

BRIEFING NOTE FOR MAYOR

PROPOSAL FOR JANUARY 2015 FARES

29 OCTOBER 2014

1. PURPOSE

- 1.1. This paper contains proposals for fares changes in January 2015. The Mayor is asked to APPROVE these changes.

2. INTRODUCTION

- 2.1. The Mayor has already announced, following a similar announcement by the Chancellor, that TfL's fares will increase by RPI rather than RPI+1 per cent as previously assumed in TfL's Business Plan. For the purposes of fares changes the July RPI is used as the benchmark, which this year was 2.5 per cent.
- 2.2. Travelcard fares are set jointly by the Mayor and the train operators, who work within fares regulation set by the Department for Transport (DfT). This year the conditions set by the DfT require that each regulated fares increase by no more than RPI. The DfT's conditions provide a way forward to determine Travelcard fares, which in practice end up rising by 2.3 percent, less than RPI. See Table 1 at Appendix 1 for proposed Travelcard fares.
- 2.3. With bus fares delivering the targeted increase is somewhat more challenging as there are only three bus specific fares. Accordingly, the proposal is for the bus pay as you go single to increase by 5p to £1.50 and for the Bus and Tram weekly season ticket to increase by 80p to £21.00. The bus daily cap, which applies to pay as you go fares is proposed to be frozen at £4.40. Freezing the daily cap on buses helps move towards a solution for part time workers as discussed below. Overall bus fares are proposed to increase by 2.3 percent, below RPI.
- 2.4. Separately, the Mayor has committed to providing a more equitable solution for part time workers. This paper presents options for addressing the needs of part time workers and provides a recommendation on the way forward.



3. BACKGROUND

- 3.1. Travel costs for people who use the system frequently are perceived to be lower. This perception is, by and large, correct as pricing policies have historically favoured season tickets over single journey tickets. There are many reasons for following policies of this kind of which the two primary ones are: a) a desire to provide an attractive price for those reliant on the public transport system for nearly all their transport, and, b) the relative ease of retailing season tickets compared to single ride tickets.
- 3.2. As a result, the ratio between weekly tickets and single journey tickets was as low as six only 15 years ago. For a full time worker making 10 trips a week to and from work, this means that there was a significant discount for weekly ticket over the single journey fare. The ratio between weekly, monthly and annual tickets is also set by formulae that have not changed since these tickets were standardised decades ago. Monthly tickets are set at 3.84 times weeklies, or at about 27 days and annuals are set at 40 times weeklies. Longer dated season tickets therefore only compound the discount over the single journey fare.
- 3.3. Both the weekly and longer dated season tickets appeal only to those who are able to make full use of it, i.e., those who work enough days in a week and enough weeks in a year. This probably does not include part time workers.
- 3.4. It is this discount in fares that is now being questioned. With 22 per cent of Londoners working part time, there is a need to have a system of fares that is fair to everyone. This debate has crystallised into a debate for a new "part time. Travelcard".

4. WHAT HAS BEEN DONE TO CORRECT THIS SITUATION THUS FAR

- 4.1. The introduction of Oyster pay as you go fundamentally reduced the difficulty in retailing and provided an opportunity for restructuring fares. In the last decade there has been a steady change in the ratio between weekly and single journey tickets. In 2002, before the introduction of Oyster pay as you go, the ratio used to be between six and eight, i.e., you would need to buy between six and eight single tickets to make up the price of a weekly ticket. That meant that someone travelling three or four days a week on the Tube alone would have found it cheaper to buy a weekly Travelcard. With the changes that have happened over the last decade, the ratio between weekly and peak single journey Tube fares is typically about 11 (you can make 11 single trips before it would be cheaper to buy a weekly) and with off peak fares this figure is between 14 and 19. For example, the zone 1-2 fares are £2.80 peak, £2.20 off-peak and £31.40 for a weekly.



- 4.2. This means that there is no incentive for those making just 10 trips a week to buy a weekly Travelcard. In effect, the situation has already been corrected for those using only the Tube. A similar situation exists for those using only buses.
- 4.3. There is a remaining problem with those people who use national rail only or a combination of modes to travel to work. For those using national rail only the ratio between weeklies and singles is typically around nine, providing a small discount for full time workers. For those using both national rail and Tube, the ratio is typically about eight, enhancing the discount.
- 4.4. A much bigger issue exists with those using bus and Tube or rail. For these customers there is no through fare so the fare for each mode has to be added to provide the total cost. The limit to the cost comes only from the daily cap. This makes the ratio between the weekly Travelcard prices and the daily cap relevant.
- 4.5. The ratio between the weekly and daily peak caps is typically less than four. This means that for those travelling only three days a week it is still more expensive than a pro rata share of weekly travel. For example, the all day cap for zones 1-2 is £8.40, just a small discount over the uncapped cost of £8.50 for someone travelling on both Tube and Bus to get to work. Over three days this equates to £25.20, with the cost of the fourth day only £6.20 before it becomes better to buy a weekly Travelcard.

