



House of Commons
Transport Committee

**How fair are the fares?
Train fares and
ticketing: Government
Response to the
Committee's Sixth
Report of Session
2005–06**

**Thirteenth Special Report
of Session 2005–06**

*Ordered by The House of Commons
to be printed 11 October 2006*

HC 1640
Published on 19 October 2006
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

The Transport Committee

The Transport Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Transport and its associated public bodies.

Current membership

Mrs Gwyneth Dunwoody MP (*Labour, Crewe*) (Chairman)
Mr David Clelland MP (*Labour, Tyne Bridge*)
Mr Jeffrey M Donaldson MP (*Democratic Unionist, Lagan Valley*)
Clive Efford MP (*Labour, Eltham*)
Mrs Louise Ellman MP (*Labour/Co-operative, Liverpool Riverside*)
Mr Robert Goodwill MP (*Conservative, Scarborough & Whitby*)
Mr John Leech MP (*Liberal Democrat, Manchester, Withington*)
Mr Eric Martlew MP (*Labour, Carlisle*)
Mr Lee Scott MP (*Conservative, Ilford North*)
Mr Graham Stringer MP (*Labour, Manchester Blackley*)
Mr David Wilshire MP (*Conservative, Spelthorne*)

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at www.parliament.uk/transcom.

Committee staff

The current staff of the Committee are Mr Tom Healey (Clerk), Annette Toft (Second Clerk), Clare Maltby (Committee Specialist), Louise Butcher (Inquiry Manager), Tony Catinella (Committee Assistant), Ronnie Jefferson (Secretary), Henry Ayi-Hyde (Senior Office Clerk) and Laura Kibby (Media Officer).

Contacts

All correspondence should be addressed to the Clerk of the Transport Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 6263; the Committee's email address is transcom@parliament.uk

Thirteenth Special Report

The Committee published its Sixth Report of Session 2005–06 on 19 May 2006. The response from the Department for Transport was received in the form of a memorandum dated July 2006, and is published as an appendix to this report.

Appendix

Introduction

Britain's railways are playing an increasing role in UK transport, with over a billion passenger journeys a year, in excess of a 40% increase over the last decade. After some difficult times, performance is steadily improving. Passenger numbers are continuing to increase, passenger satisfaction with the quality of the service is rising and investment is at record levels.

We agree with the Committee's that fare structures are unnecessarily complex and need simplification. We also believe that this complexity damages passengers' perceptions of value for money and we intend to work with train companies significantly to improve this situation.

However, it is important to distinguish perception from evidence. The Government believes that the evidence points to rail offering competitively priced fares in a range of markets that stand good comparison to the cost of travel by other modes. It shows that operators are increasing revenues through volume growth rather than any pricing up of captive markets. And it shows that with over 40% of revenues regulated, and over 40% of rail funding coming through direct subsidy, the Government is already providing significant support towards the affordability of rail travel

Recommendations and Responses

Rail fares in the bigger picture

The strategic significance of the railways

1. The affordability and attractiveness of rail travel is likely to affect the ability of Government to achieve broader economic and regional development goals. It is therefore imperative that the railways are managed and priced in such a way that they help and facilitate economic and regional development. Given that the railways are now run as private semi-monopoly enterprises, the Government needs to regulate actively to ensure that fares policy works with the grain of broader Government policy and not against it. (Paragraph 10)

2. If the Government is to entertain any hope of achieving its targets on emissions and congestion, it is essential for it to encourage a significant shift from road to rail. Rail travel must be made affordable and user-friendly in order to encourage people to reject

cars in favour of rail. Ticketing policy is crucial in achieving this public policy goal. (Paragraph 13)

The Government agrees that rail makes a significant contribution to national economic, environment and social outcomes. It also agrees that the costs of rail and the pricing of travel are crucial factors in the success or otherwise of rail in delivering these benefits.

The question of the competitive position of rail operators is an important one, since it goes to the heart of whether they have incentives to make prices attractive or not. This is a position that the Government does – and will continue – to keep under review. But the balance of current evidence strongly suggests that, although operators may have a considerable degree of market power within rail, most, if not all, train companies operate within a wider active travel market. The Government's approach to regulation (compatible with wider policies) is therefore only to regulate where we believe that market elasticities are such that passengers do not have realistic alternative travel choices. Predominantly this is commuter markets (with travel choices being linked to home ownership). Issues of Saver regulation are more complicated.

Nevertheless, regulated fares account for approximately 43% of all farebox revenues. The Government does not believe that encouraging a modal shift to rail is a cause for subsidy in itself. However, the Government does have wider objectives including those related to environment or congestion towards which rail is well-placed to make a contribution. These wider objectives are reflected in that fact that currently over 40% of all rail costs are met through subsidy.

The Government believes that these policies are having results. Rail travel overall has grown by over 40% in the last decade and rail mainlines are making significant inroads into relevant air markets. A prime example is the investment made in the West Coast Main Line, which is now delivering significant modal shift. Since September 2004, journey times have been cut, brand new trains introduced, and London–Manchester frequency doubled. On-time performance now regularly exceeds 90%. Both passenger numbers and revenue have risen rapidly, with increases in passenger numbers in excess of 32% across the whole West Coast route network, and they are still rising. As a result, the number of passengers travelling between London and Manchester on short haul flights, the least environmentally-friendly mode of transport, is declining and airlines are starting to reduce the number of flights.

The report which the Government has commissioned from Sir Rod Eddington will examine in detail the relationships between further investment and economic (including regional economic) growth. The Government will closely consider the findings of that report.

The level of public subsidies for the railways

3. The railways are a public service in receipt of substantial Government subsidies. In the spirit of a public service, the railways should be affordable and accessible to all, for walk-on, same-day or advance purchase travel. To achieve this, the Government needs to police the train operators much more rigorously than it has done to date. (Paragraph 14)

4. We accept that an increase in subsidies is not in itself the solution to the problem of unreasonable rail fares. We appreciate that the railways have to compete with many other vital services such as schools and hospitals for Government funds and we do not argue for French levels of railway subsidy. We do, however, believe that the dogged pursuit of a policy to minimise public subsidy risks the long-term viability of rail services and undermines the proper public service function of the railways. We need a balanced approach to rail subsidy which allows investment where relatively small sums can produce significant results. This should be accompanied by strong controls ensuring that the Government gets good value for its money. There must be no waste. (Paragraph 17)

We agree with the Committee that a balance needs to be struck between subsidy and fares and that ever-higher subsidies are not a solution in themselves. As indicated above, the costs of the railway are currently split between 58% from fares and 42% from subsidy. The Government's priority, in line with the Committee's observations, has been to focus on value for money, promoting cost-control and cost-efficiency to the general benefit of both fare-payers and taxpayers.

The Government also agrees that this focus on value for money and the elimination of waste needs to encompass investment and project delivery as well. Whilst very significant levels of investment have gone into the railway over the past ten years (including the modernisation of West Coast; the upgrade of the southern power supply around London; 40% fleet replacement; and the introduction of TPWS) there have been concerns about the efficient delivery and phasing of some of these schemes. The picture is improving as Network Rail's performance and the recent debate about progress on the West Coast project serve to highlight. We also believe that the publication of the High Level Output Specification and Strategy next year will improve the phasing and efficiency of major project decisions. Nevertheless, this must be a process of continuous improvement; it is certainly not a case of "job done".

