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## Summary

This report sets out the current fares and ticketing strategy for NGT. The strategy has been developed from an ‘objective-led’ process, whereby the overall NGT scheme objectives formed the basis for identifying the key elements that the fares and ticketing strategy should comprise. The Promoters are keen to ensure that the NGT fares and ticketing strategy aligns and is integrated with Metro’s wider Fares and Ticketing strategy.

The strategy has also been developed to reflect Metro’s wider aspirations in the development of areas including smartcard ticketing. It is to be expected that the NGT fares and ticketing strategy will continue to change over time, to reflect the wider evolution of the fares, ticketing and ITSO smartcard agenda.

The table below sets out our preferred mechanism for delivering the fares and ticketing strategy. NGT would use a flat fare, time based single ticket smartcard ITSO system. Bespoke tickets would be offered to specific target markets, such as students and hospital staff. Tickets could be purchase onboard from the conductor but NGT users would be encouraged (through lower prices) to purchase tickets in advance through off-vehicle ticket sales. The flat fare, time base single ticket charge would be in line with current bus fare (i.e. travelling on NGT would not be at a premium compared to travel on existing bus services). All standard concessionary tickets would be valid on NGT.

Every NGT service would have a dedicated onboard conductor. The conductors purpose would be four-fold; to give customer info & care, for security and passenger safety, to sell tickets and to provide revenue protection.

It should be noted that the approach to fares and ticketing is dependant on the preferred procurement strategy utilised for NGT. If an alternative procurement approach is followed this will alter the tools available to specify fares and ticketing on NGT. Development of a wider integrated ticketing strategy within the West Yorkshire region would have significant synergies and benefits to the strategy developed for NGT.

TABLE 0-1 FARES AND TICKETING - SCHEME DESCRIPTION

Current Recommendation	Key Rationale
Ticketing Mechanism	
Flat fare, time based single smartcard tickets. Separate fare may be levied on P&R.	Does not penalise interchange trips within NGT network.
Bespoke ‘products’ for target markets e.g. Students / University / Hospital staff.	Address issue of short distance trips
Detail of Park & Ride ticketing strategy to be informed by further work.	Informed by further market analysis and fit with scheme objectives.

Current Recommendation	Key Rationale
<b>Ticketing Vending Options</b>	
<p><i>Off-Board</i></p> <p>Newsagents / travel centres/ internet</p> <p>Limited number of TVMs at key stops</p>	<p>Aim to maximise off-vehicle ticket sales options.</p> <p>Minimise impact of TVMs at stops - cost impact, visual impact, operational - e.g. queuing.</p>
<p><i>On board</i></p> <p>Tickets sold at higher price on-board.</p> <p>Conductor sales only (no driver sales).</p>	<p>Tickets on-board should be available, but users encouraged to pay off-board through higher on-board pricing.</p>
<b>Conductors</b>	
<p>Propose on-board conductors to:</p> <ul style="list-style-type: none"> <li>-give customer info &amp; care</li> <li>-give security benefits</li> <li>-sell tickets</li> <li>-provide revenue protection</li> </ul>	<p>Meet quality objective of NGT through providing customer care.</p> <p>Meet equity objectives through added real / perceived security.</p> <p>Revenue protection function.</p>
<b>Ticket Validation</b>	
<p>Smartcard readers at every door.</p> <p>Swipe 'in' only.</p>	<p>Simplicity - only swipe 'in' - consistent with flat fare structure.</p> <p>Conductors provided with smartcard enabled machines to check that tickets are valid</p>
<b>Smartcards</b>	
<p>System ticketing will use smartcard ITSO technology.</p>	<p>Smartcard technology offers convenience and more efficient boarding for passengers, and operational efficiencies.</p> <p>Expectation that 'back office' facilities will be in place by system opening.</p>
<b>Fares regulation &amp; decision making</b>	
<p>Approach to be refined as procurement process develops.</p>	<p>Preferred procurement route (through TWAO) provides promoter with the ability to set and control system specific fares.</p> <p>Consideration should be given to process by which decision on fares are taken to ensure balance between political accountability and flexibility / responsiveness.</p>

# 1 Introduction

- 1.1 This report sets out the preferred NGT fares and ticketing strategy, and forms the basis of modelling and costing assumptions that are employed in the Major Scheme Business Case.

This report sets out the current fares and ticketing strategy for NGT. The strategy has been developed from an 'objective-led' process, whereby the overall NGT scheme objectives formed the basis for identifying the key elements that the fares and ticketing strategy should comprise.

The strategy has also been developed to reflect Metro's wider aspirations in the development of areas including smartcard ticketing. It is to be expected that the NGT fares and ticketing strategy will continue to change over time, to reflect the wider evolution of the fares, ticketing and ITSO smartcard agenda. The development of the strategy over time will also need to deliver value for money.

## Structure of Report

- 1.2 Chapter 2 sets out the key objectives of NGT as a whole, and uses these to develop guiding principles and a framework that have informed the development of the fares and ticketing strategy.
- 1.3 Chapter 3 sets out the legislative framework within which the strategy must be developed.
- 1.4 Chapter 4 describes the key features of the fares and ticketing strategy, in terms of what the strategy seeks to deliver - essentially an output specification.
- 1.5 Chapter 5 then makes recommendations about how this specification should be delivered - this essentially forms the fares and ticketing 'scheme specification'.
- 1.6 The specification outlines in Chapter 5 then forms the basis for the costing of the Fares and Ticketing strategy that is set out in Chapter 6.
- 1.7 The conclusions of the study are summarised in Chapter 7.

## 2 Fares & Ticketing Strategy: Objectives & Framework

2.1 The starting point for the identification of a fares and ticketing strategy is to understand the wider objectives that the strategy is seeking to meet.

### NGT Objectives

2.2 The NGT Objectives are presented in Table 2-1, alongside their related transport objectives, system objectives and then how this translates in terms of the guiding principles that a fares and ticketing strategy should aim to deliver.

TABLE 2-1 FARES AND TICKETING - LINKAGE WITH NGT OBJECTIVES

NGT Objective (outcomes)	NGT transport objectives (outputs)	NGT System Objectives (inputs)	Fares & Ticketing - Guiding Principles
1 Maximise growth of the Leeds economy by enhancing its competitive position and facilitating future employment and population growth	Transport system economic efficiency (measured by NPV) Should encourage modal shift (efficiency & capacity) Help improve image of Leeds as 'Place' - Quality of Life	Attractive and reliable journey times High quality system	Minimise impact on journey times Ease of use for passenger - before & during journey Transparent
2 Support and facilitate the sustainable growth of Leeds, recognising the importance of its City Centre to the future economy of the Leeds City Region	Deliver higher overall peak capacity into Leeds - Directly via NGT, indirectly via modal transfer. Encourage modal shift from car (thereby free up highway capacity).	High quality high capacity service into Leeds centre. High quality interchange in city centre.	Support delivery of fast, attractive and reliable service. F&T should encourage easy interchange between other modes and NGT.
3 Support and facilitate targeted regeneration initiatives and economic growth in the more deprived areas of Leeds	Improving the links between the more deprived areas of Leeds and employment/education opportunities.	Attractive direct journey opportunities on NGT, and attractive interchange between NGT and other public transport to enable access to range of wider destinations.	Pricing should not discourage those in education / on low incomes. Ticketing product range must include cash tickets. Ticketing should enable easy and efficient interchange between other modes and NGT.

## Fares & Ticketing Strategy Options

NGT Objective (outcomes)	NGT transport objectives (outputs)	NGT System Objectives (inputs)	Fares & Ticketing - Guiding Principles
<p>4</p> <p>Improve the efficiency of the City's public transport and road networks</p>	<p>Transport system economic efficiency (measured by NPV)</p> <p>Maximise user (passenger) benefits while mitigating, where possible, impacts on highway (non-) users.</p>	<p>NGT should be fast, attractive, high quality, high capacity and reliable.</p> <p>Associated highway works would minimise impacts on highway users.</p>	<p>Support delivery of fast, attractive and reliable service.</p> <p>Ease of use for passenger - before &amp; during journey</p> <p>F&amp;T should encourage easy interchange between other modes and NGT.</p>
<p>5</p> <p>Reduce transport's emissions of CO2 and other greenhouse gases</p>	<p>Reduce CO2 emissions from transport system through</p> <ul style="list-style-type: none"> <li>-Efficient use of power for NGT.</li> <li>-Encourage Modal shift from car.</li> </ul>	<p>Attractive and reliable journey times</p> <p>High quality system</p>	<p>Minimise 'standing' times at stops.</p>
<p>6</p> <p>Promote quality of life through a safe and healthy built and natural environment</p>	<p>Minimise impact on Townscape</p> <p>Improve local air quality, noise, etc.</p>	<p>Sensitive design.</p> <p>Modal shift to reduce car borne emissions.</p>	<p>Minimise adverse impact on built environment</p> <p>Encourage reduction in emissions, noise etc.</p>
<p>7</p> <p>Contribute to enhanced quality of life by improving access for all to jobs and services</p>	<p>Key services include but are not limited to hospitals (LGI, St James's), tertiary education (University, Leeds Met, College of Technology).</p> <p>It could also include the railway station, bus station etc (access to national networks).</p>	<p>Attractive direct journey opportunities on NGT, and attractive interchange between NGT and other public transport to enable access to range of wider destinations.</p>	<p>Pricing should not discourage those in education / on low incomes.</p> <p>Mandate integrated ticketing &amp; through ticketing.</p> <p>Make the system as attractive as possible to vulnerable users.</p>

