TRANSPORT FOR LONDON

SUBJECT: COST OF FARE REVENUE COLLECTION (2013/14 to 2015/16)

DATE: March 2018

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1. INTRODUCTION

1.1 The purpose of this paper is to provide an update on progress towards reducing TfL's cost of fare revenue collection since 2012/13. The paper also summarises planned initiatives which are likely to contribute to further reductions in future years.

1.2 Note that the figures included in these analyses are derived from ad-hoc analyses required only for this report, and thus are not intended to be a formal statement of costs and revenues, as for example might appear in TfL's accounts.

2. SUMMARY

2.1 We have revised and updated the previous method of calculating the Cost of Revenue Collection so that potential savings could more easily be identified and the impact of efficiency initiatives could be accurately tracked. In the process many of the underlying concepts that had not been well-defined became more explicit, including the name of the metric itself, which changed to the Cost of Fare Revenue Collection.

2.2 The analysis last carried out using the previous methodology produced a 2013/14 figure of 10.4% for total costs of collection divided by revenues collected. The new methodology also produces a 2013/14 figure of 10.4% for costs of collection divided by revenues (although the two figures should not be compared because of the many changes in methodology as well as the previous estimates being less robust).

2.3 From 2013/14, the Cost of Fare Revenue Collection relative to revenue collected continued on a downward trajectory (a general trend since monitoring the costs of collection started in 2006) from 10.4% to 9.9% in 2014/15 and 9.6% in 2015/16.

3. BACKGROUND

3.1 The Cost of Revenue Collection was first calculated for the year 2005/06 and found to be 14.3% relative to revenues collected. This statistic is not available readily from TfL's published accounts or its management accounts, as it contains many cost items which are reported across TfL, but not collated. The analysis of the Cost of Revenue Collection was last carried out using for 2013/14, by which time the figure had fallen to 10.4%. However, reviewing the methodology identified that improvements could be made, looking at the accounting principles used, whether all the costs and revenues have been included and how costs are apportioned between the modes..

3.2 In 2015, following a six month study, TfL's Benchmarking Team drew up a list of cost areas in scope, specified the types of costs to be included, clarified various grey areas (for example, determining whether various "incomes" should be treated as increased revenues or cost savings), and agreed which analyses were to be reported. The main new statistic to be reported was now to be called the Cost of Fare Revenue Collection (CoFRC), recognising that this would be the main focus for future cost saving comparisons within TfL, as well as for benchmarking with other metropolitan transport authorities.

4. METHODOLOGY

4.1 The CoFRC is made up of costs associated with a number of processes, including:

- Retailing
- Entry, interchanges, and exit
- Revenue protection
- Cash handling
- Financial accounting and reporting
- Merchant Service Fees paid to card issuers when ticketing products are purchased using payment cards, including contactless payment cards
- Commissions and service charges (paid to, or received from, other organisations for selling our or their ticket products)
- Analysis and information
- Enabling systems software and hardware (purchase, development and maintenance)
- Marketing and communications.

4.2 Actual costs are obtained from different departments involved in revenue collection activities. For consistency and to ensure a single source, wherever possible these costs are derived from SAP cost centres associated with departments.

4.3 Staffing costs at stations, Contact Centre Operations and Visitor Information Centres relating to retailing and information about ticketing are calculated using a multiplier depending on the percentage of staff time used for these activities associated with revenue collection. (Where there are changes to these multipliers from previous years, the reasons and explanations are recorded.)

4.4 Commissions for selling tickets and service charges for revenue collection received from TOCs, River Services, and Victoria Coach Station are offset against costs, rather than added to fare revenue. Compensation to the TOCs for changes in TfL fare policy is deducted from fare revenue rather than added to costs. Nominal revenue forgone by providing free staff and nominee passes is not included in the analysis.

4.5 Cross-modal costs - centrally managed costs which cover multiple modes, for example costs incurred in the Revenue Collection Contract, are apportioned to each mode on the basis of passenger journeys. Because these costs can be large, the top five cross-modal costs are individually reported.