The Government recognises the Committee's concern to ensure that train operators honour their contracts. The Department for Transport polices regulated fares effectively using an automated system linked directly to the rail industry's fares database. The system confirms that regulated fares have been set in line with regulation. However, we want to extend our approach beyond data collection. A key element will be to work closely with Passenger Focus – including their plans for 'Mystery Shopping' – to better understand customers' experience.

The Government also supports the proposition that 'turn-up-and-go' availability is a fundamental part of the railways' attractiveness and utility. For this reason we are concerned to monitor the balance of availability between open, walk-up and advance fares,

whilst recognising that each serve and are of value to a particular market. Currently the proportion of usage on the railway (all operators) is:

Type of Fare	Proportion of Usage (rounded)
Season	48%
First and Standard Open	18%
Saver/Cheap Day	29%
Advance	2%

In part, of course, these figures reflect that much of the railway does not seek to offer an Advance product (underlining just how ‘turn-up-and-go the railway as a whole remains). However, even on those operators where Advance is offered, these ticket types account for just 17% of transactions. Open tickets have broadly the same level of usage at 21%.

Objectives of ticketing policy

5. We strongly urge that the Government revise its policy on unregulated rail fares. The primary objective when setting rail fares and fare restrictions must always be to maximise the public benefit of the railways. This entails the greatest possible number of passengers travelling at the cheapest possible prices without raising public subsidies to unrealistic levels. This is not synonymous with the maximisation of revenue or profit for private operators. Given the natural preoccupation of private operators with maximising revenue, it is the Government alone which is able to safeguard a public service railway operated to maximise the benefit to passengers and taxpayers. (Paragraph 21)

The Government does not intend to widen the scope of fares regulation because we do not believe that this would be necessary or effective to the objective of increasing rail use without seeking to subsidise modal shift for its own sake.

We agree that private operators will be focused on maximising revenue (along with cost control). That is entirely beneficial and supportive of our objectives if the focus for such revenue growth is increasing passenger numbers (by pricing at an attractive level) rather than exploitation of a captive market.

In the past 10 years increases in revenue have indeed come from market growth and, as pricing comparisons indicate, evidence suggests that rail is priced competitively.

	1995/ 1996	2005/ 2006	Change	
			Absolute	%
Passenger Km (Billions)	30.0	43.2	13.2	44
Passenger Journeys (Millions)	761	1082	321	42
Total Farebox Revenue (£m '05/06 prices)	3049	4493	1444	47
Average Fare Paid (pence/km '05/06 prices)	10.16	10.40	0.24	2.4%

Although the table above shows average revenue per passenger km has increased by 2.4% over the last decade, other data published by ORR shows a real increase in ticket prices of 9.3% (over 11 years). The difference between the two figures can be explained by the fact that the 9.3% reflects the price of all fares offered whereas the 2.4% reflects what passengers have actually bought. The combination of the tables suggest that passengers are becoming more selective in their purchasing and keener to take advantage of the cheaper products.

The table demonstrates that revenue increases have broadly matched volume growth with the cost of travel (in pence/km) rising slightly. The AA Motoring Trust suggests car running costs (2006) are about 22p/km, even for a relatively cheap car.¹

Where we believe that there is not an effective market, fares are regulated. So the figures cited above represent an effective balance of Government regulation, coupled with further market growth in response to the competitive pricing of unregulated fares.

6. We believe the issue of industry efficiency is crucial to controlling the levels of fares. We also consider that too little attention is being paid to driving up efficiency levels and controlling costs as a way of keeping ticket prices down. Subsidies and industry efficiency are both crucial elements in ensuring that the railways provide value for money to travellers. (Paragraph 23)

The Government agrees that industry efficiency is crucial. Network Rail have been set a target of improving efficiency by 31% during the current 5-year regulatory control period to 2008/09 and they are on course to achieve this. The ORR is currently reviewing the efficient targets for the next control period.

For train operators, the competitive franchising process aims to secure increased efficiency as each franchise is replaced. Evidence supports the effectiveness of this approach. Whilst usage of the passenger railway has grown by 44% (and revenue by 47% in real terms) over the last ten years, the real-terms costs of the passenger railway have only risen by 37%. These volume efficiencies have contributed to a fall in whole industry costs per passenger/km of 6%.

However, the Government is not complacent and continues to press on all fronts – whether Network Rail cost review, the franchising process, or rolling stock charges – to identify areas where the railway could be run more efficiently.

Railway Capacity and fares policy

7. The railways are suffering from considerable capacity problems and bottlenecks in parts of the system. These problems have serious consequences for the ability of Government to achieve the level of growth in passenger kilometres needed to meet other of its key objectives such as the reduction in emissions and congestion. Capacity problems can also drive the ticketing strategies of train operators, enhancing their ability to continue to raise the price of a scarce commodity and thereby pricing many passengers out of the market. The Government must ensure an increase in railway capacity. (Paragraph 26)

¹ Car purchase price <£10,000 doing 10,000 miles/pa.

Accounting, as it does, for only 6% of journeys (in terms of passenger/kms) and <1% of Kyoto emissions, rail alone cannot deliver our wider objectives on economic growth and the environment. It does, however, have a valuable contribution to make and we need it to maximise this contribution by attracting passengers with attractive and competitive fares.

This also needs to be supported with effective investment in building capacity. Significant improvements in capacity have already been introduced in the last five years, helping to accommodate the recent increases in train travel. Greater passenger-carrying capacity has been introduced through new and larger fleets of trains, for example on Trans-Pennine routes, Chiltern Railways, South West Trains and Midland Mainline. Additional route capacity enabling more trains to operate has been introduced through infrastructure improvements, for example the upgrade of the West Coast Main Line, with further improvements expected in two years' time when more track works and re-signalling has been completed. Other infrastructure capacity enhancements are being driven through a variety of Network Rail schemes ranging from small local track and signal improvements to major projects such as Kings Cross station.

The Government will set out its future plans on capacity and investment in Summer 2007 when the Secretary of State intends to publish a High-Level Output Specification (HLOS) for the passenger railway. This will cover the years from 2009/10 to 2013/14, specifying the capacity, reliability and safety improvements the Government wishes to secure and setting out the funds available for this. It will be accompanied by a strategy considering, inter alia, capacity issues in the longer term.

It is worth noting that where capacity problems are greatest, this tends to overlap with Government regulation of fares (particularly on Commuter flows) so Train Operators do not have freedom to price above regulated levels, which have themselves fallen in real terms over the past ten years. However the Government does believe that it is reasonable over time for fares to reflect the levels of investment being committed to the railways, particularly as the benefits of those investments start to be realised.

