later or finishing earlier.
146. The underlying principle here is that operators know their passenger markets best (they know when demand for travel is highest) and are best placed to define their peak period on a commercial basis and to help manage crowding.
147. For short-distance travel, off-peak fares are not regulated so operators can apply any time restrictions they want (or none at all); where operators do restrict the use of unregulated off-peak fares, they often use similar timebands to the above.
148. We will consider whether there is any case for reforming the regulation in relation to time restrictions.

## Fares basket flexibility

149. The cap on regulated fares is implemented by train operators as an average across a 'basket' of different fares. This flexibility allows some fares on the busiest routes to be increased by up to 5% (by up to 2% on fares set by Southern) more than the average, while prices are kept down on less busy routes.

150. While there is a perception that it is always the most popular regulated fares that are subject to the maximum permitted increase year on year, we are not proposing to scrap this flexibility because it is one way in which operators can manage demand more effectively, which should achieve better value for money for farepayers and taxpayers overall. Where operators increase some fares by the maximum permitted, other fares must increase by much less or even be held flat to comply with the regulated average increase.

## Terms and conditions of Advance fares

151. Passenger Focus and others have called for a change in ticket terms and conditions to allow passengers with Advance fares valid only on one specified departure who miss that departure or board the wrong train to “pay the difference” between their Advance fare and the cost of a walk-up fare to travel on the next available train (instead of having to buy a full new walk-up fare as is currently the case). The difference between an Advance and the “walk-up” fare can often be significant.

152. Passenger Focus and others have argued that it undermines passenger confidence in the system to ask passengers to buy what could be a much more expensive ticket because they missed their booked train or boarded the wrong train by mistake (although it is worth noting that if a passenger misses their booked departure due to a missed national rail connection, train operators generally accept the original ticket on the next service).

153. We will consider whether passengers could be allowed to “pay the difference” (potentially on payment of a fee, if this was considered necessary in order to avoid perverse incentives) without unduly impacting on other passengers. Advance fares are just one part of train operators’ pricing structures and are also unregulated, so we would like to hear how train operators as well as passengers might respond to this scenario.

154. In the meantime, we believe train operators could learn from other online retailers and that they should do more to ensure that the restrictions on advance fares, as well as the option to change the ticket before travel on payment of a £10 fee, are communicated clearly and prominently at the point of purchase.

155. Separate to this consultation, Government previously consulted on Penalty Fares. We are now in the process of implementing changes to the amount of the Penalty Fare, which has not kept track with the level of rail fares, or the level of TfL penalty fares, and to provide for the Penalty Fare to be halved if paid within 21 days as is already the case with TfL.

156. The Penalty Fares regulations were consulted on as part of the Red Tape Challenge which closed in December 2011 and they are now being considered as a potential candidate for simplification. As a result of these separate processes, penalty fares have not been included in this review.

## Fares inconsistencies

157. This consultation is about the structure of fares, not the level of fares overall. But with train operators setting as many as 100 million through fares each year, there are some fares which may seem inconsistent with fares for other similar journeys. Genuine inconsistencies could be due to:

- The fare derives from one that was on offer at the time of privatisation, having been introduced by British Rail to meet a particular market need at the time, but that market need no longer exists;
- The fare did not exist at the time of privatisation, and was created simply to “fill in the gaps” in the fares database to ensure there was an inter-available fare between all pairs of stations, without considering its relationship to other fares;
- The fare is “artificially” low because a poor-performing train operator in the early years of privatisation was not permitted to increase fares at the same rate as other franchisees.

158. Train operators who identify genuine inconsistencies can apply to the Department for a derogation from their franchise terms to allow them to make a one-off adjustment.

159. In other cases, passengers who expect fares to be roughly consistent on a distance basis may perceive inconsistencies where in fact fares have been set on a commercial basis (within the constraints of fares regulation). This may leave passengers feeling that they are paying more than they should, for example where a return is only marginally more expensive than a single. In other cases, where different ticket types are used for each leg, two singles can be cheaper than a return.
160. In fact, the standard fare per mile was abandoned by British Rail pre-privatisation in favour of a more market-driven (“willingness to pay”) approach, setting fares for each journey according to levels of demand. This has delivered some successful results, with operators using their commercial freedoms to offer a range of different fares to suit different markets. It has played a part in delivering massive passenger growth. Returning to a purely distance-based fares system would compound crowding problems and jeopardise cheap advance fares. It would also lead to less efficient use of capacity and hence poorer overall value for money.

**Long-distance season tickets**

Longer-distance commuters tend to pay a lower price per mile for season tickets than shorter-distance commuters. Long-distance commuting used to be much less common than it is today so season ticket fares tended to be priced low. As services improved, more people took up longer-distance commuting and have benefitted from these comparatively low prices. For many commuters, the cost of the season ticket is a key factor in deciding where to buy a house and bring up a family. While there may be a case for marginally reducing this disparity, as explained above we have no plans to revert to a purely distance-based pricing system.

161. We therefore have no current plans to change the overall approach which permits train operators to set fares commercially within a regulated framework. While this inevitably results in a wide range of different fares being available for the same journey which some passengers can find confusing, we believe that this remains the best approach for delivering overall value and ensuring a range of fares is available to suit different passenger needs.

162. However, this highlights the importance of clear communication on fares and their restrictions. There is also an important lesson here for the introduction of smart ticketing: if new price tiers are introduced, train companies will need to do even more to help passengers understand why they might be asked to pay more to travel on certain services but offered a discount on others.

163. There are a number of other more specific “inconsistencies” or issues/complexities we are considering whether to address and these are described below. Whether we explore these issues/complexities further will depend partly on whether this consultation shows them to be common issues that cause problems for passengers.

## Fares by region

164. There is evidence of an imbalance (even after taking account of differences in average income) between fares in the London commuting area and other parts of the country, including (but not limited to) PTE areas, and that passengers on higher yield services are effectively cross-subsidising passengers on lower yield services.

165. This is something we intend to explore further as part of the review. As explained above, we have no intention of reverting to the sort of standardised, national distance-based pricing system that was abandoned by British Rail. However, we do believe that there is a case for reducing any significant regional imbalance in fares levels. That said, great care would be needed in deciding how far to take this approach and how quickly it could be brought into operation. Where PTEs are co-signatories to franchises, any changes would also need to be agreed with them.

166. In practice, reducing London commuter fares to levels seen elsewhere in the country is not an option because the significant revenue loss to the industry would simply translate into an increase in taxpayer subsidy. And increasing non-London fares to London levels would entail some very significant fare rises that would turn many passengers away from rail – particularly as commuters outside London tend to have more transport choices, and increased car use and traffic congestion would not help local economies.

167. We will consider this issue further, but it will be important to avoid setting unreasonable constraints for any local bodies to which more responsibility and budgets for commissioning local and regional rail services may be devolved, as described below.
168. In parallel with this review, the Government is consulting on proposals to devolve more responsibility and budgets for commissioning local and regional rail services in England away from central Government to sub-national bodies, such as local authorities or PTEs. This consultation document, *Rail Decentralisation: Devolving decision-making on passenger rail services in England*, invites comments on which responsibilities should be retained by central Government and which might be devolved to sub-national bodies, and can be found at [www.dft.gov.uk/consultations](http://www.dft.gov.uk/consultations).
169. As part of this the Government would be prepared to consider whether responsibility for setting local fares should be devolved along with the service specification function. This could give the 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.

## The cost of single tickets

170. 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.
171. This is a long-standing inconsistency which can be explained mainly by the fact that off-peak fares for long-distance travel were designed by BR for the “weekend away” market which would always have involved a return. Historically, few off-peak long-distance *single* fares have been sold and they are not regulated. The same is true for single fares for shorter-distance travel, where minimising fraud is another reason cited by operators for not discounting the single against the return.

172. To passengers however this can seem arbitrary, with people who only need a single having to pay virtually the same as return passengers despite getting only half the benefit. The result is probably that passengers may opt to buy a return “just in case” even if they don’t intend to use the return portion.
173. The introduction of Oyster Pay As You Go has resolved this inconsistency for travel around the capital but it continues outside London. Given that the majority of passengers do want to make a return journey, perhaps the biggest problem this causes is for return passengers. Train operators offer cheaper Advance fares to passengers who are prepared to sacrifice flexibility because it guarantees the operator filled seats on quieter services, but this requires passengers to commit to a specific train each way. If passengers can be sure when they want to depart but not when they will be coming back (for example to allow for an appointment over-running), the walk-up single they would be forced to buy for the return leg would cancel out any savings from booking ahead for the outward leg.
174. We would be reluctant to impose a single: return price ratio as:
- any requirement on operators to reduce the price of single tickets to allow passengers to “mix and match” walk-up and Advance fares may need to be balanced by an increase in the cost of the return;
  - it may not represent the all-round best pricing strategy (balancing operator and passenger interests) and could disproportionately restrict operators’ ability to price commercially;
  - it could require the Department to renegotiate its franchise agreements with operators, which can be costly, to recoup a probably relatively small amount of money.



175. Some operators have tried to address this issue, for example Virgin have introduced “half-price off-peak” single fares available online only. And First Great Western have changed the price of the single off-peak fare to just over half the price of the return off-peak fare on many of their long-distance journeys, available through all retail channels. This shows that there is scope for train operators to find solutions that work for passengers and for them. It provides a good example of the rail industry responding to passenger demand with innovative new products. We would welcome other operators trying similar approaches.
176. However we do not rule out revisiting this because these discrepancies could become a much bigger issue if a smartcard-based Pay As You Go style approach to ticketing became widespread on national rail in future. When Oyster Pay As You Go was extended to national rail in London in 2010, many return fares were withdrawn in order to simplify the fares structure.

## Network benefits

177. As well as protecting the availability and level of certain fares, the Government takes steps to ensure that from the passenger’s perspective, rail services operate as a single national network despite the existence of 21 different train operators.
178. Conditions in every train operator’s passenger licence have the effect of requiring them to participate in the National Rail Enquiries service and the Ticketing and Settlement Agreement (TSA)<sup>19</sup>. This includes the National Rail Conditions of Carriage – the contract between train operators and their passengers which sets out the conditions attaching to travel.

