



The Shaw Report

The future shape and financing of Network Rail: The scope

Response from the Manchester Airports Group (M.A.G)

Introduction

1. Manchester Airports Group (M.A.G) owns and operates four airports in the UK (Manchester, London Stansted, East Midlands and Bournemouth), handling some 50 million passengers per annum. Our airports are nationally significant infrastructure assets, providing essential connectivity for the regions they serve and contributing over £4 billion per annum in GVA to the UK economy.
2. Millions of air passengers every year depend on the railway for their journeys to and from our airports. The quality and speed of an airport's rail services are central to the choices that airlines and air passengers make about which airports they use. As such, the outcome of the Shaw Report and the future of Network Rail are of great importance to our business – both at a day-to-day operational level and strategically in terms of the rail industry's ability to deliver infrastructure improvements to support the development of our airports.
3. Even being optimistic, it is likely to be at least 15 years before any new runway capacity is developed in the South East. In the interim, Stansted and Manchester both have existing capacity to accommodate a doubling in their current level of throughput. Making the most effective use of this spare capacity will be vital to maintaining choice and value for consumers, and developing the best possible connectivity for the UK economy.
4. Rail improvements, to both Stansted and Manchester, have a vital role to play in making the most effective use of existing airport capacity. Since M.A.G acquired Stansted in 2013, we have been seeking a commitment from Government and Network Rail to an urgent programme of investment on the West Anglia Main Line (WAML), with a particular focus on reducing journey times for air passengers and commuters. In parallel, the Airports Commission has continued to press the case for improvements to Stansted's rail services to enable the airport to make the fullest possible contribution to meeting demand.
5. In the long term, high-speed rail has the potential to strengthen the network of competing airports across the UK. In particular, a high-speed rail network across the North would radically reduce city-to-city journey times and transform access to Manchester Airport from across the region. As a result, millions of additional passengers every year would benefit from direct and convenient access to the global connectivity provided by the airport, which in turn would enable the airport to attract airlines to offer new services to an even wider range of destinations.
6. For these reasons, we welcome the opportunity to comment on the scope for the Shaw Report's review of the future shape and financing of Network Rail. We also welcome the team's willingness to engage openly with stakeholders during the initial phase of its work, and we look forward to further opportunities to discuss the review team's emerging thinking over the coming months as it finalises its recommendations.
7. From our perspective, the scoping document provides a comprehensive statement of the issues that need to be addressed as part of the review. Our response focuses on the issues of greatest relevance to our airports, in particular those that relate to rail industry's ability to deliver infrastructure enhancements in a timely and responsive way.

8. Additional work is needed to develop a framework that will encourage third-party investment in the delivery of rail infrastructure enhancements. We are currently working with advisors to develop a range of alternative funding options that would support the delivery of a £400 million package of WAML line speed enhancements to reduce journey times by up to ten minutes. We plan to share the preliminary outputs of this work with the review team by the end of January 2016, and would welcome the opportunity for further engagement at that stage.

Network Rail is a key supplier to airports

9. The scoping document (Question 4) asks whether the review team has correctly identified Network Rail's customers by defining them as people who pay a business to provide a product or service. This simple definition provides a sensible starting point for thinking about Network Rail's customers but it does not capture the nature of the important relationship between Network Rail, air passengers, airlines and competing airports.
10. In a competitive market, airports with fast, regular and reliable rail services will have a distinct advantage over airports with slow, irregular and unreliable services. It follows that if passengers and airlines are dissatisfied with the level of rail service at a particular airport, they will tend to express this by switching their custom to a rival airport; they are unlikely to engage in a lengthy process to lobby Network Rail and Government for rail improvements.
11. Airports depend on Network Rail to provide the rail infrastructure they need to compete effectively with other airports to attract passengers and airlines. In this respect, Network Rail is a key supplier to many UK airports. However, unlike the relationships airports have with other key suppliers, they are generally unable to contract directly with Network Rail to procure a particular level of service.
12. Instead, Network Rail's funding constraints require it to strike a balance between the needs of different users across the entire network and make difficult trade-offs between the level of service it provides to different customers. This process has often led to a significant gap between the outputs Network Rail can deliver and the needs of its different customers.
13. Over the years, these compromises and trade-offs have had a profound impact on the competitive position of London's main airports. For example, the service improvements enabled by the Thameslink programme will materially enhance the competitive positions of Gatwick and Luton by significantly improving their access to central and north London markets. Likewise, Crossrail will further strengthen Heathrow's dominant position by providing improved connections between the airport and central and east London markets.
14. At the same, prolonged underinvestment on the WAML has been a key factor in the marked decline in the quality of rail services in the region in recent decades. For example, journey times to the airport from central London are now up to 10 minutes slower than they were a decade ago. This deterioration in service has led to the share of Stansted's passengers using rail falling from around 30% in 2005 to around 22% currently. More importantly, the deterioration in the quality of the rail service has had a significant negative impact on Stansted's competitive position in the London market.