The complexity of rail fares

Unregulated fares

8. The current complexity of unregulated fares and conditions is an insult to the passenger. It is unacceptable that in order to purchase a rail ticket passengers are faced with up to a dozen different products, most of which have subtly different conditions and restrictions. Adding to the insult, operators not only market an unwieldy range of slightly different products, but in some cases, identical products are marketed under different names. The fact that this situation has been allowed to develop unchecked over a number of years demonstrates a lack of commitment from both train operating companies and the Government to the best interests of rail passengers. (Paragraph 31)

Creating a user-friendly structure

9. Train operators must take urgent action to implement a unified fares structure across the entire industry. This should involve no more than a handful of different

fares, and names and restrictions should be identical across the network making the system user-friendly and transparent for passengers. (Paragraph 34)

Initiatives to improve the problem of fares complexity

10. The Committee is not sanguine about the industry's capacity to create a uniform, coherent, and successful system of fares and conditions without Government regulation. The assertion by some train operating companies that the current level of complexity is caused by the old reservations systems being incapable of handling a simple fares structure is not credible. Under British Rail, the system was capable of managing a simple fares structure, but that is apparently no longer so. We believe that the level of complexity arises from a different cause entirely. In our view, it is inherent in the privatised and fragmented industry that different operators will wish to apply different conditions and restrictions which optimise the commercial advantage of their individual franchise. Where no regulation is applied, such commercial considerations will invariably win out over considerations of consistency and ease of use for the customer. The experience of the past decade gives us no reason to think otherwise. Government regulation is required to ensure that all train operating companies adhere to one simplified fares system so that passengers can travel with easily identifiable fares across the entire network. (Paragraph 38)

Reducing complexity through regulation

11. We do not accept the view that a Government-imposed harmonisation of fares categories and conditions would unduly reduce the scope for innovation. There is not a shred of evidence to imply that a clear, comprehensible and transparent framework of ticket names and conditions will reduce the scope for product innovation, as is suggested by the Department. Rather, such a framework would serve to improve customer satisfaction. It is imperative that the Government take steps to enforce a degree of harmonisation of ticket names and conditions on all operators. (Paragraph 40)

Regulated fares

12. We believe that the greater stability and clarity of fares' names as well as the restrictions and conditions of travel for regulated fares such as commuter fares and Saver fares is an illustration of the potential benefit of a tighter regulatory framework for rail fares in general. (Paragraph 43)

The Government agrees with the Committee that rail fares appear needlessly complex, particularly for longer distance journeys. We have been working with the Association of Train Operating Companies (ATOC) and train operators to address three key issues:

1. Fares structure: Establishing a simple, logical and consistent fares structure across all long-distance train operators.
2. Fares terminology: Using the same terms used to describe a smaller number of generic ticket types so that passengers know which fare to ask for.

3. Fares presentation: Modifying industry systems and passenger information sources to make use of this simplicity, by showing only the relevant fares for the journey requested.

The Government sees no reason why this cannot be achieved within the current contractual and commercial framework. Train operators have already been working towards these goals, and since June 2006, all long distance operators have had a similar basic fares structure:

1. Open fares: Fully flexible. Any train, any day, any time. Walk-up, can be bought any time. Break of journey allowed in both directions. Refundable less an admin fee.
2. Saver fares: Off-peak flexible. Any train at weekends, any train outside the business peaks Monday–Friday. Walk-up, can be bought any time. Break of journey allowed in return direction only. Refundable less an admin fee.
3. Advance fares: Non-flexible, only valid on the train booked. Can be booked until 18:00 the day before travel. Departure time can normally be changed for a fee. Generally non-refundable, break of journey not permitted.

However, this simple structure is not yet being actively promoted by train operators, so at present it is delivering limited benefit. The next step is to improve the way fares information is presented on retailing and online systems to make it easy for passengers to understand the choice between these three types of rail fare. National Rail Enquiries online (www.nationalrail.co.uk) is the nationwide train travel website where passengers can find train times and fares for all operators' trains on all routes. It currently shows all the possible fares for each train, whether that fare is available or not, mixing first and standard class fares. New journey planning software to be implemented on www.nationalrail.co.uk later this year will allow more flexibility in the way fares information is presented. Unless the user asks for more information, it should then be possible to show only the relevant fares for each train (for example, the Open, the Saver and the cheapest available Advance fare in the class requested), highlighting the simple choice of flexibility versus price represented by the Open, Saver and Advance fares. The long distance operators are considering how to make similar changes to their own websites.

On shorter distance routes, a simple peak and off-peak fare structure (Day Single/Return and Cheap Day Single/Return) has existed unchanged for many years, generally understood by most passengers. Building on this, the Government is working with train operators and Transport for London to further simplify National Rail fares within London. The Government plans to establish a simple zonal fares structure, based on the familiar Travelcard zones, potentially from January 2007.

The value for money of rail travel – real and perceived

Summary of price developments since 1995

13. The trends since 1995 demonstrate clearly that when fares are unregulated, there is a tendency for prices to rise faster than inflation. Fares on long-distance routes and first class fares have been the worst affected by price rises. This trend appears to continue

relentlessly. Furthermore, the differences in fares increases on different routes have been startling. This has created a situation where the price for travelling a 100 mile journey on one route might cost significantly more than on another route, even where the quality and speed of the service is similar. This is neither fair nor in the best interests of passengers. (Paragraph 47)

The Government disagrees with these conclusions.

Trends between 1995 and 2003/04 do not ‘demonstrate clearly that when fares are unregulated, there is a tendency for prices to rise faster than inflation’. The cheapest of the Advance fares, which are not regulated, have fallen by 32% in real terms.

Fares on long distance routes and first class have not been ‘the worst affected by price rises’. On long distance routes cheapest fares are now lower in real terms than they have ever been and a new range of discount First Class fares have become available.

And for price to vary in comparisons between journeys of similar, distance, speed and quality reflects rational and efficient market behaviour, rather than market failure. This happens for air, coach and ferry travel – even for road tolls on the Continent. It also reflects the current railway rolling forward the pricing practices operated by the nationalised one. British Rail also used to differentiate pricing according to a range of factors other than distance, including comparative market strength and levels of relevant investment.

Clearly, these first two examples largely seek to highlight the cheapest elements of the book-ahead end of the market and are not the whole picture. It is certainly valid to highlight that the most highest-rising First Class fares have risen by 39% over the same period, just as regulated fares have fallen by 3%. All of this underlines the point that general conclusions on pricing need to take account of the full range of products and the volume of transactions in relation to each of these.

The tables below show some of the travel and pricing options for a range of journeys:

Modal Comparisons for Journeys between UK Destinations

Travel London to Manchester (Return) Prices are Rounded

Air Open	Train Open	Car	Train Off Peak	Coach	Train Cheapest
£269	£202	£76	£57	£27	£25

Travel London to Newcastle Upon Tyne (Return) Prices are Rounded

Air Open	Train Open	Car	Train Off Peak	Coach	Train Cheapest
£249	£215	£105	£91	£42	£20

Travel London to Plymouth (Return) Prices are Rounded

Air Open	Train Open	Car	Train Off Peak	Coach	Train Cheapest
£232	£197	£81	£64	£43	£26

Travel London to Swindon (Return) Prices are Rounded

Air Open	Train Open	Car	Train Off Peak	Coach	Train Cheapest
	£82	£35	£37	£23	£15

Travel London to Canterbury (Return) Prices are Rounded					
---	--	--	--	--	--

Air Open	Train Open	Car	Train Off Peak	Coach	Train Cheapest
	£37	£29	£21	£17	£18

Travel Liverpool to Edinburgh (Return) Prices are Rounded					
---	--	--	--	--	--

Air Open	Train Open	Car	Train Off Peak	Coach	Train Cheapest
£302 (from Manchester)	£89 route Preston	£76	£55 route Preston	£36	£30

Travel Birmingham to Glasgow (Return) Prices are Rounded					
--	--	--	--	--	--

Air Open	Train Open	Car	Train Off Peak	Coach	Train Cheapest
£277	£143	£98	£89	£56	£34

Travel Leeds to Southampton (Return) Prices are Rounded					
---	--	--	--	--	--

Air Open	Train Open	Car	Train Off Peak	Coach	Train Cheapest
£268	£133 Not London	£79	£82 Not London	£50	£30 Not London

Notes

Air Open.

