

TRANSPORT FOR LONDON

VALUE GROUP

SUBJECT: COST OF REVENUE COLLECTION

DATE: December 2015

1. INTRODUCTION

- 1.1 The purpose of this paper is to UPDATE the Value Group on progress towards reducing TfL's cost of 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 The Cost of Revenue Collection (CoRC) was first calculated for the year 2005/06 and found to be 14.3% relative to revenues collected. The analysis was last carried out for 2012/13 producing the reduced figure of 8.8%.
- 2.2 To monitor the subsequent trend, the current paper analyses data from 2013/14. The CoRC relative to revenues collected is found to have risen to 10.4%. However, taking account of additional costs which were not previously identified, the figure comparable with 8.8% is 9.1%, i.e. a much smaller increase. With various future initiatives either underway or planned, significant further reductions in the CoRC can be expected in future years (see Section 6).

3. BACKGROUND

- 3.1 In 2006, TfL put together for the first time a thorough measurement of its total cost of revenue collection. 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.
- 3.2 Two assumptions were used to isolate costs that were related specifically to revenue collection:
 - that TfL could assume that the fare was set at zero and we did not need to collect revenue and;
 - the first assumption did not result in any consequential increase in demand.

Some other simplifying assumptions were made, for example that the crowd control functions that ticket gates provide would not be needed in their absence.

- 3.3 For comparison with 2013/14 figures, the CoRC in 2005/06 was assessed at £404m, or 14.3% of revenue.
- 3.4 The equivalent CoRC figure for 2012/13 in the July 2014 Value Group paper was £343m. Later corrections resulted in the revised figure of £334m, which amounted to 8.8% of revenue.

4. METHODOLOGY

- 4.1 The CoRC includes the costs of maintaining a diversity of infrastructure and providing a number of customer services, including:
- Production of magnetic tickets and Oyster cards
 - Maintenance, and where necessary replacement, of ticketing machines on buses, at tram stops, in station ticket offices or on National Rail platforms
 - Maintenance, and where necessary replacement, of ticket readers in buses, at station gatelines, at for revenue inspection purposes across the network
 - Staffing costs at stations, Contact Centre Operations and Travel Information Centres relating to retailing and information about ticketing. These are calculated using a multiplier depending on the percentage of staff time used for revenue collection
 - Development and maintenance of online ticketing services including loading and Auto Topup of Oyster cards
 - Commission paid to Oyster Ticket Stops and Train Operating Companies for ticketing products purchased there
 - Merchant service fees paid to card issuers when ticketing products are purchased using payment cards, including contactless payment cards.
- 4.2 Actual costs are obtained from different departments involved in revenue collection activities. The costs are derived from SAP reports run against cost centres associated with departments. These are then analysed and compared with those from the previous years. Discrepancies or anomalies are probed further to understand the reasons for any significant changes in numbers.
- 4.3 In most cases, the comparison between two financial years is straightforward. However, problems can arise when there are changes in contracts mid-way through a financial year hindering like for like comparisons between years. Re-organisations where personnel who had provided the data in the past have either left or changed departments can also hinder the data gathering process.

5. RESULTS

- 5.1 The CoRC by mode calculated for 2013/14 is shown below, with the previous two years results listed for comparison. (Further detail and some variance analysis can be found in Appendix A.)

Cost of Revenue Collection	2011/12 £m	2012/13 £m	2013/14 £m
Bus	47.9	41.2	43.7
Tram	1.7	1.4	1.3
LUL	161.0	122.0	165.3
DLR	6.0	7.2	7.3
Overground	11.0	12.0	11.7
NR	5.4	6.0	6.9
Cross-Modes	87.9	144.1	188.3
Totals	321.0	333.9	424.4

- 5.2 The 2013/14 total is £90.5m higher than the total in 2012/13. However, the 2013/14 figures include costs that were found to have been omitted in the past. The larger item is National Insurance and Pensions for LU staffing costs. The other item previously omitted is the Merchant Service Fees that TfL pays to card issuers when ticketing products are purchased using payment cards. Ideally these omissions would be rectified in the figures for previous years, but for practical reasons this is not possible. Therefore, purely for the purpose of assessing the like-for-like change from 2012/13 to 2013/14, the best approximation is to omit the two previously omitted items from 2013/14 as well, which leads to a total £36.8m higher than 2012/13 instead of £90.5m.

