



Department
for Transport

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Baroness Neville-Rolfe DBE CMG
Chair,
House of Lords Built Environment Committee
House of Lords
London
SW1A 0PW

13 December 2021

Dear Baroness Neville-Rolfe,

I am grateful for your letter of 5 November on behalf of the Committee, presenting its recommendations for fares reform following its inquiry into fares reform in the Williams-Shapps Plan for Rail. As you are aware fares reform is a core part of the William-Shapps plan for rail and the Government is backing this with the £360 million investment in fares, ticketing and retail announced in the Spending Review, that will completely transform the customer experience. I set out some of the detail of these plans in the Government's response to your recommendations in the annex below.

I appreciate you taking the time to gather evidence from a range of stakeholders to inform the objectives which you detail in your letter.

Yours sincerely,

Chris Heaton-Harris MP

Minister of State for Transport

Lords Built Environment Committee
Inquiry: Williams-Shapps Plan for Rail – Fare Reform
Government Response

Preface

The Government welcomes the letter from the House of Lords Built Environment Committee from 5 November, following our evidence to their enquiry into the Government's proposed reforms of rail fares and ticketing, and how these reforms affect consumers.

We agree with the Committee's points on Great British Railways (GBR) developing a vision for a simpler and modernised rail fare structure. We also agree that this will contribute towards greater public trust in the system. As we start to recover from the pandemic and support our decarbonisation goals, we have:

- Launched fares trials of Single Leg Pricing on LNER in 2020 to test new approaches for this simplified rail structure which have created greater flexibility for the customer and help rail increase its modal share;
- Rolled out flexible season tickets to support commuters return to rail;
- Provided £360 million for a programme of reform.

Over the coming years we will use this funding to deliver a programme of reform to the customer experience of fares, ticketing and retailing, including:

- Expansion of contactless pay-as-you-go ticketing on rail to more than 200 stations in the South-East, delivering the 2019 Conservative manifesto commitment;
- Rolling out of contactless pay-as-you-go ticketing on rail to more than 700 stations in other urban areas across the country, including more than 400 stations in the North;
- Digital ticketing roll out across the whole rail network;
- A new integrated industry retail website and app to supersede existing separate train company websites and apps;
- Replacement or upgrade of 80 per cent of existing ticket vending machines to bring them up to modern standards.

But there is still more for us to do. We understand concerns surrounding the rail fares system, its complexity and the impact this may have on passengers. The Williams-Shapps plan for rail will create a new industry framework that can deliver an improved fares structure across the rail network by:

- Unlocking reform to the regulatory framework;

- Removing perverse incentives that create complexity and act as a barrier to change;
- Allowing GBR to take a network-wide view, addressing anomalies created by separating out pricing responsibilities to numerous Train Operating Companies.

Recommendation 1 (paragraph 10): We recommend that the Government should develop a vision for a simpler rail fare structure and start to implement it before GBR is introduced in 2023.

The Government partially agrees with this recommendation.

We understand concerns surrounding the rail fares system, its complexity and the impact this may have on passengers. One of GBR's key priorities will be to simplify the current confusing mass of tickets, including by simplifying fares. GBR will own the customer proposition whilst running the network in the public interest.

Government will hold GBR to account and is already investing to bring about change. The Williams-Shapps Plan for Rail proposes the biggest shake-up of the railways in three decades and the Department is working hard to help make the rail fare structure simpler. With flexi season tickets and a trial of single leg pricing on LNER already delivered, and now an additional £360 million for ticketing reform, we are delivering on the promises set out in the Plan for Rail.

These investments are essential enablers of a simpler fare structure and will give GBR a head start. A transparent and predictable fares structure is a crucial prerequisite for successful pay-as-you-go schemes and a transparent fares structure makes online retailing more effective. A more flexible customer focused system will allow GBR to more easily bring forward reform to fares structures.

Recommendation 2 (paragraph 11): Our evidence suggests that introducing three simplified fare categories under the 'anytime, off-peak and advance' categories would offer consumers clarity. There should be greater consistency as to when the off-peak window begins and ends across the network.

The Government partially agrees with this recommendation.

We agree with the principle of a simplified and transparent fares structure. Fairness, transparency and simplicity were key findings of our passenger research into rail fares, that helped inform the outcomes of the plan for rail. It will be for GBR to determine the best way to achieve this.

Recommendation 3 (paragraph 12): As part of the Government's plan, it should be clear what the early wins for GBR will be, to build public trust and stimulate a modal shift to encourage passengers to use rail services.

The Government agrees with this recommendation.

The Government will set GBR's priorities and hold GBR to account to develop and deliver plans to achieve these, and we agree that building trust and attracting passengers are key priorities, alongside others such as financial sustainability. The programme of Fares, Ticketing and Retail reform will be progressed by the GBR Transitional Team over the next three to four years, demonstrating the Government's commitment to delivering early wins as soon as possible.

