



Built Environment Committee

Corrected oral evidence: *Williams-Shapps Plan for Rail: fare reform*

Tuesday 7 September 2021

11 am

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Members present: Baroness Neville-Rolfe (The Chair); Lord Berkeley; Lord Best; Lord Carrington of Fulham; Lord Grocott; Lord Haselhurst; The Earl of Lytton; Lord Moylan; Lord Stunell; Baroness Thornhill.

Evidence Session No. 2

Virtual Proceeding

Questions 13 - 18

Witnesses

I: Ian Chaplin, Senior Adviser, Omio; Anthony Smith, Chief Executive Officer, Transport Focus; Shashi Verma, Director of Strategy and Chief Technology Officer, Transport for London.

Examination of witnesses

Ian Chaplin, Anthony Smith and Shashi Verma.

Q13 **The Chair:** Good morning to you all and welcome to this public session on the *Williams-Shapps Plan for Rail*—the fare reform inquiry. We are very pleased to have with us this morning three witnesses: Ian Chaplin, Anthony Smith and Shashi Verma.

This session is being broadcast on parliamentlive.tv. A full transcript will be taken and will be made available to our witnesses to make any corrections shortly after the session. Please can Members and witnesses keep their questions and responses brief, as we have a lot to cover this morning? I will start with our first question, which is a very general one. What reforms should Great British Railways prioritise in changes to fares and ticketing? Anthony Smith, would you like to start?

Anthony Smith: Yes. Thank you very much indeed, Chair, and thank you for the opportunity to talk to the committee on this very important subject. As we come out of Covid and as rail patronage starts to recover, it is really important that the fares and ticketing system is modernised to suit the way that people are going to be travelling now. This issue has been around for ever, since British Rail's days, and solving it is not going to be easy. It is going to be painful. There are going to be winners, there are going to be losers, but in the long-term interests of the railway, passengers and the country it is crucial that this is undertaken.

We would put forward three priorities for Great British Railways to address in order to hack away at the complex, sometimes expensive and sometimes confusing way that we sell and retail rail fares at the moment. Currently, the value for money of Britain's rail fares has two huge bookends to it. At one end, it can be extremely good value for money if you get an advance purchase fare and at the other end, if you want any sort of flexibility, both in the peak and outside the peak, it can be eye-wateringly expensive to buy an open ticket.

Getting some more sense into that system through the introduction of what is called single-leg or single-journey pricing and the abolishing of the return-type fare; sorting out this split ticketing conundrum, whereby the railway will tell you, "Here's the best value fare we can offer you" and yet, if you know what to do and go to one of the split ticketing websites, you can find a much better deal if you are prepared to put up with having lots of bits of paper or tickets; and centralising some of the information about fares would be the three things that our research over the years as the independent consumer watchdog has confirmed.

The Chair: I am going to bring in Ian Chaplin now. Perhaps you could comment a little on the consumer end. Is there a risk that very cheap fares are going to disappear under the new structure, Ian?

Ian Chaplin: As per Anthony, thank you very much for the opportunity and, generally speaking, I second exactly what Anthony is saying. The principle for me is that the industry needs to start, not necessarily for the

first time, looking at these challenges through the lens of the customer. That should be the underlying, overarching principle for all the decisions being taken. That is pretty clear. I will try to keep it brief, but there is one example. It may be trite, but Amazon, which is very successful, has a spare seat for the customer at every single meeting. That is the principle that the industry needs to take now.

On the specifics, customers want predictability and fairness. They want to be able to buy tickets in an easy way, but they do not want any jargon. They want plain English. I see the term “any permitted” on tickets quite frequently. That might mean something to a railway conductor, but it means very little to customers, so plain English, again, is one of the main tenets of what we need to strive for.

On transparency and fairness of prices, the split ticket anomaly that Anthony mentioned is a huge distraction for the railway. Not only does it dilute revenue, but it dilutes customers’ confidence in the sector at large. My final point here is about consistency. All fares, whatever they may be—I am sure we will come on to talk about that—should be available at the same levels through any channel that the customer chooses as their preferred channel of purchase.

The Chair: You make a lot of pro-consumer points there, but what about this business of the cheap fare? If you are a young person and you plan in advance, you can get a very cheap fare. You have a very expensive fare if you have to go at the last minute. Is the system that you outlined, which is more predictable and fairer, likely to rid us of that benefit, which is very important to some people?

Ian Chaplin: There is a fair system that is achievable. The current system that you outline with advance purchase tickets, where you can save significant amounts by planning and buying ahead, then off-peak and anytime, is a reasonable framework for us to pursue. I do not see any need for the advance purchase opportunities to be discontinued. That has been super successful in the airline industry over the last 25 years or so. We have seen low-cost airlines proliferate at the expense of more sustainable modes. The railway needs to preserve that capability for customers to plan ahead, to buy ahead and to benefit from cheaper prices.

