
NORTH EAST RAIL MANAGEMENT UNIT

Responsible Cabinet Member – Councillor Bill Dixon, Leader

Responsible Director - Ian Williams, Director of Economic Growth

SUMMARY REPORT

Purpose of the Report

1. The purpose of the report is to seek approval for Darlington Borough Council to become a member of the proposed North East Rail Management Unit (NERMU) and the Leader of the Council to be appointed to the Board for the Unit on behalf of all five Tees Valley Councils.

Summary

2. Northern Rail currently provide local passenger train services across the north of England under a franchise agreement to the Department for Transport (DfT) until March 2016. These services play an important role in getting people to employment, education, healthcare, leisure facilities and other daily activities. However, these services are currently characterised by poor quality rolling stock, low frequencies, inconsistent station facilities and poor journey times.
3. Darlington Borough Council has joined other local transport authorities in participating in a Consortium called Rail North. This Consortium has secured a role in governing the next Northern Rail franchise in partnership with the DfT from April 2016, which will aid economic and social activity throughout the north. One of the immediate improvements will be the replacement of the “Pacer” diesel trains in the first years of the franchise. However, in order to maximise the potential for economic growth and other improvements in the North East it is proposed that Rail North delegate the governance of local rail services in the North East to a new management unit – the NERMU; Comprising of the North East Combined Authority (NECA), along with the five Tees Valley Authorities, North Yorkshire and Cumbria County Councils. Participating in the NERMU ensures that Darlington and the Tees Valley has a presence and voting rights regarding the future provision of local rail services in the North East of England. The NERMU will form part of a wider partnership between the Department for Transport and Rail North, governing the provision of local rail services across the north of England.
4. The new Unit will be instrumental in the governance of the new Northern Rail franchise under the authority of the parent Rail North partnership, bringing local

knowledge of economic and social priorities to bear on decision making for local rail services. The Unit will be hosted by Nexus and all local transport authorities in the North East including Darlington are invited to participate. The Tees Valley Councils are proposing the Leader of Darlington Borough Council to represent them at the Unit's Board.

Recommendation

5. It is recommended that Cabinet :-

- (a) Support the recommendation to create a North East Rail Management Unit and that this is conveyed when the matter is discussed at the Rail North Board.
- (b) Agree that the Council should participate in the North East Rail Management Unit and authorise the Head of Legal Services to conclude the drafting of the Collaboration Agreement as set out at **Appendix B** and to formally sign.
- (c) Agree the appointment of the Leader of the Council to the Board of the North East Rail Management Unit on behalf of all five Tees Valley Councils.

Reasons

6. The recommendations are supported by the following reasons :-

- (a) A management unit for the North East will allow for greater local involvement in the supervision of how local passenger train services are operated within the forthcoming Northern franchise.
- (b) Darlington Borough Council has been nominated to provide the representative to the Board for all five Tees Valley Councils.
- (c) Support for the proposed management unit will be required when the matter is considered by the Rail North Partnership

Ian Williams
Director of Economic Growth

Background Papers

North East Rail Management Unit (NERMU) Collaboration Agreement

Simon Houldsworth : Extension 6631

S17 Crime and Disorder	This report has no implications.
Health and Well Being	This report has no implications.
Carbon Impact	A regional governance structure will aid the provision of local train services that improve connectivity between places for work, business, leisure and other journey purposes.
Diversity	<p>This report has no implications under the Equalities Legislations.</p> <p>No equalities impact assessment has been carried out, since this decision concerns a regional governance structure for local rail services, not the specification of the services themselves.</p>
Wards Affected	The recommended decision does not affect any ward more than another.
Groups Affected	This report contains no implications.
Budget and Policy Framework	<p>The North East Business Unit running costs are being underwritten by Nexus. Should this situation change, then another report will be brought to Cabinet if required.</p> <p>A Collaboration Agreement has been drafted.</p>
Key Decision	This report is not a key decision.
Urgent Decision	This report is not an urgent decision.
One Darlington: Perfectly Placed	<p>Putting in place a regional governance structure for local rail services means that Darlington as a place will be better connected to other places and their economies, bringing business and labour market benefits in addition to social benefits.</p> <p>The themes of More businesses and More jobs and A place designed to thrive are most relevant.</p>
Efficiency	The officer duties envisaged within the scope of this report are de-minimis to the current partnership working for Rail North activity.

