

# **New Inquiry :**

## **HOW FAIR ARE THE FARES? TRAIN FARES AND TICKETING**

### **Response by Transport-Watch UK to the Transport Committee**

Transport-Watch is an independent association not connected with any business or political party funded by a trust and dedicated to making the best use of land already committed to transport in the interests of the Community as a whole.

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# Rail Fares

1. The national Travel Survey 2004 shows that those in the top quintile of income travel more than twice as far by **surface** rail as do those in the next highest quintile and four times as far as do those in each of the bottom two quintiles. The distances per year per person are as follows, where the data excludes London Underground<sup>1</sup>.

- Highest Quintile 828 miles.
- Fourth level 378 miles.
- Third Level 331 miles.
- Second Level 180 miles.
- Lowest Level 207 miles.
- All income levels 384 miles

2. Not only are these distances quite trivial compared with 6,762 miles per head per year by all modes but also the subsidy to rail is running at between £4.5bn and £6.5bn per year, see Annex. £5bn is equivalent to:

- £200 per year for every household in the land - at a time when half of us use the train less than once a year<sup>2</sup>.
- £250,000 per year per track-mile.
- 19 pence per passenger-mile – implying subsidy of £38 for a £100 mile return trip (see note).

Further, nearly 50% of passenger rail journeys start or end in London, over 60 % start or end in the London and the South East<sup>3</sup>.

5. We comment – if, rather than inadvertently subsidising the wealthiest in the land, the Government wishes to subsidise some deserving would-be travellers then let the money be paid directly to them, leaving them to decide their own expenditure.

6 In contrast to the drain on the exchequer that the railways are, net payments to the exchequer attributable to motor vehicles amounted to £28bn in 2002/03. That is equivalent to £1,100 for every household in the land or to 6 pence per passenger mile. Further the contribution per

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<sup>1</sup> National Travel Survey data 2004 (data obtained by special request to the DfT).

<sup>2</sup> Paragraph 2 of the Forward to the Strategic Rail Authority's publication, Everyone's railway the wider case for rail.

<sup>3</sup> Table 7.1 of National Rail Trends, the Strategic Rail Authority's Yearbook, 2004-2005.

lane-mile made to the Exchequer by the motorway and trunk road network has the range £275,600 to £360,000, see Annex.

- 7 Additionally, if the railways were paved, express coaches and lorries would discharge the national rail function at one quarter the cost of the train while cutting death rates by a factor of two and cutting fuel consumption by 20-25%. At the same time countless lorries and other vehicles would divert from the unsuitable rural roads and city streets that they currently clog and endless acres of derelict or near derelict railway land would be developed<sup>4</sup>. E.g. some 250,000 rail passengers enter central London in the peak hour. They use 25 pairs of tracks. Hence the peak passengers per hour per inbound track amount to only 10,000 - sufficient to fill 200 50-seat express coaches. Those coaches would offer seats to all the previously crushed rail commuters while occupying one fifth of the highway capacity available if the system were paved.<sup>5</sup>
- 8 As to the scale of fares we note that Megabus offers returns between London and other cities as far away as Birmingham for as little as £2.50 if booked in advance - several times less expensive than by rail despite the coaches suffering road congestion.
- 9 We conclude that subsidising rail fares has led to a massive distortion of the UK Transport system - causing great loss to the nation as a whole for more than 50 years. Rather than perpetuating that the Government should phase subsidy out, leaving the market to determine how best to use the rail network, provided only that the 10,000 miles of right of way should be preserved for transport rather than being abandoned piecemeal, as happened to 9,000 miles following the Beeching cuts of the 1960's.

**Note.**

The subsidy of 19 pence per passenger-mile to rail, cited above, is several times the values quoted by the Strategic Rail Authority in Appendix 5 of its Annual report of 2004. That is because the SRA's values ignore both grant paid to Network Rail and loan, amounting to £22bn, which can never be repaid from the fare box but which is backed by Government guarantee.

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<sup>4</sup> The House of Commons Transport Committee: The Future of the Railways Volume II Evidence page 241 or see the Transport-Watch web site [www.transport-watch.co.uk](http://www.transport-watch.co.uk).

<sup>5</sup> Donald A Morin Chief of public Transportation, US Department of Transport wrote in Highway Progress in 1970 that "if one lane (of a free way) were reserved for buses it could carry 50,000 passengers an hour in 1,000 buses each with 50 passengers (all seated)" – a fact born out by highway capacity manuals the world over.