5. POSSIBLE SOLUTIONS

- 5.1. There are four possible ways forward to resolve this issue in relation to the ratio between daily caps and weekly tickets:
 1. Do nothing and let the situation remain as it is: This option is clearly not recommended and would be against the Mayor's commitment to resolve the situation. This option is not discussed any further
 2. Create new products for part time workers
 3. Freeze the daily caps and allow the problem to be resolved over time
 4. Restructure one day fares to resolve the issue comprehensively

New part time products

- 5.2 A part time Travelcard would have to take the form of a ticket issued for a fixed number of consecutive days. The Oyster system is not currently set up to allow customers to buy a product and choose which days it is used. In order to address the needs of part time workers comprehensively we would need to create a 2-day, 3-day and 4-day product in addition to the range of daily and weekly products available with the weekly serving the needs of full time workers. It is possible to create these products within the Oyster system but this would be a significant addition to the range of tickets creating some 125 new ticket types from which customers will need to choose.



- 5.3 In order to assess the efficacy of creating new products we have analysed data from the Oyster card system. This shows that there are 1.3 million commuters who buy season tickets and use the transport system intensively. By contrast, there are 5.5 million users of Oyster pay as you go who show a variety of usage patterns. More than 40 per cent of these cards are used only one day a week and only 13 per cent are used three days a week. Even within that only 3 per cent of all cards are used for three consecutive days in a week. Moreover, these patterns are not necessarily repeated week after week on the same card, displaying perhaps that part time workers also tend to be flexible.
- 5.4 The data shows that the approach of creating new products will address only a small share of the market. A 3-day Travelcard alone will only appeal to three percent of those who use the transport network less than full time commuters. Even if these products are created there will be a need to look at their pricing. Creating these products and pricing them at multiples of today's all day caps does not address the question of fairness. Moreover, it also does not provide the flexibility needed by those who work flexibly. In many cases customers, such as those on zero hour contracts, are not able to nominate in advance whether they will be working the next two or three days. Equally, part time workers may also use the public transport system, albeit less intensively, on their off days.
- 5.5 Our assessment is that creating new products will greatly complicate the ticketing offer and create new grounds for confusion. It will also not address the core need for flexibility for those unable to commit to their travel in advance. And, in order to bring about fairness it will need to be priced at lower than a multiple of daily caps, with a significant cost impact for TfL.

Daily caps lowered in 2015

- 5.6 In order to provide an equitable solution the answer is to go back and look at the relative pricing of tickets, as has been done over the past decade. The present challenge is to change the relative pricing of daily caps with respect to the weekly caps. If the daily caps were all one fifth of the weekly price the only advantage of a weekly ticket would be free travel over the weekend. Even this could be eliminated by making the daily caps one seventh of the weekly prices. The challenge is in achieving this while not raising the price of the weeklies in a manner considered punitive and also not losing revenue by simply cutting the price of the daily caps.
- 5.7 In order to resolve this from 2015 we can make changes to the full range of daily tickets, including the paper based one day Travelcards. If we could get all the daily caps to one fifth of the weekly price and collapse the peak and off peak daily caps into one that would solve the problem for everyone. For example, for the customer travelling in zones 1-2, the daily cap would reduce from £8.40 to £6.40, a saving of £2.00. The new daily cap would be just under one fifth of the weekly Travelcard, which in 2015 is proposed to cost £32.10. This would mean that the daily cost of travel is the same irrespective of the number of days a customer works in a week.



- 5.8 This will directly address the needs of all part time workers. We estimate that 200,000 part time workers will see a lower fare each day and that over the course of a week 600,000 will benefit. Over time, nearly all the 5.5 million users of Oyster pay as you go will benefit from this lowering of caps.
- 5.9 This lowering of daily caps is just about possible with the prices as they are right now but it will lead to an increase in the price of some of the paper daily ticket. The cost increases will be seen by visitors and occasional users of the transport system who currently buy the one day Travelcards. About 140,000 one day Travelcards are sold every day, mostly outside London along with a ticket to London (compared with 5.5m passengers using PAYG).
- 5.10 The restructuring of the paper tickets is unavoidable and probably the best method of balancing the cost of reducing the caps, which amounts to approximately £20m per annum. As both the daily caps and the fare for the day Travelcards are set jointly between the Mayor and the train operators there is no option here but to provide a mechanism to balance the revenue losses incurred by lowering the daily caps. Even with the caps a mechanism will need to be created to compensate the train companies in the event that the losses end up being higher than what is recovered from the paper tickets.
- 5.11 Accordingly, the proposed restructured daily fares for 2015 are set out in Appendix 1 in Table 3b while Table 3a contains 2014 fares for comparison. Table 4 provides a comparison of costs for a part time worker commuting between various zones for three days a week.
- 5.12 For bus users a similar restructuring of fares is not possible as there are only three bus specific fares available, two of which are proposed to go up by more than RPI in order to freeze the daily cap. As the daily cap is close to one fifth of the weekly bus and tram pass it is proposed that the changes be phased in over perhaps two years.
- 5.13 Resolving this issue through a rebalancing of fares rather than the creation of new tickets also results in a major simplification of fares. And, as it is a fares based solution, the same solution will be available on both Oyster pay as you go and contactless payments.

