

**Manchester City Council
Report for Resolution**

Report to: Executive – 11 September 2013
Subject: Rail Refranchising and Devolution
Report of: The Chief Executive

Purpose of Report

To update members on proposals to devolve greater responsibility for the rail network to local authorities across the north of England and to seek endorsement for the approach that is being taken.

Recommendations

That the Executive:

(1) supports in principle the proposals contained within the Rail North business case for the devolution of franchising powers and responsibilities to local authorities across the north of England through a new SPV Rail North;

(2) requests that the Chief Executive, in consultation with the Leader of the Council, the City Treasurer and the City Solicitor and TfGM, continues to work with Rail North to finalise a business case for formal submission to the Department for Transport;

(3) requests a further report on the analysis of risk and proposals relating to their effective management prior to any decision being taken on the devolution of rail services.

Wards Affected: All

Community Strategy Spine	Summary of the contribution to the strategy
Performance of the economy of the region and sub region	An efficient and well functioning transport network is essential for the economic wellbeing of the City and delivery of the Greater Manchester Strategy, Third Local Transport Plan and Transport Strategy for Manchester City Centre. The local rail network plays a vital role in supporting the city's economy. The proposals to devolve powers over rail franchising will provide the opportunity to better integrate rail investment with other key funding streams.

Reaching full potential in education and employment	The proposals to devolve powers over the local rail network are forecast to bring economic benefits for the City and for Greater Manchester as a whole.
Individual and collective self esteem – mutual respect	No direct implications.
Neighbourhoods of Choice	No direct implications.

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

No financial implications

Financial Consequences – Capital

No financial implications

Contact Officers:

Jessica Bowles
Head of City Policy
0161-219-4412
j.bowles@manchester.gov.uk

Richard Elliott
Policy and Strategy Manager
0161-219-6494
r.elliott@manchester.gov.uk

Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

Devolution of rail re-franchising in the North of England, TfGMC, 15 June 2012
Rail Decentralisation paper and consultation. DfT, March 2012
Greater Manchester Rail Policy 2011-2024. GMCA, December 2011.
Re-franchising principles - North of England franchises. TfGMC, 24 June 2011.
Reforming rail franchising consultation response. GMITA, 15 October 2010
Devolution of rail re-franchising in the North of England update TfGMC September 2012

1.0 Introduction

- 1.1 Greater Manchester is at the forefront of the Government's agenda for devolution. GMCA was established in 2011 as the country's first Combined Authority to secure an integrated approach to economic growth, transport and skills policies that maximises efficiency and impact across the city region. Since then, the City Council and the other Greater Manchester authorities have engaged effectively with our private sector partners through the Local Enterprise Partnership to establish a clear cross-sector programme for growth. We have also embraced the opportunities offered through the City Deal with Government to maximise the benefits of devolution and aim develop this relationship further through the forthcoming development of Growth Deals.
- 1.2 Improving transport and connectivity have been priorities at the heart of our growth prospectus. In 2009, Greater Manchester took the lead in setting up the innovative Greater Manchester Transport Fund, which included an unprecedented local funding commitment to secure long-term growth through the £1.5billion investment programme that is now well underway. With TfGM and other partners Greater Manchester have also been instrumental in promoting the Northern Hub investment programme, which now has Government support and provides the infrastructure backdrop for rail growth in the North. As part of the City Deal Greater Manchester indicated its intention to develop proposals with other authorities across the north of England to take greater local responsibility for rail franchising. This would complement the existing transport investment and programmes.

2.0 Background

- 2.1 The North of England economy accounts for around 25% (over £300 billion GVA) of national output; and its rail network is a critical factor in securing optimal connectivity within and between the Northern sub-regions and, in particular, the largest city regions. Growth in the use of rail in the North, especially into major centres, has outpaced that in the South East and other parts of the country (despite the economic downturn); and, since 2004/05, Northern Rail revenue has grown by 41%.
- 2.2 There are key infrastructure improvements that will be delivered over the next few years that will increase the capacity of the network and improve connectivity. These include the Northern Hub investment package, which will be implemented by the end of 2018 and will significantly improve the network, creating additional capacity for both passenger and freight services. In addition there is a substantial electrification programme that will improve journey times on key interurban routes across the Pennines and within the North West.
- 2.3 In parallel it is essential that there are service improvements that make the best use of the infrastructure and unlock the potential of the network to support growth across the North. These would address capacity and quality issues in particular. A study in 2010 suggested that the impact of overcrowding on services into the Northern Cities was in the order of £500m

gva demonstrating the scale of economic benefit that could be unlocked by optimising the use of the network.