4.6 Capital costs are amortised over 10 years and included in the overall costs (but can be separated out if required).

5. RESULTS

5.1 Costs of fare revenue collection, by activity, were calculated for 2013/14, 2014/15 and 2015/16 and are shown below.

Activity	2013/14 £m	2014/15 £m	2015/16 £m
Retailing	189	197	213
Entry, interchange & exit	19	20	19
Revenue protection & ticket inspection	31	31	31
Cash handling	2	2	2
Financial accounting & reporting	3	3	3
Merchant service fees	14	15	14
Enabling systems software & hardware	119	104	108
Marketing	4	5	5
Commissions (net)	43	43	41
Other	2	6	4
Totals	**426**	**425**	**440**

5.2 The 2015/16 total is 3.3% higher than two years earlier, mainly driven by retailing costs, and in particular some one-off changes in a handful of staff cost subcategories. This small increase is not unexpected since in the past it has been noted that costs will tend to drift up in the absence of interventions, and in this instance various major cost saving initiatives had not yet been fully realised. Other factors affecting the increase would be expansions in the Overground and TfL Rail networks, and some price inflation. On the savings side, Contactless usage had not reached a very significant level over the totality of 2015/16, and only half a year's savings from the new Revenue Collection Contract were gained.

5.3 Revenues collected by mode for 2013/14, 2014/15 and 2015/16 were as follows.

Revenue collected	2013/14 £m	2014/15 £m	2015/16 £m
LUL	2290	2421	2590
DLR	130	147	160
Trams	24	25	23
LO	150	160	174
TfL Rail	0	0	71
EAL	5	6	6
Buses	1513	1547	1563
Total	**4112**	**4307**	**4588**

5.4 Revenue increased strongly over the two intervening years, driven by two fare increases and demand increases notably on LUL, DLR, LO and TfL Rail.

5.5 The CoFRC relative to Revenue Collected was 10.4% in 2013/14, falling to 9.9% in 2014/15 and 9.6% in 2015/16.

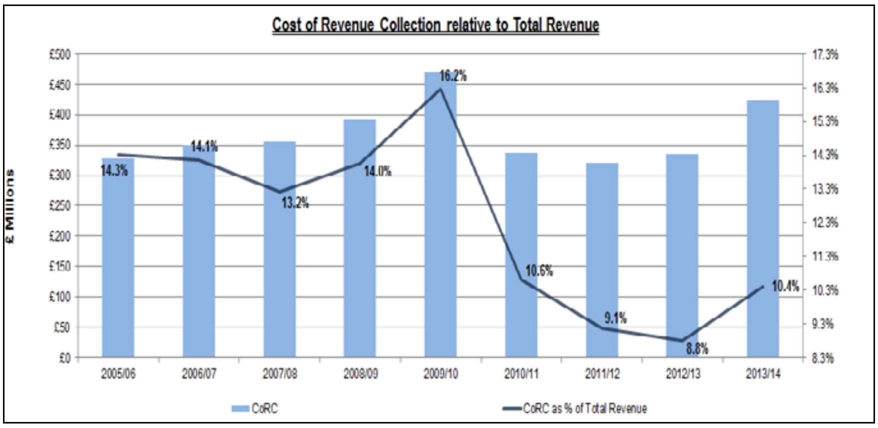
	2013/14	2014/15	2015/16
CoFRC (£m)	426	425	440
Revenue Collected (£m)	4,112	4,307	4,588
CoFRC as % of Revenue Collected	**10.4%**	**9.9%**	**9.6%**

5.6 On that trajectory, after five years this headline statistic would fall to about 7.5%, but key cost saving impacts such as the substantially increased share of retailing captured by of Contactless, and the Fit for the Future Stations programme, came after 2015/16 – see section 6 below – so the rate of reduction is expected to accelerate.

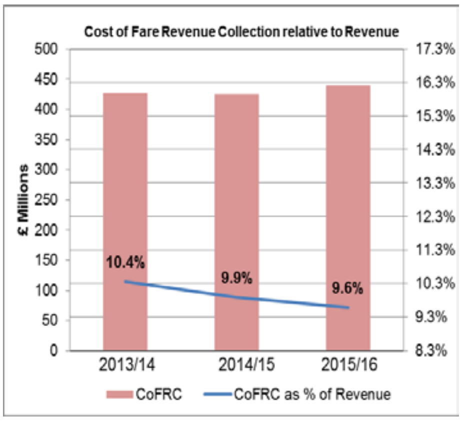
5.7 The current figures cannot be satisfactorily compared with figures using the previous methodology. Nevertheless, the previous figures did show a broad long-term downward trend, and the current methodology shows that trend is maintained:

Cost of Fare Revenue Collection relative to Revenue

Previous methodology



Current methodology



5.8 While the efficiency of fare revenue collection is controlled by TfL, the fare revenue itself is significantly affected by political directive, i.e. the Mayor ultimately determines any overall TfL fare increases. The CoFRC relative to revenue is impacted not only by changes in fares, but changes in the balance of different types of journey. (For example, even if fare levels were exactly the same as the previous year, if new longer-distance rail services have been introduced this could have the effect of raising the average fare overall.) To remove the effect of fares completely, another measure, the CoFRC relative to journey volumes over the latest three years analysed is shown in the following table.

