

Date: **27 January 2017**

Subject: **Case for Change: GMCA Rail Station Transfer**

Report of: **Tony Lloyd, GM Interim Mayor, Portfolio Lead for Transport and Jon Lamonte, Chief Executive (TfGM).**

PURPOSE OF REPORT

To update GMCA on the progress made on the Rail Stations Transfer Case for Change since presentation of the Strategic Outline Case in March 2016, and to seek delegated authority for the Interim Mayor, Chief Executive (TfGM) and Head of Paid Services to approve and submit the Case for Change to DfT and HMT.

RECOMMENDATIONS:

It is recommended that members:

- Note the content of this report;
- Agree to delegate authority to the Interim Mayor, Chief Executive (TfGM) and the Head of Paid Service, to submit the case to HMT and DfT in Spring 2017.

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RISK/ FINANCIAL/ LEGAL CONSEQUENCES/DETAILS

Risk Management – paragraphs 3.16 & 3.21

Legal Considerations – paragraph 3.12

Financial Consequences – Revenue – paragraphs 3.1-3.8

Financial Consequences – Capital - paragraphs 3.1-3.8

BACKGROUND PAPERS:

The previous report containing the Strategic Outline Case (SOC) was presented to GMCA 18 March 2016. Following agreement from GMCA the SOC was submitted to DfT in May 2016 and assessed in August 2016.

TRACKING/PROCESS		
Does this report relate to a major strategic decision, as set out in the GMCA Constitution (paragraph 14.2) or in the process (paragraph 13.1 AGMA Constitution) agreed by the AGMA Executive Board:		Yes
EXEMPTION FROM CALL IN		
Are there any aspects in this report which means it should be considered to be exempt from call in by the AGMA Scrutiny Pool on the grounds of urgency?		None
AGMA Commission	TfGMC	Scrutiny Pool
N/A	N/A	N/A

1. INTRODUCTION

- 1.1 In accordance with the stated intention of the 2014 Greater Manchester (GM) Devolution Agreement, TfGM has developed a Case for Rail Stations transfer for approval in principle by central Government.
- 1.2 On the 18th March 2016, the Strategic Outline Case (SOC) was presented to GMCA where it was resolved to provide a submission to the DfT in May 2016 and progress the case to determine a preferred option for station transfer.
- 1.3 Following consideration of the SOC, the DfT Rail Investment Board noted in August 2016 that they remain open 'in principle' to proposals for asset transfer to local bodies where they demonstrate a strong, well-evidenced and supportive case for change. DfT colleagues have continued to work with TfGM as the proposition has developed, including regular bi-weekly meetings and a successful DfT/HMT/DCLG visit in October 2016.
- 1.4 DfT asked TfGM to:
 - Consider a pilot or phased approach to enhance delivery assurance and be clear on the role of Manchester Piccadilly especially relating to HS2;
 - Demonstrate how the funding and finances are to work including assurances that the DfT and train operating companies (TOCs) financial position is to be held harmless from any changes, plus assumptions around any new local or private money it can contribute to the industry;
 - To appraise a partnership option with TOCs and Network Rail (NR) to deliver its objectives without the need for such a transfer;
 - To more clearly identify and evaluate local benefits/risks compared to network wide benefits/risks, particularly at those stations which serve more than the GM market.
- 1.5 We have actively engaged with DfT, HMT and DCLG throughout 2016 to ensure that our case is appropriately aligned to the priorities of government departments and to optimise the benefits that we can realise for both transport and local communities.
- 1.6 Discussion with No.10 Policy Unit also encouraged us to retain our ambition for 96 stations rather than a subset, with specific mention of delivery of housing adjacent to stations. This is important in light of the 38,000 additional homes that DfT need to deliver through the transport estate.

2. SUMMARY OF THE CASE

- 2.1 The Case for Change includes a detailed economic model to comply with HMT's Green Book and DfT guidance, in addition to the wider elements covered in DCLG guidance. We have used the government's best practice five case model approach to ensure the Strategic, Economic, Financial, Commercial and Management cases to present appropriate material for government to make an informed decision; these are summarised below.

Strategic Case

- 2.2 The strategic case sets out the strategic policy fit and investment rationale for GM's rail station transfer proposal. A robust option assessment process is also described which identifies and justifies the shortlist of options reported in the economic and financial case.
- 2.3 The GM strategic approach is clear: we aim to be the investor in stations who regenerates and binds communities together making them more inclusive and accessible places; the intermodal integrator; the active guardian; and the customer champion across all transport facilities. The collective benefits from each of the strategic enablers aim to drive growth in the local economy and improve access to jobs and other facilities. They will therefore support the fundamental aims of the GM Strategy and 2040 Transport Strategy as well as GM devolution objectives.
- 2.4 The strategic case has been informed by the GM Transport Strategy 2040, which recognises the major role that public transport will need to play in delivering GM's sustainable growth agenda, set out in the GM Strategy and, subsequently in the draft GM Spatial Framework. To achieve the envisaged levels of growth without increasing congestion and damaging the environment and peoples' quality of life there needs to be a significant mode shift away from car use, which will require a transformational change in the quality, ease of use, accessibility and integration of public transport networks. Interchanges, including rail stations, will be increasingly important in extending the range of the network, to improve connectivity across a wider labour market. There is therefore a need to ensure that access and interchange facilities are of a consistent standard and appropriate to the role of each interchange.
- 2.5 Transfer of stations to GM will create a single unifying body in the delivery of any station, interchange, tram and bus stop in GM, thereby delivering a better integrated, multi modal customer experience. Through investment in transport facilities, GM aims to deliver more patronage and increased revenues through unlocking the potential and latent value sitting dormant at many stations. By approaching station land and property as community assets we will also deliver improvements in GM neighbourhoods and the lives of its citizens, pursuing social and commercial goals.