## Developing a Framework

- 2.3 From the table above, it is evident that the overall attractiveness of the scheme will drive the level of usage and modal shift that will, in turn, underpin the success of the scheme in meeting its stated economic, social and environmental objectives.
- 2.4 From a fares and ticketing perspective there are several key components to this. From the above some key objectives for the fares and ticketing strategy can be identified, along with other elements that the overall assessment must consider. The strategy should

### *Ticketing Objectives*

- | Minimise the impact on journey times.
  - | The requirement for fast and reliable journey times suggests a strategy based on off-board ticket sales.
- | Ease of Use.
  - | The fares and ticketing structure should be clear and simple for passengers.
  - | Reliability. Payment mechanism (e.g. ticket machines or other) should be technically reliable, and also sufficient to cater for forecast demand at each stop (i.e. to minimise queuing at stops to obtain tickets).
- | 'Full Journey' Integration
  - | A range of ticket options should be available to encourage multi-modal and multi-leg trips.
- | Utilise Emerging Technology
  - | The system should use, and be capable of utilising, emerging technology to facilitate the provision of information and enable 'smart' ticketing (whether card based, or mobile phone).
  - | It should seek to avoid or minimise adoption of ticketing elements that could become obsolete in the near future.

### *Fares & Revenue Protection Objectives*

- | Pricing
  - | Concessions. The pricing system should not discourage socially desirable journeys, e.g. for deprived residents. Concessionary travel should be available on NGT as it is classified as a bus service within ENCTS
  - | Public Transport Corridor Users. The principle here is that the pricing of NGT would be broadly equivalent to bus fares.
  - | Park and Ride. The pricing of P&R does not have the same social or equity dimension, and the pricing should therefore reflect the need to ensure overall value for money and the schemes commercial requirements.
- | Structure
  - | The structure should be simple to understand.
- | Revenue Protection and Collection

- | The strategy adopted should seek to minimise the net cost to the NGT system measured through the net financial impact of:
  - | Revenue loss through fraud or non-payment.
  - | The operating cost of revenue protection and collection.
  - | The strategy should also consider passenger benefits e.g. security and usage benefits of conductors, impact of ticket validation on journey times.
- | Flexibility
  - | The fares levels should be capable of being updated regularly and cost-effectively.
  - | The ability and costs associated with altering the fares structure should also be considered, which will be dependent on where revenue risk lies and how much pricing becomes contractually fixed between Metro and the operator.

### *Overarching Objectives for Fares and Ticketing*

- 2.5 The principles above represent the key facets that the fares and ticketing strategy should seek to achieve. We suggest the options need to be considered in terms of their impact on two overarching objectives:
- | **Value for Money.** This represents the overall economic efficiency of the scheme, which is the best proxy for the wider economic objectives of the scheme. Essentially the fares and ticketing strategy should aim to maximise the scheme's potential value for money.
  - | **Commercial Impact.** A core requirement of the scheme is that its revenues must exceed its operating costs, and the fares and ticketing strategy must support this.

### *Other Framework Elements*

- 2.6 The categories above reflect framework criteria that relate directly to NGT objectives.
- 2.7 The overall assessment must also consider the constraints that may limit the implementability of a regime, and also wider impacts of any fares and ticketing strategy. We therefore suggest the framework include the additional categories:
- | Constraints
    - | Legal constraints
    - | Technical or technological constraints
  - | Wider Impacts
    - | Bus network impacts - commercial
    - | Bus network impacts - passenger
    - | Other

Assessment Framework

2.8 The proposed framework for assessment is presented in Table 2-2.

TABLE 2-2 ASSESSMENT FRAMEWORK

	Guiding Principle
Ticketing Objectives	<p>Minimise journey times</p> <p>Ease of Use</p> <p>'Full Journey' Integration</p> <p>Utilise Emerging Technology (eg mobile phone and ITSO Smartcard technology)</p>
Fares & Pricing Objectives	<p>Pricing:</p> <p>Concessions. The pricing system should not discourage socially desirable journeys, e.g. for deprived residents. Concessionary tickets should be provided.</p> <p>Pricing should reflect the need to ensure overall value for money and the schemes commercial requirements.</p>
	<p>Structure</p> <p>The structure should be simple to understand.</p>
Revenue Protection Objectives	<p>The strategy adopted should seek to minimise the net cost to the NGT system measured though the net financial impact of:</p> <ul style="list-style-type: none"> <li>• Revenue loss through fraud or non-payment.</li> <li>• The operating cost of revenue protection and collection.</li> </ul> <p>The strategy should also consider passenger benefits e.g. security and usage benefits of conductors, impact of ticket validation on journey times.</p>
Flexibility	<p>The fares levels should be capable of being updated regularly and cost-effectively.</p> <p>The ability and costs associated with altering the fares structure should also be considered.</p>
Overarching Objectives for Fares and Ticketing	Value for Money & Intergration
	Commercial Impact
Constraints	Legal / Procurement
	Technical / technological
Wider Impacts	Bus operations (commercial perspective)
	Bus operations (passenger perspective)

## 3 Legislative Context

### Summary

- 3.1 The Fares and Ticketing strategy reflects the preferred approach to procurement for the scheme. This utilised NGT to be procured through a competitive tendering method. Metro will therefore have significant freedom to specify the actual fares to be charged and the ticketing structure to be adopted on NGT services. The few limitations are specified in the Appendix.
- 3.2 However, if NGT were delivered through non-procured partnership arrangements with one or more bus operators, Metro would have significant restrictions on its ability to specify price levels and ticketing structures. Prices could only be limited through the 'maximum fares' provisions.
- 3.3 Metro can make a Statutory Ticketing Scheme requiring that operators offer integrated ticketing between NGT and other commercial bus operations (and other modes), but cannot specify the prices for such tickets.

### Introduction

- 3.4 Appendix A outlines the current restrictions on fares and ticketing for tendered and commercial bus services. This section summarises the key points coming out of the legislation affecting the setting of fares and general ticketing arrangements which derive from the 1998 Competition Act and the 2000 Local Transport Act (as amended by the 2008 Local Transport Act)

### Competition Act 1998

- 3.5 In general, bus operations within the UK fall under the Competition Act 1998 which prohibits agreements that prevent, restrict or distort competition and also prevents abuse of a dominant market position.
- 3.6 However the Act does recognise that some agreements would be exempt from the prohibition providing such agreements satisfy and are proportionate to certain specified criteria, and that providing competition is not significantly eliminated by such an agreement.
- 3.7 The Secretary of State has defined a Block Exemption for public transport ticketing schemes which clarifies which types of ticketing schemes meet these criteria:
- | Multi-operator Travel Cards (MTCs)
  - | Through Tickets (TTs)
  - | Multi-operator Individual Tickets (MITs)
  - | Short and long distance add-ons
- 3.8 Restrictions and limitations which apply to their use are described in the Appendix.

### Statutory Ticketing Schemes

- 3.9 The Local Transport Act 2000 gave powers to Local Transport Authorities (LTAs) to make ticketing schemes in which the LTA requires that operators set up arrangements to offer one or more of the multi-operator ticket types allowed for in the Block Exemption (paragraph 3.7 above).

- 3.10 Again, there are some restrictions and limitations applicable to such Schemes which are detailed in the Appendix.

### **Local Transport Act 2008**

- 3.11 Amongst a number of other items, the Local Transport Act 2008 introduced or strengthened various arrangements which cover the legal relationship between LTAs and bus operators:

- | Voluntary Partnership Agreements (VPA):
- | Quality Partnership Schemes (QPS):
- | Qualifying Agreements (QA):
- | Quality Contract Schemes (QCS)

- 3.12 In particular, the Act introduces reduced level of competition tests for VPA and QPS.

#### *Effect on Fares and Ticketing outside QCS - Maximum Fares*

- 3.13 VPA and QPS both feature the concept of maximum fares, where caps exist below which operators are free to charge their own fares. The difference between the two arrangements is that in a VPA such maxima are voluntarily agreed by parties to the agreement, whereas in a QPS such maxima are set by the LTA (after due consultation). In summary :

- | Maximum fares can be specified for any and all specific journeys
- | Maximum fares can be specified for all ticket types
- | Maximum fares can be specified for any passenger type
- | Any maximum fares should not be so low as to force most operators to charge them.
- | Maximum fares should, broadly, be cost based and reasonable.

The word specify is used to refer to “agreed” or “set” as appropriate to VPA or QPS.

- 3.14 In all cases the relevant competition test would need to be passed. Specifically, within either a VPA or QPS, operators must not agree to actually charge a maximum fare, as this would fail the Competition Test.

### **Procured Services**

- 3.15 There are three mechanisms within which it is permissible to procure bus services through a tendering process:

- | Quality Contract Scheme
- | 1985 Act Tendered Services
- | Transport & Works Act

- 3.16 In these circumstances, there are no restrictions on the fare and ticketing arrangements except that they must not have a significantly distorting effect on other commercial bus services. In practice this means that the specified tariff should not be significantly lower than closely parallel commercial services.