15. The scoping document makes a broad assumption (para 4.5) that provided the relationships between Network Rail, the DfT and TOCs are functioning effectively, then pressure from customers should inform Network Rail's decision making process. There are a number of reasons why these relationships have not worked effectively in the case of airports, including:
- Franchise operators on short-term contracts have not had strong enough incentives to push for long-term infrastructure improvements on the Anglia Route;
 - Airlines and air passengers have a choice in terms of the airports they use, and are likely either to avoid using airports with poor levels of rail connectivity, or switch their custom to a rival airport;
 - Airlines and air passengers are unlikely to apply customer pressure in the way that is suggested in the scoping document;
 - Network Rail has not engaged with airports in a normal customer/supplier relationship, and it has not been responsive to particular infrastructure needs of different airports.
16. For these reasons, we would encourage the review team to identify structural reforms for the rail industry that would create a more responsive customer/supplier relationship between airports and the rail infrastructure provider, and create the ability for third parties to fund and deliver rail infrastructure enhancements where there is a case to do so.

The case for Stansted/WAML rail enhancements

17. Improving the quality of Stansted's rail services has been a key priority for M.A.G since we acquired the airport in early 2013. Evidence shows that poor performance and lengthy journey times deter passengers from using the airport and hold Stansted back in seeking to attract new airlines. Journey time and performance improvements will strengthen Stansted's competitive position by making it more attractive to passengers and airlines. Improved rail connectivity on the WAML will also support economic growth along the London-Stansted-Cambridge corridor.
18. Our concerns about Stansted's rail services were echoed by the Airports Commission in their Interim Report to Government in December 2013. The Commission recommended a 'detailed' and 'urgent' study of the route to give serious consideration to four-tracking the line between London and Stansted. More broadly, the Commission suggested that more weight should be given to the specific needs of air passengers when developing strategies for the UK's rail network – a market which it felt was often overlooked by Network Rail when planning for new services and infrastructure.
19. The Commission's Interim Report was followed by a letter from Sir Howard Davies to Network Rail in December 2014, expressing concern at the lack of progress in addressing the interim recommendations and specifically called for Network Rail to:
- articulate more clearly the needs for airport users and the role that Stansted Airport plays in maintaining and enhancing the UK's aviation connectivity; and

- set out at least the early stages of a longer term strategy for a more ambitious upgrade of the line serving the airport, reflecting the needs of both airport users and other passengers, as per the recommendations in the Commission's interim report.

20. The Government responded to the Commission's original recommendation by asking Network Rail to consider these issues as part of its Anglia Route Study (ARS). Our submissions to the ARS process have highlighted the need for an urgent programme of enhancements on the WAML spanning the short, medium and long term. We proposed that this programme should attach a high priority to the delivery of faster journey times and improved reliability in the first instance, followed by additional capacity to support economic growth and regeneration along the Upper Lee Valley over the long term.

21. Recognising the need for prompt action, M.A.G commissioned detailed technical studies (in consultation with Network Rail, DfT and TfL) to develop an up-to-date assessment of the options for improving rail services to Stansted and other points along the WAML. The study identified a strong case for renewing the existing infrastructure to enable trains to operate at higher speeds along key sections of the WAML. By increasing the maximum speed at which the Stansted Express can operate from 80 to 100mph, journey times between London and the airport could be reduced by eight to ten minutes, with corresponding time savings for commuters using services on the line, from Tottenham Hale in the south through to Harlow, Bishop's Stortford and Cambridge in the north.