- 5.3 Revenues collected by mode for 2013/14 are shown below, again with the 2011/12 and 2012/13 figures listed for comparison.

Revenue Collected	2011/12 £m	2012/13 £m	2013/14 £m
Bus	1,334	1,417	1,501
Tram	21	23	24
LUL	1,972	2127	2,286
DLR	103	122	130
Overground	93	125	153
Totals	3,523	3,814	4,094

- 5.4 Revenue has increased strongly over the last two years, due to two fare increases and a demand increase which includes a 26% increase (largely relating to the introduction of new services) over the two years on DLR and Overground when grouped together.

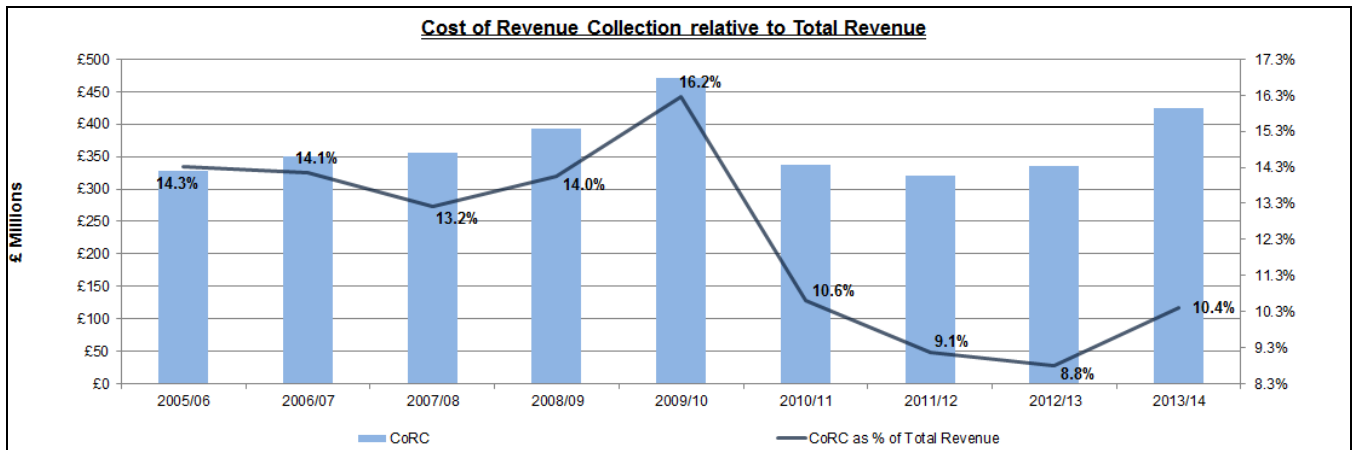
- 5.5 Due to the inclusion of previously omitted items as discussed above, the CoRC relative to Revenue Collected has also increased in FY2013/14.

	2011/12	2012/13	2013/14
CoRC (£m)	321.0	333.9	424.4
Revenue Collected (£m)	3,523	3,814	4,094
CoRC as % of Revenue Collected	9.1%	8.8%	10.4%

- 5.6 Whilst the table above represents the best view of the latest position with the cost of revenue collection, when the assessing the like-for-like change from 2012/13 to 2013/14, the best approximation is that used in 5.2 above. When the two previously omitted cost items are