## 4 Developing a Preferred Fares and Ticketing Strategy

- 4.1 This chapter uses the Fares and Ticketing Objectives and guiding principles to inform the development of a preferred fares and ticketing strategy for NGT.
- 4.2 There are essentially two components to this. The first is to establish what the central tenets of the strategy should comprise, based on what the F&T system should deliver in order to meet the F&T objectives. This is essentially an output specification for a fares and ticketing strategy, and reflects the key principles that the strategy should adhere to.
- 4.3 The second element is to consider the means and mechanisms by which the strategy is delivered. This seeks to identify the most appropriate solutions (inputs) to deliver that specification.

### Summary of Preferred Strategy

- 4.4 A summary of the preferred strategy is set out in Table 4-1. This highlights:
- | The Strategy Area
  - | The Recommendation (the fares and ticketing 'output' specification - what the strategy should deliver.
  - | The rationale for the recommendation, alongside the fit with fares and ticketing objectives.
  - | The delivery mechanism for meeting the 'output' specification in summarised in the Table, with a more detailed discussion of this in Chapter 5.
- 4.5 The remainder of this Chapter sets out the central recommended features of the Fares and Ticketing Strategy,

TABLE 4-1 FAREAS & TICKETING STRATEGY - SUMMARY

Strategy Area	Recommendation (F&T output spec)	Rationale	Fit with Objectives	Delivery Mechanism	Key Issues
Fares Strategy	Corridor Fares - to be set at a level broadly equivalent to bus, but simpler structure.	Existing PT users should not pay premium.	Equity - should not disadvantage existing PT users.	Promoter should set fares. Mechanism to set/agree fare dependent on procurement.	Simplified fares will mean shorter trips may incur higher fare than current bus fares.  Fares could be either flat fare (per trip) or time based (which would not penalise NGT interchange trips)
	Retain flexibility on P&R fares.	P&R Fares should be based on balance of VfM & commercial considerations. Can also be used to manage P&R capacity.	P&R fares can be optimised to deliver either Value for Money or commercial objectives.  Equity issues are less of an issue for P&R segment.	Promoter can set fares depending on objectives. Mechanism to set fare dependent on procurement.	Charges associated only with parking attract VAT
	City Centre Loop - No 'free' NGT operation in city centre section.	Cost of additional enforcement & revenue loss make this commercially unattractive.  Concessionary users will be able to travel free (as	Required to support commercial viability of NGT.  Free city centre trips add complexity from passenger perspective.	n/a	Potential to reconfigure city centre loop services to complement NGT.

Strategy Area	Recommendation (F&T output spec)	Rationale	Fit with Objectives	Delivery Mechanism	Key Issues
		would Metrocard holders)			
	Concessions	All concessions would be valid on NGT.	Supports social inclusion objectives.	As per current arrangements.	
Fares Structure	Flat or 2 Zone fares structure.	Simple and easy to understand for passenger.	Ease of use & transparent.  Simple system reduces boarding times.	Fare could be either trip based or time based.	Needs to consider potential impact on:  1. short distance trips.  2. multi-leg trips
Multi Operator and Multi Mode Fares	Retain & strengthen existing Multi Operator and Multi Mode Fares.	Metrocard and Day Rover structure already in place.  Consider strengthening existing arrangements through Statutory Ticketing Scheme in terms of requirement to participate and range of products	Enables Integration. Facilitate ease of interchange & multi-mode / leg trips	Extension of current arrangements	

Strategy Area	Recommendation (F&T output spec)	Rationale	Fit with Objectives	Delivery Mechanism	Key Issues
Vending & Revenue Protection	<p>Encourage off-vehicle ticketing.</p> <p>Conductors on-board.</p> <p>Maximise use of newsagents, travel offices to sell tickets.</p> <p>New kiosks at key locations e.g. at the P&amp;R sites.</p>	<p>Minimise journey time impacts through off-vehicle ticketing and availability of conductors on-board.</p> <p>Conductors would add passenger security and information, provide revenue protection, sell tickets.</p>	<p>Minimise journey time impacts.</p> <p>High quality system through conductors - security, information.</p>	<p>Proposed approach:</p> <p>Conductors</p> <p>Ticket sales as variety of outlets and on-line, and limited number of TVMs.</p>	<p>Limited range prices for on-board conductor ticket sales</p> <p>Does not meet equity objectives</p>
Smartcards	<p>The NGT system should use, and be capable of utilising, emerging technology to facilitate the provision of information and enable 'smart' ISTO ticketing (whether card based, of mobile).</p>	<p>To ensure the benefits of emerging technology are incorporated onto NGT.</p>	<p>To deliver ease of use and convenience to passengers, and improved system efficiency.</p>	<p>NGT to utilise emerging ITS0 smartcard technology and systems, rather than set up an NGT specific system.</p>	

## Ticketing and Fares - Strategy Recommendations

- 4.6 This section examines and recommends what the central tenets of the fares and ticketing strategy should comprise. It focuses on what the fares and ticketing strategy should deliver. The following section then discussed the delivery mechanism for this, where more detail is provided on the preferred approach.

### Fares Structure

#### *Current Bus Fares (September 2009)*

- 4.7 To set the context of the NGT fares and ticketing proposals it is useful to consider the offer from the major bus operator in Leeds which has the following adult fares:

- | Single Fares<sup>1</sup>
  - | 90p - up to ½ mile
  - | £1.20 - ½ to 1 mile
  - | £1.70 - 1 to 3 miles
  - | £2.50 - over 3 miles (discounted to £2.20 off-peak)
- | No Return Fares, but Day Tickets available
  - | £4.00 across West Yorkshire all day
  - | £3.20 in Leeds off-peak
- | Weekly Tickets, sold on bus
  - | £17 all Leeds
  - | £10 valid in inner "Green" area<sup>2</sup> ~ 2 to 3 miles from Leeds centre
- | Monthly, 3 Monthly & Annual tickets, sold at travel shops or on internet
  - | £60, £175 & £620 respectively - valid across West Yorkshire
- | Bus Only Metrocard
  - | £19.50 all West Yorkshire, per week

- 4.8 Child single fares are half price and a child day ticket is available.

- 4.9 The national concessionary fares scheme is in force and a West Yorkshire discretionary scheme exists giving free travel to additional qualifying concessionary travellers.

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<sup>1</sup> For journeys to/from Leeds city centre, only 3 NGT stops are over 3 miles

<sup>2</sup> Confusingly, the Green area does not correspond with and is smaller than the coverage of £1.70 single fares to/from Leeds city centre

- 4.10 Commercial discounted tickets are offered to students.
- 4.11 The current average forecast distance for bus trips in the NGT corridor is between 2 and 2.5 miles. The average bus fare for the NGT corridors is around £1.30 (excluding concessions) at present. This is lower than the single fare for this distance since it also reflects the impact of day and seasons tickets.

*NGT Revenue Model*

- 4.12 The NGT patronage and revenue model uses the existing bus fare structure with a tapered distance based tariff.

**Recommended NGT Fares Structure**

- 4.13 The recommended fare structure is aimed at achieving a simple, easy to understand system that also minimises impacts on journey times. The key features are as follows:
- | Flat single fare. If technically feasible, single fares will be valid for a specified amount of time rather than one single vehicle journey. This arrangement eliminates the issue of passengers over-riding having bought a 'short hop' ticket. It also eliminates the need for passengers using Smartcard 'pay as you go' to have to use the Smartcard readers when alighting from the bus. The cost of a back office would also need to be reflected.
  - | To incentivise off-bus ticket sales - whether this is by discounting off-bus, charging a higher fare on-bus or a mixture of the two is to be evaluated. There are pros and cons with each approach<sup>3</sup>.
  - | In terms of tickets available for purchase, we recommend this include:
    - | Carnets of single tickets (providing a suitably secure ticketing system is adopted).
    - | Flat rate day and season tickets will be sold. Decision whether to offer an off-peak discount left open.
    - | Reduced rate child tickets will be offered for single and day tickets and other products in line with Metro policies.
    - | Statutory and discretionary concessionary arrangements will be applied in an identical fashion to other local bus services
  - | Individual commercial arrangements may be entered into (e.g. with University, hospitals or other large employers). This is discussed in the next Chapter.
- 4.14 We recommend that no return fares will be offered as this would be in line with current bus pricing and would also be consistent with a Flat Fare approach.

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<sup>3</sup> The competitive response, if any, by parallel commercial bus services will be one of the factors involved in making this decision

### Multi-Operator and Multi-Mode Fares

- 4.15 The recommended strategy is to build on the current range of tickets:
- | Metrocard
  - | Day Rover
  - | Plusbus
- 4.16 The development issues are really more general PTE items but include:
- | Review range of products for missing items - e.g. multi-operator day ticket valid in morning peak
  - | Consider making one or more Statutory Ticketing Schemes to protect current products
  - | Consider using maximum fare facility within statutory Quality Partnership Schemes to cap price of such products<sup>4</sup>

### Pricing Strategy

- 4.17 The pricing strategy for each key market is outlined below.