Recommendation 4 (paragraph 16): The Government must develop plans to ensure that contactless payment options are available at all stations across the national rail network before the introduction of GBR in 2023.

The Government partially agrees with this recommendation.

We have already committed to investing £360 million to reform and improve passengers' experience of fares, ticketing, and retailing on the railways.

This will see contactless tap-in and tap-out ticketing at more than 700 stations across the country outside London and the South East, benefitting more than 400 stations across the North. The Government will roll out contactless pay-as-you-go ticketing across the commuter networks of the Midlands and North.

Government is committed to rolling out convenient and modern digital ticketing across the whole rail network, improving thousands of daily commutes, simplifying journeys and ensuring passengers are charged the best price.

Pay-as-you-go ticketing is most suitable for busy, suburban networks with high volumes of shorter journeys. For medium and longer distance journeys, we will complete the roll-out of digital ticketing across the network, to allow customers to buy tickets in advance online, from home or on the go, with the flexibility to either print their tickets at home or show the ticket on a mobile phone. This will create a better customer experience overall as we move passengers towards smarter ticketing and a better customer experience.

Recommendation 5 (paragraph 20): Technology should be introduced to integrate contactless payments with other forms of ticketing for longer journeys, so that consumers do not need multiple tickets for a single journey.

The Government agrees with this recommendation.

We agree that consumers should not need multiple tickets for a single journey. With contactless pay-as-you-go ticketing being rolled out in urban areas across the country and digital (barcode) tickets rolled out across the network, passengers will have a convenient ticketing option whether their journey is short or long-distance. This ‘islands and bridges’ model, coupled with clear passenger communications, means that passengers will know what ticketing options apply for their end-to-end journey. In the future there may be further opportunities to bring together passengers’ pay-as-you-go and longer distance journeys into a single online account.

Recommendation 6 (paragraph 21): Wi-Fi, phone and data connectivity on rail services should be improved so that passengers can work remotely while they travel, make uninterrupted phone calls and buy tickets on-the-go.

The Government agrees with this recommendation.

The Williams-Shapps Plan for Rail highlights the inconsistent mobile connectivity passengers receive while travelling on the railway, and highlighted the railway’s need to modernise if it is to meet passenger demands for mobile connectivity. Section 48 of the Plan for Rail commits to partnerships with the private sector to improve connectivity on the rail network and upgrade associated digital infrastructure.

This collaborative approach has already begun to be adopted; for example, Network Rail awarded the Brighton Mainline Concession to Cellnex in March 2021. This arrangement has the potential to provide uninterrupted cellular internet and mobile voice call services across 51 miles of railway from London to Brighton, including tunnels and cuttings. This is a model we are looking at closely to draw lessons learnt for future projects, with the aim of improving the experience for passengers.

Network Rail is also progressing the Project Reach initiative which is seeking private sector investment to modernise rail telecoms infrastructure.

The Department is making progress in understanding the technical barriers of a connected rail corridor. Research undertaken to look at the negative effect that train carriage walls have on signal has recently been published by the Department, and additional research evaluating characteristics of different

tunnels, how they block signals and what technical solutions could be implemented to extend mobile signal into tunnels, is expected to be published early next year.

Recommendation 7 (paragraph 27): The Government should prioritise ticket digitisation. Infrastructure upgrades should take place at remaining ticket gates across the network. Fares displays on ticket vending machines should be simplified. Access to paper tickets should continue to be provided for those unable to use smart technologies.

The Government agrees with this recommendation.

Our £360 million investment announced at Spending Review is intended to deliver this.

As modern ticketing and payment methods roll out more widely, operators will enable more station staff to serve customers directly, rather than routinely behind a counter or window. They will welcome passengers who cannot use contactless or mobile tickets, helping them to buy tickets or access other services.

We do want to increase the usage of smart ticketing, which will naturally lead to fewer paper tickets being sold. We also wish to shift those remaining paper tickets away from magstripe technology, towards printed barcode tickets. However, we will consider withdrawing paper magstripe tickets only when we are satisfied that all rail users can continue to purchase train tickets as readily as they can do today.

Recommendation 8 (paragraph 35): We have heard that a single-leg fare structure could deliver better value for customers who wish to make a single journey on shorter distance routes and could facilitate the expansion of contactless payments. While single-leg pricing may not be appropriate for longer-distance routes, the Government should consider options for implementing single-leg ticketing on shorter routes and in commuter areas.

The Government agrees with this recommendation.

The role of determining the fares structure will be a responsibility for GBR.