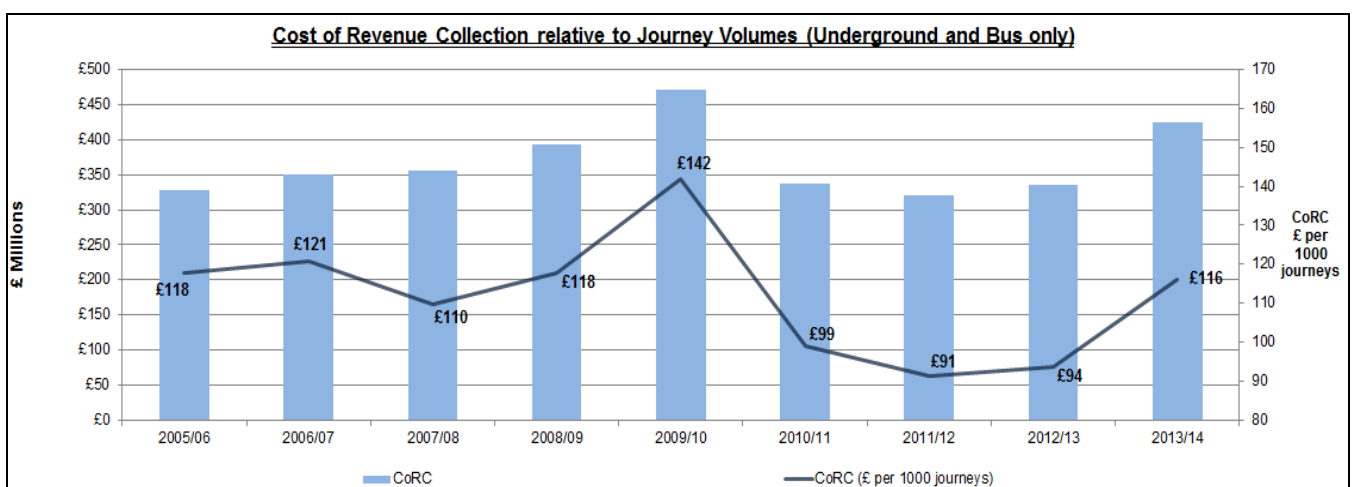
excluded from 2013/14 as well, the CoRC as a proportion of Revenue Collected increases from 8.8% to 9.1% instead of 10.4%.

5.7 Looking at recent figures in the context of the past eight years it can be seen that the long term downward trend has reversed somewhat for the time being (based on the above figure of 9.1% substituted for 10.4% to give an approximate like-for-like comparison with previous years).



5.8 The CoRC 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 long-distance rail services have been introduced this can have the effect of raising the average fare overall.) To remove the effect of fares completely, another measure, the CoRC relative to journey volumes, for Underground and Bus, over the past eight years is shown in the following chart. (Note: Underground and Bus journeys make up around 90% of the total for TfL passenger transport.) This long-term trend is also downwards, despite the increase in the latest year.

The latest year shows that the CoRC relative to journey volumes has risen to £116. This increase is proportionately higher than the increase in CoRC relative to revenue. (This would be expected since the revenue includes fare increases which have the effect of reducing the CoRC percentage). However, on the basis of excluding the two previously omitted costs (see 5.2 above) purely for the purpose of a like-for-like comparison with 2012/13, the figure for 2013/14 would be £101, which is a much smaller increase over 2012/13.



It is not surprising that in any particular year, cost inflation exceeds “journey volume inflation”, and it is a more challenging long term target to reduce the CoRC relative to journey volumes than to do so for CoRC relative to revenue. Thus there is even more reliance on initiatives designed to make significant reductions in the CoRC, to counteract a natural tendency for costs to increase.

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

Cashless Buses

- 6.1 Cashless buses were introduced in July 2014, so from 2014/15 onwards the CoRC for Buses will be reduced.

Ticketing Service Contract

- 6.1 The Future Ticketing Agreement which previously provided ticketing and revenue collection services to TfL has been superseded by the Revenue Collection Contract (RCC) 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, will mean an annual saving of approximately £11m a year as compared with the previous contract.

Future Ticketing Programme – Phase 4

- 6.2 The FTP is a TfL initiative to move on to the next generation of fare payment technologies, as a means to drive down the CoRC, while retaining the contactless smartcard technology that has proved so popular and successful with the existing Oyster card.
- 6.3 The future phases have been consolidated into Phase 4, which will develop existing Oyster functionality, making use of the back office capability developed in earlier phases:
- Refunds and online sales available to collect from any station and on buses
 - Monday to Sunday capping introduced on Oyster cards
 - Mobile App with notifications and sales functionality
 - Season tickets retailed online only.
- 6.4 Cost reductions that the FTP enables come largely in five areas:
- (a) Commissions paid to Oyster retail agents for sale of tickets and PAYG value loads, as the volume of these sales falls
 - (b) Card issuance, as the rate of Oyster card issuance falls
 - (c) Reduced investment in enhancements to system security, as responsibility for this shifts to the payments industry
 - (d) Helpdesk costs, as fewer calls are made and customers can answer their queries more often through self-service channels
 - (e) Decommissioning of the current Oyster functionality, reducing future development and maintenance costs.