#### *Corridor Fares*

- 4.18 The recommendation is that fares along the corridor should be broadly equivalent to bus. Given that we recommend a single fare should operate within the corridors (i.e. for any non-P&R trip), the corridor fare would be set at a level comparable with bus (bus fares for trips of 1-3 miles are £1.70 in today's prices, so NGT would be priced within a range around this value e.g. £1.50 to £2). The price at opening would clearly reflect the average bus fares and fare structure operating at the time, but the principle that NGT would be comparable to bus would guide the setting of the NGT fare.
- 4.19 The basis for this assumption is primarily the principle that NGT passengers, a proportion of which would be former bus users, should not have to pay more for the NGT service compared with their current bus journey. The option for passengers making very short journeys (which have lower bus fares) is that they could continue to use existing bus services, and these would also have their stops closer together than NGT.

#### *Park & Ride Fares*

- 4.20 The P&R market is largely distinct from the corridor market and, as such, enables a different price to be levied. There are several issues around P&R fares, which reflect the different objectives that could potentially be met:
- | Modal shift - in order to maximise modal shift a low P&R fare could be set, which would attract more transfers. This has to be tempered to avoid encouraging existing bus users on other routes from using cars to drive to the P&R sites.

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<sup>4</sup> Subject to 'competition test' and possible operator objection as laid down in QPS legislation

- | Revenue Maximising - P&R fares could be set commercially to maximise overall P&R revenue. This could imply a premium fare, provided that NGT offered an attractive alternative to car use for trips to the city centre.
- | Capacity - If there are capacity issues, either at the P&R site or on the system generally, P&R fares can be set to help manage demand.
- | Value for Money - Fares could also be set to maximise overall value for money, which reflects the maximum total benefit (to either passengers or operators) for a given level of cost.
- | City Centre Car Park Pricing - The P&R rate needs to be sufficiently lower than the cost of city centre car parks so as to incentivise car users to use the P&R sites and thus not drive into the city centre.

It is also feasible to use combinations of these approaches with variations at different times of day.

- 4.21 It is quite probable that the setting of fares will need to reflect a balance of these objectives, and will need to be informed by more detailed demand and capacity analysis, and sensitivity testing.
- 4.22 The recommendation, at this stage, is that no fares 'policy' should be set for P&R trips, in order that the fares can be set to meet specific objectives (which may be different at different points in time).

### *City Centre Fares (Loop)*

- 4.23 We recommend that there should be no separate fare for trips wholly within the city centre. While this might be attractive from a city centre dispersal perspective (e.g. from Leeds Rail Station), the issues around additional complexity, possible crowding off of longer distance NGT users, cost of enforcement (to discourage over-riding for free), and the revenue loss to NGT make this unattractive. In addition, concessionary travel would still be available on NGT.

### **Smartcards**

- 4.24 The NGT system should use, and be capable of utilising, emerging technology to facilitate the provision of information and enable 'smart' ticketing (whether ITSO card based, or mobile phone).
- 4.25 We assume that by the introduction of NGT, Smartcards (or other suitable electronic method) will be available. These permit the secure sale of:
- | Stored value carnets of specific tickets (e.g. 10 for the price of 9)
  - | Best value "pay as you go" deductions from user account
  - | Season tickets
- 4.26 It would be the intention that the NGT smartcards would be integrated such they could be used for NGT, multi-operator (all bus) and multi-mode products.

## Vending and Revenue Protection

- 4.27 A wide range of potential revenue protection and vending options are possible, and many of the options are inter-related.
- 4.28 The key measures by which potential options (and combinations of options) are:
- | Commercial performance (net revenue)
    - | Costs of operation & staff
    - | Rate of fare evasion
  - | Benefits to Passenger (F&T objectives, and also proxy for VfM)
    - | Journey time impact
    - | Ease of use - regular & occasional passengers
    - | Security related benefits
    - | Benefits of staff presence - information etc.
  - | Other considerations
    - | Obsolescence
- 4.29 Having reviewed the five main methods of ticket vending<sup>5</sup> our recommended proposed vending solution is:
- | On vehicle roving conductors undertaking the following duties:
    - | Customer care and information
    - | Sales of a limited range of tickets at premium prices
    - | Random ticket checking for revenue protection
  - | Limited use of ticket vending machines at some busy locations
  - | Selling of tickets and initial purchase of smartcards at Metro Travel Centres, and though suitable shops (such as 7-11 stores) as agencies, including possibility to franchise provision of such facilities at Park & Ride sites
  - | Use of internet sales, including for sale of smartcards
  - | Smartcard type ticketing would be used where possible including the possibility of disposable paper smartcards for on bus sold single fares
- 4.30 We believe that this vending arrangement will maximise customer care and keep ticket fraud at a manageable level. The ticket checking role of the conductors can be enhanced by random ticket checks by supervisory staff.

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<sup>5</sup> On bus from fixed point (i.e. driver or seated conductor), on bus roving conductor, off bus unstaffed ticket vending machines, off bus staffed locations, e.g. agencies, travel shops; and internet

- 4.31 More detail is set out on the rationale for the selection of this vending and revenue protection recommendation (and rejected alternatives) in the next section.

### System Flexibility

- 4.32 There is a need to ensure that the overall fares and ticketing strategy is flexible in terms the ability to be capable of being updated regularly and cost-effectively.
- 4.33 This ability is particularly important in the context of a competitive bus market, where there is the possibility of operators to compete with NGT through a variety of means e.g. reduce fares, retain / increase current service levels or to compete on quality. The inherent advantages of NGT mean that competitive responses are most likely to be short-term, and most likely prior to and alongside the introduction of NGT, with the aim of undermining the commercial viability of NGT.
- 4.34 An understanding of likely bus competitive responses, and of possible NGT strategies in response to this, requires further analysis of key market segments. However, any response strategy will need to be implemented quickly and efficiently if the response is to be effective.
- 4.35 There are two main elements to the ability to respond:
- | Technical flexibility - can the F&T system (e.g. prices / structure) be changed quickly in response to fares competition?
  - | Decision Making - can decisions be made quickly?
- 4.36 These are each discussed in the next Chapter.

## 5 Fares and Ticketing Strategy - Mechanism for Delivery

5.1 The previous Chapter set out the fares and ticketing strategy in terms of the key elements that the fares and strategy should deliver - essentially an output specification. This Chapter describes the combination of fares and ticketing options that can deliver this specification. The pros and cons of different individual options are discussed with overall recommendations (viable combinations of individual elements) presented at the end of the section.

### Pricing Strategy - Procurement Issues

5.2 The pricing strategy described in the previous section requires that fares would be set or regulated in some way.

5.3 The mechanism by which this would be delivered would vary depending upon the procurement route, and is summarised in Table 5-1.

TABLE 5-1 REGULATION OF NGT FARES

Procurement Option	Fares Setting Ability and Issues
Contract/Concession - Metro takes revenue risk	Metro has ability to specify and control pricing Metro incurs cost of revenue protection, either by direct staffing or funding incentive regime in operating contract
Contract/Concession - Operator takes revenue risk	Contract can determine pricing. Operator will price risk of uncertainty in patronage projections. Potential cause of conflict if operator needs more revenue and Metro wishes to control prices Operator automatically incentivised to protect revenue
Contract/Concession - Metro & Operator share revenue risk	As a "half way" house can contain best and/or worst of previous two options Achieving 'right' balance will be determined by negotiation and trade off between parties
Voluntary Partnership Agreement	Option ruled out through procurement working group. Operator retains absolute control on price levels Ticket structure can be agreed between Operator and Metro Maximum fares can be agreed between Operator and Metro (or set by Metro if statutory Quality Partnership Schemes are also made by Metro)

5.4 Each option has a number of pros and cons, and the broader procurement issues are beyond the scope of this note.

5.5 However, in terms of the ability to set fares, all but the Voluntary Partnership Agreement would enable the Promoter to have control in the setting or regulation of fares.

**Fares and Ticketing Options - NTG Corridor**

5.6 The previous chapter set out the principle that NGT fares should be comparable with the prevailing bus fare, with a flat fare structure (except at P&R sites). This section looks at how this could be delivered in practice.

*Single Tickets versus Time Based*

5.7 Single tickets could either be a single trip ticket (as current bus) or a time based ticket, which would allow interchange between NGT services.

5.8 The key pros and cons of each are:

TABLE 5-2 TIME BASED VERSUS SINGLE TRIP TICKET OPTIONS

	Single trip	Time based
Pros	<p>Consistent with current bus operations, therefore simple to understand.</p> <p>Simple to enforce as once bought, a single paper ticket is not usable again.</p> <p>No technology needed for ticket - a simple paper ticket suffices.</p>	<p>Does not penalise interchange trips.</p> <p>Can be used as a return ticket for short journeys for short time errands</p> <p>Can be extended to a zonal based tariff if the system expands or the market dictates varying fares.</p>
Cons	<p>Penalises interchange trips. (pricing of day rover can reduce effective penalty, but may then undervalue the day ticket and reduce revenue)</p> <p>If combined with distance or zonal pricing can lead to over-riding problems</p>	<p>To be financially secure it depends on the ability to check that a ticket is valid for 2<sup>nd</sup> and subsequent journeys within the time limit. Dependent on technological and/or people based checks which can fail or be distorted</p> <p>New product could add complexity from passenger perspective.</p>

*Short-Distance Trips - The Issue*

5.9 For short-distance trips, where current bus fares for trips of up to ½ mile and 1 mile cost 90p and £1.20 respectively, and the recommended ‘flat’ NGT fare would effectively represent a significant premium. Any strategy for NGT would need to reflect and integrate with the current student plus tickets.