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<sup>19</sup> See [www.atoc.org/governance](http://www.atoc.org/governance)

179. The TSA ensures that nationwide through-/ inter-available ticketing continues in the way it did under British Rail. Through ticketing means that a through fare can be purchased between any two National Rail stations even if it involves using the services of more than one train operator. Inter-available ticketing means a ticket from A to B can be used on the trains of any operator for that journey, unless it is specifically stated to be valid on only one operator's services (and subject to any other conditions applying to that type of ticket). Where train operators run the main station ticket office or passenger self-service ticket machine, they are required to sell tickets "impartially" i.e. to sell passengers tickets for a journey by any operator. The TSA also specifies how revenues are to be allocated between operators.
180. These and the other arrangements in the TSA are collectively known as "network benefits". Material changes to the TSA (including to the National Rail Conditions of Carriage) are subject to the Secretary of State's approval.
181. The Association of Train Operating Companies (ATOC) is developing proposed changes to the TSA, which would also need to be approved by the Secretary of State. The Government will work with ATOC to understand the implications of these proposals.
182. The TSA and the National Rail Conditions of Carriage were included in the Government's Red Tape Challenge. Sector by sector, this challenge aims to consider whether regulatory burdens remain justified or whether they should be modified or scrapped. The two documents were published online, along with a list of other rail-related regulations, and comments invited from members of the public. As expected, comments received highlighted the importance of the TSA and National Rail Conditions of Carriage in providing important safeguards for passengers.
183. The Red Tape Challenge closed in December 2011 and we will take the comments made as part of this exercise on board in our discussions with ATOC on their proposals. The Government has no intention of scrapping the National Rail Conditions of Carriage or all of the passenger protections in the TSA, but we do want to consider sensible changes that would support the Government's objectives for the railway. In doing so, we will give very careful consideration to the interests of passengers.

## Fares data transparency

184. The command paper on rail reform sets out the Government's intention to ensure that more rail data will be openly available on timetables, live departures, and - subject to this review and consultation - fares. As part of the Department's efforts to increase transparency in the rail industry, it is working with ATOC to consider how to provide open access to rail fares data (which is currently available only by obtaining a licence).
185. The requirement to obtain a licence may be acting as a barrier to private sector companies developing more innovative approaches to delivering rail fares information in a way which helps passengers to better understand the fare options available to them. 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.
186. However, we need to consider carefully how the rail industry could provide this data in a way that does not inadvertently risk disadvantaging some passengers. Data on fare levels and restrictions is complex and there is a risk that third party providers could misinterpret it and offer recommendations for travel with invalid tickets; for example, a cheap restricted ticket that was not valid at the time the passenger wanted to travel, or a combination of tickets that was invalid because the train did not stop at the changeover station. In these circumstances, passengers could face a penalty fare or be required to buy a new ticket at the fully flexible (higher) rate.
187. As fare-finding services could result in more widespread use of combinations of tickets for a single journey (where this was a cheaper option), we also 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.

188. For 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. Inconsistencies can also arise where the second ‘leg’ is purchased as a valid off-peak fare when otherwise the entire journey would have had to be purchased as an anytime fare.

189. In order to ensure that passengers can reap the full benefits of transparency we must consider the possible implications carefully and ensure that we take all reasonable steps to protect passengers’ overall interests, for example introducing quality control measures to ensure that the information provided to passengers is as reliable and up-to-date as possible. This will be considered as part of the review.

## Summary of findings and proposals so far

We have highlighted a number of causes of confusion/complexity for passengers and where possible explained why these arise. Many apparent inconsistencies between fares stem from the application (where relevant, within a regulated framework) of a market-driven (“willingness to pay”) approach, with operators pricing according to levels of demand to maximise passenger numbers. Even where it would be desirable to do so, it will not be possible to address all of these complexities as part of this review, but we will consider what we can do to address passenger concern about the lack of clarity on time restrictions and about the terms and conditions of Advance fares; the case for reducing any significant regional imbalance in fares levels; and the best way to release fares data under open access arrangements.

# Chapter 5: Buying tickets

## Chapter summary

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.

## Introduction

190. Passengers can buy rail tickets using various sales channels run by either the train operator itself or a third party retailer. These include ticket offices, self-service ticket machines, online, staff on the train, telephone or travel agent. **Figure 5** below sets out the number of ticket sales and their value for each sales channel.
191. There are two reasons why making ticket buying easier and more user-friendly is one of the most important things the rail industry could do.
192. Firstly, many passengers find the fares structure complicated. Very real concern has been expressed on this issue over a number of years. It is important to recognise that complexity is not always negative for passengers. A sophisticated fares structure has the advantage of offering a range of fares to suit different passengers who place different priority on speed, cost, flexibility and comfort. However, we must ensure that the ticketing system communicates information to passengers in a straightforward way, so passengers can confidently select the most appropriate fare for their journey, even where the underlying fares structure is complex.
193. Secondly, the Rail Value for Money Study identified ticket offices as a major area of cost inefficiency in the rail industry.

**Figure 5: Ticket sales by retail channel, 2011/12**

Retail channel	Number of tickets (m) <sub>(1)</sub>	% of total	Value of tickets (£m)	% of total value	Range of tickets offered
1008 small ticket offices	62	11	638	9	Full
448 medium and large ticket offices	114	20	2,473	33	Full
2500 self-service ticket machines at 1211 stations	119	21	1,242	17	Walk-up tickets from that station
On-train sales on many routes, particularly in rural areas	45	8	350	5	A wide range of walk-up fares
19 train company and 3rd party call centres	2	0	67	1	Full <sub>(2)</sub>
26 train company and third party retail websites	52	9	1,336	18	Full <sub>(2)(3)</sub>
250 licenced Travel Management Companies	10	2	568	8	Full <sub>(2)</sub>
Oyster Pay As You Go in London and other Transport for London sales	159	28	530	7	Travel in London only
Other retail channels	13	2	205	3	Varies
<b>Total</b>	<b>576</b>	<b>100</b>	<b>7,410</b>	<b>100</b>	

Source: ATOC (derived from LENNON rail ticket sales database). (1) These are tickets sold through the retail channels concerned. They do not include tickets issued through self-service ticket machines or ticket offices but which were originally purchased through the internet or a call centre. (2) Season tickets are not sold through ATOC-licenced third party retailers. (3) Whilst ATOC-licenced third party internet retailers are not obliged to sell fares of less than £10, they all choose to do this

194. However, before we could agree to change we would need to be confident that passengers would continue to enjoy ready access to ticket-buying opportunities.

195. This chapter draws heavily on research carried out by Passenger Focus, the independent rail consumer watchdog, into the experiences of passengers buying tickets at ticket offices, from self-service ticket machines and online.

## What do passengers expect when they buy a rail ticket?

196. Research by Passenger Focus and others<sup>20</sup> has found that passengers want the ticket-buying experience to be:

- **quick** – they do not want to queue at ticket offices or machines
- **easy to use** – they want websites and self-service ticket machines to be user-friendly in terms of accessing and navigating information
- **convenient** – they want to be able to buy a ticket at the time and place that is convenient for them
- **clear and straightforward** – they want to be confident that they've bought the most appropriate ticket for their journey; this means being presented with (and guided through) a clear set of options and clear information about the restrictions that apply to different tickets, avoiding rail industry jargon

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<sup>20</sup> Including London Travel Watch, ATOC and the Campaign for Better Transport

### **Abellio Greater Anglia 'Season Direct'**

Commuters who hold monthly season tickets on routes to and from London Liverpool Street can take advantage of the 'Season Direct' scheme operated by Abellio Greater Anglia. This scheme allows customers to apply for and renew their season ticket online, with tickets sent out by post. Customers no longer have to queue at the ticket office – instead they can access and edit their 'Season Direct' account online at a time convenient to them. Payment is by monthly direct debit, with any cash compensation claimed through the Delay Repay scheme paid directly into the customer's bank account – reducing retail costs for the operator and offering customers greater convenience.

197. Overall passenger satisfaction with ticket-buying facilities at stations currently stands at 73%<sup>21</sup>. However Passenger Focus research has confirmed that if buying a ticket is not quick, easy, convenient, clear and straightforward, this has a real impact on passenger satisfaction. Passengers who have problems with ticket machines or online sales are likely to revert to a ticket office, resulting in many cases in longer queues for them, and higher costs for the railways. In the worst cases, passengers may abandon their trip or be put off using the railway in future.

## **Ticket offices**

198. Ticket offices are often considered the most “failsafe” way of buying a ticket because staff with detailed knowledge and experience are able to:

- provide information e.g. about cheaper fares or validity restrictions;
- answer questions about which is more important to the passenger, time or cost, and guide them to the most appropriate ticket accordingly;
- generally ensure that the purchasing process is easy and straightforward.

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21 Passenger Focus National Passenger Survey: Spring 2011



199. As a result, passengers are more confident with ticket offices than any other sales channel of obtaining the best value ticket for their journey. Passengers also associate a staff presence at stations with higher levels of personal security<sup>22</sup>, however:

- staff could potentially provide a greater level of reassurance to passengers if they were out on the station instead of behind a ticket office window;
- the ticket office is not always an option because opening hours are already restricted and some stations do not have ticket office facilities at all;
- ticket office waiting times sometimes exceed the targets set out in the rail industry Ticketing and Settlement Agreement<sup>23</sup> (three minutes during the off-peak and five minutes during the peak).

## Self-service ticket machines

200. Self-service ticket machines are popular for routine, familiar purchases and many passengers recognise that they can offer a quick and convenient way to purchase a ticket as they can:

- in many cases, save time compared with queuing at a ticket office<sup>24</sup>;
- be used any time the station is open;
- in some cases be used by passengers who have bought their tickets online and chosen to pick them up at a ticket machine to avoid postage costs.

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22 Research by Passenger Focus (National Passenger Survey, Spring 2009) found that levels of passenger satisfaction with personal security were highest at Category A stations (the largest stations) and lowest at Category F stations (typically unstaffed). In addition, passengers cited the lack of staff as the second most significant reason (after anti-social behaviour) for their feelings of concern over personal security (National Passenger Survey, Autumn 2008).

