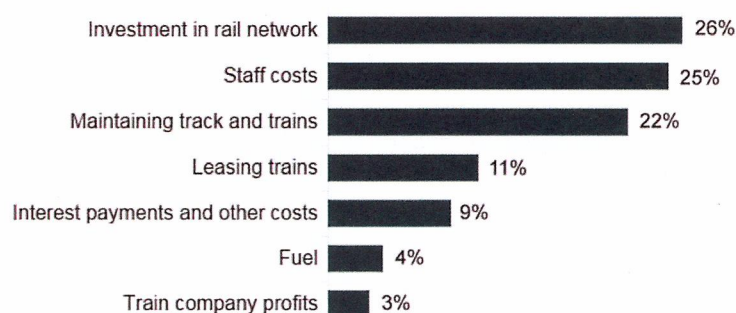


Activity 5: Rail Fares and Regulation

At the start of January 2016, the Rail Delivery Group or RDG (which represents train operators and Network Rail) announced that rail fares would rise on average by 1.1%, the smallest annual rise in 6 years. Peak-travel and commuter fares are regulated and can only rise by RPI + 1% at the most. However, off-peak fares are not regulated, and can therefore be increased by as much as train operators want. Rail fares now pretty much cover the running cost of Britain's railways – for many years they didn't, and heavy subsidies were needed to ensure that trains were kept running. The diagram below shows where the money is allocated, on average, when train tickets are bought:



How the price of a rail ticket breaks down



Source: Rail Delivery Group

BBC

A spokesperson for the Campaign for Better Transport said that more needed to be done to ensure that train travel remained affordable for most people, and that rail fares in the UK were amongst the highest in Europe already – Brits pay 6 times more to commute than people elsewhere in Europe. Labour's shadow transport secretary said that people are typically paying £2000 more for a commuter ticket now than when David Cameron became Prime Minister in 2010. The Labour Leader, Jeremy Corbyn, described the situation as scandalous, saying that commuters' money was being used to boost the profits of private firms such as Stagecoach and Virgin, and foreign-owned operators; he went on to reaffirm his view that the railways should be renationalised. His view is supported by the union-backed pressure group Action for Rail, which recently calculated that on average, a commute into London costs 13% of a worker's salary, compared with just 2% for a commute into Rome for an Italian worker.

The rail regulator, ORR (Office of Road and Rail), is itself under scrutiny by the House of Commons Public Accounts Committee, accused of having failed to adequately scrutinise Network Rail's improvement plans or to take tough enough action when Network Rail failed to deliver. For example, the electrification of the Great Western Line from London Paddington to Cardiff is now £1.2bn over the initial prediction of £1.6bn. MPs have described this as "staggering and unacceptable". The Committee said that the Department for Transport "should carry out a fundamental review of the regulator's role and effectiveness in rail infrastructure planning.

A Define the following key terms:

- RPI + X regulation
- Nationalisation
- Privatisation
- Regulator
- Regulatory capture
- Infrastructure

B Explain why Network Rail (the organisation responsible for the UK's railway network and many stations) is considered a natural monopoly.

C Discuss the view that train operating companies, such as South West Trains, have monopoly power.

D Assess the advantages and disadvantages of renationalising the railways, as proposed by Jeremy Corbyn.

E Discuss the view that lower rail fares will be good for the economy.

F Discuss the reasons why the Office of Road and Rail (ORR) might be an ineffective regulator.