	2013/14	2014/15	2015/16
CoFRC (£m)	426	425	440
Total passenger journeys (000s)	3,917	3,973	4,004
CoFRC as £ per 1000 passenger journeys	**108.7**	**107.0**	**109.9**

5.9 Increases in total passenger journeys, averaging just over 1% per year, were lower than in the previous ten years. (For a rough comparison, since some of the rail network was not present in those years, the average increase in journeys on Bus and Underground was about 2% per year.) With this lower rate of increase, the increase in journeys did not outweigh the costs of collection over the recent period analysed. So while the CoFRC per revenue collected fell over this period, the CoFRC per 1000 passenger journeys went up slightly (1.1% in two years).

[Note that the freeze in TfL fares was not introduced until 2017, but for the years from 2017 to 2020, the CoFRC per revenue collected and the CoFRC per 1000 passenger journeys are expected to change at more similar rates, with both revenue and journeys unlikely to increase at rates seen in previous years.]

6. FURTHER INITIATIVES LIKELY TO REDUCE THE COST OF FARE REVENUE COLLECTION

Ticketing Service Contract

6.1 The Future Ticketing Agreement which previously provided ticketing and revenue collection services to TfL was superseded by the Revenue Collection Contract starting in August 2015. The contract encompasses TfL's existing ticketing and fare collection systems, associated revenue collection activities, and provides for co-operation with TfL on future developments. The new contract, which began in August 2015 for a term of seven years, entails an annual saving of approximately £11m a year as compared with the previous contract. Therefore the next year to be analysed, 2016/17, will contain the first full year of savings.

‘Fit for the Future – Stations’ Programme

6.2 Ticketing changes have assisted London Underground in implementing the ‘Fit for the Future - Stations’ Programme which aimed to deliver station services more efficiently. Savings from the FftF-S programme are estimated at approximately £50 million per year. Analysis will be needed on how much of this is from the CoFRC but it is likely to be the majority, as much of the cost reduction comes from a reduction in ticket office staff. The first full year of cost reduction was 2016/17, the next year to be analysed.

Initiatives to encourage travel using Contactless

6.3 Even without special initiatives, travel using a Contactless card to touch in and out has been steadily increasing since the full introduction in 2014/15. Travel using Contactless is encouraged because migration away from Oyster Ticket Stops (see following paragraph), Magnetic tickets (cost of ticket production, higher costs of associated reader infrastructure, and higher rates of ticket fraud), and Oyster cards (cost of card production) is likely to reduce costs. Initiatives to promote Contactless include:

–Introduction of Apple Pay, Android Pay and Samsung Pay in 2017.

Initiatives to encourage migration from payments incurring high commission at Oyster Ticket Stops

6.4 Payment at Ticket Stops represents an inefficiency to the extent that commission paid by TfL on fare products bought there ranges from 5 to over 10 times the Merchant Service Fee rates paid by TfL for fare products bought using by bank cards either online or at ticket machines. Initiatives to reduce Ticket Stop usage include:

–Introduction of the TfL App in 2017 allowing Oyster PAYG top-ups and season tickets to be purchased on the App (with no trip to a Ticket Stop needed)

–Introduction of Fast Universal Load in 2017 making it far more convenient for customers to pick up fare products bought with the App or online onto their card after just half an hour at any station or on any bus. This was a huge improvement over only being able to load such purchases onto their card at a specific station on the following day

–Addition of products sold at concessionary rates to the App, planned for 2019.

6.5 Oyster Ticket Stop commission is particularly high for season ticket purchases. Migration from season ticket to Oyster PAYG top-ups, even though still at Oyster Ticket Stops, would produce around 50% savings in commission. Initiatives to encourage migration from Oyster season tickets, particularly weekly seasons, to PAYG include:

–Introduction of Monday-Sunday capping on Oyster PAYG, planned for 2018.

6.6 **Conclusion**

Overall these changes, on top of the downward trajectory between 2013/14 and 2015/16 identified within this paper, and coupled with the introduction of the Elizabeth line (with fares higher than the average over the network), in other times would be expected to bring TfL's CoFRC as a percentage of revenue down to below 7% by 2021. However, the introduction of a TfL-only (as opposed to Travelcard) fare freeze from 2017 to 2020, plus the recent stalling of demand increases on the existing network, could make this target difficult to attain.

7. CONTACT

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