

Extract from *Fares Review Conclusions*, Strategic Rail Authority, June 2003.

Appendix C: How fares regulation will work from January 2004

Each train operator's franchise agreement with the SRA provides for the regulation of certain fares. The SRA will regulate fares in two categories, known as 'Protected Fares' and 'Commuter Fares'.

Protected Fares

- The following fares are 'Protected Fares':
 - Saver returns (an off-peak walk-up leisure fare available for most long-distance journeys) for all journeys where a saver existed in February 2003;
 - standard returns (the full-fare return ticket, valid at both peak and off-peak times), for journeys where a Saver did not exist in February 2003 (typically journeys under 50 miles, or wholly within the old Network SouthEast area), other than those which are included in a Commuter Fares basket;
 - weekly season tickets, wherever a weekly season ticket existed in February 2003, other than those which are included in a Commuter Fares basket.
- Each operator will have one Protected Fares basket, which will contain (before the simplification explained below) every Protected Fare set by that operator.
- Each fare in a Protected Fares basket will be weighted by the revenue received by that operator from the sale of that fare in the financial year to 31 March 2003. The total value of the fares basket is the sum of each fare multiplied by the weighting for that fare.
- To simplify the basket, fares with the lowest revenue weighting will be excluded from the fares basket, up to the value of 5% of the gross value of the fares basket. The basket will therefore include at least 95% of the revenue received from Protected Fares. However, all Protected Fares must continue to be made available for sale, whether or not they are in the Protected Fares basket.
- The train operator must make sure that the total value of its fares basket does not exceed the 'cap' placed on that basket. The cap is equal to the total value of the fares basket calculated using February 2003 fares, increased by RPI+1% on 1 January 2004 and each year after that for three years.
- Individual fares within fares baskets may not go up more than 5% above the basic policy (in other words, $RPI+1\%+5\%=RPI+6\%$) in any one year.
- Fares regulation also protects certain conditions attached to these fares. In the case of Savers, these are required to be valid for no less than a month, and to be valid all day Saturday and Sunday and from no later than 10:30 on any other day. They need not be valid for any journey beginning between 15:00 and 19:00 on Mondays to Fridays from London area stations or (when travelling away from London) stations between London and Reading, Watford, Luton or Stevenage, inclusive.

Commuter fares

- Commuter fare regulation will apply to the following fares used by commuters in the London area:
 - season tickets (weekly, quarterly, annual) to, from and within the London Travelcard zones;
 - standard singles and returns for journeys wholly within the London Travelcard zones;
 - standard singles and standard returns to any station in the Travelcard zones from a defined London suburban area, roughly 35-50 miles from London. The boundary stations for this area are: Shoeburyness, Southend Victoria, Southminster, Marks Tey (exc. Sudbury branch), Audley End (not origin Stansted Airport), Ashwell & Morden, Arlesey, Harlington, Bletchley, (excluding Bedford branch), Aylesbury, Haddenham & Thame Parkway, Twyford (incl. Henley branch), Earley, Fleet, Alton, Whitley, Christ's Hospital, Brighton (exc. coastway), Windsor & Eton Riverside, East Grinstead, Crowborough, Wadhurst, Paddock Wood (incl. Strood-Paddock Wood) Maidstone East, Canterbury East, Margate.
- Each train operator serving London will have one Commuter Fares basket. This fares basket will contain every regulated commuter fare from which that operator takes any share of the revenue. This will include both fares for which the operator is 'lead operator' and sets the fare, and fares where another train company sets the fare, but the operator in question receives a share of the revenue.
- Each fare within a basket is weighted by the revenue received by that operator from the sale of that fare in the financial year to 31 March 2003. The total value of a fares basket is the sum of all the weighted fares which it contains.
- To simplify the basket, fares with very low revenue will be excluded. The basket will be constructed so that it includes 95% of the revenue received from Commuter Fares, with no more than 5% of the gross value of the basket excluded. However, all Commuter Fares must continue to be made available for sale, whether or not they are in the Commuter Fares basket.
- Each year, the train operator must ensure that the total value of its fares basket does not exceed the 'cap' placed on that basket. The cap is equal to the total value of that basket in February 2003, increased by RPI+1% on 1 January 2004 and each year after that for the next three years.
- Individual fares within fares baskets may not go up more than 5% above the basic policy (in other words, $RPI+1\%+5\%=RPI+6\%$) in any one year.
- Commuter fares around Cardiff and Edinburgh are also subject to fares basket regulation. These baskets contain the standard singles, standard returns, and season tickets for journeys wholly within the defined commuter area. The weighting and annual increase in the cap will operate in the same way as for London area Commuter Fares baskets.