5.10 The first issue here is whether the suggested higher pricing of NGT for these movements matters, either from a commercial perspective or from an equity perspective. In terms of equity, the availability of concessions on NGT would mean that entitled users would get free travel. From a commercial viewpoint there would

be a trade-off between the reduced short-trip demand for NGT and the increased yield per passenger.

- 5.11 A key demand segment for short distance trips is University students, where many movements to town form the University and between University and locations along the Headingley corridor would be under a mile. From a policy perspective is not considered attractive to 'price-off' potential student demand, and the adoption of a flat fare is not likely to be commercially attractive when considering students as a discrete market segment, due to their sensitivity to price. There are two potential options (these are not mutually exclusive) to address this would be:

**Option 1** - To provide a bespoke time-based ticket to allow the outward and return leg to take place within a given time threshold e.g. 1 hour. This would be priced at a discount compared to the standard single (e.g. it could be equivalent to the £1.70 single but permit two trips).

| The pros of this option are:

- | It provides an effective cheaper fare for shorter-distance trips.
- | It would not require a separate 'product' if time based tickets were the proposed ticketing method for the NGT system.

| The cons are:

- | It relies on the return leg being made within a given time threshold. The threshold would have to be set short enough to discourage longer-distance trips from using the product (to avoid loss of revenue). This places quite a strict constraint on the amount of time someone can spend at their journey destination (e.g. in town or at University).
- | The time constraint would mean that most trip purposes (e.g. going to Lectures, going into town for entertainment purposes, leisure shopping) would remain at a higher charge.
- | There may be concerns from retailers and others that incentivising quick 'pop in, pop out' trips may discourage economic activity in central Leeds or Headingley.
- | If provided as a separate 'product' it would adds additional complexity to the ticketing mix, and therefore erodes the objective of making the system clear and simple to use.
- | It would be hard to enforce, and would create enforcement issues if people travelled just outside the designated time threshold.

- 5.12 **Option 2** - To encourage and provide products aimed specifically at University Students (could equally apply to other large employers e.g. the Hospitals). This would comprise either a discounted term pass and/ or discounted carnet-type products.

| The pros of this option are:

- | If the product is sufficiently attractive, and well marketed, it should encourage greater overall usage on NGT as well as meet the objective of providing reasonably prices travel to students.

- | It does not complicate the general ticket mix.
  - | The cons are:
    - | It can only apply to a proportion of potential users - there will be some non-concession, non-student trips that would still have to pay more for shorter distance trips.
    - | It would not (in all probability) be available to students other than through bulk-purchase options (i.e. not available for one off discretionary trips).
    - | The product would be generic, and does not target short trips per se. The effect of this is therefore that longer distance (higher value) trips would also be discounted.
- 5.13 It shouldn't be forgotten that for nearly all such journeys alternative short hop fares will exist on parallel bus routes.

### *Short-Distance Trips - Recommendation*

- 5.14 On balance, we believe *at this stage*, Option 2 provides an attractive option irrespective of whether ticketing is based on a single trip or is time based:
- | It offers potential for NGT to establish a greater share of the student market though active promotion of NGT products.
  - | Other short distance users are not significantly disadvantaged - those on concessions would face no financial loss, and other users would retain the option of using conventional bus.
- 5.15 The option of a time based ticket could be implemented in conjunction with bespoke University 'products', and would permit students and other users the potential to undertake return journeys at a discount. This would be possible in any event if time-based ticketing were the preferred ticketing method.
- 5.16 Our recommendation is that a time-based ticket for short distance trips is only viable and attractive if all tickets are time based - i.e. there should not be a mix of flat fares and time based. This is in order to retain the 'simplicity' of a simple fare structure and ticketing offer.
- 5.17 The recommendation above represents a recommendation at this point in time, but would be subject to further commercial analysis to consider the revenue implications of implementing time based ticketing.

### *Multi-Leg NGT Trips - The Issue*

- 5.18 Multi-leg NGT trips, where for single ticket purchases two singles would be required. The issue here is that trips requiring interchange between two NGT services (e.g. from Stourton to Headingley would require interchange<sup>6</sup> would require two single tickets to be purchased, costing double the fare of equivalent distance direct NGT

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<sup>6</sup> This is the case in the current thinking on route patterns, though these are not fixed for 'ever and a day'

journeys. This is both anomalous and very unattractive, and appears unfair, from a passenger perspective.

5.19 There are 2 options here:

- | Option 1 - To have time based ticketing (see above) in which case there is no financial penalty associated with interchange.
- | Option 2 - To price the NGT 'Day Pass' be priced at the cost of two single trips (or possibly slightly less to encourage purchase of this rather than two singles for general trips). This means that, in most instances, the effective cost for multi-leg trips is no more than for direct services. There would be exceptions where the interchange would impose a double price penalty, for example where the return trips does not take place on the same day, or if such a trip is purely single (specifically OAPs pre 0930), and the day ticket does not help. The limited extent of the NGT network (e.g. compared with bus) means that the products effective use as a 'travelcard' would be limited. The key trade-off is a financial one, whereby a higher price for NGT day passes could be levied to attract passengers that would use NGT for several journeys over the day (e.g. to work, and then in the evening). With this option there would be an effective premium, for example, a peak day pass could cost £4 compared with two singles at £3.40.

**Multi-Leg NGT Trips - Recommendation**

5.20 The recommendation for this depends on the ticketing regime adopted, and is summarised below.

**Summary of Ticketing and Fares Options & Recommendation**

5.21 There are essentially two single ticket options - flat fare and time based. Each of these are associated with different sub-options around fares and ticketing which present 2 overall options centred around either a 'Single Trip' option or a 'Time Based' option. The pros and cons that are set out in Table 5-3 below.

TABLE 5-3 SUMMARY OF FARES AND TICKETING DELIVERY OPTIONS

	Single trip - Flat Fare	Time based - Flat Fare
Inherent pros / cons	Simple but penalises interchange.	New product - could add complexity (in terms of overall PT market).
<b>Associated Measures</b>		
Short distance trips	Concessions free. Offer discounted Student / Hospital products.	As per Single - includes potential to offer discounted Student / Hospital products.  Also possible for 2 return trip to be made within time threshold.

## Fares & Ticketing Strategy Options

	Single trip - Flat Fare	Time based - Flat Fare
Multi-leg NGT trips	Penalty on single. Mitigate by offering day ticket at price of two singles (or lower), but constrains freedom to price day ticket for larger market	No issue.
Smartcard issues	No specific issues.	No specific issues.
Enforcement / revenue protection		Possible enforcement issues at 'time' margin.

### *Summary and Recommendation*

- 5.22 Both options are viable and would deliver the key specification that the NGT fares and ticketing strategy seeks to deliver.
- 5.23 The key recommendations at this stage are:
- | Both 'single trip' and 'time based' flat fare options are viable, with the time-based single offering the benefit of facilitating free interchange between NGT services.
  - | The issue of an effective high price for short distance trips is not an issue in general, as concessionary users would travel free on NGT. There is a specific issue in making the system attractive to the student market, which we suggest is best addressed through the development and marketing of bespoke 'products' providing students with discounted term-time travel. This model could be extended to other major employers e.g. Hospitals.

Fares and Ticketing Options - Park & Ride

5.24 As discussed in the previous chapter, the selection of park and ride fares can be based on the need to meet a variety of objectives. There are a number pricing options within this that can be considered, depending upon the primary objective to be achieved. These are presented in Table 5-4.

TABLE 5-4 PARK AND RIDE PRICING OPTIONS

Option	Benefits	Issues
Pay to park - free transport	Incentivises car sharing - encourages family use	Need to provide car park ticketing equipment, entry barriers, etc.  Difficult when transport is shared with non P&R users  Need to ensure that non P&R NGT users cannot travel free  VAT chargeable on parking (but not fares)
Free parking - pay for transport	Easily in line with non P&R users  No revenue protection issues	Becomes expensive for 'full' carloads  Bespoke discounts can be offered to offset this - e.g. accompanied children travel free.  Need to consider potential need for car barriers & control to deter parking by non-NGT users (e.g. accessing local developments).
Pay to park - pay for transport	Consistent with previous arrangement - car park charge can be limited to certain times of day permitting yield management whilst retaining simplicity of 'transport only' pricing	Need to provide car park ticketing equipment, entry barriers, etc. VAT chargeable on parking (but not fares) element

5.25 In addition to the options above, further considerations include:

- | Could have bulk discounts - group tickets, free children, etc.
- | Consider differential P&R fares between peak and off-peak.

5.26 We recommend the issue of P&R fares and payment options are considered in more detail through further scheme development, informed by further modelling and appraisal analysis.

## Vending & Revenue Protection - Options

### *Vending Options*

5.27 Vending options are:

- | On vehicle sales from staffed fixed point(s) - i.e. from driver and/or seated conductor.
  - | fares sold 'on bus' can be subject to a higher price to discourage use.
- | On vehicle roving conductor - can be enhanced at busy periods or locations by additional staff either on or off vehicle
- | Off vehicle through ticket vending machines (TVM) at bus stops and other suitable locations
- | Off vehicle through travel shops, agencies and internet
  - | Validation of off vehicle sold tickets can be by on vehicle staff, self validation methods (e.g. Smartcard reader) or random revenue protection.