In the meantime, we continue to push forward with trials to facilitate the ambition of the Williams-Shapps Plan for Rail for simpler fares, including single leg pricing. Single leg pricing is the sale of tickets on a per journey basis that allows customers to choose the most appropriate ticket for each leg of their journey, whilst return tickets are withdrawn from sale to allow for

better value and flexibility for consumers. A trial of single leg pricing on LNER has been well received by passenger interest groups.

Recommendation 9 (paragraph 38): The Government should consider how to increase the use of advance tickets for longer journeys, which could help increase non-peak revenues. To achieve this, the Government should adopt dynamic pricing for those able to plan in advance, as used in the airline industry. It should also consider extending the booking window for advance purchase tickets.

The Government partially agrees with this recommendation.

The Department will continue to work closely with industry on initiatives to support demand and revenue recovery. ‘Dynamic’ or ‘demand-based’ pricing allows passengers to take advantage of cheaper tickets when demand for services is low, and allows operators to more efficiently optimise their revenue and smooth demand over the course of the day. As services become busier, some prices will increase up to a maximum when the train reaches peak capacity. This approach is already commonplace on the long-distance rail network. Alongside this, we are clear that we will protect an affordable walk-up option for passengers unable to book in advance.

Following measures put in place during the pandemic, the industry has been able to return to publishing ticket information earlier than in the early months of the pandemic, and passengers can now book tickets approximately six weeks in advance of their intended travel date. The Rail Delivery Group is also working with Network Rail on improving the ticket booking process, to allow passengers to book tickets up to 12 weeks in advance, even if the timetable has not been confirmed. A pilot for this project will go live in the first half of 2022. These measures should increase the use of Advance tickets, as the committee suggests.

Recommendation 10 (paragraph 43): The Government should consider how to address the problem of split ticketing, which we have heard undermines trust in the system.

The Government partially agrees with this recommendation.

We recognise that through-fares may not always be the cheapest option and that buying a combination of intermediate fares (‘split ticketing’) may offer a cheaper journey. Fare structures balance a range of factors, including how to optimise revenues to minimise subsidy, however, split ticketing can result in passengers being presented with and paying different prices, contributing to the erosion of passenger trust.

The Government will set GBR’s priorities and hold GBR to account to develop and deliver plans to achieve these, and we agree that building trust and

attracting passengers are key priorities alongside others such as financial sustainability. It will be for GBR to determine and recommend how best to achieve these outcomes.

Recommendation 11 (paragraph 50): The current flexi season ticket provision is not satisfactory. The Government should consider ways of improving the flexi season ticket so that it can attract more customers. We recommend that improvements are implemented before the end of the year, so that commuters can plan their work and travel patterns.

The Government does not agree that the current flexible season ticket provision is unsatisfactory, or that changes should be made to the passenger offer without fully assessing the impact of the new products.

Independent research conducted by Transport Focus and published on 3 November, indicates that flexible season tickets have been well received among commuters on its Transport User Panel. More than one in three passengers surveyed that expected to commute two or three days per week said they would use the flexi season at least to some extent. The Department will conduct a 12-month review of the flexible season tickets to evaluate their impact. We expect the review to report in the summer of 2022.

Recommendation 12 (paragraph 55): There is an important role for a diverse range of ticketing retailers, which can help encourage innovation. The Government must ensure that all retailers, including GBR, operate on fair commercial terms and this should be agreed before the introduction of GBR in 2023.

The Government agrees with this recommendation.

The Williams-Shapps Plan for Rail was clear that Government continues to see a role for independent retailers, and values third party retailing – particularly in helping to improve the quality of online purchase and in growing new markets.

The priority should be to promote efficiency and drive innovation, and we support competition where it helps achieve these objectives. The Government, together with the Office of Rail and Road and Transport Focus, will hold GBR to account to ensure that consumer outcomes are protected, and innovation encouraged.

Recommendation 13 (paragraph 59): The Government should clarify the interaction between GBR and open access operators on fares. This needs to be agreed before the creation of GBR, that is by 2023.

The Government agrees with this recommendation.

As we move to the new industry structure, the Government will consider how open access operators interact with GBR in setting and presenting fares. In doing this the Government will engage closely with the industry, considering the needs of all relevant parties.

Recommendation 14 (paragraph 64): The Government should announce regulated rail fare increases as a matter of urgency, so that passengers can make travel plans ahead of the fare increases in January 2022.

The Government agrees with this recommendation.

Changes to national rail fares for 2022 will be announced in due course.

Recommendation 15 (paragraph 65): The Government should be clear about when it will meet its ambition to replace RPI with CPI as the basis to calculate fare rises.

We recognise many of the arguments made to justify changing the measure of inflation used and will continue to keep our policy under review.

However, this will require a robust assessment and balancing the potential impacts on passengers, taxpayers and the railway.