Fare queries were made using the OPODO website which is owned by British Airways, Air France, Alitalia, Iberia, KLM, Lufthansa, Aer Lingus, Austrian Airlines, Finnair and Amadeus. The requests were made for travel one day hence, and for journeys to be made at peak times.

Train Open, Train off Peak & Train Cheapest.

All fares taken from "RJIS" Rail Journey Information System holding current fares and products sold by the industry. The rate for the "Train Cheapest" fare return is actually the cheapest advance purchase single ticket doubled.

Car.

Costs are based on 2 people sharing in a car whose purchase price was £10k. The figures were obtained from the AA website using their 2006 costs of motoring set against the mileage for the trip. The London Congestion Charge and other tolls as applicable have been included. It is assumed that the return trip was done in a day and so there is only one set of LCC or tolls in the gross figure. No assumed parking costs.

Coach.

These prices were taken from the National Express coach website and are all quoted from their Standard Return range of fares.

The Government believes that these examples (which are intended to be representative) are not indicative of pricing which is either unfair or against the interests of passengers.

On the contrary, they show rail offering good value products in a range of markets allowing people to make choices which might trade time and convenience for price, whether within rail or across modes. It is also worth noting the comparative volumes of transaction. These show that the highest fares are used by the smallest numbers; most passengers benefit from discounted fares and the majority of those fares – and certainly the cheapest ones – are unregulated. Cheap seats, both bookable and turn up are generally available, including on some of the busiest trains.

The announcement of 2006 fares increases

14. It would appear that the train operating companies deliberately chose to wait until the Committee's hearing on train fares had been concluded before announcing yet another round of well-above-inflation hikes in rail fares. If so, this was both unhelpful and irresponsible. Our hearing was an excellent opportunity for the train operators to debate the grounds of their pricing structure and any further price increases. Instead, they chose short-term presentational gain over transparency and credibility. We find this behaviour immature and disappointing. (Paragraph 50)

This is a matter for the train operators.

Perceived value for money of rail travel

15. The persistently poor levels of passenger satisfaction with the value for money of rail travel are important. If passengers perceive rail travel to be too expensive, then in some senses it is too expensive, and it may reasonably be assumed that they will try to avoid paying the set price – if not in the short term, then in the longer term. Passengers' perception of pricing is therefore crucial to the long-term outlook for the railways. (Paragraph 53)

Passenger growth and satisfaction despite poor value for money?

16. Passengers are fully capable of distinguishing between different aspects of the service they receive, and overall satisfaction is a measure of a whole range of things including punctuality, general comfort in addition to value for money. Over the five years since the Hatfield crash, the situation on the railways has improved from appalling through to just bearable in terms of punctuality and passenger comfort. As a result, while overall passenger satisfaction has improved, satisfaction with value for money has not. (Paragraph 56)

17. Unlike the Minister and the train operators, we do not accept the notion that the growth in passenger numbers is an unambiguous indication that train operators are performing well or even adequately in terms of value for money to the passenger. People travel by train for a variety of reasons. In some cases, they have no real choice. Increasing congestion on the roads and the difficulty in parking in built-up areas has made travel by car a more difficult option in many cases and on many of the routes where people opt to travel by train, neither air nor coach constitute realistic alternatives to rail. (Paragraph 57)

First, the Government strongly refutes the description of reliability and passenger comfort as 'just bearable'. This does not reflect average performance in excess of 90%. It does not reflect the most modern fleet in Europe. And it does not reflect customer perceptions where 80% of passengers declare themselves satisfied or better with their overall journey.

The Government recognises that, when separated from the overall journey, satisfaction as to the value for money of rail fares is the lowest of all passenger indicators. Only 58% of leisure travellers and 41% of business travellers declare themselves satisfied or better.

This is disappointing but should not necessarily drive fares policy. It is important to remember in relation to the leisure market that the price of cheapest fares has fallen by up to 32% in the last decade with the price of Savers (in common with other regulated fares) having fallen 3%. For commuters prices have also fallen 3%. Business prices have increased substantially – by up to 39%. Overall, rail fares (in terms of the actual cost of travel to passengers) have risen by just over 2% whilst over the same period GDP per head has risen by 26%.

At the same time the proportion of subsidy has risen significantly. Most taxpayers are at best, infrequent users of the railway; 73% percent of the population travel by rail at most once or twice a year, whilst over 50% use the railways once a year or not at all. Even substantial price reductions would not fundamentally alter those travel patterns. So subsidy is essentially redistributing cost and benefit between a large pool of people who get limited or no direct return and a smaller group who travel frequently. That is not to say that there are not wider benefits which justify subsidy but it is an important discipline to balance the direct and indirect costs and benefits of rail carefully mindful of both direct and indirect benefits.

That said, we do accept the Committee’s reasoning that passenger perception has a weight in and of itself. We believe rail has a good story to communicate and offers some very attractive deals. But we also believe that the complexity of the fares structure and barriers to easy purchase hamper the communication of this message. All things being equal, complexity may well increase the risk of mis-selling. It can certainly serve to create a distrust in passengers that they don’t have the best deal, or that the person sitting next to them has got a better one.

In common with the work we are doing with the operators to simplify fares structures. We want to encourage them to be clearer about prices and the applicability of railcard discounts. We also want to encourage them to consider how they respond to passengers in the event that they are sold an unnecessarily expensive a ticket by mistake.

International price comparisons

18. On the whole, there is little doubt that walk-on rail fares in the UK are more expensive than in many European countries. (Paragraph 58)

19. International comparisons can only take us so far. What matters is how the price of rail travel in the UK compares to other modes of travel here, and whether passengers believe they get value for money when they travel by train. The emphasis must be on train operating companies delivering a cost effective, streamlined and attractively priced fares structure which provides value for money, and on the Government delivering a framework which supports such services and protects passengers actively against sharp practices by the industry. (Paragraph 60)

International comparisons can indeed be misleading. The most expensive UK Open fares are often compared with European standard fares. However, to take inter-city routes as a comparison, Open fares are bought by just 17% of UK passengers, whereas the European standard fare is often the fare paid by the majority of European passengers. Saver fares, bought by 31% of UK inter-city passengers and also a walk-up product, are often less than

German, French or Swiss fares. UK Advance fares, used by 17% of UK passengers, are often much less than the price paid abroad.

Around London and other big cities, commuter fares are regulated. The overall price of these fares is the result of a decision on what share of the cost will be paid by the passengers who use the service, and what share by the taxpayers who may not use the service, but who may benefit in other ways. Some countries choose a different balance between taxpayer and passenger, often funded by higher levels of taxation. It is notable that by itself this does not automatically drive better performance, growth or standards of maintenance. In regulating commuter fares in the UK, the Government aims to balance the interests of passengers with those of taxpayers.