- 2.4 The Northern and Transpennine rail services are scheduled to be re-franchised with new contracts let in 2016. This presents an opportunity for a new approach to rail franchising that sees greater local control and the potential to maximise the economic benefits to be derived from both infrastructure and service improvements. Ministers has been supportive of the principle of devolving responsibility for these franchises and the Brown Review of the rail franchising process similarly made the case for devolution of franchises to local level. The Greater Manchester City Deal included commitments to work with South and West Yorkshire to develop detailed proposals for devolution of rail franchises. This has been underway and has included all the transport authorities across the North. 'Rail North' has been established to oversee this work on behalf of the key city regions and local transport authorities and has developed a draft business case that establishes the case for devolution within a strong governance and delivery framework.

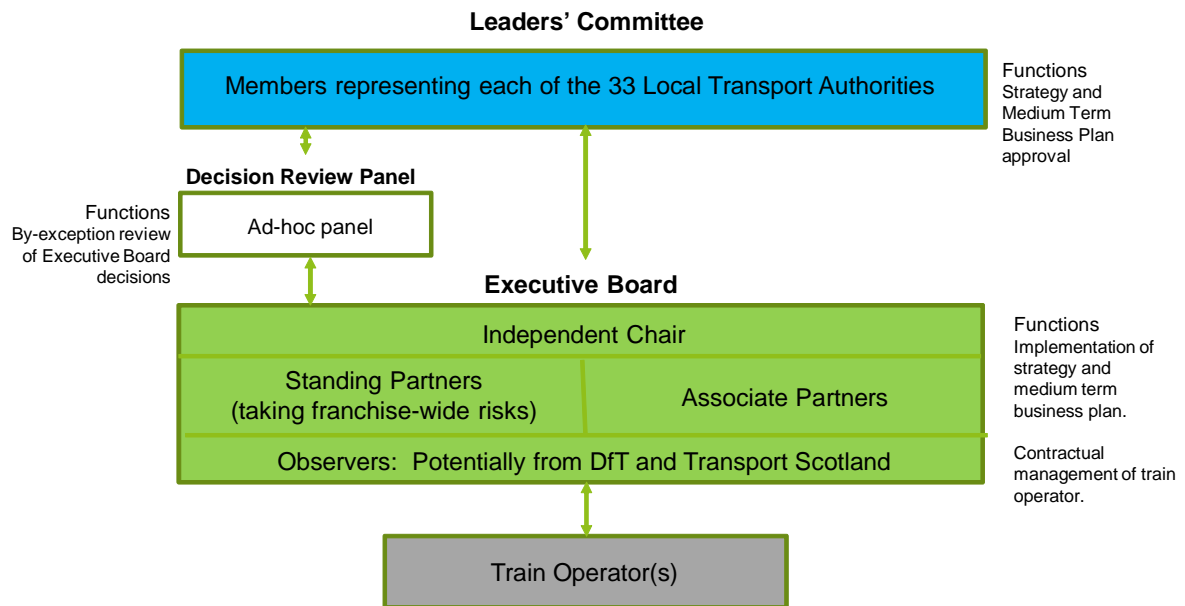
3.0 Rail North business case

- 3.1 Rail North, acting on behalf of local authorities across the North of England have been developing a draft business case for the proposed devolution process and associated governance proposition. In partnership with West and South Yorkshire areas, Greater Manchester has led the engagement of local authorities across the North and the approach has commanded broad support. The Leader of the Council has chaired two meetings of representatives of all local authorities in the North of England.
- 3.2 The central premise of the business case is to bring about local specification and management of rail services in the North of England. To achieve this, the Rail North partners propose the merging of the Northern and Transpennine franchises through the forthcoming refranchising process. Analysis suggests that this would secure franchise subsidy efficiencies of up to £20 million per annum alone. Discussions are continuing with government officials to review the process for such an alignment through a franchising process, which would need to commence in early 2014.
- 3.3 In addition, the business case sets a strong case for the significant potential additional value that could be secured by aligning rail management and local governance arrangements to unlock the rail system's fullest potential to support improved economic performance in four key ways:
- Through a better allocation of existing rail budgets, reflecting the fact that not all connectivity improvements generate the same impact on growth, and no one transport mode will always be the most cost-effective option to support growth in a specific circumstance. The business case demonstrates that maximising the impact of a given budget on growth means bringing rail decision-making closer to those with the best understanding of what connectivity can deliver to all the economies of the North, and giving decisions to those in a position to optimise the role of rail within a wider economically-focused strategy