## **Annex 1 Subsidy to rail and profits from roads**

### **Subsidy to Rail**

1. Table 1 provides National Rail's annual operating subsidy back to 1954. The annual average for the period at 2004 prices is £2.5bn compared with £2.0bn for the 10 years to 2003 and £3.7bn for the single year 2003. The data for the years 1986-03 is from Table 2 of annex B of the DfT's Bulletin of Public Transport Statistics 2004. Discussions with the DfT suggest that the data in that table may be regarded as **operating** subsidy. Since there is indeed operating subsidy it is unreasonable to expect that the loans or capital can ever be recouped from the fare box. Instead the amounts should be added to subsidy as though they were current expenditure. There appear to be at least three approaches to estimating the values, namely:
  - (a) Table 1 of Annex B of the bulletin cited above provides "investment" amounting to close to £3bn annually at 2004 prices for the period 1994 to 2003 or, if rolling stock is excluded, £2.5bn. Some of that may be funded from other than Government but, if in broad terms it is regarded as all subsidy, or funded from guaranteed borrowing, then the total of capital/borrowing plus the operating subsidy has the range £4.5bn to £5.5bn annually for the decade.
  - (b) The Minute of 15<sup>th</sup> September 2004 with the title "Statutory contingent liabilities in support of Network Rail" by the Secretary of State for Transport and presented to Parliament says that borrowing, guaranteed by the Government, will rise to £22bn by 2009 with no guarantee that it will not continue to rise. Strangely, in view of the past 50 years, there is a belief that the guarantees will never be called in. However we feel confident that nothing can be further from the truth. Hence the £22bn will inevitably turn out to be the taxpayer's liability - equivalent to £2.2bn annually for the decade. Adding operating subsidy of £2.5bn provides £4.7bn, which is consistent with the (a) above.
  - (c) The written statement to Parliament by the Transport Secretary, Alistair Darling, with the title "Spending on Rail", dated February 2005, provides total Government commitments (void of loan guarantees) of £4.55bn in 2005/06, £5.81bn in 2006/07, £4.59bn in 2007/08 and 4.39bn in 2008/09. Probably the annual loan of £2.2bn from (2) above should be added providing an average annual subsidy of £6.78bn for the 4 years.
- 2 Against that background it is fair to say that subsidy to national rail will run at between £4.5bn and £6.5bn annually for the decade ending 2009. £5bn is equivalent to:
  - £200 per year for every household in the land (at a time when half of us use the train less than once a year).
  - £250,000 per year per track-**mile**.
  - 19 pence per passenger-mile – implying subsidy of £38 for a £100 mile return trip.

### **Profits from roads**

2. Table 7.15 of the TSGB 2004 edition provides Fuel Tax (excluding VAT) plus Vehicle Excise Duty in 2002/03 of £26.517bn. HM Revenue & Customs provided a figure of £8.42bn for VAT on private motoring. Some £0.3bn of fuel duty is reclaimed by the bus industry. Hence the total tax revenue from motoring is close to £35bn. Deducting expenditure of £7bn yields £28bn. Possibly tax on motor insurance should be added but we have no figure for that.
3. Table 7.3 of Transport Statistics Great Britain 2004 shows that 32% of vehicle-miles are on the motorway and Trunk Road Network. Hence if the tax take is proportional to vehicle-miles the Strategic Road Network earns the exchequer £9bn annually. The **lane** length for that network is between 40,000 **km** and 52,000 **km** (see facts sheet 1). Hence the contribution per lane-mile made to the exchequer has the range £275,600 to £360,000 annually. Alternatively dividing the net tax take of £28bn by the network wide vehicle-miles (306bn) or by passenger miles (456bn) yields a net payment to the Exchequer of 9 pence per vehicle-mile or 6 pence per passenger-mile.

### **Comment**

4. The contrast between the contribution made to the Exchequer by road traffic and the drain on the Exchequer from the rail industry is telling.

**Table 1 Subsidies to National Rail**

Year	RPI	Out turn Prices £M	Public Service Obligation Grant	June 2004 Prices £M
1954	10.42	25		448
1955	11.00	52		883
1956	11.51	80		1298
1957	11.89	107		1680
1958	12.40	134		2018
1959	12.29	161		2446
1960-65	55.67	976		3273
1965-70	55.67	5959		19985
1970-75	55.67	2539		8515
1975-80	55.67	3093	485	12000
1980-81	67.35	634	575	3351
1981	74.98	933	749	4188
1982	81.85	1002	817	4149
1983	84.84	1003	854	4087
1984	89.20	1013	1066	4351
1985	95.00	995	820	3567
1986	98.00	852	680	2919
1987	101.9	615	761	2521
1988	106.9	448	534	1715
1989	115.2	796	499	2099
1990	126.1	1196	600	2659
1991	133.5	1585	900	3475
1992	138.5	2173	1150	4479
1993	140.7	1631	930	3398
1994	144.1	1700		2203
1995	149.1	435		545
1996	152.7	1071		1309
1997	157.5	1858		2202
1998	162.9	1615		1851
1999	165.4	1441		1627
2000	171.0	1250		1365
2001	173.0	1883		2032
2002	176.2	2637		2794
2003	181.3	3607		3714
Averages				
1954-2003				2482.2
1994-2003				1964.22

**Notes:**

- (a) The figure of £25m for 1954/5 is from the British Transport Commission's accounts.
- (b) The figure from the same source for 1958/59 is £90m. However interest charges were relegated to a "special account", depreciation was under estimated and some track changes were transferred to a maintenance expenditure account. The true figure, excluding the loss of the British Rail pension fund was £134m.
- (c) Figures for the years 1955, 1956 and 1957 have been obtained by interpolation. The figure for 1959 has been obtained by extending the series for previous years.
- (d) Values for the years 1960 through to 1980 are from Robert Millar of the Institute of Economic Affairs writing in February 1982. That data is quoted at 1979 prices.
- (e) Data for the years from 1980-1984 are from Transport Statistics Great Britain.
- (f) Data for 1985 to 2000 are from the DfT Transport Statistics Bulletin and include Freight Grants except that the Public Service Obligation Grant for the years 1979 to 1994. The latter are from a letter from Dr Pritchard of the Department of Transport writing to Gabriel Roth on 5th January 1995. Clearly the PSO should be added.
- (g) The 2004 prices are the outturn values multiplied by the ratio of the 2004 RPI (186.7) to the index for the year. That produced slightly different numbers from the GDP deflator.