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24th December 2015

Dear Nicola,

Thank you for the opportunity to comment on the scoping document of your review into the future shape and financing of Network Rail. We look forward to your recommendations report by Budget 2016.

I am responding on behalf of London First, the independent business membership organisation whose mission is to make London the best city in the world in which to do business. Our members include the capital's leading employers in key sectors such as financial and business services, property, transport, ICT, education, creative industries, hospitality and retail. A full list of our members can be found here.

We lay out our four key points below, rather than attempting to answer each of the consultation questions, most of which are not within our purview.

Refocus Network Rail to respond more quickly and efficiently to growth

The capital and its surrounding economic area needs rail investment that both responds to and fosters its economic growth. We believe the aim of Network Rail, or whatever future infrastructure provider(s), should be to provide capacity for its current customers', and potential customers', demand. Clearly this needs to be done to appropriate levels of safety, efficiency and risk management.

The context in London and its wider economic area for rail investment (whether renewals or enhancements) is that it is uniquely reliant among UK cities on rail travel. Of the 1.65 billion journeys taken in 2014/15, 1.15 billion were in London and the South East (almost 70%). London alone, excluding the South East or East of England regions, accounted for 835 million journeys (50%) in 2013/14[1]. The growth in passengers in London has been dramatic over the last decade and more. For example, London Waterloo was the country's busiest station with 99.2 million entries and exits in 2014/15[2], nearly 60% up from the 62.4 million entries and exits in 2004/05.

[1] Rail Trends Factsheet, Rail Executive of DfT, available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/487497/rail-trends-factsheet-2015.pdf

[2] Office of Rail and Road station usage data as summarised at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/487497/rail-trends-factsheet-2015.pdf

By connecting highly productive central London jobs with the places people live across the wider south east, rail plays a critical role in supporting London's economy. London's economy in turn plays a critical role in the nation's economy. In 2013/14 alone, London made a net contribution to the UK's tax revenues of £34 billion. London is growing, and fast. Its population is projected to reach 10 million, from its current level of 8.6 million, by 2030.

We believe Network Rail should be enabled to respond quickly and efficiently to this growth. As your scoping document outlines, the periodic review process takes over three years within itself, and is then followed by the five year control period[3]. Thus periods of over a decade are entirely common between projects being defined and projects being delivered. Particularly at London's rates of growth, we consider these periods to be too long to be optimal.

As part of a refocusing on growth, we are highly supportive of the monetisation of non-core assets, an option you outline[4] in the scoping document and an area on which we will similarly be pressing TfL to make further progress.

Ensure Network Rail has a sufficient focus on London and the South East as an area

One of the recent structural evolutions within Network Rail has been to partly focus the organisation on its twelve routes. Under this approach, London's termini and radial through-routes are inevitably split between different Network Rail routes, while the city's orbital routes also inevitably often cross through more than one route. The map on p28 of the scoping document shows this in outline.

While the devolution within rail infrastructure (i.e. Network Rail) has been to route level, the trend for devolution of rail services has been to a pan-London level in the form of TfL. This has inevitably meant a weaker strategic focus on pan-London rail infrastructure planning and helps to explain the limited investment which has been seen on some key London commuter routes, for example the lines out of London Waterloo or those out of London Liverpool Street on the Stansted-Cambridge corridor. Each naturally has its own dynamics, contexts and economics. But overall we believe the current organisational structures for rail infrastructure planning and investment result in a lack of focus on London as a whole economic area.

To develop the two points above, we have seen a high rate of passenger growth at London Waterloo over the last decade. Yet the infrastructure of the routes leading to it has had relative little investment – despite the very significant premia paid to Government through the franchisee. And in our report 'A World Class Rail Link for Stansted', we made the case for incremental improvements to Stansted's rail link. These would not just benefit Stansted and London but that whole corridor. Despite the case for improving access to Stansted being recognised by the interim report of the Davies Commission, progress of any kind has been frustratingly slow. As mentioned in the consultation document, improvement in the economy has supported sectors with greater gearing to GDP growth such as airports[5], and this has particularly been the case at Stansted, where passenger numbers have increased by 5 million from 2012 to 2015. The rail line, however, has not seen

[3] Figure 14, p. 48
[4] Section 5.20, p. 60
[5] Section 5.24, p. 61

improvements during this time, indeed Stansted Express services have slower running times now than from the start of the privatized service in 1996.