A longer booking horizon would also support that. That would add revenue to the industry in a much quicker and much more efficient manner, and allow customers to plan ahead and get those prices that they want.

Shashi Verma: Thank you for the invitation to speak here. I will speak only from our experience of having done similar fare reforms in London working through Transport for London. I have been responsible for fares for about 15 years, so I will speak from that experience.

It is worth reminding ourselves when we talk about fares and ticketing that no customer wakes up in the morning thinking the high point of their

day is buying a ticket. It is a hindrance to most people's lives. They need to get wherever they need to get to and it is important for the industry not to put roadblocks in the process of them having an easy life. Simplicity is absolutely key and making it simple to the point of being invisible would be a great aspiration to have.

A lot of what we see in the rail industry today is a reflection of decisions that were made back in the 1980s and 1990s, and they were about the systems and technologies that were available then. The entire system has been optimised for a world that no longer exists.

I would echo what both Anthony and Ian have said, which is that taking a consumer's point of view in all this is really important and giving them simplicity is really important, but, equally, giving them confidence that what they are buying is right and that they are not going to get hard done by after they have taken a train is critical. The number of people who feel frustrated when they have a ticket in their hand and there is a train in front of them, but they do not know whether that ticket is usable on that train, is just not acceptable. That is where we are coming from.

Although this is complicated, it is not impossible. We should recognise that it is complicated. That is one of the reasons why progress is slow, but it is not impossible. If you need an example of success here, you can just look at the reforms that have happened in London over the last 20 years.

Lord Moylan: The answers to the question, the first two in particular, tended to focus on specific problems that might be fixed in isolation from each other, but what one is looking for is whether there is a vision for where Great British Railways should be aiming to end up in its totality. Should it be something radically different from what we have? Should it be something closer to what TfL has rolled out?

Could I pick up on Shashi's point about the method of paying as well? He was indicating that payment by card, contactless and things like that are ways of removing barriers? Is there is a vision of where we want to end up? Do we need one? I am sorry; I should have asked someone to answer my question. I see Shashi on screen. Shall we start with Shashi?

Shashi Verma: Various visions have been articulated. I am not sure that there is a single clear vision yet, but various consultations have happened. The Rail Delivery Group has set out various visions for what needs to happen to ticketing and, by and large, people are roughly aligned on what needs to happen.

The broad idea that we should get to single-leg pricing is critical. The current situation where return tickets are only a little more expensive than single tickets is absurd and reflects, again, the pricing policies of the 1980s. It is easy to reform that by going to single tickets. The fact that those single tickets should reflect the time of day and the level of congestion or crowding on the railways is broadly accepted.

The idea that season tickets are no longer fit for purpose and that we should do something that reflects modern ways of working is broadly accepted. The idea that pay-as-you-go is a better-value proposition than having tie-ins where you have to buy tickets in advance and then you are tied to a particular train or a particular time of travel is also broadly accepted.

I think a broad vision is there. What is not there yet is an operable vision, so it is one thing to have the broad ideas, but it is not yet the case, as far as I can see, that, first and foremost, there is a comprehensive plan that you can look at and say, "Yes, that's a definite vision for the future", and, more importantly that there is a plan to get from here to there.

Anthony Smith: The Williams-Shapps plan rearticulates the outline of a vision. However, it needs a lot more flesh put on it by Great British Railways, once Great British Railways is set up. There is a broad agreement that simplicity and confidence—and, yes, let us have some choice, but a comprehensible choice of tickets—is the kind of vision we are working for.

In urban areas, having capped zonal fares, as we see in London, seems to work, and then between urban areas we can see that single-journey pricing would take away a lot of the split ticketing anomalies. Some of that can be done now. We can get on with bits of this. The recent introduction of flexi season tickets suits some passengers very well. They are not for everyone, but for those they benefit they are great and I understand the initial sales are quite promising.

Stuff can be done now and the technology for delivery is there to a degree as well. I do not have the up-to-date figures, but pre Covid we were getting to the point where 80% to 90% of tickets sold had a digital option available, so the delivery mechanisms to a degree are there, but there is no point having smart delivery of dumb products. You have to have a good product that you are selling through the digital means. We do not have the overall articulation yet, but a lot of the elements are there and are broadly agreed on. It is painful getting there, but we have to do it.

Lord Moylan: Before I move on to Ian, can I ask you a supplementary question relating to Lady Neville-Rolfe's question? I did not entirely hear the answers from the panel as to what you thought the impact of this would be on those, not just young people, who plan in advance. You are looking at an elderly person who is very assiduous in planning his rail journeys in advance and getting, as far as I am aware, the cheapest possible tickets. Am I going to lose out, along with all the young people? Will all of us who are wise and look forward be losing out?