22. These faster trains will attract more passengers and widen Stansted's catchment. For example, once Thameslink and Crossrail 1 are complete, the analysis shows line speed improvements to Stansted would increase the number of potential passengers living within two hours of the airport by a further 7 million – taking total passengers within two hours of Stansted from 15 to 22 million. The present value of the additional fare revenue from these improvements is forecast to amount to some £500 million over a 60-year appraisal period. The capital cost of the track enhancements is estimated to be £370 million (at 2014 prices, excluding optimism bias). Using the DfT's standard appraisal framework, it is estimated that the project would have a 'transport user' BCR of 3.7, or 4.4 if wider economic benefits are taken into account.

23. This analysis has now been endorsed by Network Rail and we expect the option to be adopted as the basis for an 'option for funders' in the forthcoming ARS. This was confirmed in a recent speech by Sir Peter Hendy, where he indicated that improving rail links to Stansted would feature prominently in the final route study.

Delivering Stansted/WAML rail enhancements

24. While we welcome this progress, it is now over two years since the Sir Howard Davies wrote to the Chancellor to recommend an urgent study of Stansted rail improvements. Even though the study was intended to inform the Government's short term policy priorities, Network Rail has still not published the final ARS report.

25. We are continuing to lobby Government to commit to the delivery of the line speed improvements as part its wider airports policy, and for this to be taken forward for delivery in CP6. Given the timescales, there is a strong case for the Government to signal now its

commitment to delivering the enhancements as soon as possible in CP6, and to press ahead with the planning and preliminary enabling works during the remainder of CP5.

26. Despite a strong financial and economic case, there remains significant uncertainty over the delivery of the proposed line speed enhancements, both in terms of the Government's commitment to funding them and Network Rail's capacity to deliver the necessary investment.
27. In light of this uncertainty, we have been considering ways to accelerate the delivery of the proposed enhancements. As part of this work we have recently commissioned specialist consultants to explore and develop options that would enable third-parties to fund and deliver the type of infrastructure enhancements envisaged for the WAML, drawing on the significant incremental revenues that would be generated as a result the line speed improvements (as outlined at para 5.20 of the scoping document). We will share the conclusions of this work with the Shaw review team once the study is complete, which we anticipate will be towards the end of January 2016.
28. Section 5 of the scoping document sets out range of options for alternative financing and funding rail enhancements. We would support further consideration of these options for delivering infrastructure enhancements and the future structures for Network Rail that will facilitate this type of third-party investment. A key requirement for these alternative options is that they should provide potential investors with a clear and easily understood template for investing in infrastructure enhancements. Such a template has the potential to unlock significant third-party investment in the rail network, accelerating the delivery of enhancements that will be of substantial long term benefit both to rail users and the wider economy.

Other issues raised by the scoping document

29. Section 4 of the scoping document considers the appropriate future structure for Network Rail and asks for views on the appropriate balance between the centralisation and devolution of current responsibilities. We recognise these are complex issues and will require detailed analysis by the review team before an informed conclusion on the appropriate structure can be reached. We would support further consideration by the review team of the case for the devolution of Network Rail into a number of regional businesses, supported by a system operator to oversee effective planning at a network level.
30. A devolved structure has the potential to create a more adaptable and responsive organisation, with greater focus on addressing regional infrastructure needs without always having to balance these against other priorities at a national level. A devolved structure would also be likely to have significant regulatory benefits by enabling more effective performance benchmarking between different regions, with the potential to drive significant improvements in capital and operating efficiency in the long term.
31. We agree that direct customer pressure on Network Rail should be strengthened to create a more effective customer/supplier relationship, particularly in the case of airports. Recently announced changes to the funding structure for the industry, with TOCs receiving a greater share of Government funds, have the potential to improve the responsiveness of Network Rail

to customer pressure. Longer franchises would also create more stable and productive relationships between TOCs and Network Rail, and encourage both parties to invest more in building long term partnerships. We would also encourage the review team to consider the case for structural reform of Network Rail to enhance further the effectiveness of these customer/supplier relationships as outlined above.

32. Section 6 of the scoping document highlights the challenges associated implementing the reforms that may result from the Shaw Report. We agree that the scoping document appropriately identifies the risks associated with making significant changes the current arrangements. Given the urgent need for rail investment on the WAML outlined above (and the delays already experienced) we would be particularly concerned if the reforms created a prolonged hiatus in rail infrastructure investment, either as a result of excessive uncertainty in the future of the industry or through a need to hold back the delivery of enhancements while new arrangements are put in place. We would encourage the review team to identify ways to address these particular risks, so that if appropriate major structural reforms can be delivered without undue disruption to the delivery of infrastructure improvements in the short term.