London First has long been a strong proponent of the structure of government that London now has. This was partly because we understood the impact of locally accountable government and transport investment on a city-wide basis. We feel this has paid dividends, as demonstrated by the city's economic and population growth. Yet it is hard to see how this can be sustained to the same degree within Network Rail's current structures on the infrastructure side. The direction of travel on rail services is towards further devolution, and we believe similar moves are now needed in the structural arrangements for rail infrastructure.

Network Rail or its successor(s) should have a greater focus on the capital and its surrounding area as a functioning economic entity. This of course links to our first point, that Network Rail or its successor(s) should be more focused on economic growth, and more able to both respond to and drive it.

Enable Network Rail to draw on more heterogeneous investment sources

With high levels of demand from a highly productive and growing workforce we believe there is a good business case for investing in London's infrastructure, and particularly its transport infrastructure. Unlocking sustained investment in rail infrastructure commensurate to the capital's current and future growth will require continued innovation around funding. As highlighted in the consultation document[6], London has extensive experience of identifying and putting together diverse funding packages for projects.

Our recent report on Crossrail 2 set out a range of potential funding options for the scheme, drawing on the successful funding package developed for Crossrail 1. In this instance, funding flows from national government (principally through grant), London government (principally through fares) and the private sector (through the business rate supplement and various forms of developer contribution). While the private sector has no formal role in the project's delivery and governance, its involvement was crucial both in developing a funding package and securing lasting cross-party support – and business certainly sees itself having an ongoing role in holding the Mayor and Department for Transport (DfT) to account for its successful delivery.

Separately, the Northern Line Extension to Battersea is largely being funded by the private sector through the long term retention of business rates and through value uplifts generated by redevelopment in the wider Battersea area. This income stream is supported by a government guarantee, with the project being delivered by TfL. Similarly, other UK cities have agreed 'City Deals' with HM Treasury whereby the proceeds of future growth are dedicated – alongside other forms of local contribution – to help fund infrastructure schemes that help stimulate additional economic activity.

Such approaches undoubtedly offer additional untapped potential for London and the SE in future (as well as for other UK cities). However, while we will continue to take a pragmatic approach to finding funding solutions, the downside of ad hoc deals like these is that such negotiations consume significant resources as local government goes 'cap in hand' to central government, project by project, seeking to secure relatively small amounts of funding.

[6] Op cit.

At a big picture level, greater devolution of tax revenues would increase the capacity of London government to raise revenues locally and accountably; it would increase the certainty as well as range of funding streams; and, perhaps most importantly, it would strengthen the financial incentives for London and local government to take what are often locally difficult decisions over housing and infrastructure investment as they would see a greater share of the rewards. Such an alignment of incentives has strong potential to support higher levels of economic growth in the capital than would otherwise take place.

Beware the cost of hiatus while changes are brought forward

The scoping document correctly identifies risks around investment being delayed while any changes to rail industry structures take place[7]. We also consider it paramount to not have a hiatus in essential maintenance work or much-needed investment due to another structural redesign of one part of the sector. The growth of London as an economic area has been and continues to be at such rates, and existing capacity is generally so heavily used, that any such hiatus would have serious economic and social consequences.

We would of course be happy to discuss these points further with you and colleagues at any point.

Yours sincerely,

Richard

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[7] 'There is a concern that, even if the rail industry is extremely efficient, the funds required for investment in rail infrastructure won't be available in future because of the changes to Network Rail's finances now that its debt is part of the government balance sheet.'