Anthony Smith: I do not think so. I agree with Ian on this. The railway has a lot of capacity. Two decades of investment has produced a lot of seats on the railway that need filling. The financial pressure from the Treasury is going to be intense on the railway to raise every single pound that it can. It will want to attractively market and sell every single seat

for long-distance travel that it can. I think the cheaper tickets will exist, proliferate and become very popular, especially if you can buy them more easily as well. I do not particularly worry about the advance purchase travel.

Where there might be winners and losers is where there is some flexibility in what you want. If you cannot specify a particular train, it might be that some people are paying more and some people are paying less. As Shashi knows from, I suspect, bitter experience in London, when you reform fares there are always winners and losers. It is inevitable because you balance things. We just have to make sure that the winners are not winning too much, the losers are not losing too much and that overall it is as fair as possible.

Lord Moylan: Ian, as you answer on the question about vision and getting there, could you also pick up on this question about marginal pricing on the railways, the fact that selling spare capacity at marginal price is always going to be a factor, if you are allowed to do it, and how that plays into how the fare structure could work in such a way as to help those on lower incomes?

Ian Chaplin: Both Anthony and Shashi have, to an extent, confirmed that the vision is set out and articulated in the plan, but without much meat on the bones. That is going to be the hard work, one assumes, of the Great British Railways transition team over the coming months and years.

It seems clear that there is a desire for value for money, choice and customer-centricity. A digital world awaits us. What is quite important, which has been touched on, albeit obliquely, is that we need to ensure accessibility for all. Going headlong into a digital world is fine for the majority of the population, but not necessarily for all, so we need to bear in mind the needs of certain sectors of the community that may not want to go down that digital route just yet.

To the points you made about spare capacity, it is right and we know from history that the trains are largely full and exceeding capacity before 9 am, and similar in the evening peak, so there is a huge amount of latent capacity, let us say, between 9 am and 4 pm. How can that be filled? We know that there are going to be changing working patterns for businesspeople, so to an extent there will be an ironing out of the morning peak, especially if there are price incentives to do so.

One of the subsequent questions is about flexi season tickets and whether they are or are not a good deal. There will be some flex around commuters' habits and whether they will stray into the off-peak, thus taking up some of that slack, but the job here is really for the advance purchase ticket to drive good offers for customers at reasonable prices with reasonable booking horizons to get them on the railway and out of their cars. We all know that we are in a climate emergency and we have no choice, so we have to use commercial techniques. That is going to

mean revenue-managed prices, to a large extent, to drive customers on to these trains where we have plenty of spare capacity.

Q14 Baroness Thornhill: In a sense, you have already answered the first part of the question, “What do customers want in terms of changes to fares and ticketing?” There has been some mention of the introduction of flexi season tickets, but please feel free to add to that. In particular, I would like to pick up on Shashi’s point, which others have mentioned, about putting the flesh on the bones. How confident are you that Great British Railways will deliver on this vision, because there is a lot riding on this?

In terms of people, what I think this should be all about—which I am delighted you mentioned, Ian—is modal shift. How do we actually get people to make better choices and use their car less? That has to be part of the vision, so could you elaborate a little on what you feel has to happen to make that? In other words, we are all putting this up as a really good thing. It is going to answer all the problems. What are your caveats and concerns, and how aware are the public of this? Do they really need to be aware of Great British Railways, or will the proof of the pudding be when the changes have happened and they are all a lot happier? Perhaps Shashi wants to kick off this time.

Shashi Verma: Let me start by reflecting the journey that we have been on, because that has some distinct lessons here. First, this is not a short journey. This will take time. A lot of complicated things need to be unravelled and a new structure needs to be put in place. If it takes a decade, we should not be surprised about that, so there has to be the energy to stay with this for a decade. That is one thing.

Secondly, there has to be clarity of that vision right from the very beginning, and the vision may change over time as evidence appears from the way consumers are reacting to it, but we have to be clear that there is a vision articulated and that we are sticking to it over time.

If I look through the journey in London, for example, London was a very heavy season ticket and travelcard type of market 20 years ago. Nearly three-quarters of journeys were being made by travelcard. If you look at the market today, about 80% of our revenue comes from pay-as-you-go and, of that, two-thirds comes from contactless. The journey we have been on is to give customers the convenience of saying, “Actually, you don’t need to deal with the complexity of the system. Your job is to touch in and touch out”, and let the system work its magic.

At the heart of it, which is critical, when we started Oyster, we had something called the best-value promise. That really meant that all you do is touch in and touch out, and we guarantee that we will give you the cheapest fare on the entire system. You do not need to do anything else. Having a vision of that kind is what is required to re-establish faith in the fares and ticketing system in National Rail.

Choice is important and I do not take away from that, but alongside choice confidence is really important. Finding the mechanism, with a very simple vision and very simple technology implementation paths, that retains that degree of confidence among customers is critical.