5.28 Some combinations of these are also possible.

5.29 The pros and cons are presented in Table 5-5 below.

### *Revenue Protection Options*

5.30 Options are:

- | Vehicle with driver or seated conductor (such as in Amsterdam, where the conductor is within a separate onboard kiosk) selling/checking tickets has high ticket purchase but can suffer from 'over-riding' (eliminated by flat fare). Can be monitored with very low levels of ticket checking - e.g. The whole of First West Yorkshire, including York, has only a very limited number of ticket inspectors for a very large fleet of buses. Penalty of longer journey times.
- | Vehicle with roving conductor selling/checking has lower level of ticket purchase, particularly at busy periods - due to inability of conductor to get round vehicle and 'head in newspaper' passengers. Can be offset by additional conductors on busy trips and/or on pavement at busy stops. Some need for revenue protection but can be sensibly provided by existing supervisory staff on a sample basis as on Sheffield Supertram for a fleet of 25 trams.
- | Unstaffed vehicles with off vehicle purchase (with or without on vehicle cancelling) features much higher levels of fare evasion (15% to 20%). Brings requirement for teams of revenue protection staff - e.g. approx 70 staff at Manchester Metrolink, for a fleet of 32 trams. Hassle of imposition of penalty fares and cost of collection. Irregular customers find system unfriendly due to no human contact.

TABLE 5-5 VENDING OPTIONS - PROS & CONS

	Journey time impact	Customer Care impact	Cost of collection	Revenue protection	Other
On vehicle sales from staffed fixed points	High if only driver used. Impact with seated conductors depends on vehicle design	Personal contact for all transactions. Effect reduced if security screen used	Low if only driver used. Medium with conductors	Good, but dependent on honesty of drivers and conductors	Good staff safety if safety screens used
On vehicle roving conductor	Low so long as conductor is not also operating vehicle doors	Good Popular on other systems where employed	Same as with seated conductors	Higher requirement than seated, due to opportunity for passengers to avoid payment	
Off vehicle (TVM)	Reduced boarding time through off-vehicle vending.	Poor as little human contact with users. Problem for irregular users and visitors to area.	Staff required to empty cash from machines. Also need to repair and maintain machines. Significant team of revenue protection staff required	Such systems are known to be prone to users not buying tickets and taking risk on being caught. Revenue losses typically between 10% and 20%. High cost of revenue protection staff	Risk of machine vandalism and theft  If machines breakdown, users cannot buy tickets.
Off vehicle (Shops / agents / kiosks)	Reduced boarding time through off-vehicle vending.	Dependent on enthusiasm of agents. Little human contact on the system itself	Same levels of revenue protection staff required, but no cash collection from agencies	As with TVM	Dependent on opening hours of agents. Can be problem early morning, late evening and Sundays

**Vending & Revenue Protection - Recommendations**

5.31 The preferred vending and revenue protection option is set out in Table 5-6, along with the key rationale for the measures proposed.

**TABLE 5-6 VENDING & REVENUE PROTECTION - RECOMMENDATIONS**

	Proposed measures	Rationale	Fit with Objectives
Off-board Vending	Newsagents / travel centres  Limited number of TVMs at key stops	Maximise off-vehicle ticket sales options.  Minimise impact of TVMs at stops - cost impact, visual impact, operational - e.g. queuing.	Minimise journey times and maximise passenger convenience through availability of tickets at a range of outlets.
On-board vending	Tickets sold at higher price on-board.  Conductor sales only (no driver sales).	Tickets on-board should be available, but discouraged through higher pricing.	Enable on-board purchase to cater for needs of irregular / unplanned journeys.  Higher prices enable conductors to fulfil customer care duties and encourage off-board purchase.
Conductors	Propose on-board conductors to:  -customer case / info  -security benefits  -sell tickets  -revenue protection	Meet quality objective of NGT through providing customer care.  Meet equity objectives through added real / perceived security.  Revenue protection function.	Economic objective - though delivering high quality system.  Social - though security measures.  Commercial - though efficient revenue protection.
Validation	ISTO Smartcard readers at every door.  Swipe 'in' only.	Simplicity - only swipe 'in' - consistent with flat fare structure.	

5.32 Park & Ride can bring a few extra complications for revenue protection, if the ticketing and/or pricing arrangements are different from the corridor fares. In these circumstances one of the P&R or corridor fares will be cheaper so there will be a need to ensure that passengers who should pay the more expensive rate cannot buy or use the cheaper one.

**Smartcards**

- 5.33 The expectation is that a back office smartcard facility will be available prior to implementation of NGT. The back office facility will cover necessary hardware, software and support services to maintain the system, and the assumption is that NGT will be able to make use of this back office facility.

**System Flexibility**

- 5.34 A central feature of the fares and ticketing strategy is that it should be flexible and responsive. Here we outline the degree of flexibility, and limitations, that the preferred strategy provides.

*Technical Flexibility*

- 5.35 The first issue is whether the fares and ticketing regime (e.g. prices / structure) can be changed quickly in response to fares competition.
- 5.36 The flat fares structure proposed means that there is ability to change prices in the short-term, but that the ability to change the structure (e.g. to compete aggressively on short-distance trips) would be limited.
- 5.37 Similarly, the flat fares structure also places limitation on the ability to reconfigure the fares regime in the future should the NGT network be expanded significantly. However, any expansion is likely to be largely within the Leeds Urban area where the typical trip length would remain in the 1-3 mile threshold upon which the flat fare is based.
- 5.38 While the flat fares structure therefore imposes some degree of inflexibility, the impact on this on the overall commercial viability of NGT is limited by the following:
  - I NGT would remain a high quality product and would therefore be likely to retain a portion of the market (e.g. short-distance trips) even in the event of aggressive competition.
  - I Short-distance trips (<1 mile) represent a comparative small proportion of total demand, and the availability of ‘student’ products (day, seasons etc.) would enable NGT to compete for this segment of the market.
  - I Concessionary travel would be unaffected by price competition.
  - I P&R is a largely distinct market where competition with NGT would be limited.
- 5.39 On balance therefore, we believe the benefits of a simple flat fares structure outweighs the potential disbenefit of not being able to implement a more graduated fares regime.

*Decision Making*

- 5.40 For NGT fares and ticketing it would be important for the Promoters to ensure that there is clear decision making process, which would also be important in enabling NGT to respond in a timely fashion in a scenario in which there was a competitive response to NGT. The nature of the process will need to be developed in due course, and will need to reflect the decisions taken on procurement, revenue risk, finalisation of the fares and ticketing strategy, successful operator, legal ability to change fares and so on.

5.41 Nevertheless, some principles can be established at this stage:

- | There may be a need to respond to competition. Some form of delegated authority will need to be established that allows NGT management to expedite changes to fares if appropriate to counter such competition (either without the need for formal approval, or with a very streamlined approval). Parameters could be set within which any delegated authority could apply (e.g. only authorised to vary fares within a given range).
- | The bounds on any potential political setting of fares could be established through an NGT charter which could, for example, establish the principle that the system revenues should seek to cover its operating costs, and that flexibility on fares policy and setting of individual fares must be developed within this requirement.

**Fares and Ticketing - Summary Scheme Definition**

5.42 A summary of the proposed mechanism for deliver of the fares and ticketing strategy is set out in Table 5-7 below:

**TABLE 5-7 FARES AND TICKETING STRATEGY - SUMMARY SCHEME DESCRIPTION**

Current Recommendation	Key Rationale
<b>Ticketing Mechanism</b>	
Flat fare, time based single smartcard tickets.  Separate fare may be levied on P&R.	Does not penalise interchange trips within NGT network.
Bespoke 'products' for target markets e.g. Students / University / Hospital staff.	Address issue of short distance trips
Detail of Park & Ride ticketing strategy to be informed by further work.	Informed by further market analysis and fit with scheme objectives.
<b>Ticketing Vending Options</b>	
<i>Off-Board</i>  Newsagents / travel centres  Limited number of TVMs at key stops	Aim to maximise off-vehicle ticket sales options.  Minimise impact of TVMs at stops - cost impact, visual impact, operational - e.g. queuing.
<i>On board</i>  Tickets sold at higher price on-board.  Conductor sales only (no driver sales).	Tickets on-board should be available, but users encouraged to pay off-board through higher on-board pricing.

Current Recommendation	Key Rationale
<b>Conductors</b>	
Propose on-board conductors to: -give customer info & care -give security benefits -sell tickets -provide revenue protection	Meet quality objective of NGT through providing customer care. Meet equity objectives through added real / perceived security. Revenue protection function.
<b>Ticket Validation</b>	
Smartcard readers at every door. Swipe 'in' only.	Simplicity - only swipe 'in' - consistent with flat fare structure. Conductors provided with smartcard enabled machines to check that tickets are valid
<b>Smartcards</b>	
System ticketing will use smartcard technology.	Smartcard technology offers convenience and more efficient boarding for passengers, and operational efficiencies. Expectation that 'back office' facilities will be in place by system opening.
<b>Fares regulation &amp; decision making</b>	
Approach to be refined as procurement process develops.	Preferred procurement route (through TWA0) provides promoter with the ability to set and control system specific fares. Consideration should be given to process by which decision on fares are taken to ensure balance between political accountability and flexibility / responsiveness.