23 Passenger Focus *Fares and Ticketing Study: Final Report*, February 2009

24 Passenger Focus *Still waiting for a ticket? Ticket queuing times at large regional rail stations, Report of findings*, August 2010

201. Ticket machines are also a much more cost-effective way to sell tickets. However, ticket machines:

- do not sell the full range of tickets;
- can fall short of passenger expectations in terms of functionality – the look, feel and ease of use including the layout of information on the screen and the way passengers are guided from one step to the next (or not); and physical factors including light, colour or typesize e.g. too much information on a single screen or lack of a strong colour contrast making it hard to locate press buttons;
- can make it difficult for passengers to choose the best ticket for an unfamiliar journey with the use of jargon and lack of information about ticket validity and time, route or other restrictions<sup>25</sup>.

202. If validity restrictions are not clear, passengers may buy a ticket which is not valid for the service they travel on and have to pay a penalty fare and/or buy a new ticket. Or they may buy a ticket with more flexibility than they want/need and pay more than necessary.

203. Research by Passenger Focus found that for 91% of passengers queuing at a ticket office, the ticket they wanted to purchase was available for purchase from a self-service ticket machine<sup>26</sup>. While some passengers may simply prefer the face to face contact of a ticket office, it is possible that others believe the ticket machine is more difficult to use than it really is, or assume the ticket they want isn't available from a ticket machine when in fact it is. This could be addressed through simple measures by train operators such as publicising average queue times and the range of fare types that *are* available from self-service ticket machines.

204. The rail industry is already taking steps to make it easier to use self-service ticket machines. For example, ATOC with its members is working to:

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<sup>25</sup> Passenger Focus *Ticket Vending Machine Usability Report of Findings* (July 2010)

<sup>26</sup> Passenger Focus *Buying a Ticket at the Station* (October 2008)

- Develop a graphical display to show permitted routes for each ticket;
- Include a definition of “London terminals” on ticket machines;
- Improve the quality of data feeds to make information displayed on self-service machines clearer and more accurate;
- Improve the layout and content of tickets themselves.

205. However more needs to be done for passengers because some ticket machines are around ten years old – relatively old in technological terms. In addition, ticket machines use the same software used by ticket office staff, without adequate adaption for use by passengers who clearly cannot be expected to be as knowledgeable about ticketing as rail staff. ATOC are considering upgrading their system and we would encourage them to do so.

206. Research has also shown that certain user groups find self-service ticket machines particularly difficult to use:

- Those passengers who are unfamiliar and feel less confident with the technology, including older passengers – for example only 20% of Senior Railcard holders choose to buy their tickets from a self-service machine compared with 59% of 16-25 Railcard holders<sup>27</sup>;

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<sup>27</sup> Passenger Focus, *Ticket Vending Machine Usability Report of Findings* (July 2010)

- Some passengers with disabilities e.g. visually impaired passengers, for whom physical factors such as small type and lack of colour contrasts may present a particular challenge – again holders of Disabled Person’s Railcards prefer to buy their ticket from a ticket office with 51% of sales to Disabled Person’s Railcard holders made at ticket offices<sup>28</sup>.

207. **Figure 6** below shows what proportion of 16-25, Senior and Disabled Person’s Railcard holders bought their tickets using each of the main ticket sales channels over the last year.

**Figure 6: Tickets issued to railcard holders by sales channel**

Railcard type	16-25	Senior	Disabled Person’s
On-board train sales	6%	7%	10%
Ticket offices	26%	58%	51%
Self-service machines	59%	20%	27%
Travel agents and third parties	8%	11%	9%
Internet	1%	4%	3%

Source: LENNON rail ticket sales database, financial year 2010-11

208. This raises a number of points:

- user groups who find it harder to use ticket machines are unable to take advantages of the benefits they offer (such as avoiding ticket office queues) so improvements to ticket machines should include improvements targeted at the needs of these particular groups;
- improvements (such as making information easier to read) that target the needs of these particular groups are likely to benefit *all* passengers;
- failure to address these issues would lead to these groups of passengers being disproportionately affected by changes in ticket office opening hours (see below).

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<sup>28</sup> Passenger Focus, *Ticket Retailing Website Usability Report of Findings* (June 2011) also indicates that these problems occur on internet retail sites as well.

## Internet ticket sales

209. For the increasing number of passengers who have access to the internet, it can provide a fast and convenient way of buying tickets and an opportunity to shop around for good deals. For example, some train operators have offered special discount fares available only online. Information about different fares types can also be more helpful and easier to access than is the case with ticket machines. For example, some websites present information in a way that makes it easier for passengers to make trade-offs between cost and flexibility. The internet is also popular for buying advance fares.
210. However online retailing has some of the same shortcomings as ticket machines – the use of jargon, the full range of tickets not being available, and functionality varying in quality<sup>29</sup>. As with ticket machines, these things may present particular difficulties to certain user groups including older people or those with certain types of disability. Again, measures to address these shortcomings would make websites easier to use and a more attractive option for all passengers; the industry is making improvements but more could and should be done.
211. Passengers who experience difficulties trying to buy online are more likely to revert to using a ticket office. There is also some distrust as to whether websites are actually offering the best deals. And then there are the wider concerns many people have about spending money online – data and financial security concerns – which means some people who are happy to check fares online still buy them from a ticket office.
212. 76% of homes are now connected to the internet, compared with 61% in 2007, and we can expect the number of people with internet access and the proportion of tickets bought online to continue growing. Nevertheless, we must take account of the needs of all users, and 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.

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<sup>29</sup> Passenger Focus, *Ticket Retailing Website Usability Report of Findings* (June 2011)

## New ways of selling rail tickets

213. 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.
214. Ticket offices and station facilities are a valuable resource and train operators could explore the potential for making better use of them, for example by making them available for community or additional retail use. While one size is unlikely to fit all, we look to train operators – and communities – to think innovatively about how they could use station space differently, with the aim of providing as good an offer to passengers while reducing costs.

### **MtoGo in Merseyside**

Ticket offices at 8 of 67 stations on the Merseyrail network have branched out into retail under the well-received “MtoGo” brand, based on a tried and tested model used in the Netherlands and offering sandwiches, snacks, hot and cold drinks, newspapers and magazines. The MtoGo concept enhances the station environment and by serving non-rail users also places rail stations at the heart of the community. MtoGo has been introduced at city centre and suburban stations, and is staffed by Merseyrail station staff. Where operators believe a similar concept could be implemented to the benefit of passengers and at no additional cost, we would encourage them to explore this idea.

215. Passengers could also benefit from being able to buy tickets from a wider range of outlets. Retail outlets in or in close proximity to stations could sell rail tickets in the same way shops in London have already become Oyster Ticket Stops, for example, although the range of national rail tickets and the conditions attaching to them is more complex than the Oyster ticketing offer. Staff would need to be trained and it may only be possible to offer the most popular tickets from that station.

216. With similar caveats, other outlets even further from stations, such as post offices, supermarkets or libraries, could potentially also sell tickets. This could offer cost savings from shared space, and the added convenience to passengers of being able to buy a ticket in advance e.g. while doing the shopping, particularly where the local station is away from the centre of town, or in more rural areas where passengers may make extra journeys to the station to buy a ticket in advance. By raising the profile of rail, new outlets for ticket sales could even encourage more people to consider rail as an option for their journey.
217. At the simplest level – and once smart ticketing technology has become more widespread – this could involve “topping-up” a travel smartcard at a local convenience store at the same time as buying a newspaper or a pint of milk, just as customers can purchase mobile phone top-up at a variety of retail outlets now. With additional equipment and training, staff at non-station outlets could provide information about and sell the most common tickets from neighbouring stations. Alternatively an internet terminal and rail ticket printer could be installed e.g. at libraries, allowing customers to buy and print tickets without the need for staff assistance (avoiding additional staff costs).
218. There are lots of possible options and we want to see operators taking the lead on exploring them. We would be happy to work with operators who can develop promising proposals to consider how any regulatory barriers could be addressed.
219. As mentioned above, we recognise that for many passengers, the presence of railway staff is an important part of feeling safe on the railway, particularly in the evenings. At many small stations, ticket office staff provide the only staff presence. At the same time, many passengers may prefer it if staff were out on the platform rather than behind a ticket office window.

220. As ticket buying habits change, we expect train operators to consider how best to deploy their station staff to provide the most benefit to passengers while reducing costs and providing a safe environment. Many train operators have installed CCTV at both staffed and unstaffed stations to improve security. Some unstaffed stations have been awarded Secure Stations accreditation, demonstrating that CCTV and other measures such as lighting, help-points and ensuring clear lines of sight can all make a significant contribution.

221. The review will consider whether the current regulation provides the right incentives to train operators to act in the best way for consumers while reducing costs and providing a safe environment. This will include considering the process for changes to ticket office opening hours and how the number and range of outlets where tickets can be purchased could be radically expanded.

## Ticket office opening hours

222. The Rail Value for Money Study recommended the removal of ticket offices at Category E stations and reduced opening hours or reduced number of ticket office windows for ticket offices at other categories of stations as a means of significantly reducing the railway's cost base.

223. Ticket offices are the most expensive way of selling tickets, and between 2005 and 2011 the proportion of tickets sold from them has fallen from 44% to 34%. Meanwhile the proportion of tickets sold through ticket machines has risen from 11% to 20% and online from 7% to 17%.<sup>30</sup> **Figure 7** below illustrates in more detail the trends in how passengers have bought their tickets since 1996/97. 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.