MAIN REPORT

Information and Analysis

7. Northern Rail provides local rail services across the North of England under a franchise agreement with the Department for Transport (DfT). Northern Rail's services in the North East are geographically distinct from the remainder of the franchise. Operating from Heaton depot in Newcastle, services cover the entire North East Combined Authority (NECA) and Tees Valley geographies with some overlap into Cumbria via the Tyne Valley line, and North Yorkshire via the Esk Valley line. These services provide vital intra-regional connectivity, serving the majority of major towns and cities within the North East of England.
8. Despite their important role providing access to employment, education, healthcare and leisure facilities throughout the wider North East region, these services are currently characterised by poor quality rolling stock, low frequencies, inconsistent station facilities and poor journey times. Satisfaction with the service amongst passengers reflects the current standard of service, remaining below the national average according to Transport Focus' most recent National Rail Passenger Survey.
9. With the current franchise due to expire at the end of March 2016, Local Transport Authorities (LTAs) have taken a positive role in shaping the future of local rail services across Northern England. Through the Rail North consortium, vital investment has been secured which will deliver a transformational improvement in services during the next franchise period. However, this investment only represents the starting point if services in the North East are to be truly reinvigorated. Greater local influence over the delivery and strategic direction of the franchise will be required if services are to better reflect local economic and social needs.

Rail North

10. The aforementioned issues faced by local rail services in the North East, are symptomatic of a general lack of rail investment across the North of England. The current Northern Rail franchise was let based upon an inaccurate assumption that there would be no growth in ridership over the course of the franchise term, an assumption which has led to stagnation of services and quality, as well as overcrowding in many areas.
11. In response to a 2012 Department for Transport (DfT) consultation on rail decentralisation, Local Transport Authorities (LTAs) across the North of England formed the Rail North organisation and submitted a proposal to the Secretary of State for the full devolution of services operated by the Northern and TransPennine Express franchises commencing from their renewal in 2016.
12. The proposal reflected Rail North's overarching objectives which seek to address the issues currently faced:
 - (a) delivering more rail capacity and greater rail connectivity;

- (b) improving the quality of railways with a better offer to passengers to encourage more growth, and
 - (c) to deliver a more efficient railway to secure greater value for money from the support off the public funds.
13. To underpin the proposition, Rail North commissioned, for the first time, the development of a Long Term Rail Strategy for the North of England. Whilst devolution primarily focuses on the Northern and TransPennine passenger rail franchises, the long term strategy covers all operators as well as freight services.
14. The strategy was approved by Rail North's Leaders Committee on which the Tees Valley Authorities are represented by the Leader of Darlington Borough Council, Councillor Bill Dixon. The strategy places economic growth at its heart and has the following priorities for enhancing rail across the North:
- (a) Connectivity
 - (b) Capacity
 - (c) Coherence
 - (d) Cost effectiveness
15. In his November 2013 response the Secretary of State supported Rail North's proposition, but stated that although he supported the principle of devolution, he wished to see a lower risk, more evolutionary approach through the establishment of a partnership structure between DfT and Rail North.
16. Rail North Leaders endorsed this approach in January 2014, along with the following set of shared objectives that underpin the partnership:
- (a) growing the railway to maximise the benefits of infrastructure investment and linking this to railway efficiencies;
 - (b) having a platform for determining investment priorities within the Partnership;
 - (c) risk and reward sharing between members of the partnership, including the potential for revenue or profit-sharing mechanisms that could allow reinvestment into rail services; and
 - (d) a partnership structure that allows the balance of risk to change over time.
17. Since that time, Rail North has worked jointly and collaboratively with DfT during the design and procurement phase of the new franchises, and has entered into a formal Partnership Agreement to underpin a joint approach to franchise management. This Agreement will see the new franchises managed from the North of England for the first time once they commence in April 2016, with Rail North-appointed officers populating the executive structure.
18. In parallel, Rail North has taken steps to evolve from an informal grouping of LTAs to a formalised organisation with a robust governance structure. A local government association, the 'Association of Rail North Partner Authorities', and a company limited by guarantee, 'Rail North Limited', have both been established.