Inter-modal price comparisons

20. We urge the Government to review the comparative costs of travel by different modes in the UK and to ensure that mechanisms are put in place to ensure a reasonable price balance between modes, reflecting strategic policy priorities such as limiting emissions. This may involve increasing subsidies for one or more modes whilst taking measures to increase the cost of using other modes. This kind of joined up approach would promote transparency in the debate over the true costs of different transport modes, and assist the Government in achieving its broad strategic policy objectives such as regional development and a reduction in road congestion and emissions. (Paragraph 62)

Supported by the kind of comparisons cited earlier, the Government does believe that a reasonable balance of pricing and access exists between modes. Where wider benefits or policy objectives exist the Government has been willing to purchase these through subsidy or grant. Freight grants are one such example, but this approach is also demonstrated in level of subsidy support to rail (as discussed in paragraph 6) as well as developing thinking in areas such as road pricing.

Value for money of rail travel – a lottery?

21. Rail travel in the UK ten years after privatisation is perceived to be poor value for money. And for those passengers who do not succeed in getting cheap advance purchase tickets, train travel is poor value for money compared to other modes of transport. It is clear beyond reasonable doubt that walk-on fares in the UK are more expensive than equivalent tickets in many other European countries. (Paragraph 64)

22. We appreciate that a small proportion of the lowest fares are sometimes available through advance purchase tickets. We also understand the need to spread passenger usage across the day. But not everyone is able to plan their journey weeks in advance to take advantage of such cheap prices. Train operating companies need to provide cheap tickets on all services, not just a few off-peak services. It is imperative that reasonably priced open walk-on fares are re-instated so that nobody is excluded from using the railways for trips which cannot be booked in advance. We recommend that the Government take measures without delay, through franchise agreements, to cap open walk-on fares. (Paragraph 65)

As discussed elsewhere, the Government does not necessarily accept that fares offer poor value for money, or compare unfavourably to European counterparts, especially in light of wider choices between the balance between fares and subsidy.

The Government also thinks that the Committee's conclusions understate the availability and flexibility of pre-book fares. These account for 17% of all travel and between. They can be bought up to 18:00 the evening before.

Nevertheless the Government does agree that there is also a role for reasonably priced walk-on fares. These exist at present in the Saver market and both Government and operators see this type of fare as important going forward.

However, the Government does not believe that there is a case for capping Open fares; indeed there may be arguments for looking at whether Saver regulation itself enables rail to respond flexibly enough to passenger choice and demand. Open tickets are used for fully-flexible travel during the Monday–Friday business peaks and appear to be set at reasonable economic rates (i.e. at a level reflecting modal competition), taking into account the wider market and the cost of providing the necessary infrastructure. Regulating to reduce such prices would not only add to the underlying subsidy cost for rail but also create additional investment pressures to meet the resultant increases in demand. The Government does believe that there are strong economic reasons to invest in rail to respond to demand. But it does not believe that those benefits and costs would remain positive if the level of demand on such routes was being additionally stimulated by price subsidy at levels below a competitive market rate.

In practice, all travellers, by whatever mode, are making choices between cost, flexibility, journey time and comfort etc. It is important that the choice offered to passengers is made more clearer and more to enable them to easily make the real trade-offs that represent value to them and thereby make appropriate modal – and ticket – choices.

Short and long-term effects of ticket prices (elasticity)

23. We fear that the current level of rail fares will have far-reaching long-term consequences because it restricts unreasonably people's options of where to live and work, where to locate or manage businesses. This could potentially hamper regional economic growth and reduce the popularity of rail in the long term. (Paragraph 68)

24. In order to ensure that commuting on the railways remains an option for as many passengers as possible, we urge the Government to reverse the changes in the regulation of commuter fares so that the permitted annual increase is brought back down below the level of inflation. (Paragraph 69)

The Government does not believe that its regulation of commuter fares is hampering economic growth or unreasonably limiting housing choices. In 2006, commuter fares are on average 3% less in real terms than they were ten years ago, and the average price paid per kilometre has risen by just 2%, whilst GDP per head has gone up 26%. Far from declining, the number of people using trains to commute is steadily increasing, and forecasts suggest that demand for rail will continue to grow for the foreseeable future. The key challenge is to make sure that there is sufficient capacity to accommodate continued steady growth. This will be central to the Rail Strategy White Paper which the Government

intends to publish next summer, in light of the report by Sir Rod Eddington into the relationship between transport infrastructure and economic growth.

Evidence-based debate

25. We urge train operating companies to make publicly available their research into elasticity, and in particular their Passenger Demand Forecasting Data and Handbooks. Given that this information is shared by the entire industry, there could be no competitive disadvantage in this data being in the public domain. We are concerned that the unwarranted secretiveness of the industry is hampering an open evidence-based public debate about fares policy. (Paragraph 71)

26. We also recommend that the Government commission its own independent and publicly available research to evaluate the long-term elasticity of rail-fares as well as the propensity of Train Operating Companies (TOCs) to prioritise short-term revenue over long-term passenger retention. Such research must be placed in the public domain so that fully informed external scrutiny of TOCs can be undertaken. (Paragraph 72)

British Rail combined its research findings on elasticity and other factors affecting demand into a document called the Passenger Demand Forecasting Handbook (PDFH). Today, train operators and the Department for Transport form the group which maintains this document and which from time to time commissions new research from independent and respected academic sources to ensure this is up to date. It is helpful that this research is shared between train operators and the Department for Transport as a common basis for discussion. However, the information it contains is commercially sensitive, and could be used by competing air and coach markets to rail's disadvantage.

Additionally, the Department has put together a research programme to develop its own understanding of the relationship between fares and other demand factors. The first phase of this work is due to report in early 2007.

The management and pricing of key rail fares

Walk-on fares

27. The ability to turn up and go without notice is a vital characteristic of the railway. Without walk-on fares, the railways would have no hope of competing with road travel. What most passengers need first and foremost is flexibility and ease of use, and walk-on fares provide the easiest and most flexible way to travel. (Paragraph 75)

Open fares

28. It is essential that when rail passengers walk up and buy a ticket immediately before departure, they do not have to pay over the odds. Fully flexible open fares may need to command a price premium over other less flexible tickets, but the prices now charged by many long-distance operators are absurdly high. The 'see how much we can get away with' attitude of operators has put the thumbscrews on those passengers who have no option but to travel on peak-hour trains, using fully flexible Open fares. Such behaviour has brought not only individual train operators, but the passenger railways

in general into disrepute. Train operating companies bear a heavy responsibility for giving passenger railways a bad reputation. Over and above our earlier recommendation for the Government to cap open walk-on fares, operators themselves must now take action to develop reasonable pricing structures for open flexible fares. (Paragraph 78)

Saver fares

29. We find it hard to see how Saver fares that are easy for passengers to understand and use, universal across the network, and good value for money can be seen to prevent the development of more “customer focused products”. What could be more ‘customer focused’ than the Saver fare? We are therefore deeply concerned about proposals to reform or even abolish regulation of Saver fares. It is imperative that Saver fares, which are the only remaining affordable walk-on fare on our railways, are ring-fenced and protected. It is the Government’s duty to tax-payers and passengers to provide this protection. (Paragraph 83)