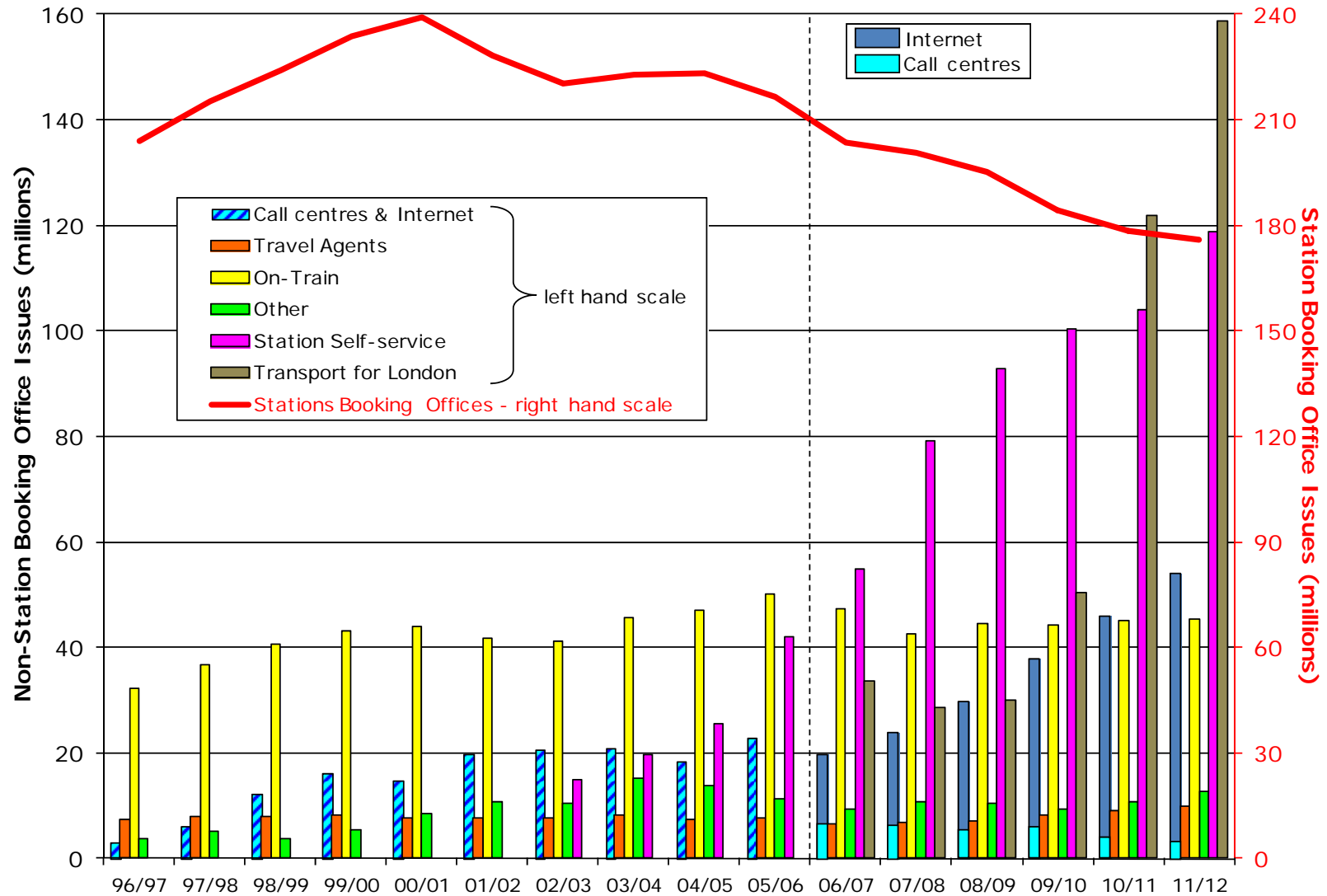
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<sup>30</sup> Association of Train Operating Companies, LENNON rail ticket sales database



**Figure 7: Ticket issues by point of sale, excl. ticket reservations, 1996/97 to 2011/12**

Source: ATOC (derived from LENNON rail ticket sales database)



224. At present, an operator proposing a major change to ticket office opening hours is required to post notice of its intentions at the station in question and invite passengers to make representations to Passenger Focus and/or London TravelWatch as appropriate within 21 days. The operator is then required to consult Passenger Focus/London TravelWatch. Should Passenger Focus/London TravelWatch not support the proposal, the decision falls to the Secretary of State. Proposals are considered on their own merits, which would include consideration of security concerns if applicable.
225. The combination of current regulations effectively means that train operators are obliged to ensure that all passengers have a reasonable opportunity to purchase a ticket before travelling. This obligation is something the Secretary of State would take into account in any decision she was asked to make about changes to ticket office opening hours, as well as the equalities impacts discussed above.
226. Given the need to put the railways on a sustainable footing for the future, however, it may not be possible or appropriate for ticket office opening hours to continue at current levels, particularly as more and more passengers make use of alternatives such as the internet or smartcards. So this is an appropriate point to revisit the procedure operators are required to follow to make changes to ticket office opening hours.
227. However, we recognise that passengers can feel very strongly about ticket office opening hours, and before we could agree to any such changes we would need to be confident that passengers would continue to enjoy ready access to ticket-buying opportunities. The needs of the elderly and disabled would have to be carefully considered, including options for access to 'assisted purchase' channels for those who may find it particularly difficult to use a ticket machine or to buy their ticket online.

228. Even if train operators were to be given more flexibility about how they provide retail facilities, it will be important for passengers to know in advance how they can buy a ticket. One option would be the development of a simple station retail categorisation linked to a consistent core retail offer for that category, topped up on a commercial basis as train operators consider appropriate. Consistency and clear commitment is important to allow passengers to plan ahead and buy their ticket in advance if that is the most convenient option for them.

## Summary of findings and proposals so far

We want to see the number and range of outlets selling tickets radically expanded. In parallel, and as ticket-buying habits change, we look to train operators to consider how best to deploy their station staff to provide the most benefit to passengers while reducing costs and providing a safe environment. We will consider the current structures and systems aimed at achieving this, including the process for changes to ticket office opening hours. However, we would need to be confident that passengers would continue to enjoy ready access to ticket-buying opportunities before we could agree to change.

Train operators also need to make it easier for passengers to buy tickets from existing channels: self-service ticket machines and online. This would address a major and long-standing passenger concern and is also a pre-requisite for addressing the retail cost inefficiencies which are a barrier to further growth on the railways. Passengers can only benefit from a choice of tickets if they have clear information to help them decide on the best ticket for their journey.

# Chapter 6: Next steps

229. Our next steps during this fares and ticketing review can be summarised as:

- 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;
- 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.

230. We have highlighted the likely costs and benefits of the high-level proposals throughout the consultation document. As we are yet to develop specific proposals for change, we have not completed an initial impact assessment at this stage. We would also need to assess specific proposals alongside any alternatives before deciding whether or not to go ahead with them, drawing on the evidence that will be gathered as part of this review including the responses to this consultation.

# Consultation questions

Please answer as many or as few questions as you wish and please continue onto a separate page if you have additional comments to make.

There are questions relating to each chapter of the consultation, then at the end you will find some additional questions about how you use the rail network - answering these will help us understand how the proposals we are consulting on might affect different groups of rail users around the country differently.

Your name:

Your email address, if you have one:

Your postcode (so that we can analyse responses by region):

If responding on behalf of an organisation, please state which category below best describes your organisation:

- Representative organisation
- Trade Union
- Interest group
- Local Government
- Central Government
- Rail industry
- Other (please specify)

## **Chapter 1: Principles of fares and ticketing regulation**

The consultation document sets out the Government's objectives for regulating rail fares and ticketing as:

- Protect passengers from possible market abuse and ensure that rail travel remains affordable for a wide group of people, particularly where they do not have a realistic alternative
- Allow more scope for innovation in fares and ticketing and encourage train operators to make better use of the capacity that is available

- 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
- Ensure that from a passenger perspective the rail network operates as an integrated whole

1.1 Do you agree these are the right objectives? Is there anything we've missed?

- Agree
- Disagree
- Not sure

Additional comments

The consultation document explains that Government regulates by:

- Protecting the availability and level of certain fares, generally:
  - commuter fares;
  - off-peak fares for longer-distance journeys;
  - Anytime fares for shorter-distance journeys;
- Requiring train operators to participate in the National Rail Enquiries service and the National Rail Conditions of Carriage and ensuring that:
  - a through fare can be purchased between any two stations even if it involves using the services of more than one train operator;
  - a ticket from A to B can be used on the trains of any operator for that journey, unless it is specifically stated to be valid on only one operator's services;
  - where train operators have a station ticket office or machine, they are required (except in certain defined circumstances) to sell tickets for any journey by any operator.

1.2 How effective do you think the current system is in achieving the Government's regulatory objectives?

- Very effective
- Effective
- Ineffective
- Very ineffective
- Don't know

Additional comments

## **Chapter 2: Smart ticketing and season tickets**

The consultation document identifies the main benefits of smart ticketing as:

- Greater speed and convenience for passengers
- Better journey data, allowing for new ticket types designed around the way passengers travel today
- Potential to attract more passengers to the railway
- Potential to make more efficient use of rail capacity
- Reduced risk of overpaying
- Improved security features
- Savings from reduced cost of sales
- More accurate allocation of revenue between train operators

And it identifies the main risks and issues of smart ticketing as:

- Greater complexity from a wider range of fares/tickets
- Data security issues
- Functionality issues (does the technology work?)
- The need to ensure systems remain inter-operable across the whole rail network despite a potential proliferation of technologies



2.1 Do you agree with the benefits and with the risks and issues we've identified in relation to smart ticketing? Is there anything we've missed? How might we address the risks and issues?

- Agree
- Disagree
- Not sure

Additional comments

The consultation document identifies the following issues with the current system of season tickets:

- High upfront cost
- Commuters who travel fewer than five days a week pay more per journey than 5-day a week commuters, which may be acting as a barrier to some people wishing to enter or re-enter the job market
- Perceived financial disincentive to work flexibly or part-time
- No incentive to travel outside the busiest periods

2.2 Do you agree with the issues we've identified with the current system of season tickets? Is there anything we've missed?

- Agree
- Disagree
- Not sure

Additional comments

2.3 What features would you expect to see in a smart, flexible and more tailored season ticket? (Please select all that apply)

- Fares vary by time of day
- Fares vary by day of the week
- Fares reflect the number of journeys actually made
- Other (Please state)

2.4 Do you have any other suggestions as to how season tickets could be tailored to better meet the needs of particular groups?

*If you are responding primarily as an employee or member of the public:*

2.5 Could you work more flexibly in order to avoid the busiest trains? (Working more flexibly could include working at home or from a different work location some of the time; changing the total number of hours worked and/or start and finish times) If not, why is this?

2.6 Are there any other factors that prevent you from changing your commuting patterns? (Please select all that apply)

- Domestic or caring responsibilities
- School or nursery opening hours
- Availability of rail service at other times
- Other (please state)

*If you are responding primarily as a business or employer:*

2.7 Do you already, or could you in future, allow your employees to work more flexibly by:

- Working at home some of the time
- Working from a different work location some of the time
- Changing their total working hours
- Changing their start and finish times

2.8 If you answered no to any of the above, what prevents you from offering this flexibility (now or in the future), and under what if any circumstances could you envisage being more flexible?

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

3.1 Do you agree that introducing new commuter fares could help the railway operate more efficiently by encouraging some commuters to change their travel patterns?