Unregulated fares

- Fares which are neither a protected fare nor included in a fares basket are unregulated, and train operators are free to determine these fares according to market forces. Unregulated fares include:
 - all first class fares;
 - all ‘advance purchase’ fares;
 - tickets (other than Travelcards) which include through travel to destinations served by bus services, light rail services or London Underground;
 - tickets which include a non-rail element such as entrance to a museum, theme park or other attraction;
 - Saver tickets, for journeys where there was no Saver fare in 2003;
 - Weekly season tickets, for journeys where there was no weekly season fare in 2003.
- Although a particular fare may be unregulated, in certain cases the regulated fare acts as a ceiling – for example, an unregulated Supersaver fare cannot logically exceed the price of the regulated and less restrictive Saver fare.

Fares regulation in Passenger Transport Executive (PTE) areas

- In five PTE areas (West Midlands, Strathclyde, Tyne & Wear, Merseyside and South Yorkshire) fares are currently specified directly by the PTE, and fares are not regulated (although this may change when franchises concerned are replaced). In two PTE areas (Greater Manchester and West Yorkshire), fares are set by the relevant train operator in the normal way, and key commuter fares are regulated by a version of the fares basket mechanism. All standard singles and returns for journeys wholly within the Greater Manchester and West Yorkshire PTE area are included in a fares basket, which is capped in a similar way to the fares baskets described earlier.

Important points about fares regulation

- **Individual fares within fares baskets.** Because fares regulation works by applying a ‘cap’ on the total value of fares baskets, there may be increases in individual fares that are greater than (or less than) the permitted increase in the basket as a whole. However, individual fares within fares baskets may not go up more than 5% above the basic policy in any one year.
- **Year-on-year increases.** The annual permitted increase in regulated fares (RPI+1%) is a cumulative increase in the ‘cap’ placed on fares baskets based on the value of that basket in 2003. It is not a maximum permitted increase in actual fares from one year to another. Operators do not have to increase their fares by the maximum permissible amount in any given year, and some choose not to do so, leaving the actual value of their fares basket below the maximum level permitted by the cap in that year. This gap between the actual value of the basket and the maximum permitted by regulation is usually called ‘headroom’. The following year, such an operator can use up this headroom as well as taking advantage of the annual RPI+1%, and so legitimately increase the value of its fares basket from one year to the next by more than RPI+1%. The operator would comply with fares regulation because the actual value of the basket would still not exceed the maximum permitted value.

- **Fares anomalies.** Fares have not been set according to a standard fare per mile for many years. British Rail abandoned this principle in favour of a more commercial approach, setting fares for each journey according to what the market would bear. With such a large network, it is inevitable that some anomalies exist where a combination of short-distance tickets is cheaper than a through ticket covering the entire journey. It is also possible that such anomalies arise where the lead operator setting the short-distance fares is a different operator from that setting the long-distance fare. However, such anomalies do not contravene fares regulation, and passengers are entitled to benefit from them, providing that they can legitimately use that combination of tickets for the journey they are making under the terms of the National Rail Conditions of Carriage. The SRA will consider applications from operators to adjust the regulation of particular fares if this is necessary to correct an anomaly that has arisen from (for example) an error inherited from British Rail.
- **Fares increases and investment.** The SRA may allow increases above the base level (RPI+1%) in specific cases where this is needed to fund additional investment. Operators who want to use this method of financing improvements to services need to provide a robust business case to the SRA in support of their proposals.