Northern Rail Franchise ITT

19. The Invitation to Tender (ITT) for the next Northern franchise was published by the DfT in February 2015. Throughout the design phase, Rail North officers, working jointly and collaboratively with DfT, made the case for significant improvements in line with the Long Term Rail Strategy.
20. The published ITT reflected these efforts, with a number of improvements being secured within the minimum specification. Included in these improvements are the removal of the much-maligned and outdated 'Pacer' vehicles, the procurement of at least 120 new passenger vehicles, more services to operate on certain routes and the successful bidder will have to invest significant sums in station facilities and Wi-Fi provision.
21. In the North East, these improvements were complemented by a requirement for bidders to provide for a North East Management Unit within their structure, focussed solely on routes within this region. As well as creating this unit, the next franchisee will be required to work alongside Local Authorities to improve passenger information, marketing and branding and service development.
22. The deadline for bid submissions passed on 24 June 2015, with LTA officers engaged in constructive dialogue with prospective bidders prior to the deadline, advocating further investment in the North East beyond the minimum requirements. A successful bidder is expected to be announced later in 2015.
23. These requirements will deliver a long-overdue improvement in local rail services in the North East. However, it is important that the service continues to improve and develop over the coming years to underpin economic development and social cohesion across the region, and to provide a viable alternative to road-based transportation.

Rail North/DfT Partnership Agreement and Franchise Management Structure

24. As well as working jointly with DfT during the franchise design phase, Rail North has developed a structure which will deliver a joint approach to franchise management.
25. The Northern Rail franchise is currently managed by the DfT. The five north of England Passenger Transport Executives (PTEs), including Nexus, are co-signatories to the Franchise Agreement and undertake some limited franchise management duties within their respective areas. PTEs currently receive funding in the form of a Rail Administration Grant to cover the cost of these activities.
26. In March 2015, the Rail North Ltd Board agreed that the company should enter into a formal Partnership Agreement with DfT (the 'Partnership'), which defines this joint approach to franchise management. Under the Agreement, the next franchises will be managed from the North of England for the first time. It has since been agreed that the Partnership's officers will be based in Leeds.

27. The Partnership will have a joint executive structure, comprising a Strategic Board with an Independent Chair, and a Management Team consisting of the contract and commercial managers responsible for the day-to-day management of the franchises. An organisational chart is attached as **Appendix A**. The senior officers nominated to sit on the Strategic Board are accountable to the Board of Rail North Ltd and the Leaders' Committee of the Association.
28. These arrangements will ensure that local rail service providers are far more accountable to the communities and economy they serve. They will also provide the North of England with a combined voice when inputting into wider industry processes, such as those determining the scope and scale of future investment.
29. However, the North East must not lose its ability to speak as a region within these arrangements given its unique set of requirements, which often differ substantially from those of major city regions dominated by urban commuter travel. The Management Team of the Partnership will be required to cover the whole North of England, and will naturally not be able to focus solely on the needs of any one particular region. Thus a management unit for the North East is considered desirable.