30. We note the claims of some Train Operating Companies that they would retain Saver fares if they were de-regulated. We have little faith in these assertions. Savers have already been eroded in many cases by ever narrower time-of-travel restrictions imposed by train operators. We strongly suspect that in a de-regulated market, Saver fares would eventually be eroded to the point of irrelevance because operators would be tempted to apply ever stricter conditions and restrictions on their use, making these tickets difficult for passengers to use. (Paragraph 86)

31. If Saver fares were eroded further, passengers are likely to be pushed onto much more expensive open tickets, or onto advance purchase tickets which are cheap but inflexible. The former would be likely to increase the revenue per passenger for train operators whilst the latter would increase predictability and make it easier for them to manage passenger demand across the day. Needless to say, the passenger would be the loser in both circumstances. We therefore recommend not only that the Government retains regulation of Saver fares, but that it takes immediate steps to strengthen the current regulatory regime in order to limit the kind of travel restrictions that train operators are able to impose, and to ensure that travel restrictions are the same for Saver tickets across all operators on the network. (Paragraph 87)

Advance purchase tickets (APEX)

The limitations of advance purchase fares

32. Advance Purchase rail fares are here to stay. We acknowledge the benefits that such fares may have for some leisure travellers, and we also accept the need to make off peak services attractive to as many passengers as possible. Cheap advance purchase fares are a sensible way to fill up off-peak seats that otherwise would not be sold, but this must never be to the detriment of affordable walk-on fares. The latter must once again become the mainstay of rail travel if the railways are going to compete with the motorcar and be affordable to the general public for routine journeys. The Government needs to develop the regulatory framework to ensure a sound and passenger-friendly

balance between off-peak bargains and user-friendly and affordable services every day of the week. (Paragraph 92)

Yield Management

A win-win situation?

33. ‘Yield management’, the system now used by train operators to maximise their revenue for every seat, serves train operators by helping to maximise revenue and profit. It serves the Government by helping to minimise the need for Government subsidies. It also serves some passengers who are in a position to benefit from cheap advance booking fares with complex restrictions. The system, however, clearly fails all those passengers who have less predictable and flexible travel needs and who end up paying over the odds to travel. (Paragraph 105)

34. A system for managing railway capacity and fares which puts financial outcomes for train operators or the Government on a par with, or even before, the needs of passengers is a retrograde development. Meeting passenger needs should be the primary and overarching objective of a public service railway. Therefore, whilst we appreciate the positive contribution of ‘yield management’ systems in utilising the capacity of the railways effectively by providing incentives for those who are able to travel outside peak hours to do so, we believe that train operators are taking the system far further than is required purely for the purposes of using capacity effectively. Driven purely by economic models of revenue maximisation, the premiums attached to walk-on and peak-hour travel have risen so high that many passengers are unable to afford them. This is nonsensical. It is incompatible with what ought to be the key public service objectives of our railways. This problem is inherent in the current structure of our railways, and short of altering this structure, broader and tougher regulation is the sole practical way of ensuring that the passenger is given proper priority. (Paragraph 106)

The Department for Transport knows the importance that passengers place on the availability of flexible walk-up fares. Turn-up-and-go train travel provides the flexibility which people need when they make a range of journeys.

For the reasons cited earlier, the Government is not attracted to price capping of fully-flexible fares. Whilst these are at the highest end of rail costs, they are not disproportionate to the cost and convenience of other travel choices which is why they continue to prove popular in their core business market. It is recognised that this market has a flexibility of choice that is not open to all passengers at all times. However, there is no evidence to suggest that the incidence of people who genuinely have to travel for some broader social purpose at these times and can only do so by rail and have no scope to plan this up to 18:00 the night before or flex their journey an hour or two in either direction, is sufficiently large to justify further subsidy for peak pricing to reduce the price to a level that such passengers may prefer, or be able, to pay. On longer distance routes, the majority of passengers plan and book their trip in advance, even if they go on to buy a walk-up ticket.

Research by Passenger Focus suggests that ‘Saver’ fares do not themselves have a high brand recognition. But this is not to say that the concept of a cheap turn-up and go ticket is not valued; clearly it is.

There are, however, legitimate questions that can be asked about whether such a product should have the same pricing level whatever the demand for the train (causing very high crowding on the ‘last Saver’ trains, whilst other trains remain under-utilised at, or because of, current Saver pricing levels) and whether passengers should be locked in for paying for the whole of a return journey on a turn-up-and-go basis even if their need is more limited or flexible than this. Linked to this should be consideration of whether patterns of travel now being experienced in the peaks over the course of the week (driven by the characteristics of today’s labour market, as opposed to that of ten years ago) are properly reflected in the regulatory structures, for instance locking part-time workers into 7 day products whilst continually attracting demand to the busiest trains.

We believe that it is important such issues are properly and objectively considered as part of an ongoing process of discussion. We do agree with the thrust of the Committee’s conclusions that de-regulation on the basis of assertion or speculation would be undesirable and could lead to passenger detriment. Fares regulations are kept under continual review and there will continue to be areas in which changes, different approaches or greater flexibilities could bring passenger benefits. Fares, like anything else, need to evolve over time. But both Government – and most importantly, passengers – need to have confidence in the objectives and credibility of outcome of any changes to ensure they deliver benefit.

Group travel

35. Train operators have made it far too difficult for schools and colleges to undertake study trips using the railways. Instead of encouraging the young to use the railways for study purposes, barriers are put in their way. This is yet another case where we believe minimum standards should be guaranteed through Government regulation. Evidently train operators put revenue and profit before elementary social responsibilities. (Paragraph 96)

Train operators usually have specific departments dedicated to making arrangements for schools and groups, which is often important business for them. However, capacity is limited, and it may not always be possible to place large groups on trains in the Monday–Friday peak hours. The Government supports train operators in providing group discounts and other facilities for schools and groups, but operators need to balance the wishes of schools and groups with the interests of their regular passengers.

Quotas

36. Passengers have suffered for years from a severe lack of transparency about the availability of cheap advance purchase fares. This has prevented them from making informed decisions and obtaining the best tickets available. We note that train operators are now in the process of launching new and improved systems. We are also conscious, however, of the limitations imposed by ‘yield management’ systems in terms of the information that can be supplied to passengers. We will return to look at rail

fares again next year, and we will expect to find substantial improvements in terms of the information available to passengers about the availability of cheap fares. We want to see a system where passengers can identify easily and quickly how they can travel most cost effectively within a three day period, that is, what departures have the cheapest fares, and what the restrictions on these tickets are. (Paragraph 110)

We agree that improvements need to be made to rail industry retailing systems to make buying train tickets more transparent for passengers, and to make selling rail travel easier for staff. New retailing systems which integrate train times and fares are being installed at ticket offices and telesales centres. These systems show availability for yield-managed fares, making it easier to sell this type of product. However we believe that more can be done and we will continue to work with train operators to achieve better communication to the passenger.