3.2 What do you consider to be the main benefits and the main risks/issues with introducing new commuter fares?

3.3 How could we ensure that any new commuter fares structure was as fair as possible?

3.4 How could we use fares to achieve more efficient use of rail capacity on intercity services?

## Chapter 4: Fares and ticketing complexities

Currently, passengers with Advance fares valid only on one specified departure who miss that departure must buy a new ticket to travel on the next train (unless the missed departure is due to a missed national rail connection, in which case train operators generally accept the original ticket on the next service). We are considering whether passengers could be allowed to “pay the difference” instead (potentially on payment of a fee, if this was considered necessary to avoid perverse incentives).

4.1 What do you see as the main advantages and disadvantages of such a change?

There is evidence of an imbalance (even after taking account of differences in average income) between fares in the London commuting area and other parts of the country, and that passengers on higher yield services are effectively cross-subsidising passengers on lower yield services. This is something we intend to explore further as part of the review, but we do believe that there is a case for reducing any significant regional imbalance in fares levels.

4.2 What would you see as the main advantages and disadvantages of such an approach?

The Government is working with ATOC to consider how to provide open access to rail fares data. This could allow private sector companies to develop more innovative approaches to delivering rail fares information in a way which helps passengers to better understand the fare options available to them. However, we would need to minimise the risk of data being provided in a way that inadvertently resulted in passengers buying invalid tickets for their journey. We also need to consider possible wider consequences e.g. train operators changing their pricing strategies.

4.3 What steps could the Government take to protect passengers' overall interests as part of providing open access to fares data?

## **Chapter 5: Buying tickets**

5.1 Selling tickets through ticket offices is a major cost for the railways. How can we reduce this cost without deterring passengers from using the railway?

5.2 What are the costs/benefits of reducing ticket office opening hours? What would you consider to be an acceptable alternative to the ticket office that met most of your ticket requirements?

5.3 What safeguards would need to be put in place for passengers in the case of changes to ticket office opening hours?

5.4 How important is it for passengers to be able to buy train tickets from a wider range of outlets (e.g. including post offices or retail outlets located away from the station)? Please feel free to make any additional comments about how you would like to be able to buy train tickets in future

- Very important
- Important
- Quite important
- Not important
- Don't know

Additional comments

5.5 What other improvements would you most like to see to make buying rail tickets easier?

## Chapter 6: Next steps

6.1 Do you have any other comments about the impact of anything in this consultation document on passengers or potential passengers, including by income group, equality group(s) or any other group?



6.2 Are there any other comments you would like to make about anything else in this consultation?

### **About you and how you use the rail network**

*If responding primarily as an employee or member of the public, please state:*

How often you travel by train (select one option only):

- At least once a week (please specify how many days a week you travel in a 'normal' week)
- At least once a month (please specify how many days a month you travel in a 'normal' month)
- At least once a year
- Other (please specify)

The main reason(s) you travel by train (select all that apply):

- Commuter
- Leisure
- Business

*If you travel mainly for commuting purposes, please state:*

What type of organisation you work for:

- Small company (up to 50 staff)
- Medium sized company (50-250 staff)
- Large company (more than 250 staff)
- Public sector organisation
- Third sector organisation
- Voluntary organisation
- Other including self-employed (please specify)

Your profession or the nature of your work:

Your normal commute e.g. from Reading to London Paddington:

Your normal travel to work pattern:

- How many days a week you normally travel to work
- Which days you don't normally travel to work
- What time you normally start work
- What time you normally finish work

Which type of season ticket you hold (select one option only):

- Weekly
- Monthly
- Annual
- Other period
- None

*If responding primarily as a business or employer, please state:*

Whether your organisation is a:

- Small company (up to 50 staff)
- Medium sized company (50-250 staff)
- Large company (more than 250 staff)
- Public sector organisation
- Third sector organisation
- Voluntary organisation
- Other (please specify)

Thank you for taking the time to respond to this consultation.

Your response will be considered as part of the fares and ticketing review and a summary of responses will be published as part of the review's findings and recommendations. However, we are unable to enter into individual correspondence in relation to the issues raised in your response.

# Annex A: How fares and ticketing regulation works

## Statutory powers and obligations

1. The Secretary of State's statutory obligations in respect of rail fares and ticketing (under the Railways Act 1993) are:
  - to make sure that rail fares are reasonable; in determining what is reasonable she may take into account the interests of rail users and potential rail users and the financial situation including the amount of funding required to operate, maintain, renew and upgrade the railway;
  - to promote the use of services of more than one train operator, in general and, specifically, by protecting through-ticketing.
2. The Secretary of State fulfils these obligations through the fares and ticketing regulation described below.
3. The term "fares regulation" is a commonly used shorthand for the clauses in the Government's franchise agreements with train operating companies which specify the range of fares each train operator must offer, the conditions that attach to them and the maximum overall level of these fares<sup>31</sup>.
4. "Ticketing regulation" refers to the industry-wide agreements which all train operators (including non-franchised, open access operators) are required to adhere to as a condition of their operating licence issued by the Office of Rail Regulation, as well as some clauses in franchise agreements, to ensure rail services continue to operate as an integrated network despite the existence of 21 different train operators.

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<sup>31</sup> Schedule 5 of the National Rail Franchise Terms

5. Open Access train operators (currently, Grand Central and Hull Trains) do not have franchise agreements with the Secretary of State. Their fares are unregulated and completely subject to market forces, but they remain subject to industry-wide agreements as described below.

## Network benefits

6. Conditions in every train operator's franchise agreement (with Government) and/or passenger licence (issued by the Office of Rail Regulation) have the effect of requiring them to participate in the National Rail Enquiries service and in an agreement called the Ticketing and Settlement Agreement (TSA)<sup>32</sup>, which includes the National Rail Conditions of Carriage, the contract between train operators and their passengers which sets out the conditions attached to travel. These things ensure that passengers continue to enjoy the benefits of a national rail network despite the existence of 21 different train operators.
7. The TSA states how rail fares are created, set, honoured and settled between operators; ensures that nationwide through/inter-available ticketing exists as under British Rail; and requires (except in certain defined circumstances) all train operators to sell the core range of tickets for all services including those of other operators, and to do so in an unbiased manner (where there is a choice of fares between A and B, to offer both and explain the difference between them). Changes to key parts of the TSA (including the National Rail Conditions of Carriage) must be approved by the Secretary of State.
8. A 'through' ticket is required for a journey that involves two or more operators in succession e.g. an intercity followed by a regional operator. The TSA ensures that fares are set for each through journey for which British Rail offered a fare in 1995. In practice, a through fare can be purchased between any two stations on the National Rail network.

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<sup>32</sup> See [www.atoc.org/governance](http://www.atoc.org/governance)

9. An 'inter-available' ticket is one that gives passengers a choice of operators for the same journey. For example, an inter-available ticket between "Birmingham Stns" and "London Terminals" will be valid on services between the two cities run by Virgin Trains, London Midland or Chiltern Railways. Unless a ticket is specifically shown as valid only on the trains of a particular operator, it is fully inter-available, and can be used (subject to any other conditions applying to that type of ticket) on the trains of any operator for that journey. The TSA ensures that there is at least one set of inter-available fares for each journey on the national rail network.
10. The TSA ensures that where alternative routes exist, passengers continue to have a choice of route with most tickets. Tickets which show the route as 'any permitted', or show no specific route, are valid for travel via any of the permitted routes listed for that journey in the National Routeing Guide. Tickets valid via a particular location (e.g. 'route Chesterfield') are valid on any route shown in the National Routeing Guide which passes through that location. The National Routeing Guide forms part of the TSA.
11. Train operators' franchise agreements also contain some clauses in relation to selling tickets which complement those in the TSA.

## Types of fare

12. **Figure A1** below explains the main types of fare and their validity. "Advance" fares can (where available) be purchased up to 23.59 on the eve of travel while all the other fare types collectively are known as "walk-up" fares because they can be purchased on the day of travel.
13. The table shows whether each fare type is *usually* regulated or unregulated but this is only a general rule and there are exceptions – a more detailed explanation of which fares are regulated is included later in this annex.

**Figure A1**

<b>Fare Type</b>	<b>Description</b>	<b>Validity</b>
<b>Anytime Single/Return</b>	Fully-flexible fares for long distance travel  <i>Usually unregulated</i>	Valid at any time  ANYTIME RETURN <ul style="list-style-type: none"> <li>- on or within 5 days of the date shown on the ticket (outward)</li> <li>- within one calendar month of the date shown on the ticket (return)</li> </ul> ANYTIME SINGLE <ul style="list-style-type: none"> <li>- valid for 2 days from the date shown on the ticket</li> </ul>
<b>Off-Peak/ Super Off-Peak Single/Return</b>	Cheaper but less flexible fares for long distance travel  <i>Either the Off-Peak or Super Off-Peak is usually regulated</i>	Restricted to use on less busy services (varies by operator and route). The Single and the outward portion of a return ticket are valid only on the date shown on the ticket (until 04:29 the following morning); the return portion of a return ticket is valid for up to one month.
<b>Anytime Day Single/Return</b>	Fully-flexible fares for short distance travel  <i>Usually regulated</i>	Valid at any time on the day shown on the ticket
<b>Off Peak Day Single/Return</b>	Cheaper but less flexible fares for short distance travel  <i>Usually unregulated</i>	Valid on the day shown on the ticket but not usually valid before a specified time Monday-Friday mornings (varies by operator/route); restrictions on travel during the evening peak may also apply
<b>Advance</b>	Book-ahead non-flexible fares for long-distance travel, sold in limited numbers  <i>Unregulated</i>	Valid only on the specific booked departure as per the reservation. If the booked departure is missed, a new ticket must be bought to travel on the next service. Advance tickets may be changed prior to departure subject to payment of any difference in fare and an administration fee, but no refunds are available if the ticket is not used.
<b>Season</b>	Available for any journey for which a regulated fare exists  <i>Usually regulated</i>	Unlimited travel for a period of 7 days or for any period between 1 month and 1 year

14. Where the fare is regulated, it is both the price and the nature of any restrictions that are regulated (including, in the case of the regulated Anytime fare, the requirement not to apply any restrictions). Operators may apply any restrictions they wish to unregulated fares.

