House of Commons Transport Committee

Inquiry into ticketing on public transport

Statement of evidence submitted by London TravelWatch

Rail fares and competition

In response to your request at Q158 page 62, we attach a copy of an Excel spreadsheet detailing the major changes to fares set by First Capital Connect in January 2009.

The features to note here are that where there is competition on flows to London the rate of increase has been either below inflation or no increase at all. The only exception has been Peterborough, where we know that National Express East Coast substantially increased their Anytime and Off-peak fares, and so First Capital Connect felt able to increase their own fares likewise. The areas where competition occurs on flows to central London are as follows:-

Peterborough – National Express East Coast
Cambridge – National Express East Anglia
Bedford, Luton and Luton Airport Parkway – East Midlands Trains (no separate fares by this company)
Gatwick Airport, Three Bridges, Balcombe, Wivelsfield, Burgess Hill, Hassocks, Preston Park and Brighton – Southern / Gatwick Express

The gross cost model of franchising

<u>London TravelWatch believes that the successful gross cost method of franchising appears increasingly attractive, in view of the current tensions surrounding rail franchising.</u>

Transport for London (TfL) operates two examples of gross cost franchising – the Docklands Light Railway (DLR) and London Overground. The DLR franchise has been in place since 1997 and predates the establishment of TfL. This franchise has been very successful to the extent that the franchise itself has been virtually invisible in the public view. TfL then subsequently applied the same model to the London Overground concession when this was let in 2006/2007.

In both franchises there is a clear separation of fares policy and practice from service level provision, and the level of risk undertaken by the franchise operator.

The franchisee has a very clear and specific specification to work to in terms the levels of service provided both on the train and at the station. There is a performance regime of incentives and penalties to achieve those standards e.g. London Overground is penalised if graffiti on a station is not removed within 24 hours. There is a measure of incentivisation within the performance regime. This deals with the collection of fares in that the franchisee receives 10% of all the revenue received, but this is a small proportion of contract costs. (The level of fares evasion is also included in the performance regime such that the operator is penalised if this goes above the acceptable level agreed in the contract).

Setting of fares in this regime is the prerogative of the Mayor, and is done independently of the franchise / concession operator. This enables fares to be changed on a year by year basis as a matter of political judgement – eliminating any confusion in the public mind about the difference between capped and uncapped fares, regulated and unregulated fares, and the possibility and appearance of 'profiteering' by the operator on what may be a monopoly service.

This has also has the effect of reducing the risk to the franchise operator inherent in a franchise where they are dependant on the income from fares to cover their costs. This then means that they can concentrate on the levels of customer service provision that they are expected to provide, and also on ensuring that their operation is efficient in terms of costs of operation, because their income levels are much more predictable. The contract mechanism if carefully devised can cover the effects of commodity price variations or industry specific inflation costs factors.

The independent setting of fares policy also means that this can be used to manage demand or encourage the development of particular means of payment or fares collection. In the case of London Overground this has meant that in some cases cash fares rose significantly above inflation, but were offset by the introduction of much lower fares on the Oyster Pay As You Go smartcard. This in turn has led to a significant switch from cash payment for paper tickets (the proportion of Oyster Pay As You Go sales on London Overground has grown from 5% in November 2007 to 25% In January 2009), which has reduced operating costs but also had significant impact in terms of reduced queuing times at ticket offices.

Currently zonal fares on the National Rail network in London are not set by individual operators but instead collectively through the Association of Train Operating Companies (ATOC). This means that individual train operators have no real freedom on fares-setting at all - they take the revenue risk in a situation in which they cannot determine their charges. This arrangement could be seen in some cases to be inherently unstable and commercially unsound, particularly if these fares form a substantial part of the income of a particular franchise. The application of a gross cost contract in these circumstances may therefore also be attractive to operators in the current financial climate.

This model has worked well for both DLR and London Overground to date, with significant improvements in passenger satisfaction as a result particularly on London Overground. A similar but different arrangement operates on the Merseyrail network. It is also noteworthy that in these arrangements no operator has either handed in or had their franchise removed, which would suggest that these types of franchise / concession are inherently more stable than those employed elsewhere on the National Rail network where operators are exposed to more risk.

London TravelWatch considers this model to be very effective in delivering services in an urban and suburban context, and we are pleased that in the South Central franchise the Department for Transport has incorporated many of its features in its invitation to tender in relation to the local services operating in South London. We would however, urge that in future other franchises which include urban and suburban services should include this as a standard arrangement.

Date : 18th February 2009