A huge amount has happened in the world of technology, with smartcards, contactless bank cards, and so on. It is important that GBR takes advantage of these technologies. A lot of it is already happening, but it needs to be pushed really aggressively to give customers the absolute best of what is possible even today, let alone what might be possible in the future.

Baroness Thornhill: That is very clear.

Anthony Smith: There are potentially four issues to watch out for very carefully in this reform process, one of which is to preserve what is called the walk-up railway. Britain has an amazingly frequent and amazingly dense railway network, which is a fantastic attractor to get people out of their cars. During Covid, inevitably and quite properly, we have moved much more towards a reservation-only railway for longer-distance travel. The cost and convenience of railway must be preserved in allowing affordable flexibility.

You can turn up on the day, not in peak times perhaps, but out of peak times and still buy a ticket and get on a train. It might be 20 seconds before you get on the train and you have a seat reserved for you through technology or whatever, but we just need to be very careful. A reservation-only railway very much suits the operators; it does not necessarily suit the passengers quite so much. That is one thing to look out for.

Reinforcing what Shashi has said, the best-value confidence promise is good, but still allowing choice. The kinds of fares we see in London are not the sorts of fares we are ever going to see between, say, London and Birmingham. You are always going to have to opt in to the fare you are choosing. You cannot necessarily just tap in and tap out, because the price range could be from £20 to £180 or whatever, and you need to know what you are in for at the beginning. The clarity of the promise and the clarity of the purchase is very important.

Outside London, it would be great to have multimodal ticketing, so bus, train and tram in all our big cities and towns. It works in London; why would it not work in Birmingham? However, the bus market outside London is deregulated. The Government are focusing a lot of energy on the bus market outside London at the moment, which is great. It is going to take time, though, and the railways should not wait for the perfect multimodal solution everywhere. Sort the railways out. Get zonal fares on the railways and you will help a lot of people right now.

Having said all that, the key thing to do is to give the Treasury confidence that this reform will lead ultimately to passenger growth and revenue growth. At the moment, the Treasury is thinking, "This is all too scary.

It's all too difficult. This could actually lower the revenue. We don't know. The future is scary. Let's cling on to what we have". Everybody, and I hope your report can reinforce this, will just say to the Treasury, "The world has moved on".

As Shashi has said, a lot of the ticketing systems date back to the 1980s. It is quite extraordinary. It has grown like Topsy over the years because it is all too difficult. Rather like the social care discussions in a way, it needs to be addressed and we cannot shy away from it any longer. Please could you help reinforce to the Treasury that change is needed? Thank you.

Baroness Thornhill: That is fascinating.

Ian Chaplin: I am fully aligned with what has just been said. I would make a couple of other points. It is important to have a clear separation between the pay-as-you-go-type implementation for the mileage-based zonal fares and the advance purchase longer distance, where we have said it is so important to retain the flexibility for customers to buy ahead and get good value. To go to Anthony's example about London to Birmingham, that is clearly not a pay-as-you-go-type route.

It is important, as I say, to separate those, but equally it is important to be able to combine those. It is super important that customers can go from a small village near Birmingham to London without having to buy two separate tickets or without two separate transactions. While there are two forms of ticketing, it is hugely important that there is some combination between the two. There is a lot of information in the report about pay-as-you-go and the model in London. Yes, it is great, but it is great where it works and it is definitely not a one-size-fits-all approach for the whole of the UK.

Shashi Verma: When we introduced Oyster, first on the TfL network and then on the National Rail network, we did a lot of analysis of what impact it had, because that was a very major simplification of the fares and ticketing system in London. The evidence shows that ridership and revenue increased for the railways as a result of that by about 4% on the TfL network and by about 6% on the National Rail network. These are very substantial numbers. A 4% increase in revenue for a system such as TfL, just on the Tube, is over £100 million. When you look at the cost of technology, it is much smaller than that.

If you are looking at this from the Treasury's perspective or, generally speaking, from an all of public sector perspective, these are some of the best investments that anyone can make. It is hard to find anything similar, at least in the transport industry and perhaps in other industries. It is very substantial from that perspective.

The other side of this, which sometimes sounds a bit scary, is that fares reform and trying to avoid winners and losers necessarily means that the rail system is going to end up losing revenue. That has sometimes been a roadblock to progress being made. This is one of the reasons why doing

things over time is very helpful. We have made small changes in our fares system every year for as long as anyone can remember. There has never been a real tearing up of the old system and designing a new system, but by making small changes you have the ability to just keep nudging the system along without creating a big number of winners and losers, and you eventually come up with a smart, more flexible and more usable system.

Lord Best: I see online that Trainline boasts that you can save 61% on UK rail. I am just wondering whether from the consumer perspective there is an anxiety, Anthony and Ian, about the reduction in competition. Competition brings down prices. Should we be worried at being nearer to a monopoly with GBR in terms of ticket sales?