15. Season, rover, ranger and other special fares also exist, and in the London area passengers with an Oystercard issued by Transport for London can buy Pay As You Go single fares for travel on national rail services. The fare is deducted from a balance held on the Oystercard as the passenger “touches in/out” at a gateline or ticket validator.

## Who sets fares?

16. Inter-available fares are set by the ‘lead operator’ for that journey, which is normally the operator with the greatest commercial interest in that particular journey.
17. The TSA requires other operators to honour these “inter-available” fares once they have been set by the lead operator, but other operators or groups of operators can set ‘dedicated’ fares for travel only on their own trains, generally at a lower price than the inter-available fare. For example, passengers from Brighton to London currently have a choice between a First Capital Connect-only fare, a Southern-only fare and the inter-available fare. This allows passengers to make trade-offs between speed (journey time) and cost.
18. With two exceptions (Southeastern on its high speed services, and Southern on the Gatwick Express), a lead operator cannot generally charge different prices for its own services, even where those services vary in quality. For example, a lead operator that operates an express and a stopping service over the same route cannot charge a premium for the express service.

## Fares “baskets”

19. The vast majority of regulated fares are part of a fares “basket”. There are currently over 30 fares “baskets” including those for First ScotRail and Arriva Trains Wales, which are regulated by the Scottish and Welsh Governments respectively.

20. A “basket” is a way of allowing train operators more flexibility when it comes to annual fares changes. Instead of requiring train operators to apply the same percentage change to all of their regulated fares, similar fares are grouped together in a “basket” and changes applied to the basket as a whole. The Government or the Welsh or Scottish Government (or in some cases, see below, an English Passenger Transport Executive) then “regulates” the fares basket in two ways: firstly it restricts the *average* fares change *to the basket as a whole* through a basket “cap”; and secondly it specifies the *maximum* permissible increase *to any individual fare in the basket* (more detail below).
21. Operators of commuter services into London each have one basket for their regulated commuter fares (including any regulated commuter fares set by another operator but from which they take a share of the revenue) and another basket for their other regulated fares, known within the industry as “protected” fares (which contains only the fares of that operator).
22. Other passenger train operators have just one regulated fares basket, again known within the industry as a “protected” fares basket, except:
- a. in the Cardiff and Glasgow commuter areas, where there are also separate commuter fares baskets;
  - b. in Passenger Transport Executive (PTE) areas: the PTEs are the strategic transport authorities for the major conurbations in England and most PTEs have their own fares basket to cover their areas (not necessarily limited to commuter fares) – see further detail on fares in PTE areas later in this annex.
23. Each fare in a fares basket is weighted by the revenue received by that operator from the sale of that fare in the base financial year, currently 2010<sup>33</sup>. The total value of the fares basket is the sum of each fare multiplied by the weighting for that fare. It is the total value of the fares basket, and the permitted increases in this total value, which are “capped” through fares regulation.

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<sup>33</sup> Fares baskets are re-weighted from time to time to reflect relative changes in yield from different fares on different routes (to ensure each fare or group of fares is given an appropriate basket weighting). Fares baskets for DfT-franchised train operators and Arriva Trains Wales were last re-weighted in 2010 using financial year



24. To simplify the basket, fares with the lowest revenue weighting (i.e. fares which are sold very rarely, if at all) are excluded from the fares basket, up to 5% of the gross value of the fares basket. However, fares excluded from the basket must continue to be available and fare rises are limited by the effect of fares from adjacent stations being regulated.

## Annual fares changes

25. Train operators must ensure that the total value of each fares basket does not exceed the cumulative “cap” placed on the value of the basket by Government. This cap increases on 1 January each year by a formula set out in Government’s franchise agreements with train operators. The formula is based on the Retail Price Index (RPI) as a measure of the cost of living:  $RPI+k$  where  $k$  is defined in train operators’ franchise agreements<sup>34</sup>.
26. For example, in January 2012 the permitted increase in the cap on regulated fares across each basket was  $RPI+1\%$  ( $RPI+3\%$  for West Yorkshire PTE’s fares basket<sup>35</sup>).

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2009-10 data, so from 1 January 2012 fares basket caps will be the total value of the basket in 2010 increased by  $RPI+1\%$  in January 2011 and again in January 2012. As re-weighting is a major exercise it is not undertaken every year. In terms of what types of fares are included in a fares basket, the definition of each fares basket continues to be that established in 2003 following the last fares review. From time to time operators may introduce new fares to cater for a new demand for travel e.g. an increase in commuting from a particular station, or travel to a new shopping centre. It would not be practical to re-define their fares basket each time this happened, so any new fares remain unregulated, at least until the next re-definition of the baskets. New fares will typically (but not always) be restrained by some other regulated fare from a neighbouring station that does form part of the basket.

<sup>34</sup> Train operators generally change fare prices in January each year. Train operators may also change fares in May and September to coincide with the start and end of the summer timetable, but usually only use this to change off-peak fares, which are geared more toward the leisure market, or to make corrections.

<sup>35</sup> For routes in Kent and West Yorkshire, which have benefited from investment and now offer more capacity and improved services, the cap on regulated fares baskets has increased faster than on the rest of the network, to allow Government to recoup some of the cost of major investment. For example, in Kent, from 2007 until 2011 the cap on the regulated fares basket increased at  $RPI+3\%$ , instead of at  $RPI+1\%$  as in the rest of the country, to reflect major investment in new trains and carriages, power supply, stations, depots and related infrastructure improvements which had improved services for passengers. A similar approach has been taken in West

27. No individual fare in the basket may increase by more than 5% above the RPI+k average for the basket, so in January 2012 no individual regulated fare may increase by more than  $RPI+1+5\% = RPI+6\%$ <sup>36</sup>. If a train operator increases some regulated fares by the maximum of  $RPI+k+5\%$ , it must increase other regulated fares by less to bring the average back to RPI+k. Because fares in a basket are weighted by value, it is not possible for an operator to simply increase its most popular fares by the maximum  $RPI+k+5\%$  - operators must balance their baskets with smaller rises or even reductions in fares elsewhere.
28. Commuter fares baskets in the Cardiff and Glasgow areas work in the same way but the exact contents of the basket and the value of k are determined by the Welsh and Scottish Government respectively rather than by the Secretary of State. Both the Welsh and Scottish Governments applied RPI+1% in January 2012. PTE-regulated baskets in England are subject to different arrangements, see further below.

## Commuter fares

29. As fares baskets are based on the range of fares on offer in 2003 (the last time the make-up of the baskets - as opposed to their total value - was reviewed), what follows is the general rule but there are exceptions where new fares have been created since 2003 as these are not included in any fares basket.
30. Commuter fares regulation applies to the following inter-available fares in the London area:
- a. All season tickets to, from and within London Zones 1-6
  - b. Oyster Pay As You Go Peak and Off Peak fares for journeys within London Zones 1-6

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Yorkshire and is still in place. Elsewhere, since 2003 the cap on regulated fares baskets has increased at the same rate.

<sup>36</sup> Except on Southern, where the maximum permitted increase is 2% above RPI+k, so in January 2012  $RPI+1+2\% = RPI+3\%$ .

- c. Anytime Day singles and returns for journeys to any London Zones 1-6 station from a defined suburban area, roughly 35-50 miles from London, with the boundary defined as the following stations:

Shoeburyness	Fleet
Southend Victoria	Alton
Southminster	Whitley
Marks Tey (exc. Sudbury branch)	Christ's Hospital
Audley End (not origin Stansted Airport)	Brighton (exc. coastway)
Ashwell & Morden	Windsor & Eton Riverside
Arlesey	East Grinstead
Harlington	Crowborough
Bletchley (exc. Bedford branch)	Wadhurst
Aylesbury	Paddock Wood (inc. Strood-Paddock Wood)
Haddenham & Thame Parkway	Maidstone East
Twyford (incl. Henley branch)	Canterbury East
Earley	Margate

31. In addition, Anytime Day singles and returns within London Zones 1-6 are regulated with a fixed cap of RPI+k+5% but not included in a basket.

### Other regulated fares (“protected” fares)

32. As fares baskets are based on the fares that were on offer in 2003, what follows is the general rule but there are exceptions where new fares of the regulated type have been created since 2003 and do not form part of a fares basket.
33. **Long-distance travel:** An off-peak, walk-up fare for long-distance journeys is regulated where an equivalent fare existed in 2003. Both the price and the restrictions on these fares are regulated: these fares must be available for use after 10.30 on weekdays and all day at the weekend, except for journeys from London area stations or (when travelling away from London) from stations between London and Reading, Watford, Luton or Stevenage inclusive, where train operators are permitted to restrict the use of these fares between 15.00 and 19.00 Monday to Friday.

34. In most cases the operator will use the name “Off Peak” to describe this regulated fare. However, where an operator offers both an Off Peak and a Super Off Peak (the latter being cheaper and more restrictive), only one of these is required to be regulated. If the operator doesn’t offer either an Off Peak or a Super Off Peak but one existed in 2003 when the fares baskets were defined, they are still required to offer a regulated fare in which case the Anytime fully flexible fare would be regulated.
35. This patchwork is due to the introduction over the years (before and after privatisation) of new fares tailored to local markets. As these new fares were successful in attracting new passengers to the railway, they have been retained. The effect of Government intervention is that an affordable off-peak, walk-up fare is available for most long-distance journeys, whatever it happens to be called and as long as the train operator makes the restrictions on each fare clear, passengers shouldn’t require any special knowledge about fares regulation to select the best value fare for their journey.
36. Where a walk-up off-peak or equivalent fare is offered but has been introduced since the baskets were defined in 2003 so isn’t regulated, the fully flexible (known as the “Anytime Day”) fare is generally regulated instead. This tends to be the case for **short-distance travel** (typically journeys under 50 miles or wholly within the old Network SouthEast area).
37. **Weekly season tickets** that existed in 2003 and are not regulated in one of the London, Cardiff or Glasgow commuter fares baskets or by one of the six PTEs in their baskets are regulated in the “protected” fares basket for each train operator.

## PTE-regulated fares

38. Each of the PTEs offers its own range of fares valid for use on rail and in some cases on other public transport modes as well, but there is some variation in regulation between the PTEs.