An increasing number of long distance train tickets are bought online, which is an ideal medium for showing what is available at what price. On websites such as www.nationalrail.co.uk, the availability of all Advance quota-controlled fares on each train can be seen against each train. If improvements to the presentation of fares information are made as described in paragraph 14, there is no reason why buying cheap train tickets should be any more difficult than buying cheap air, coach or ferry tickets, which will benefit both passengers and train operators.

Fundamentally, these issues are linked to the need for clearer marketing of a simplified fares structure, the restrictions of which are properly communicated. Given that most passengers do plan their journeys in advance they ought to be encouraged and assisted towards buying the best-priced ticket for that journey or at least making an active choice about additional flexibility in relation to cost.

Availability of advance purchase tickets for festive periods

37. Train Operating Companies have been holding passengers to ransom during the festive season where many passengers have particularly important travel needs. Christmas is a time when many people can ill afford to pay large sums of money to travel to see family and friends, perhaps as their main annual journey. The lack of clarity and information for passengers about where and when seats are available is disappointing at this time of year. (Paragraph 114)

38. We have the distinct impression that the frequently chaotic rush for limited numbers of good value seats on departures other than the most unsocial hours is positively encouraged by train operators, perhaps because it leads passengers to buy more expensive fares than would be the case if the purchasing arrangements were more straight-forward. It is imperative that train operators provide much clearer up-to-date real-time information to passengers about the availability of different fares on individual departures in the run-up to very busy periods such as the festive season. (Paragraph 115)

The Government acknowledges that travel during public holidays can be difficult for infrequent travellers. Traditionally, public holidays have been the time when heavy maintenance or renewal is carried out on the railways, resulting in train service alterations.

However, the Government expects Network Rail to fulfil its obligation to release its timetables 12 weeks in advance so that passengers can plan their journeys and train operators can open reservations 8 or 9 weeks in advance. This applies throughout the year, but especially at times of high demand such as Easter and Christmas. Passengers can check availability online at www.nationalrail.co.uk or by calling train operators' telesales lines. Train operators have no obligation to sell unregulated cheap tickets, but it is commercially beneficial as they would otherwise lose passengers to air, coach and car. Train operators lose out as well as passengers if they are unable to sell their planned range of tickets.

Collection of due fares

39. We are concerned over the lack of commitment by train operators to the collection of fares across the network. It is vital to collect the fares that are due in order to prevent unnecessary price hikes for law-abiding passengers who do pay for their travel. The industry must look carefully at its collection and enforcement levels and make improvements as a matter of priority. (Paragraph 117)

The Government agrees with the Committee that effective revenue protection is essential. For this reason, since 2004 all new franchise agreements require the operator to monitor their ticketless travel levels on each route, and to produce and maintain a revenue protection strategy.

Automatic ticket barriers have proved one of the most effective ways to protect revenue, and in addition have been shown to significantly reduce crime and vandalism on the network. We are ensuring that automatic ticket barriers are installed at Waterloo as part of the new South West Trains franchise, Waterloo being the most important station in London still without such barriers. We expect to see control and validation infrastructure becoming increasingly important and prevalent as the railway progresses towards the opportunities offered by wider use of Smartcards.

Timetabling and the 'T-12' issue

The obligation for Network Rail to make timetables available

40. The importance of timetables being made available to passengers in a timely fashion has increased significantly with the growth in advance purchase tickets. Advance purchase tickets are sold only with a seat reservation. It is therefore essential that the timetable for the specific train and date is available at the time of booking the ticket. If the timetable is not available nine weeks ahead of departure, the passengers cannot book their tickets, and may as a result miss out on the best value fares. (Paragraph 121)

The T-12 recovery

41. Network Rail has made progress towards meeting the obligation to release timetables 12 weeks before the date of travel (T-12). This is no time, however, for the industry to rest on its laurels. The obligation is not met for six out of 28 operators, so the 'Informed Traveller' requirement is not being met in more than 20% of cases. Whether or not advance purchase fares are common on these particular routes,

passengers will be disadvantaged if travel information is not made available to them at the required nine weeks before departure so that they can plan their travel itineraries. (Paragraph 125)

42. The recovery process is clearly far from complete, and Network Rail needs to up its game. Failures to release timetables the required 12 weeks ahead of travel must become a thing of the past, not a recurring phenomenon. When we return to the issue of rail fares next year, we will expect to find that the remaining problems in this area have been resolved satisfactorily, and progress to date sustained. (Paragraph 126)

The adequacy and sustainability of the T-12 recovery

43. We have concerns about the robustness of industry performance in achieving T-12 and T-9 (that is the requirement of Network Rail to release timetables to train operators 12 weeks before departure and for train operators to release timetables to passengers nine weeks ahead of departure). We urge the Office of Rail Regulation to evaluate carefully what further action is required to shore up current performance in the delivery of timetables and to guarantee consistent future delivery. (Paragraph 130)

44. In the event of future failures to meet the T-12 and T-9 obligations we believe train operators should be obliged to offer alternative solutions at advance purchase price levels to passengers who are unable to make advance purchase bookings within the time-frame normally applied. We also believe that the industry needs to consider carefully whether the T-9 timeframe is out-of-date and booking services need to open at an earlier stage. (Paragraph 131)

The Government agrees with the Committee that achievement of T-12 is essential if passengers are to have the information they need, and to buy tickets, in sufficient time before their journey. We will continue to support the Office of Rail Regulation in monitoring and enforcing this obligation.

A decision to open reservations more than 9 weeks ahead is a commercial matter for train operators. There may be practical issues to resolve if the timetable cannot be confirmed earlier than 12 weeks ahead. Reservation for most European trains open 60 days in advance, though some trains open 90 days ahead. Uniquely, Eurostar now opens reservations 120 days ahead.

Regulatory complexity and weakness

A complex structure of regulation

45. The abolition of the Strategic Rail Authority (SRA), as recommended by our predecessors, has helped to simplify the regulatory framework for the railways. In some areas, however, notably fares and ticketing, there remains scope for confusion. This complexity is only compounded by the fact that, in competition matters, the power to make judgements and enforcement decisions is shared between the Office of Rail Regulation (ORR) and the Office of Fair Trading. Despite reassurances from the ORR, we are not convinced that a regulatory framework of this level of complexity is effective and efficient, let alone intelligible for passengers who wish to raise issues or complaints.

We urge the Government to look at the structure again, with specific reference to fares and ticketing, and to simplify the system. (Paragraph 136)

The lack of powers to control prices

46. The ability of the Office for Rail Regulation to pursue successfully exorbitant rail fares through the Competition Act is very limited. We therefore recommend that the Government review the regulation of rail fares and the definition of ‘dominant position’ within the rail sector. The Government needs to ensure that the power of the ORR to regulate exorbitant fares is meaningful. (Paragraph 141)

The consensual approach to regulation

47. It is vital that the Regulator should have the power and willingness to take effective remedial action swiftly where problems arise. Although T-12 compliance is now acceptable, the Office for Rail Regulation could have secured compliance by Network Rail more quickly through a more forceful approach to regulation. The Office for Rail Regulation must consider the efficacy of a tougher regulatory approach. (Paragraph 147)

The Government considers that the current arrangements for the regulation of railway fares and ticketing are satisfactory, and that further changes and reorganisations would not be helpful at this stage.