Anthony Smith: Yes, that is an excellent point. The creation of Great British Railways is probably needed in Britain's railway system. However, the franchising system that we had, for all its faults, had a degree of competition in it. It made the franchisees hungry for revenue and more passengers, which must be a good thing ultimately, because they are behaving like normal businesses. We have to watch the diminution in competition extremely carefully.

It is interesting today, because you may have seen that the new so-called open access operator from London to Edinburgh has set out its stall for its new services in October. It is going to be offering fares of £15 London to Edinburgh. That is competition; that is great. You are absolutely right: consumers generally benefit from competition and we have to make sure that Great British Railways is incentivised to stay on its toes.

Ian Chaplin: To second that, that was one of the points that I was going to make. The competition that we foresee under the GBR model is purely at the bidding for the contracts level, with a tiny element of some open access operations, as Anthony has just pointed out.

If I look to Europe, there has been some huge success in market opening, particularly in Italy. I have some great statistics for the customer benefits in Italy since high-speed competition started in 2012. Ridership on routes where there is competition has jumped by over 100%. The average price paid by customers for the same journeys has reduced by about 40%. Flights and private car use have fallen off a cliff, with obvious benefits to the environment and, importantly, from a government funding perspective, track access charges, so in our case the money paid to Network Rail, as is, have increased by €500 million.

There is some really good news behind proper open market competition. I share the concern that we may be going backwards a little—so two steps forward, three steps back. Reform is urgently needed, but the fundamental dynamics of open market competition deliver quite a lot of what, particularly, the Treasury is interested in. I am a little concerned that we may lose some of those benefits. It is unclear how open access will operate under the GBR model, because the most of revenues will not

be going to the Treasury in that respect, so it is unclear how that will actually play out.

Interestingly, it is going the opposite way to the rest of Europe. Since December 2020, Europe is in a completely different open framework, where you have separation of infrastructure and operator, and thus competition is encouraged in that respect.

Lord Best: It sounds like a potential recommendation from us. I do not know whether Shashi has any final thoughts.

Shashi Verma: Competition is not my area of expertise. What I can say is that the simplification and confidence that we have provided in London are the key to winning customers' confidence.

Lord Haselhurst: Does the experience that Shashi has just mentioned lead to a sensible conclusion that we could have a uniform mechanism or system for buying tickets across the country? Is that realistic or would it be too expensive?

Shashi Verma: My take on that is that, back in the mid-1980s when the current generation of paper magnetic stripe tickets was introduced, that was one occasion where the entire country ended up with something that looked like a uniform ticketing system. With the multiplicity of technologies available today, I find it very difficult to conceive of a system where a single technology would cover every aspect of ticketing. Nevertheless, if you end up with multiple systems, the important thing is that it remains seamless.

The vision that is being concocted now is that, in urban areas, such as London or the other major cities in the UK, you can end up with what we call islands, which are areas of pay-as-you-go acceptance where travel is really easy, with touch in and touch out, and the system computes the right fare. Between pay-as-you-go islands are what we might call bridges, where some advance action is needed to buy a ticket before you board a train, but keeping it simple, including by using the same mechanisms, such as a contactless card that stores your ticket that then allows you travel on the train, would be the right thing to do.

There are ways in which a single contactless card could be used across the entire country in an urban area as a pay-as-you-go product and in interurban areas as a mechanism by which you can demonstrate that you have prebought a ticket. There is a need to keep the technology simple as well and not burden customers with the idea of having to use multiple technologies, but the sort of simplicity that was brought by the paper tickets in the 1980s is probably not conceivable, because individual technologies offer such great advantages in different parts of the market now.

Anthony Smith: Shashi's analysis of that is absolutely spot on. Get the market right for London, Birmingham, Edinburgh, Glasgow or whatever. Get the travel within those major conurbations right, and it may well be

the same sort of system, but perhaps called something different. Then get the links between those major conurbations sorted out in a slightly different way.

The notion that you will have a countrywide system is a slight false promise. It is not really how the markets work. You need to tailor the product to the markets that you are trying to serve and trying to grow. That can be done, but it may be called something different. It might be called Walrus in Glasgow and Oyster in London, or whatever, but it does not matter. To the customer, it should just be simple and comprehensible, so they know what they have bought or what the cap is on what they are buying.

Lord Haselhurst: Would there be any scope to encourage people back on to the railway if there was something like a rail miles scheme, such as the airlines have with air miles?

Anthony Smith: Any scheme that rewards loyalty or prepurchase is a good thing, because it keeps customers, it keeps customers in touch and it gives you their email addresses. The great prize in a lot of these debates is getting hold of the personal information of people, so that you can market to them more. The odd thing about the railways at the moment is that they do not know who a lot of their customers are. They do not have their email addresses. It is really strange. The more you can encourage loyalty and engagement, the more you can sell to people, so I am all in favour of loyalty schemes, yes.