The North East Rail Management Unit

30. This proposed new management unit, to be created for the next Northern franchise, provides an opportunity to create a complimentary regional franchise management body within the wider Rail North structure. This body – the North East Rail Management Unit (NERMU), would comprise the NECA, along with the five Tees Valley LTAs, North Yorkshire and Cumbria County Councils.
31. To define this unit, a Collaboration Agreement (**Appendix B**) has been drafted which would legally underpin the arrangement. It is proposed that the NERMU would have two principal objectives:
 - (a) To deliver local influence over the delivery of rail services in North East England.
 - (b) To develop rail services to facilitate and stimulate economic growth and support the social cohesion of the North East, delivering high quality, integrated local services in line with the vision established by the Rail North Long Term Rail Strategy and the North East Rail Statement.
32. The NERMU would progress these objectives through an annual Business Plan, supported by a Budget. A fundamental requirement of each Business Plan will be securing the delegation and retention of franchise management duties from the Partnership Management Team. Once the NERMU has been established, an early task will be to submit a proposal to the Partnership Strategic Board to secure these powers. Such a proposal would require the support of the Rail North Ltd Board.
33. A new NERMU Board would be created to oversee the delivery of the Business Plan. It is proposed that the NECA, Tees Valley, North Yorkshire and Cumbria are all represented on the NERMU Board, with voting share arrangements.

34. It is proposed that the Leader of the Council, Councillor Bill Dixon represents the Tees Valley Authorities on the NERMU Board. His nomination would provide a useful link between the local NERMU arrangements and the wider Rail North organisation. This appointment would facilitate strong support for a delegation proposal on the Rail North Ltd Board.
35. Beneath the NERMU Board, a Steering Group of officers drawn from across the North East geography will provide regular progress updates to the Board and provide local advice to inform the execution of the Business Plan. It is proposed that the Steering Group is drawn from the existing Rail Officers Working Group arrangements and the organisational structure for NERMU can be viewed in **Appendix C**.
36. The proposal is for a regional governance structure for local rail services and is not considered to have any equalities implications, so does not require an Equality Impact Assessment.

Options

37. The first option available to the Council would be to do nothing and leave local rail services in the North East to be specified by DfT and Rail North (either direct or through the NERMU). This would result in the Council not being represented on a regional level and being in the position to:
 - (a) deliver local influence over the delivery of rail services in North East England.
 - (b) develop rail services to facilitate and stimulate economic growth and support the social cohesion of the North East, delivering high quality, integrated local services in line with the vision established by the Rail North Long Term Rail Strategy and the North East Rail Statement.
38. The second option would be for the Council to join the NERMU. This would result in the Council being represented on a regional level and being in the position to:
 - (a) deliver local influence over the delivery of rail services in North East England.
 - (b) develop rail services to facilitate and stimulate economic growth and support the social cohesion of the North East, delivering high quality, integrated local services in line with the vision established by the Rail North Long Term Rail Strategy and the North East Rail Statement.
39. There is no alternative option to the two options outlined above. It is recommended that the Council join the NERMU to allow for greater local involvement in the supervision of how local passenger train services are operated within the forthcoming Northern franchise.

Legal Implications

40. The Council has general legal powers to participate in this type of regional collaborative working under the general power of competence, by virtue of the Localism Act 2011.

Financial Implications

41. It is proposed that Nexus utilises its Rail Administration Grant on behalf of the NECA, to fund the resource required to deliver the Business Plan. It is assumed that one full time officer will be required, although this assumption will be tested prior to the establishment of NERMU. Any officers appointed would become employees of Nexus but with responsibility to act on behalf of NERMU parties. It is not expected that any further funding will be required to deliver the initial Business Plan and therefore no financial contributions from the parties, including the Council will be sought. However, should the parties agree at any time that the NERMU should be utilised to deliver a more expansive set of tasks, the Business Plan and Budget setting process will facilitate further financial contributions from the parties.
42. The Rail Administration Grant sum will be subject to the ongoing Spending Review for Central Government. Thus, there is a risk that the budget for the officer resource required exceeds the Grant. In this scenario, a further decision will be needed to fund any shortfall pro-rata, against a total budget of circa £55k per annum.