**Further Work**

- 5.43 The recommendations above have been made on the basis of best professional judgement rather than through detailed analysis of revenue and cost impacts.
- 5.44 It will be necessary through the next stages of scheme development to undertake more detailed analysis of the current preferred option (and alternatives) to test and validate these recommendations.
- 5.45 This analysis will need to consider:
  - | Key risks and opportunities, for example around the availability and capability of smartcard technology.

## Fares & Ticketing Strategy Options

- | Ongoing evidence from elsewhere on technical issues, costs of implementation and operation, effectiveness of fares evasion etc.
  - | Evidence on passenger preferences and perceptions e.g. attitudes to conductors.
  - | Deliverability issues e.g. the ability to ensure sufficient retail outlets were willing to sell NGT ticketing products.
  - | Revenue impacts - e.g. from time based single tickets rather than per leg tickets.
- 5.46 The work involved in the above would focus on the establishing the most cost effective and beneficial (from a passenger perspective) means by which to deliver the core objectives of the fares and ticketing strategy through meeting the output specification set out in Chapter 4.

### Specification & Costing for MSBC

- 5.47 The operating costs utilised in the MSBC related to the fares and ticket strategy are summarised within the Operating Cost Assumptions Note. This section sets out the specification and costing assumed in the MSBC.

### Other MSBC Fares and Ticketing Assumptions

#### *Fares Evasion*

- 5.48 Further work is required to reflect the likely level of fare evasion.

## 6 Conclusions

- 6.1 This report sets out the preferred fares and ticketing strategy for NGT.
- 6.2 The strategy has been developed from an objective-led process to ensure the proposed fares and ticketing strategy is designed to support the wider objectives of the NGT system. The strategy has also been developed in the light of the legislative context in which the strategy would be implemented.
- 6.3 This report establishes the guiding principles that the fares and ticketing strategy should be designed to meet, and identifies a recommended output specification that the strategy should seek to deliver.
- 6.4 The detailed specification of the individual elements of the strategy represents the recommended approach that we believe will deliver the stated strategy outputs. There are a number of trade-offs, inter-relationships and detailed issues with a number of detailed elements of the strategy. This report identifies and discusses these in order to identify a recommended specification based on our best understanding of these issues at this point in time. The detailed specification should be reviewed in the light of further analysis (e.g. commercial) and other developments as part of the broader scheme development process.

APPENDIX

A

LEGISLATIVE BACKGROUND

**A1. INTRODUCTION**

This appendix outlines the current restrictions on fares and ticketing both for fully tendered and commercial services.

Since the 1980 Transport Act which abolished the need to licence bus fares with the Traffic Commissioner, the pieces of legislation that affect the setting of bus fares and general ticketing arrangements are:

- | The 1998 Competition Act
- | The 2000 Local Transport Act as amended by the 2008 Local Transport Act

**A2. COMPETITION ACT 1998**

**A2.1 General**

In general, bus operations within the UK fall under the Competition Act 1998. The Act prohibits:

- | *“agreements between undertakings, decisions by associations of undertakings or concerted practices which have as their object or effect the prevention, restriction or distortion of competition within the United Kingdom (or a part thereof) and which may affect trade within the United Kingdom (the Chapter I prohibition), and*
- | *conduct by one or more undertakings which amounts to an abuse of a dominant position in a market and which may affect trade within the United Kingdom or any part of it (the Chapter II prohibition).”*<sup>7</sup>

Section 9(1) of the Act does recognise that some agreements normally covered by the Chapter I prohibition, would be exempt provided such an agreement:

*“(a) contributes to*

- (i) improving production or distribution, or*
- (ii) promoting technical or economic progress*

*while allowing consumers a fair share of the resulting benefit; and*

*(b) does not*

- (i) impose on the undertakings concerned restrictions which are not indispensable to the attainment of those objectives; or*
- (ii) afford the undertakings concerned the possibility of eliminating competition in respect of a substantial part of the products in question.”*<sup>8</sup>

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<sup>7</sup> Paragraph 2.2, page 3, of the public transport ticketing schemes block exemption (2006).

<sup>8</sup> Paragraph 2.16, page 7, of the public transport ticketing schemes block exemption (2006).

Any agreement can be individually subjected to the above tests by the competition authorities who may refer the issue for formal resolution.

To avoid the necessity for submitting every possible scheme to a full examination, the Secretary of State has defined a Block Exemption for public transport ticketing schemes<sup>9</sup>.

## A2.2 Public Transport Ticketing Schemes Block Exemption (2006)

The block exemption defines and covers the following ticket types :

- | *multi-operator travelcards (MTCs) which entitle ticket holders to make multiple journeys on a number of different operators' services across a number of different routes, provided those routes and services are not substantially the same - bus zonal tickets and travelcards, for example, are likely to be types of MTC*
- | *through tickets (TTs) which entitle ticket holders to make a particular journey using two or more services run by different operators where those operators do not compete with each other over a substantial part of the route covered by the ticket in question*
- | *multi-operator individual tickets (MITs) where two or more different operators provide services which can be used to make a particular journey and ticket holders can choose whichever service they use to make part or all of that journey*
- | *short distance add-ons which allow passengers to purchase an MTC as an extension to a ticket on an individual local route, and*
- | *long distance add-ons which allow passengers to purchase a single-operator local service ticket, MTC or TT as an extension to a ticket on an individual long distance route.*

These specific ticket types are discussed in more detail below.

The block exemption does not cover agreements relating to, for example, joint marketing of tickets or routes. It states that such agreements would need careful consideration to establish whether the agreements would have an appreciable effect on competition.

## A2.3 Multi-Operator Travelcard (MTC)

An MTC is defined as a ticket valid:

- | *"for three or more journeys<sup>10</sup> (including unlimited travel for a particular period of time)*
- | *on any of three or more specified services*

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<sup>9</sup> [http://www.offt.gov.uk/shared\\_offt/business\\_leaflets/ca98\\_guidelines/oft439.pdf](http://www.offt.gov.uk/shared_offt/business_leaflets/ca98_guidelines/oft439.pdf)

<sup>10</sup> Note that a journey in this case is explicitly defined in the exemption as the passenger's end to end journey (whatever the number of individual legs that journey may have). It is not an individual leg of a complex single movement using more than one vehicle or route.

- | *operating on three or more routes*
- | *provided that those routes and services are not 'substantially the same', and*
- | *passenger usage and revenue received from the ticket demonstrate that it is not a MIT or a TT.*" <sup>11</sup>

Parties to an MTC scheme can agree to the price at which each MTC is sold, provided that the price agreed does not restrict the commercial freedom of an individual party to the scheme and provided the way in which the price is agreed does not amount to an agreement on the price of the equivalent individual operator tickets. In practice this means the following:

- | The price of an MTC ticket (e.g. all bus weekly) must not artificially constrain the freedom of individual bus operators to price their such tickets.
- | Whilst the operators can agree to raise the price of an MTC because some or all of them have raised their own prices, such an increase should not be explicitly pegged to one operator's own prices or a preset basket of the participants' own prices.

In judging whether they meet these criteria, the participant operators have to judge whether the MTC scheme meets the requirements of section 9(1) laid down above.

Participants may distribute the revenue from an MTC scheme using any method provided it does not:

- | result in an incentive for operators to set their own fares higher than they would have been set in the absence of the MTC, or
- | significantly reduce the incentive for each of the operators to compete for passengers (Article 11).

Distribution methods which are identified as suitable are:

- | Passenger miles or kms
- | Weighted passenger miles
- | Passenger journeys
- | Registered mileage
- | Revenue lies where it falls

In contrast, a revenue system that involves a direct link to the actual fares charged by operators would be unlikely to meet the condition that the method must not result in an incentive for operators to increase their own fares. For example, if operators are reimbursed on the basis of revenue foregone (i.e. the equivalent on bus single fare that would otherwise have been paid), there is a real danger that operators will have an incentive to increase their fares so as to maximise their income from the MTC. However, this restriction might not apply if the MTC revenue is a very small

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<sup>11</sup> Paragraph 4.20, page 25, of the public transport ticketing schemes block exemption (2006).

proportion of the operators total income particularly where a revenue foregone system is already in place for other purposes (e.g. distribution of concessionary reimbursement) and it would be impractical to have two parallel systems.

The current West Yorkshire MetroCards are MTCs.

### A2.4 Through Tickets (TT)

A TT is defined as a ticket:

- | *“valid on more than one operator’s services*
- | *for completion of a particular journey (whether single or return) on two or more services, and*
- | *where the journey is made on ‘complementary services’, that is services where the operators do not compete with each other over a ‘substantial part of the route’ covered by the ticket in question.”*<sup>12</sup>

An MTC, as described above, is unusual in allowing an arrangement where the price is agreed between the operators. By contrast TT and MIT (see below) schemes, whilst providing single fare multi-operator tickets, are forbidden from including arrangements which constitute price fixing between the parties to the agreement. The mechanisms identified for pricing and selling such tickets are designed to minimise the need for communication between operators.

For a TT, the prescribed method of calculating through fares is called “Posted Prices”. In this case each operator willing to participate in a TT scheme ‘posts’ the specific B to C price it will charge another operator for accepting a TT between B and C. Any other operator who sells a TT including the section B to C will then pay the first operator its posted price for that leg. Such an other operator is completely free to charge any fare between, say, A and C (via B) and must not agree that overall fare with the first operator.