39. West Yorkshire PTE, South Yorkshire PTE, Transport for Greater Manchester and Merseytravel each have a regulated fares basket consisting mostly of commuter fares but in the case of Greater Manchester some off-peak fares as well. The fares in these baskets are the fares for which Northern Rail is the lead operator. The PTEs in the North of England are co-signatories to the Northern Franchise Agreement, and changes under this franchise require their consent. Changes to fares regulation for these baskets are generally agreed between the Department and the PTEs. **Figure A2** sets out which fares are included in the PTE baskets:

**Figure A2**

<b>PTE</b>	<b>Regulated Fares</b>	<b>2012 Basket Cap</b>
West Yorkshire	Point to Point Anytime Singles, Returns and Season Tickets (other than Rail Zone 6&7) including the MetroCard	RPI+3%
South Yorkshire	Point to Point Anytime Singles, Returns and Season Tickets plus Railmaster (travel anywhere for 28 days)	RPI+1%
Greater Manchester	Point to Point Anytime Singles, Returns, Season Tickets and Cheap Day Returns plus Traincard (train-only season including travel on Metrolink within the City Zone only)	RPI+1%
Merseytravel	Point to Point Anytime Singles and Returns	RPI+1%

40. In addition, Merseytravel manages the Merseyrail Electrics concession and regulates Merseyrail fares within two separate fares baskets, one for Merseyrail's Northern Line and one for its Wirral Line, each with a fares basket cap of RPI+0%.

41. Nexus in Tyne and Wear actually sets the fares for the limited number of national rail services that run alongside its Metro services.

42. In the West Midlands, fares in the regulated fares basket (Point to Point Anytime Singles, Returns and Season Tickets plus ntrain Zonal Season Tickets) are set by London Midland with a 2012 basket cap of RPI+1%. Centro's multi-modal "nnetwork" season ticket prices are set by the Centrocard Operators Group which includes local bus operators as well as London Midland.

## Unregulated fares

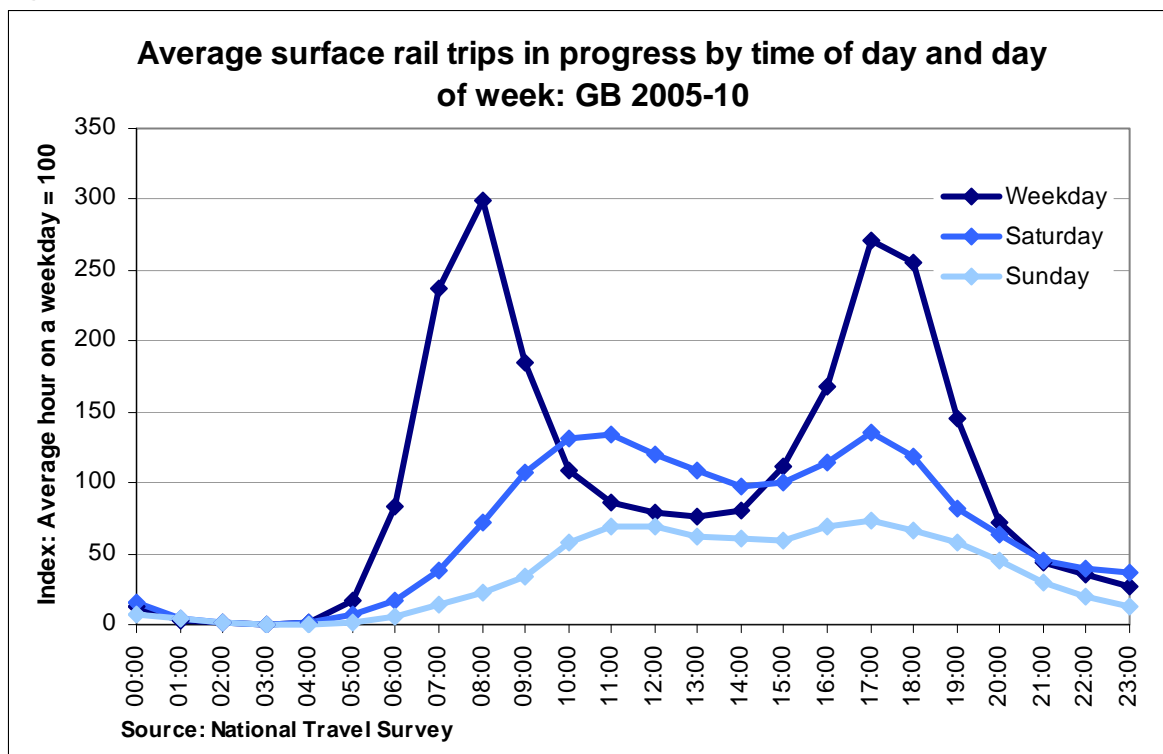
43. All other fares not covered above are unregulated and this means that train operators are free to determine these fares according to market forces, although in certain cases the regulated fare acts as a ceiling – for example, no rational passenger would buy an unregulated Advance fare valid only on one specified departure if it cost more than a regulated and less restrictive fare. Unregulated fares include:

- a. All first class fares;
- b. All Advance fares;
- c. In the majority of cases, the fully flexible Anytime fare for long-distance travel and the restricted off-peak fare for shorter-distance travel;
- d. Tickets (other than London Travelcard season tickets) which include through travel to destinations served by bus services, light rail services or London Underground;
- e. Tickets which include a non-rail element such as entrance to a museum, theme park or other attraction.

# Annex B: The commuter peaks

1. Passenger demand varies significantly over the course of the day<sup>37</sup>. Periods when a large number of passengers want to travel and the railway is very crowded are called the “peaks”. **Figure B1** below shows how demand peaks at different times of the day, particularly on weekdays due to commuter traffic.

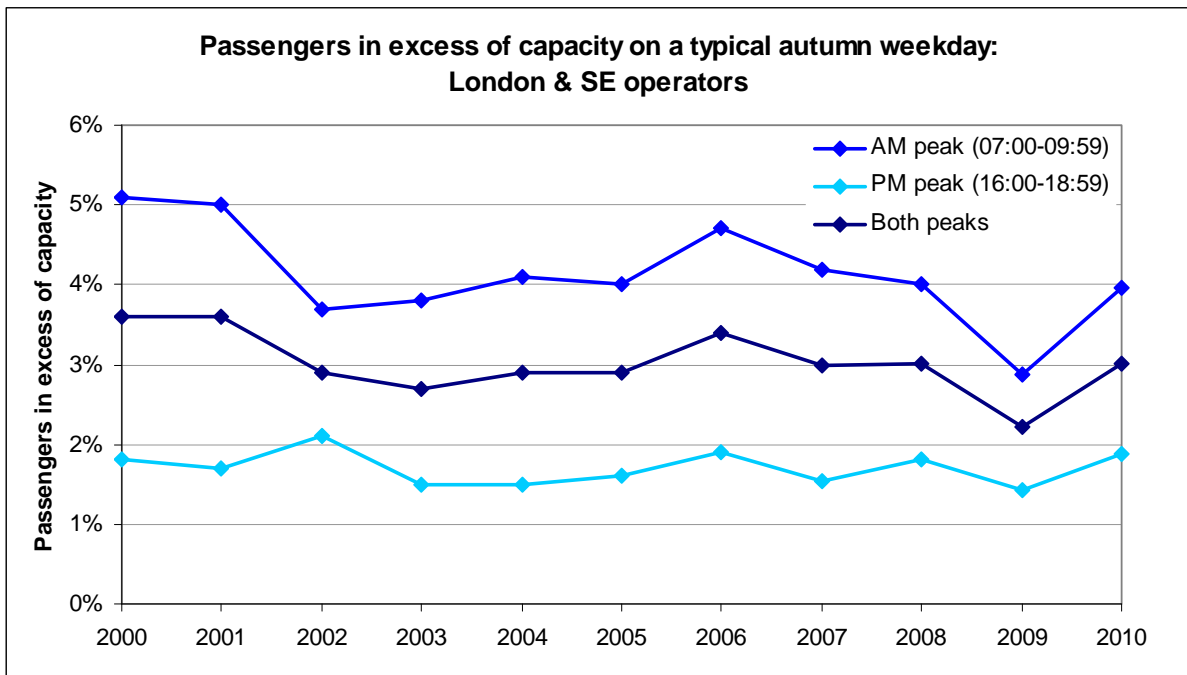
**Figure B1**



2. The morning peak is more pronounced as commuters tend to start work at roughly the same time but finish at different times. On average therefore crowding is higher in the morning than the evening rush hour. **Figure B2** shows that the number of passengers in excess of capacity on London and South East services on a typical autumn weekday is higher during the morning peak (in dark blue) than the evening peak (light blue).

<sup>37</sup> Demand also varies over the week and year, for example, there is higher demand for long-distance travel on Friday afternoon/evenings, and lower commuter demand during the summer holiday period. However, it is the changes in demand over the course of a day which impose the highest costs and which we focus on here.

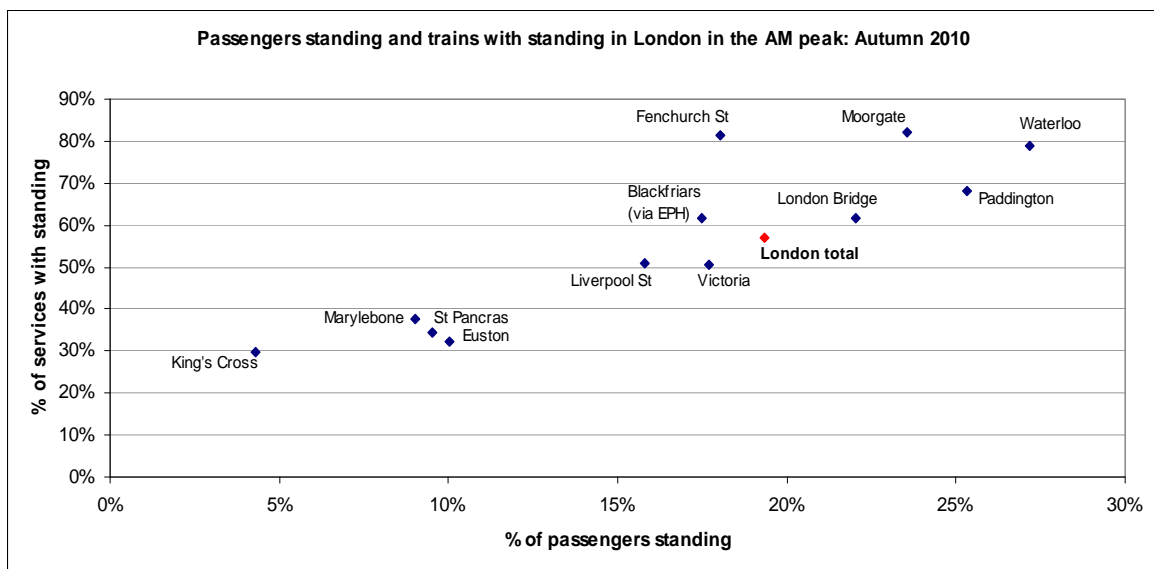
**Figure B2**



Source: Department for Transport

3. Clearly these trends vary from route to route. **Figure B3** below shows the extent of standing on services into London during the morning rush hour, broken down by London terminal.