Q15 **Lord Berkeley:** My battery may go flat at any time, but I would like to ask all three witnesses about delivering this contactless technology. You see people get very frustrated at any type of barrier, even the ones in London. I read a few years ago about an idea that, when you got on to a train through the door, it automatically debited you a ticket, which is another interesting way. Whether that is a regional, local or intercity thing, I do not know, but it is pretty important that people get simplicity as well as accessibility, making sure, as Shashi said, that they are all getting the best deal. What is the future for technology in this regard? Ian, do you want to start?

Ian Chaplin: I am no technology expert, but, if you look at the solutions in place today, most of the major stations are gated and, yes, they are not ideal from a customer perspective, particularly at busy times. You have what an old colleague of mine called the fumble factor, which makes customers actually quite anxious, as well as the people queuing up behind them. It is not an ideal solution, but it works today for the little orange ticket and it works for contactless. You probably have slightly different software for scanning a barcode, but the same hardware.

Where I live, here in the south-east, my journey into London could easily be "Oystered" or made pay-as-you-go. The easy way to do that is to implement not the gates, but the TfL-type little yellow readers where you tap in and tap out, with either your Oyster card or your payment card. In my slightly uninformed view of technology, the implementation of

multiple readers across all the pay-as-you-go networks is eminently feasible and practical. To your point about entering the train, I heard about a trial, perhaps in Germany, where they were using some form of smart technology to do exactly as you describe.

Something I was shocked to hear once about the UK rail industry is that there is no easy mechanism of counting how many people there are on a given train. It is actually done by weight, I believe, at the moment, which is to an extent a little dated as an approach. I am sure there are emerging technologies that can really solve this for us in a much smarter and more efficient way, but there seems to be existing tech that can allow us to roll this out pretty quickly.

Lord Berkeley: Anthony, is that your view? We are the second most obese country in the world, which may mean that weight is not that suitable a measure, but it feels rather easy.

Anthony Smith: Ian is absolutely right. In urban areas—Shashi has blazed a trail on this, brilliantly, I might say, over the last decade—we went from paying with cash to the Oyster card to the contactless world we are now in. The pain is removed. You have caps. People trust the system and they have confidence. It drives up revenue and ridership. It is fantastic. So that technology is all there. On longer distance, where you need to have agreed in advance how much you are going to pay, because it can be so variable, it is slightly different.

Shashi, I remember years ago going to see Cubic, one of your suppliers. It had an arch that could recognise you from your bank card as you walked through. That was six or seven years ago. I understand that HS2, which I know creates some strong comment from some committee Members, is looking at doing this. HS2 perhaps provides a fantastic catalyst to leap ahead on this and modernise, because surely we are not going to be selling paper tickets on HS2, are we?

Lord Berkeley: Hang on a second, Anthony. HS2 is 20 years away, but the Government have recently refused Transport for the North funding to have a system similar to TfL's in the north. Shashi, are you worried about that? It seems to me that, if they had that, it would do them an awful lot of good in growing the number of passengers.

Shashi Verma: Lord Berkeley, Anthony just mentioned that we have blazed a trail on contactless and we feel very proud of what we have achieved in London. That is technology that is available today for the entire country and we should not wait for 20 years to bring the benefit of contactless to the rest of the country. That has been our firm view for quite some time.

I should say that delivering something like Oyster and contactless is not easy. We make it look easy because it is designed to look easy to the customer, but what goes on behind the scenes is not visible to customers and you do not realise the degree of complexity that we take back into our organisation to make sure that we can give a very simple service to

customers. There are many people around the world who have tried implementing contactless and either not got it right or indeed got it very badly wrong by not recognising the complexity. This is a lesson that I give to everyone.

At the heart of it, the point is that the technology is available today. It is very clear that in an urban environment the Oyster and contactless kind of technology works very nicely. Along with fares reform, it makes for a really powerful combination for giving customers the simplicity that they need. We should be making progress on this today and not wait for HS2.

When we are designing payment systems, it is important to make sure that consent and privacy are taken into account. We should not be taking money from people without their knowledge or without the trust that I have talked about so much. Equally, it is important not to have very high systems of privacy where biometric data is being exposed repeatedly, because the more it is exposed, the more danger there is that it will get compromised. We are not trying to do something here that requires a very high degree of identity, so it is important to keep the system as lightweight as possible as well. We have achieved that balance with contactless cards in London.

Q16 Lord Grocott: It has been a very interesting session so far, overwhelmingly from the point of view of the customer or the person buying the ticket, which I support, but the other side of that coin is that the supplier needs to have the income to run the railway. I just wonder what information our experts can give us from other countries as to the basic dilemma at the back of all this—the macro dilemma, if you like—which is the balance of expenditure that is provided by the farepayer or by the taxpayer and how this varies across various European countries. We can go further afield, if you like.

