

Agenda Item No. 7(k)

DERBYSHIRE COUNTY COUNCIL

CABINET MEETING

20 January 2015

Report of the Strategic Director – Economy, Transport and Environment

RAIL NORTH (HIGHWAYS, TRANSPORT AND INFRASTRUCTURE)

(1) **Purpose of Report** To seek approval to Derbyshire County Council becoming a member of Rail North Ltd.

(2) **Information and Analysis**

Background

Local and inter-urban rail services in the North of England are currently provided by two franchises: Northern Rail and Trans Pennine Express. Within Derbyshire, Northern Rail operates all services on the Buxton-Manchester and Glossop-Manchester routes, all local trains between Manchester and Sheffield along the Hope Valley route and the Nottingham-Chesterfield-Sheffield-Leeds service via the Erewash Valley. Trans Pennine Express operates fast trains between Manchester and Sheffield along the Hope Valley route with stops at Chinley during peak times.

The existing franchises were let by the Department for Transport (DfT) in 2004, with DfT providing subsidy and taking the financial risk. Trans Pennine Express has been able to successfully plan for growth and has received new trains to meet this growing demand and reduce its need for subsidy. However, Northern Rail's franchise was let on a no growth basis with no investment in new trains. It runs increasingly older trains and there is significant overcrowding at peak times.

The lack of investment in the north's rail network and its perceived effects on economic activity has been widely acknowledged. There is growing concern that sustainable economic growth needs to be supported by improving connectivity within the north and with other parts of the country. Work on the Northern Hub project in and around Manchester's rail network has shown what can be done to unlock some of the current deficiencies in rail infrastructure. Against this background there is a strong desire for rail devolution which should give local authorities more control over their rail services, as in London, Scotland, Wales and Merseyside.

The Proposal

The concerns about the deficiencies of rail services led to a proposal from the five City Combined Authorities/Passenger Transport Executives, in 2012, to ask all 30 Local Transport Authorities in the north to create a new entity known as 'Rail North' to manage future rail franchises.

Rail North will evolve into Rail North Ltd as the legal entity to administer the Local Transport Authorities' responsibilities for rail franchises. Discussions between Rail North and DfT have produced an agreement whereby the refranchising process, commencing in February 2016, will be procured as a partnership between DfT and Rail North, with the intention that the next replacement franchises to follow, around 2024, will be entirely the responsibility of Rail North Ltd.

This proposal took some time to evolve from initial meetings, but the principle was widely supported by local authorities, including the County Council. Sub-groups to look at specific issues were set up, along with sub-regional local authority groupings. Derbyshire's geography meant that services in the County were split between two groups: one with local authorities in Cheshire and Staffordshire, and the other with Nottinghamshire, Lincolnshire and Derby City (to which Councillor Andy Botham was appointed as regional representative).

Members may wish to note that three bidders for each of the franchises have been shortlisted. For Northern Rail, these are Abellio, Arriva and Govia, and for Trans Pennine Express, these are Stagecoach, First and Keolis. After receipt of the franchise specification early in 2015, bids need to be submitted in April 2015. The result will be announced in September/October 2015 and the new franchises will commence in February 2016. Rail North has been active in promoting growth packages for the franchise specification with DfT and this has had a significant effect on the final specifications.

Underpinning this Rail North Ltd/DfT partnership is the development of a long term Rail Strategy led by Rail North to focus on improving journey times, frequencies and connections. It will help inform all local authority and rail planning in the north.

Strategic Implications

The initial concerns over risk and voting rights for Rail North Lt have now been addressed.

Risk for the new franchises now remains with DfT. This removes the concern over who will be financially responsible for underwriting service provision should either of the franchises fail. The partnership arrangement between DfT and Rail North Ltd will allow for any profits from successful operation of the

franchises to be reinvested back into rail services in the north of England, and not go back to Government.

Voting arrangements to ensure that the five Combined Authorities/Passenger Transport Executives cannot dominate Rail North Ltd have been agreed. Under these arrangements, the East Midlands regional representation will have 9% of the total voting rights.