Lowering daily caps over a longer period

- 5.14 Another option would be to phase in the changes over time so that the impact of increase in paper tickets is not felt straight away and there is time to adjust to new information about changes to revenue. This option will not result in a lower impact but will allow us to adapt to the new fares more slowly. This option is not recommended as the Mayor is committed to resolving the issue for part time workers in 2015.

Summary of options for addressing the needs of part time workers

Option	Description
Do nothing	The system would carry on as now. Part time workers would rely on Oyster pay as you go and daily capping. For someone travelling 3 days a week in zones 1-2 the cost would be £25.80.
2. Create a 3-day Travelcard	A new product would be created catering to part time workers. Depending upon the price the cost of travel could still be £25.80. For those not travelling 3 consecutive days the product would not be useful and they would have to rely on Oyster pay as you go and daily capping as in option 1. If a lower price is needed we would have to restructure fares as in option 4, at which point there would be no need for a 3-day Travelcard.
3. Freeze daily caps	Daily caps in 2014 would be carried over to 2015. The cost for 3 days travel in zones 1-2 would be £25.20, rather than £25.80. Over time a policy of freezing fares would address the issue but it will take a long time.
4. Restructure fares in 2015	The system of Oyster pay as you go would continue but daily caps would be reduced. The cost of 3 days travel in zones 1-2 would reduce to £19.80

6. RESIDUAL PROBLEMS

- 6.1 Even if we can resolve the daily pricing this only partially addresses the concerns of part time workers. The pricing of monthly and annual season tickets will still remain an issue as the multipliers used to compute the price of these are set in the Travelcard Agreement. The same multipliers are in use for season tickets across the UK. The Mayor wrote to the Secretary of State in 2009 asking for a gradual change to these ratios to make the system fairer. That request was declined at the behest of the train companies.
- 6.2 Providing a more comprehensive solution for part time workers, i.e., bringing daily caps into line with the cost of monthly and annual tickets without a change to these ratios will result in losses of more than £200 m per year and is, therefore, not recommended. The aim of this proposal is to resolve those issues that are capable of being resolved right now.
- 6.3 The aim here has been to focus on the changes that can be made rather than be paralysed by the inflexibility of industry agreements. The aim to do something about part time workers exists in policy documents for rail pricing as well, perhaps providing an opportunity to find a more comprehensive solution.



7. OTHER FARES AND CHARGES

- 7.1 In addition to the fares discussed above the Mayor also needs to set all other fares on TfL services. The main fares here are Oyster pay as you go fares on Tube, DLR and London Overground services, fares for children, and other charges.
- 7.2 It is proposed that most Oyster pay as you go fares increase by the minimum 10p. Off peak fares for travel outside zone 1 are proposed to be frozen. Table 5 in Appendix 1 contains proposed pay as you go fares for 2015.
- 7.3 It is proposed that we reintroduce the One Day Bus and Tram pass that was abolished in 2009 as there was no market for it. Now, with cash free operation on buses there is a small but important need to provide an affordable means of travel for those wishing to use the bus but not in possession of an Oyster card or a contactless card. It is proposed that the new pass be created on a special purpose cheaper, disposable version of the Oyster card. It is proposed that the new one day pass be retailed at £5.00 compared to the daily cap of £4.40. The new ticket will be available from Oyster Ticket Stops and, in paper form from Tube stations including Heathrow where customers arriving at odd hours may not find an Oyster Ticket Stop open.
- 7.4 It is proposed that we make alterations to the terms for refund of the Oyster card deposit. Since the Oyster system started in 2003 nearly 90 million Oyster cards have been issued and over 25,000 are issued each day. Many of these cards are returned within days of being issued rather than retained and used over time. It is proposed that where cards are returned within one year of being issued an administration fee of £3 is charged. For all cards issued already and for all issued in future but retained for more than a year the deposit will continue to be refunded as now.
- 7.5 In conjunction with the train operators we propose to apply contraflow pricing to national rail services, meaning that customers travelling into town during the evening peak will pay an off-peak fare. This is expected to benefit 5,000 customers per day.
- 7.6 TfL has invested in creating online processes for applying for concessionary photocard to make it easier and quicker for customers. Each of these photocards now lasts longer, with the 16+ cards lasting two years rather than one, the 18+ cards up to three years rather than one and the 60+ cards more than two years rather than one when they were launched in 2012. To recover these costs it is proposed that the application fee for the 16+, 18+ and 60+ Oyster concession photocard increase from £10 to £20 from 1 June 2015. The charge for the under 16 card will increase from £10 to £15. The application fee was last increased in 2011.
- 7.7 No changes are proposed to the Zip Oyster photocard concessions. The Zip off peak pay as you go daily cap will be maintained and will benefit 20,000 children each day. All under 11s accompanied by an adult continue to travel free on TfL services – currently benefiting 15,000 a day