The spectrum is anything from providing a “free” railway where you just get on the train and off you go, and you do not have to pay anything but the taxpayer does, and the other end—I do not like using words like “free market”—where the cost is entirely down to the farepayer. What evidence do we have on what other countries do?

Shashi Verma: The evidence is very clear. Britain has one of the highest shares of the cost of transport being paid for by the farepayer. Other countries support the transport system by taxation in various forms to a much larger extent than we do here. At the heart of it, whether the Government choose to put the burden of transport on farepayers or taxpayers is entirely a public policy choice.

As we have seen through the pandemic, it exposes the public transport system much more to shocks. If you rely for all your revenue upon farepayers, in a pandemic-like situation the revenue evaporates completely. If, on the other side, it is coming from taxation, the fact that there are fewer riders in the system does not make all that much of a difference. There is no right or wrong answer as to what is the right level

of balance between farepayers and taxpayers. It is purely a public policy choice and a public finance choice.

Lord Grocott: It matters enormously in terms of how good a railway is delivered. That is something that experts can presumably give advice on. It seems to me, on a purely individual basis, that there are some in Europe, the Swiss particularly, who seem to run a phenomenal railway system. Is there any correlation between the income, as between farepayer and taxpayer, and the quality of the railway and of the service the customer receives?

Anthony Smith: Pre Covid, we published a very large passenger survey two times a year called the National Rail Passenger Survey. We are bringing that back post Covid in a slightly different form. It is extremely difficult to get comparative data on satisfaction levels in different European countries, because it is measured in different ways and state railways tend to be slightly secretive about some of their figures. There is a huge amount of data about Britain's railway. It is a really great thing about Britain's railway; it is very open in terms of its data.

It is worth remembering that, pre Covid, Britain had a booming railway with £10 billion a year coming in from passengers through the fare box. You might argue that some of the fares had reached peak levels, including the commuter fares and flexible fares. They could not go up any more. But what we want is a railway that is incentivised strongly to get more passengers back, to get more revenue in and to keep the value for money scores as high as you can get them for the different ticket types. Political decisions aside, the Treasury is going to be looking to recover some of the vast amounts of money it has pumped into the railway over the last 18 months to keep the railways properly going.

Ian Chaplin: It feels like there is an annual event when the fare rises are announced in August, which is the RPI plus X percent for the next year, and lots of commentators say, "I wish we could have the prices of France or Germany". That happens every year, but, as has been pointed out, the subsidy approach in these markets is completely different. The taxpayer is paying a much larger proportion of the fare compared with in the UK. Shashi is right: this is a public policy choice.

As I mentioned earlier, Europe is taking the opposite direction now. It is separating infrastructure and operator, so it is to an extent expecting more private investment to drive innovation and passenger growth in order to meet climate goals, but any surge in passenger numbers in Europe from private operators is going to be good news for the European Governments, in terms of less subsidy being required.

It is an interesting model, as we pointed out earlier, that GBR and the UK Government are adopting. A lack of competition is understandable under the model that has been proposed, but I fear that there may be some funding challenges ahead of us.

Someone mentioned earlier, I think it was Lord Berkeley, that only 76% of revenue is predicted to return to South Western Railway post Covid. That takes a quarter—in normal times £2.5 billion—off the total income of the rail industry. South Western Railway may be a special case because it is commuter-centric, but taking such a huge figure out of the railway finances is inevitably going to cause a problem. How are we going to address that?

I am not clear what the setup is of the railway's financing, what is fixed and what is marginal cost. I am not sure. I am imagining that the vast majority are fixed costs, so when you have a reduction in passengers you see the hit straightaway. That is just a gentle note of caution about the lack of competition and the approach that GBR is taking. I am not sure that we will be immune to any further reductions in passengers.

Q17 The Earl of Lytton: This has been a very interesting session indeed and thanks to all our witnesses. Ian, earlier you said we are going in the opposite direction to Europe. I was not absolutely sure whether you meant in terms of the farepayer-taxpayer balance—or subsidy, if you like—or whether you were referring to the reform of the ticketing that you mention has happened in Italy. Could you be a bit more specific? What I would really like to hear from the other witnesses is how can we actually make our system, given where we are looking at it from now, better than all the rest, not just as good as, and maintain that position?

I say that because traditionally the UK has had an enormous amount of tourist pull and no doubt that will come back in due course, once issues to do with Covid have been sorted. Getting this sort of infrastructure in place seems to me utterly mission critical to that bit of the economy, so making it better than all the rest and it being seen internationally to be better than all the rest seems to me to be something we should aspire to. If I could turn to Ian, first of all, about why we are going in the opposition direction to Europe, and then the rest of you on how we make it better than all the rest, that would be really great.