One area for concern, in the medium to long term, is the administrative cost of running Rail North Ltd. The five Combined Authorities/Passenger Transport Executives agreed to cap the annual administrative costs before the new franchises commence in February 2016, to a proportion of £36,000 per annum. The County Council's share of this is 1.4% (£504 in a full year). The administration cost beyond February 2016 is unknown, but is likely to be significantly more once the new franchises start.

Should Derbyshire County Council choose not to join the Rail North Ltd, its role in shaping local services and wider rail service planning could be very limited if this model of devolution is successful. If service reductions have to be contemplated in future, local authorities who are not members of Rail North Ltd could be in a vulnerable position. Of the 30 authorities eligible to join Rail North Ltd, only Derby City Council has indicated a likelihood of not joining by virtue of only having two Northern Rail services a day.

Governance

Rail North is proposing the following governance arrangements:

1. *The Association of Rail North Partner Authorities.* Each Partner Authority would appoint one elected Member to the Association. This member would normally be its Leader or Mayor, or its Lead Member for Rail Transport. The Association would elect a Chair and one or more Vice-Chairs.
2. *Rail North Ltd.* Each Partner Authority would become a member of a new company called Rail North Ltd and each of the existing regional sub-groups, would appoint one elected member to the Board. A Chair would be elected from the Board members. It is anticipated that Rail North Ltd will be based in the north of England and will be fully established from February 2015. Its primary role will be to manage Local Transport Authority interests in the franchises.
3. *A Partnership Agreement* between DfT and Rail North Ltd has been agreed in principle, although some of the detail needs to be finalised. In the meantime, DfT will be administering the refranchising process with Rail North support. It is intended to have a Board comprised of three nominated partners, each from Rail North Ltd and DfT with an

independent Chair. This would be progressively established during 2015, but fully functioning by February 2016.

Shadow governance arrangements have been in force for the last two years to enable work to progress and enable formal ratification of the proposal. This has eliminated the major non-metropolitan authority concern of bearing risk and needing to provide finance should the franchisees cease to trade as well as concerns about voting rights. Should any local authority decide that it wishes to withdraw from Rail North Ltd, this is possible with 12 months' notice. Re-joining is also possible. It is recommended that membership of Rail North Ltd be kept under review.

(3) **Financial Considerations** The DfT will bear any franchise risks to the end of the new franchises in 2024. In terms of the cost of administering Rail North and Rail North Ltd, the constituent Combined Authority/Passenger Transport Executive members agreed to cap this cost to a share of £36,000 per annum until February 2016. Each Local Transport Authority share is divided in proportion to the rail passenger mileage in that area. For Derbyshire, this is 1.4% which equates to £504 per annum. A significant concern is not knowing the full cost of administering Rail North Ltd after February 2016. Even at 1.4%, this is likely to be considerably more than £504 per annum, but the figure will not be known until the franchises are awarded.

(4) **Legal Considerations** The Director of Legal Services has reviewed the proposal for the Council to become a member of Rail North Limited. Based on the circumstances set out in this report, the Director of Legal Services considered that the proposal described is appropriate for the Council. Legal Services will continue to support and advise the Strategic Director – Economy, Transport and Environment as required.

Other Considerations

In preparing this report the relevance of the following factors has been considered: prevention of crime and disorder, equality and diversity, human resources, environmental, health, property and transport considerations.

(5) **Key Decision** No.

(6) **Call-In** Is it required that call-in be waived in respect of the decisions proposed in the report? No.

(7) **Background Papers** Held on file within the Economy, Transport and Environment Department. Officer contact details – Kevin Williams, extension 36747.

- (8) **OFFICER RECOMMENDATIONS** That Cabinet:
- 8.1 Notes the progress in establishing Rail North Ltd to manage rail franchises in the north of England in partnership with the Department for Transport.
 - 8.2 Approves Derbyshire County Council joining Rail North Ltd at a cost of £504 per annum until February 2016 and agrees that its membership should be kept under review.
 - 8.3 Approves the Cabinet Member for Highways, Transport and Infrastructure, or his nominee, as the County Council's representative to the Association of Rail North Partner Authorities and, if appropriate, as the East Midlands regional representative to the Board of Rail North Ltd.

Mike Ashworth
Strategic Director – Economy, Transport and Environment