The changes brought about by the Railways Act 2005 were implemented in a way that retained regulation of all railway fares and ticketing matters in one place. In particular, the ‘Network Benefit’ arrangements for through tickets, telephone enquiries and conditions of carriage approved under those licences are a matter for the Secretary of State. The regulation of fares, railcards, London area multimodal ticketing and rail staff travel is also a matter for the Secretary of State, as it is implemented through franchise agreements. Penalty fares regulation is also a matter for the Secretary of State. As a result, direct day-to-day regulation of aspects of railway fares and ticketing rests with the Department for Transport as the prime funder of the rail network. The Government regulates fares where it does not believe that an effective market exists.

The ORR is responsible for the enforcement of the Competition Act 1998 and the Enterprise Act 2002. Although the powers held by ORR are limited to matters concerning services relating to railways, the Acts are applicable to all industries when enforced by the Office of Fair Trading (or an appropriate sectoral regulator with statutory concurrent powers). The ORR would be able to investigate matters where it felt that it had reasonable grounds to suspect that the Competition Act had been infringed, or to refer a market to the Competition Commission under the provisions of the Enterprise Act if it felt that it had reasonable grounds to suspect that any feature or combination of features of a market served to prevent, restrict, or distort competition.

The hand over of an outgoing franchisee to a new franchisee is legally classified as a merger. The merger control regime is operated by the Office of Fair Trading (OFT) and the Competition Commission (CC). The OFT has a statutory duty to review the competition implications of any ‘qualifying merger’ and has a duty to refer a merger for further

investigation and possible remedies to the Competition Commission if it considers that there is a significant prospect that the merger will result in a substantial lessening of competition. A new process has recently been agreed between OFT, DfT, ORR and the rail industry. Bidders for franchises will no longer have to notify OFT of their intention to merge until preferred bidders stage, previously all pre-qualified bidders had to notify. These changes have been introduced to reduce the requirement for abortive work by OFT and the bidding community. A streamlined process for information gathering has also been agreed between the OFT, CC, DfT and ORR, which will reduce the burden on the franchisee from participating in any merger inquiry relating to franchise acquisition.

Conclusions

48. The Government famously now invests £87 million per week in the railways. This level of public subsidy is given in recognition of the fact that the railways are a vital public service. The subsidy places an obligation on those who manage the railway to run it as a public service, and the railways should also be managed so that they support important economic, environmental and social objectives of the Government. (Paragraph 148)

49. Despite the unprecedented level of investment, neither passengers nor tax payers get value for money. The current system has had more than a decade to prove its worth, but in terms of value for money and user-friendliness it has proven to be an abject failure. Fares structures are chaotic and pricing absurd because they are determined by commercial considerations rather than considerations for the public good and the value for money of passengers and tax payers. This is not acceptable, and the current system is not fit for purpose. If the Government is committed to the railway, it must at the very least use regulation to ensure that passengers get value not only for their own money, but also for the subsidy contributed by the taxpayer every year. (Paragraph 149)

50. The Government has done some good work in terms of investment and the renewal of infrastructure of the railways in recent years, but it has failed to honour its obligation to passengers and tax-payers alike to ensure that the railways are affordable and user-friendly, that all passengers get good value for money when travelling by train. Although rail operators face competition from other transport modes, they usually operate as monopolies on individual rail routes. Both the Government and the industry are happy to draw parallels with the no-frills airline sector, and to see the booking systems and pricing structures of that sector take hold in the rail industry. But the railways are not like no-frills airlines, and neither should they become like airlines. Passengers use the railway for a much wider variety of journeys and situations than they would flights, and the railways are part of the country's fundamental and essential infrastructure for domestic travel. This is not a free market, and the Government must flex its muscles to ensure that passengers get a fair deal. It must ensure that a proper robust framework of regulation of fares is maintained, and there is an urgent need for the Office of Rail Regulation (ORR) to be granted better and clearer powers to pursue exorbitant or unfair pricing by train operating companies. (Paragraph 150)

51. We are astonished at the complacency and lack of strategic thinking displayed by a Government who have accepted all too readily a privatised railway which has put

revenue and profit before passengers over the past decade. The railways need strategy and strong leadership, something which only the Government can provide. The abolition of the Strategic Rail Authority and the assumption by the Government of direction over rail policy and financing was a good first step. But more needs to be done. It is imperative that the Government now wakes up to its responsibilities and starts to rectify the current vacuum by incorporating a coherent policy on fares and ticketing structures into its forthcoming White Paper on Rail. (Paragraph 151)

As discussed previously, the investment of £23bn over the last Control Period and structural reforms introduced by this Government have resulted in a railway that is safer than ever before; operates in excess of 90% reliability; and has absorbed a 42% increase in passenger numbers (on an already highly-utilised network) within the last decade.

The majority of the additional costs of this investment have largely been shouldered by the taxpayer, rather than the fare-payer.

The Government does not agree that the current system offers poor value-for-money. The comparators at paragraph 35 show rail pricing competitively against a range of travel options each of which offer a range of attractions and trade-offs, similar to those which are made at different pricing levels on rail.

This supports the Government's view that an appropriate balance is being struck between regulation and commercial initiative. Where evidence suggests a need for passenger protection, fares are regulated (this currently relates to over 40% of revenue). Where that is not the case, fares are not regulated and the Train Companies are free to set prices. In making this judgement the issue of whether or not the operators have a significant rail market share is a subsidiary measure if an effective external market exists. Given that only 6% of passenger journeys (by passenger/km) are by rail this appears to be the case, so on unregulated flows (even those many flows that are not shared between operators) rail actively competes outside its own market.

The Government does not accept that the result of this is operators focusing on revenue and profit to the detriment of passengers. In such an active market, such approaches are incompatible with commercial success. However, the Government does recognise the importance of the existence of this wider market to the success and fairness of fares policies and will continue to keep market conditions under review.

The present evidence strongly suggests that markets do exist and that operators have sought to grow revenue by making rail an attractive option. Broad support for this can be drawn from the fact that growth in revenues and passenger volumes have been broadly equivalent over the last ten years. This suggests that, far from exploiting captive markets, revenue has been derived from volume growth with yield per passenger marginally diminishing. Levels of fares (pence/km) have risen 2.4% overall whilst regulated fares have fallen 3%. The Government believes that commercial talent has a role to play in attracting people to rail, and not just public investment.

We wish to see these trends continue. For that reason we are concerned about public perception and ticketing complexity. Tackling the latter, we believe will help address the former.

In practice, and following a period of divergence, rail fares do increasingly cluster around two or three simple categories (Open; Saver; Advance, for long distance. Day single/return; Cheap Day single/return for shorter journeys). But we accept the thrust of the Committee's argument that there have not been sufficient incentives among a disaggregated industry to formalise and market this as a simple coherent structure across the network.

The Government will take action to bring this about. We believe that clarity and consistency will help slay some of the myths of rail pricing (e.g. that most cheap fares have to be booked days or weeks in advance...); will allow passengers to make better choices; and will give passengers a better perception of the value rail offers – perception which appears to be significantly driven by assumptions that the most expensive fares (which apply to fewer than 1 in 5 of all trips) are indicative of the usual experience for most people – whether turn-up-and-go, or otherwise.

The Government notes the Committee's intention to return to this important topic later next year; fares and ticketing will, of course, be an important element of the Government's rail strategy also.