Ian Chaplin: To clarify, what has been happening in Europe over the past 15 to 20 years is a series of legislative packages to essentially break up the historic national monopolies of Deutsche Bahn, SNCF, et cetera. The European Commission is clear that a competitive market in rail will drive innovation and will drive passenger numbers up. These have been hard-won battles between the Commission and the national Governments, who are very protective over their own railways, particularly France and Germany, and perhaps understandably so.

As of December 2020, the fourth railway package within Europe, which the UK is now exempt from, essentially means that domestic competition is available, so that any operator can run a train service in competition with SNCF between, say, Paris and Bordeaux and on the same terms. They would apply to the state regulator and the infrastructure manager for paths to run on those tracks, and pay for the use of the infrastructure.

We have already seen this happen in Italy, as I mentioned, in 2012, and we are seeing the benefits from that. We have already a new competitor to the incumbent in Spain, which is actually SNCF. The French railway is competing with the Spanish railway, so there is quite an interesting landscape at the moment. Essentially, what I am saying is that Europe is opening up to multiple operators competing, a little like low-cost air.

If you plan a journey from London to Edinburgh, you will get multiple operators and multiple air carriers giving you that service. This is the model that Europe is aspiring to for the rail sector, whereas in the UK we are going in the opposite direction. We will have one operator. The customer will not have any choice, aside from perhaps some light open access intervention. That might provide clarity to customers—"Yes, I know it is Great British Railways running my trains"—but is there going to be the incentive for GBR to be the best it can in order to drive customer numbers and to drive modal shift? That is really the point I was trying to make.

Anthony Smith: It is a very good question. Our research and all our daily experiences indicate that the way that the railway pleases its current passengers and attracts future passengers is essentially by offering a reliable, value-for-money service. That reliability is key because you want to depend on the railway.

In terms of making it the best in Europe or indeed the world, there are different markets here. The commuter market is very different from the long-distance leisure or business market and commuters, understandably, are institutionally unhappy. They are probably going to work. They are probably paying a lot of money for it. It is not a situation that is going to necessarily make you very happy when you are getting up in the morning. The focus on the longer-distance markets, through Great British Railways either allowing competition from private operators or incentivising the people who run the future concessions to keep, attract and boost the value for money of those operations, is key.

It is interesting looking across our surveys at the passenger scores. The highest longer-distance scores we see are on the open access operators: Grand Central and Hull Trains. That is because it is largely a leisure market; there is probably big element of choice and a big element of going somewhere nice. Even so, Virgin as was, Avanti as is now and LNER get reasonably good scores on the long-distance market, so it can be done through concessions. As a consumerist at heart, I prefer competition, personally.

Q18 **The Chair:** Could I ask about the aggregators? We have had Trainline and presumably others, which sell quite a lot of tickets and provide for a slightly different consumer market. Do you think they have a future under the Great British Railways model?

Anthony Smith: I hope so. The Williams-Shapps plan says that there will be one website that will sell all tickets. Whether that is run by Great British Railways or whether it is outsourced is an interesting point, but

you do not want to lose that commercial private sector expertise that Trainline has brought in. It has been brilliant. It has innovated. It has invested. It has brought people on to the railways. Who wants to lose that? You want great retailers.

Ian Chaplin: It is clear in my mind that a vibrant and open market for the sale of tickets is fundamental. If we do not have proper competition on the tracks, let us have competition for the sale of tickets. Let us make it a market in itself. To do that, yes, you need to ensure that there is a viable sharing of data, which the UK is pretty good at, but we need to make sure there is a viable commercial framework under which third-party retailers can operate.

Definitely, there is a place for third-party retailers in the future world. I am not clear as to how that is being considered yet by GBR. For me, as I am associated with a retailer, I would say that, but it does provide additional choice for customers. As Anthony said, Trainline, for example, has innovated extremely well over the past 15 to 20 years and it has driven ridership. That is pretty clear.

This is one of the vagaries of the UK rail market. Some mentioned earlier Trainline's promise of saving you 61% on your ticket. It is actually not a unique promise to Trainline. One of the principles of the retail market in the UK is that every channel has to sell all the fares for all the operators, so that 61% is valid pretty much at every channel, every ticket desk or whatever it is, but Trainline has effectively brought that to life for customers and other third-party retailers. For me, it is crucial that the retail market plays a role in the future.

The Chair: That is an interesting note to end on, because we will be taking evidence from GBR and, indeed, from the Rail Minister shortly. I am afraid our time is up. As everybody has already said, it has been a really interesting session. Thank you for giving us such open and helpful replies. Please feel free to write in with further thoughts sooner rather than later, because this is a short-term, speedy inquiry and we will be hoping to produce a report in October. Thank you very much indeed. That ends today's session.