'Fit for the Future - Stations' Programme

- 6.5 Ticketing changes also assist London Underground in implementing the 'Fit for the Future - Stations' Programme which aims to deliver station services more efficiently. Savings from the FftF-S programme are projected at approximately £60 million per year. Further assessment is needed on how much of this is from the CoRC but it is likely that this will be the majority of the number as the large cost reductions come from a reduction in ticket office staff.

6.6 Conclusion

Overall, these changes, coupled with the introduction of Crossrail (with fares higher than the average over the network) could bring the CoRC as a percentage of revenue down to below 7% within the next four years.

7. RECOMMENDATION

7.1 The Value Group is asked to NOTE this paper.

8. CONTACT

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APPENDIX A DATA SOURCES

Costs of Collection

Name	Area	FY12-13	FY13-14	FY13-14 vs. FY12-13		Comments
				Difference	Diff as % over last year	
Andrew Siequien	Group Revenue Accounts	£40,072,781	£43,290,472	£3,217,691	8.0%	Commissions OTS - minimum change, Bulk Sales - Sales up from 24m to 30m - increase of 24% which resulted in comm rising from 2.2m to 3.5m - increase of 59% TOC - Oyster PAYG comm payable to TOC increased from 5.5m to 6.6m - increase of 21%
Paul London	Buses	£9,078,173	£10,335,013	£1,256,840	13.8%	Marginal rise in staff costs Introduction of FTA Capex Costs of 1.5m, 14% of the overall figure 140k saved as Roadside TVM were not there this year
Malcolm Fairhurst	Cashless Buses	£16,913,500	£17,420,905	£507,405	3.0%	Estimate for handling cash on buses, based on a 3% increase from the previous year
Nick Baker	Tramlink	£1,390,000	£1,310,000	£80,000	-5.8%	
Bijal Patel	Revenue protection	£11,478,237	£10,991,873	£486,364	-4.2%	Reduction in Ticket Machine Costs 350K Reduction in staff Costs 300K Cash in Hand and Credit Card commission increase of 200K (26%)
Jim Ovenell	Use of Ticket Office space	£9,983,069	£10,282,561	£299,492	3.0%	No figures were provided - new figures based on a 3% increase These costs are the for "Tube Ticket Office Alternative Use Value"
Dave Hughes	LUL	£111,692,771	£155,480,365	£43,787,594	39.2%	There was a pay-rise of 3.2% for FY 2013-2014 giving a wage bill of 197m in this area Additional costs of 77m are for Allowances(1.2m), NIC(17.5m), Overtime(8.3m) and Pensions(50m) Wages and additional costs are added to get a total of 274m - 77m out of 274m equates to 28% Out of the 39.2% - £42.7m (38.2%) - is for the additional costs
Gota DaSilva	DLR	£6,563,056	£6,759,947.68	£196,892	3.0%	The 2012/13 total is inflated by 3% to provide the 2013/14 figure, pending further investigation
Will Butler	Customer Experience	£97,965,058	£128,153,984	£30,188,926	30.8%	(This area tends to fluctuate as it includes numerous small items that vary from year to year)
Bilkiss Suddun	Customer Experience CCO, TIC, LPO	£13,494,558	£13,494,023	£535	0.0%	
Mark Burch	Bus Revenue Protection	£15,233,785	£15,964,619	£730,834	4.8%	
TOTAL		£333,864,988	£413,483,763	£79,618,775	23.8%	
				£36,841,138	11.0%	These increases represent a like-for-like year-on-year comparison with 2012/13 taking account of the LU Pensions/National Insurance, and Merchant Service Fees, both of which had previously been omitted

Merchant Service Fees

£10,933,995

TOTAL

£424,417,758

£370,706,126

2013/14 without LU Pens/NI and MSF

2013/14 Rev

£4,094m

Revenue Collection as proportion of revenue

10.4%

9.1%

2013/14 without LU Pens/NI and MSF

Revenues and Journey Volumes

Data is collated by [REDACTED] Note that figures for revenues and journey volumes in TfL Annual Reports are from the same source.