- that incorporates all modes and is linked directly into city region economic planning;
- By broadening the budget within which rail connectivity investment can be considered in common with other local transport spending areas that can be considered for the allocation of devolved economic budgets. Rail devolution would add rail investment to that list, allowing additional resources to flow to rail, where rail offers the most cost-effective way of delivering improved growth;
 - By unlocking difficult decisions, in particular around a joined up investment and fares strategy. Under the current regime there is no transparency about what a fares strategy might deliver in terms of genuinely additional investment, and thus improved connectivity and economic outcomes. Unsurprisingly this has made it impossible to deliver an investment led fares strategy for rail in the North. Rail devolution and the broader budgetary transparency it brings will address this in the same way that devolution in other areas of transport has already; and
 - By providing an increased focus on important customer-facing aspects of connectivity such as service quality and reliability, and the relevance of service improvement options to local markets. Where devolution has occurred elsewhere (such as in Merseyside and Scotland), rail devolution has been associated with an increase in measured performance and passenger satisfaction.
- 3.4 The proposed governance structure includes a Leaders' Committee, comprising every Local Transport Authority in the North of England, and a Special Purpose Vehicle (SPV) with an independently chaired Executive Board responsible to the day-to-day oversight of the franchise through its contract with the train operator. This governance structure has been developed with the aims of:
- Creating a clear direction and strategy for development of rail services and stability for rail industry players;
 - Creating clear democratic accountability;
 - Being inclusive and all authorities to play a role in the specification and management of rail services;
 - Allowing authorities to choose the level of risk they takes;
 - Creating an executive body that can make decisions efficiently; and
 - Being robust such that those parties taking risk are bound into those arrangements.
- 3.5 The relationships between the local authorities assuming risk will be governed by a Risk Sharing Agreement. This will include voting powers which fairly reflect the share of risk which will be assumed.

The diagram below summarises the decision-making structure:

Decision-making structure



4.0 Risk

- 4.1 Greater Manchester, West and South Yorkshire put themselves forward as founding partners, willing in principle to assume franchise-wide risk. This was important to get the process underway and it was always assumed that other geographic areas would in time agree in principle to assume their proportion of risk. At the time of writing this report, all North East local authorities, Merseyside and Cheshire authorities have agreed in principle to assume proportionate risk. Over the coming months there will be further discussions with other authorities to finalise the basis of their participation in the structure.
- 4.2 In the next few months another key priority will be the detailed analysis of financial risk and the development of strategies for effectively mitigating these. Financial risks associated with the franchise will include costs associated with shortfalls in revenue, unanticipated payments associated with incentive payments, risks associated with changes to delivery of infrastructure enhancements such as Northern Hub, risk associated with rolling stock cascades and franchise termination related costs.
- 4.3 The final risks analysis will be presented through the Leaders Committee to individual Local Transport Authorities prior to any final decisions being taken. The analysis will also be the subject of an independent review.
- 4.4 Officers consider the governance and franchise management proposition set out in the prospectus to be a strong foundation for structures in which the City Council's and the wider sub-region's interests will be appropriately represented. The governance structure will need to be accompanied by an

emerging long-term strategy which will ensure clarity over priorities for connectivity, passenger service quality, capacity and cost effectiveness.

5.0 Next steps

- 5.1 Subject to the endorsement of this view by the Executive, officers will continue to work with colleagues at Rail North, TfGM and in other local authorities to finalise the business case to support a decision from DfT about whether to support the devolution of the franchises for Transpennine and Northern Rail by December 2013. A further report will be brought back to Executive in due course.