- 7.8 It is proposed that a new half price discount be introduced for pay as you go travel for under 16s, aimed at visitors to London. This will benefit around 5,000 young visitors per day.

8. RECOMMENDATION

- 8.1 The Mayor is asked to APPROVE the fares proposals set out in this paper.

TfL Customer Experience, Marketing & Communications

Appendix 1

Table 1: 7 Day Travelcard prices

	2014	2015	Increase
Zones inc Zone 1			
2	£31.40	£32.10	2.2%
3	£36.80	£37.70	2.4%
4	£45.00	£46.10	2.4%
5	£53.40	£54.70	2.4%
6	£57.20	£58.60	2.4%
Zones exc Zone 1			
2	£23.60	£24.10	2.1%
3	£26.00	£26.60	2.3%
4	£31.20	£31.90	2.2%
5	£39.20	£40.10	2.3%

Table 2: Bus and Tram fares in 2015

	2014	2015	Increase
PAYG – single	£1.45	£1.50	3.4%
PAYG - one day cap	£4.40	£4.40	nil
7 Day Bus & Tram Pass	£20.20	£21.00	4.0%

Table 3a: Travelcard and daily cap prices from January 2014 £

	All day		Off peak		7 Day
	Travelcard	day cap	Travelcard	daily cap	Travelcard
Zones 1-2	9.00	8.40	-	7.00	31.40
Zones 1-3	11.40	10.60	-	7.70	36.80
Zones 1-4	11.40	10.60	-	7.70	45.00
Zones 1-5	17.00	15.80	-	8.50	53.40
Zones 1-6	17.00	15.80	8.90	8.50	57.20

Table 3b: Travelcard and daily cap prices from January 2015 £

	All day		Off peak		7 Day
	Travelcard	day cap	Travelcard	daily cap	Travelcard
Zones 1-2	-	6.40	-	-	32.10
Zones 1-3	-	7.50	-	-	37.70
Zones 1-4	12.00	9.20	-	-	46.10
Zones 1-5	17.00	10.90	-	-	54.70
Zones 1-6	17.00	11.70	12.00	-	58.60



Table 4: Comparison of peak daily caps in 2014 and 2015 (£)

	2014	2015	Daily saving	Weekly saving 3 days travel	Yearly Saving 50 weeks
Zones 1-2	8.40	6.40	2.00	6.00	300
Zones 1-3	10.60	7.50	3.90	12.00	600
Zones 1-4	10.60	9.20	1.40	4.20	210
Zones 1-5	15.80	10.90	4.90	14.70	735
Zones 1-6	15.80	11.70	4.10	12.30	615

Table 5: LU and LR PAYG single fares in 2015

	2014		2015		Increase	
	Peak	Off-peak	Peak	Off-peak	Peak	Off-peak
Zones inc Zone 1						
1	£2.20	£2.20	£2.30	£2.30	4.5%	4.5%
2	£2.80	£2.20	£2.90	£2.30	3.6%	4.5%
3	£3.20	£2.70	£3.30	£2.80	3.1%	3.7%
4	£3.80	£2.70	£3.90	£2.80	2.6%	3.7%
5	£4.60	£3.00	£4.70	£3.10	2.2%	3.3%
6	£5.00	£3.00	£5.10	£3.10	2.0%	3.3%
Zones exc Zone 1						
1	£1.60	£1.50	£1.70	£1.50	6.3%	0.0%
2	£1.60	£1.50	£1.70	£1.50	6.3%	0.0%
3	£2.30	£1.50	£2.40	£1.50	4.3%	0.0%
4	£2.70	£1.50	£2.80	£1.50	3.7%	0.0%
5	£2.70	£1.50	£2.80	£1.50	3.7%	0.0%