There are a number of key consequences of this:

- | The actual prices paid by a passenger from A to C and from C to A may well differ.
- | The posted prices must be non-discriminatory between operators i.e. if, in the example above two different operators run between A and B, the posted price set by the B to C operator must be the same to both the A to B operators. In this case the A to B operators must not agree the through fare from A to C they will actually charge.
- | This also means that if a TT scheme already exists between two operators it would almost certainly be deemed illegal if these two operators tried to exclude a third operator.

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<sup>12</sup> Paragraph 4.31, page 30, of the public transport ticketing schemes block exemption (2006).

The third bullet in the definition is important as this confirms that a TT is only available between bus services that connect at discrete locations rather than between those that have significant overlapping sections.

The 'Transfare' arrangement in Tyne & Wear is almost certainly a TT as the actual overall prices charged vary between vending operators, but include all local bus operators as well as the Metro.

### A2.5 Multi-Operator Individual Ticket

An MIT is defined as a ticket:

- | *“valid on more than one operator’s services, and*
- | *for the completion of a particular journey (single or return) on whichever service the passenger chooses, involving a journey which could be made on services provided by any of two or more operators where those operators’ services are in competition with each other.”*<sup>13</sup>

The most common example of an MIT is where operators agree to accept each other’s return tickets over a common section of route.

As with a TT, the mechanisms laid down for MITs are designed to minimise communication between participating operators and to avoid any possible price fixing.

Generally Article 15 of EU Competition Treaty requires that MITs are sold on the basis that the revenue lies where it falls (i.e. retained by the operator that makes the sale) and that each participating operator sets its own price. The block exemption does, however, accept that such a method of revenue allocation would not be appropriate where daytime and evening operators differed (often the case when evening services are subsidised). In such cases other methods of revenue distribution, whilst not meeting the condition of Article 15, would satisfy section 9(1) of the Act, so long as the distribution method is at the minimum level necessary to make the MIT work.

The two add-ons are specific applications of MTC or TT schemes.

In West Yorkshire today, MTCs exist in the MetroCard products and long distance add-ons exist in the PlusBus product. The writer is not aware of any TT or MIT arrangements that exist in the area between bus operators, but they may exist.

### A3. STATUTORY TICKETING SCHEMES

Sections 135 to 138 of the Local Transport Act 2000 as amended by the 2008 Act gave powers to Local Transport Authorities (LTAs) to make ticketing schemes. Such schemes are defined as:

*“A ticketing scheme is a scheme under which operators of local services of a class specified in it are required to make and implement arrangements under which persons may purchase, in a single transaction, a ticket (or tickets) of any of the*

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<sup>13</sup> Paragraph 4.38, page 32, of the public transport ticketing schemes block exemption (2006).

*descriptions which may be covered by a ticketing scheme and to which the scheme applies.*"<sup>14</sup>

Such a scheme allows for an LTA to require that operators set up arrangements to offer one or more of the multi-operator ticket types allowed for in the Block Exemption (as listed above).

However the operators must set up the scheme within the competition limitations laid down within the Block Exemption. The pricing restrictions within the exemption mean that a Statutory Ticket Scheme may not specify the price (or maximum price) for any tickets merely that the operators must offer such tickets.

Aspects of the Local Transport Act 2008 (see below) may bring the opportunity for LTAs to have a greater influence over the pricing of such tickets.

#### A4. LOCAL TRANSPORT ACT 2008

The Local Transport Act 2008 amends the Transport Act 2000 to introduce or strengthen various arrangements which cover the legal relationship between LTAs and bus operators:

- | Voluntary Partnership Agreements (VPA):  
Voluntary agreements between LTAs and bus operators to bring about benefits (most existing Quality Bus Partnerships are VPAs)
- | Quality Partnership Schemes (QPS):  
A Statutory scheme made by an LTA to enforce service standards where enhanced facilities are provided
- | Qualifying Agreements (QA):  
Agreements between one or more bus operator that an LTA "qualifies" as contributing to attainment of transport objectives
- | Quality Contracts (QC)  
A Statutory scheme in which deregulation is suspended and the LTA specifies and procures local bus services within the scheme area

There are also changes to tendering regulations for socially necessary bus services.

In particular, the Act introduces reduced level of competition tests for VPA and QPS.

##### A4.1 Effect on Fares and Ticketing - Maximum Fares

The 2008 Act amends the 2000 Act to state:

- | For a QPS, *"The standard of services which may be specified in a scheme may also include requirements as to the maximum fares that may be charged for particular journeys, or for journeys of particular descriptions, on services to which the scheme applies."*<sup>15</sup>

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<sup>14</sup> Section 135, Clause (3) of the Local Transport Act 2000

<sup>15</sup> Paragraph 114 (6A) of the amended Transport Act 2000.

- | For a VPA, “standard”, in the case of any services, includes (...) any requirements as to the maximum fares that may be charged for particular journeys, or for journeys of particular descriptions, on services to which the agreement applies, ”<sup>16</sup>

We have to look to the Office of Fair Trading (OFT) guidance on the competition law aspects of the 2008 Act for an explanation of maximum fares, as follows:

- | *“One purpose of a maximum fare being set as part of a QPS or VPA is to prevent bus operators with market power setting fares at a level that is not related to the costs of the service provision. It is also a means of ensuring that bus operators with market power do not over-recover any increase in costs that they have incurred as a result of quality improvements secured under a QPS or a VPA. A maximum fare sets the level which fares must not exceed. Individual fare levels remain a matter for the independent commercial judgement of the bus operator. Bus operators continue to compete on fares below and to the level of the maximum fare.*
- | *There will often be a tendency for fares to gravitate towards the maximum fare which has been set, particularly if competition in the market is weak. However, circumstances of weak competition are also the situation in which it is most likely to be appropriate to impose maximum fares. It follows that LTAs will want to ensure the maximum fare is necessary (for example, where there is weak competition in the market) and when considering what an appropriate level for a maximum fare might be, set the fare at a level that is both cost-related and reasonable. This relates to the setting of a maximum fare and also to a review or revision of the maximum fare.*
- | *When they enter into an agreement with the LTA that provides for a maximum fare to be set, bus operators must ensure that they do not enter into an agreement with each other which restricts their freedom to decide the fare to be charged for the services they provide to passengers, for instance by setting fare levels or the actual fare that will be charged. This will ensure that they are not entering into a price-fixing agreement. Paragraph 19(1) of Schedule 10 specifically provides that any VPA or qualifying agreement which constitutes a price-fixing agreement (within the meaning given by section 39(9) of the CA98) is excluded from Part 2 of that Schedule. Any such price-fixing would therefore be treated as a breach of the CA98 and undertakings could be liable to the imposition of financial penalties.”<sup>17</sup>*

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<sup>16</sup> Paragraph 153 3 (c) of the amended Transport Act 2000.

<sup>17</sup> Paragraphs 5.12 to 5.14 of “Guidance on the application of competition law to certain aspects of the bus market following the Local Transport Act 2008” - leaflet OFT452

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The above three bullets are not particularly clear and a little contradictory. Indeed, in a footnote to paragraph 5.13, the OfT add *“Setting an appropriate maximum fare can be complex. LTAs may wish to engage specialist technical help before deciding on whether to impose maximum fares and their level”*.

To further confuse the issue, in a case study, the OfT guidance also notes: *“The fact that every operator may end up charging the maximum fare might actually be a reflection of the fact that the maximum is acting as a binding constraint and achieving its purpose rather than evidence of a competition problem”<sup>18</sup>*.

Despite this it is reasonable to interpret the maximum fare legislation as follows:

- | Maximum fares can be specified for any and all specific journeys, e.g. Headingly to Leeds.
- | Maximum fares can be specified for all ticket types, e.g. multi-operator day rover ticket.
- | Maximum fares can be specified for any passenger type, e.g. “young person”.
- | Any maximum fares should not be so low as to force most operators to charge them.
- | Maximum fares should, broadly, be cost based and reasonable.

In a VPA, maximum fares must be “agreed” between the parties. If agreement cannot be reached then no maximum fares can be set.

Following consultation and subject to there being no admissible objections, maximum fares in a QPS can be “set” by the LTA.

In bullets above, the word specify is used to refer to “agreed” or “set” as appropriate.

In all cases the relevant competition test would need to be passed. Specifically, within either a VPA or QPS, operators must not agree to actually charge a maximum fare, as this would fail the Competition Test.

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<sup>18</sup> Paragraphs B.44 of “Guidance on the application of competition law to certain aspects of the bus market following the Local Transport Act 2008” - leaflet OFT452

**A5. PROCURED SERVICES**

**A5.1 Quality Contract Scheme**

As a QCS moves competition to a competitive procurement of specified services, there are no restrictions on the fare and ticketing arrangements that are laid down within those specifications except where they may affect commercial services exempted from the QCS. In this case standard 1998 Act competition tests would need to be met to ensure that no illegal distortion is caused to the market.

**A5.2 Tendered Services**

Since deregulation, LTAs have had the power to set fares and ticketing arrangements for tendered bus services as any direct competition issues are met through the competitive procurement of these services (as with Quality Contracts).

However, LTAs will have to be satisfied that in specifying such fares and ticketing arrangements, they do not have an anti-competitive effect on adjoining commercial bus services.

**A5.3 Transport & Works Act**

Local transport services procured through TWA powers can have their fares and ticketing arrangements specified in the same way as tendered services.

The same competition issues also arise in respect of adjoining commercial bus services.