**Figure B3**

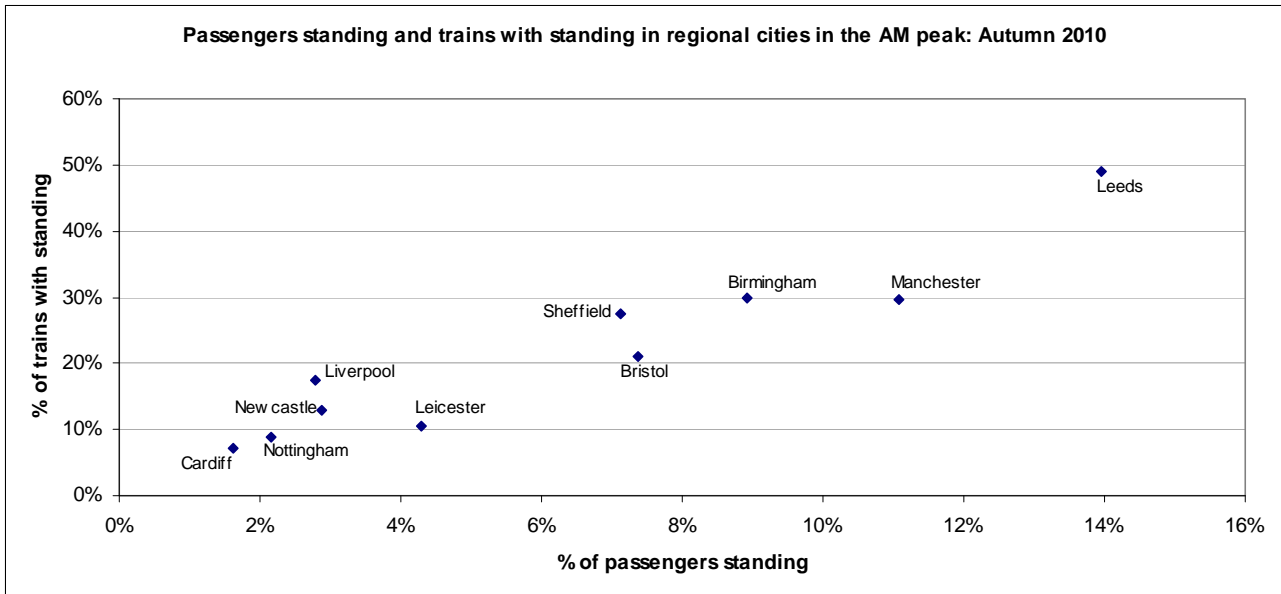


Source: Department for Transport



4. **Figure B4** below shows the extent of standing on services arriving in other major conurbations outside London during the morning rush hour.

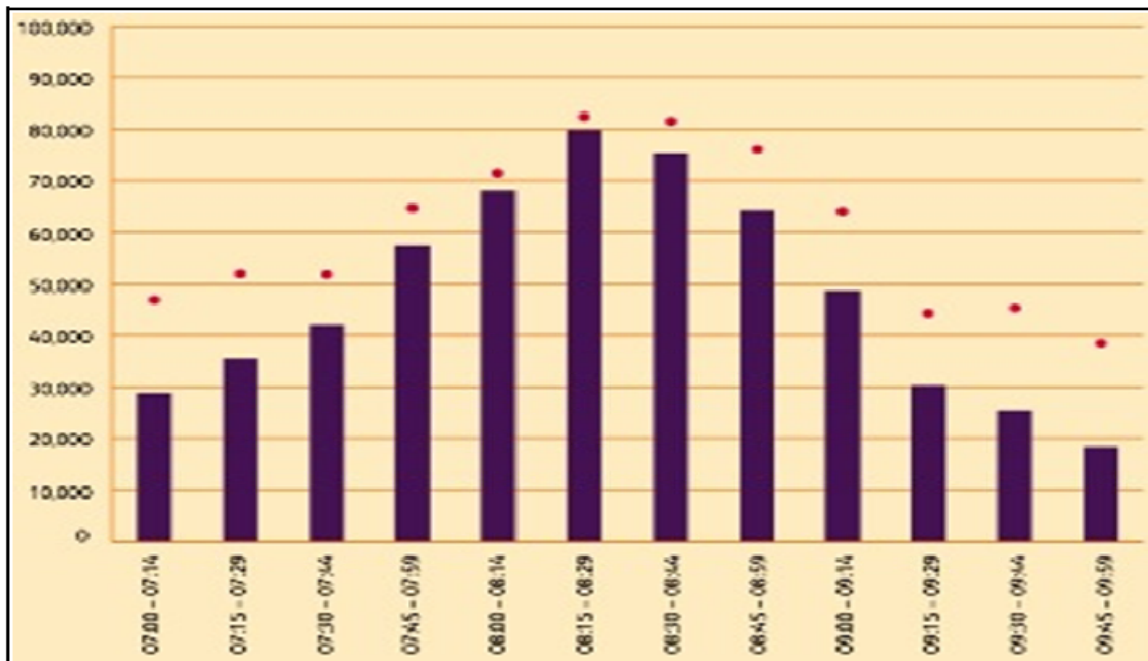
**Figure B4**



Source: Department for Transport

5. So far we have referred to the “peaks” of 7-10am and 4-7pm, but demand varies considerably even during these 3-hour peaks. This is illustrated in **Figure B5** below, which shows the distribution of the well over half a million passengers who arrive in central London during the morning peak. The red points show total available capacity and the purple bars show total demand; both figures are aggregated across London terminals, masking the fact that demand already exceeds capacity on some services, as well as being close to it on many others.
6. Demand gradually builds up, particularly after 07:45, to reach its highest level between 08:15 and 08:30, before tailing off again, particularly after 09:15. There will be variations by station and route – for example the peak at London Victoria will be different to the peak at London Bridge, driven by the type of work people do and the time it takes them to get from the station to their workplace or final destination – but this shows the overall pattern.

**Figure B5: Overall capacity and demand on services arriving into London terminals during the morning peak, 2008**



Source: Network Rail London and South East RUS, December 2010

7. The very busiest period of all is called the “high-peak”. Periods towards either end of the peak, when demand is only just ramping up or already tailing off, are sometimes called the “shoulder peak”. Periods outside the peak are known as the “off-peak”. So in the above chart we might distinguish between:

- the off-peak before 07:00
- the shoulder-peak from 07:00-07:59
- the high-peak from 08:00-08:59
- the shoulder-peak from 09:00-10:59
- the off-peak from 10:00 onwards

8. A similar pattern can be seen in the early evening as commuters return home.

9. In London, fewer passengers in total depart during the evening peak than arrive during the morning peak (on a typical weekday in autumn 2010, 440,000 in the evening compared with 521,000 in the morning). However, in some other cities more passengers depart during the evening peak than arrive in the morning peak.

10. One reason for this may be a higher proportion of non-commuter travel. Non-commuters who do not have to be at work by 9am are more likely to wait until after the morning rush before travelling, but still tend to go home about the same time as the commuters. Birmingham has the highest passenger demand outside London, with 36,000 passengers leaving the city in the afternoon peak, followed by Manchester (29,000 departures) and Leeds (24,000).
  
11. Only departures from London are subject to any regulated restrictions in the evening peak: off-peak fares may not be valid on departures 15:00-19:00 Monday-Friday from London area stations or (when travelling away from London) from stations between London and Reading, Watford, Luton or Stevenage, inclusive. These restrictions discourage non-commuters from travelling during the evening peak in the same way the restrictions on travel early in the morning discourage shoppers or students from travelling during the morning rush hour.

# Annex C: Consultation criteria

The consultation is being conducted in line with the Government's Code of Practice on Consultation. The criteria are listed below. A full version of the Code of Practice on Consultation is available on the Better Regulation Executive website at <http://www.bis.gov.uk/files/file47158.pdf> If you consider that this consultation does not comply with the criteria or have comments about the consultation process please contact:

Consultation Co-ordinator  
Department for Transport  
Zone 1/14 Great Minster House  
33 Horseferry Road  
London SW1P 4DR  
Email [consultation@dft.gsi.gov.uk](mailto:consultation@dft.gsi.gov.uk)

## Criterion 1 When to consult

Formal consultation should take place at a stage when there is scope to influence the policy outcome.

## Criterion 2 Duration of consultation exercises

Consultations should normally last for at least 12 weeks with consideration given to longer timescales where feasible and sensible.

## Criterion 3 Clarity of scope and impact

Consultation documents should be clear about the consultation process, what is being proposed, the scope to influence and the expected costs and benefits of the proposals.

## Criterion 4 Accessibility of consultation exercises

Consultation exercises should be designed to be accessible to, and clearly targeted at, those people the exercise is intended to reach.

## Criterion 5 The burden of consultation

Keeping the burden of consultation to a minimum is essential if consultations are to be effective and if consultees' buy-in to the process is to be obtained.

## Criterion 6 Responsiveness of consultation exercises

Consultation responses should be analysed carefully and clear feedback should be provided to participants following the consultation.

## Criterion 7 Capacity to consult

Officials running consultations should seek guidance in how to run an effective consultation exercise and share what they have learned from the experience.

# Annex D: Glossary

The following abbreviations have been used in this document:

- **ATOC** = Association of Train Operating Companies
- **DfT** = Department for Transport
- **ITSO** = the UK's common standard for smartcards
- **ORR** = Office of Rail Regulation
- **Oyster** = Transport for London's smartcard ticket
- **TfL** = Transport for London
- **TSA** = Ticketing and Settlement Agreement