- 2.6 GM ownership will free stations from the twin cycles of NR Control Periods and TOC refranchising, securing a long term investment commitment. It will also allow development and station change rules to be fine-tuned to deliver investment and improvement in a less constrained, less complex environment.
- 2.7 In the SOC we assessed a long list of 14 options, each with different levels of ownership and responsibility transferred from NR and the TOCs. The 14 options were assessed against the five strategic enablers as set out above, cost, benefits, risks and practicalities of the transfer. This resulted in a shortlist of four options for consideration which has since been expanded to six options in the current business case following DfT comments. These are set out below:
- **Option 1:** GM responsible for NR owned adjacent land and leased areas;
 - **Option 2:** GM responsible for NR owned adjacent land and leased areas; and TOC soft FM and maintenance;
 - **Option 3:** GM responsible for NR owned adjacent land and leased areas; with TOC functions contracted back to the TOC;
 - **Option 4:** GM responsible for full management and operations at stations (existing NR and TOC responsibilities);
 - **Option 5:** Partnership with NR and TOC to deliver improvements at stations; and
 - **Option 6:** GM to become 'station investor.'
- 2.8 In our submission to government we discuss in detail our preferred option; the maximum transfer case (Option 4). The key principle behind our preferred option is that ownership facilitates responsibility and puts incentives in the right place to leverage and deliver more:
- The 2040 Transport Strategy calls for integrated seamless travel for our passengers. We see a future where the first and last mile are as important as the modes of transport, and the customer service is focused on end to end journeys, not one specific mode. Both customer service benefits and organisational efficiencies can be realised by transferring full management to GM;
 - The NR transfer will bring control of asset investment and the long term benefits of efficient proactive estate management and customer experience; however, a TOC is not incentivised to consider the longer term implications of whole life station management given the short term nature of franchises. This frequent transfer of station management and operation limits the approach to commercialisation and 'spend to save' to seven to nine years; the GM model allows a joined up approach to be taken and a much longer and more consistent payback period;
 - To enable greater borrowing for investment in stations the funding flows need to be agglomerated. Taking full control of NR assets, development rights and TOC's commercial interests, guarantees both revenue and capital funding for GM to leverage significant borrowing and investment.

This cannot be achieved through either partnership or contract back options to the TOC;

- The GM devolution agreement is implementing transfers in responsibility across public sector services; this calls for the bringing together of back office and professional services to enhance capability and generate efficiencies in delivery. TfGM is establishing asset management and projects development / delivery functions to support the needs of devolution; only with full responsibility for the assets and services we are accountable for will we be able to realise the best efficiencies; and
- Finally, GM understands the needs of local communities and strategic planning to trigger economic growth and regeneration. We understand that stations can be a generator within a community or the complete opposite. With our insight to spatial framework, housing, commercial and industrial planning, plus clear demographic profiling we have the tools, remit and accountability to ensure economic growth is realised through this transfer.

Economic & Financial Case

- 2.9 It is estimated that, across the 96 stations reviewed, NR spends approximately £5m p.a. in carrying out its asset management and enhancement duties, with TOCs spending a further circa £29m on maintenance, management and operational activities. GM has derived these estimates using the limited data sources currently available and the amounts will be subject to further due diligence. The business case is predicated on the equivalent amount of funding transferring to GM, thus enabling us to carry out the activities that would otherwise have been executed by the TOCs / NR, while leaving the DfT, NR and the TOCs, in a cost neutral position.
- 2.10 The transfer of rail stations will allow GM to deliver a range of interventions, in line with the five strategic enablers for these stations. In nominal terms, over the period to 2045/46, the interventions will require approximately £120m of capital spend and £320m of gross revenue spend. These numbers include a risk allowance which is under ongoing review. Development of land for housing and retail activity, as well as retail activity at the stations are expected to generate circa £38m of incremental income. The interventions and activities at and around the stations are also expected to generate additional rail passenger revenues over the same time period. The additional income and revenues will be reinvested in the rail stations estate.
- 2.11 Land transfer, assumed to be at zero cost, from NR to GM is expected to enable the development of circa 100 housing units on a small number of sites where this is likely to be viable, in addition to a net retail area of around 7,500sqm. Car parking may also be increased where housing and commercial development is not feasible.
- 2.12 The majority of the £120m capital costs are assumed to be covered by future capital grants (such as LGF and RSIS) and an upfront grant from DfT

representing the 'net present value' of future increases in passenger revenues generated by GM station investments. The financial model also, currently, assumes that a small amount of local borrowing will also be required.

- 2.13 The total net local contribution over the initial 5 years amounts to circa £50m. This will cover mobilisation costs, repair and maintenance and other minor upgrades in stations. The 2017/18 Budget report that is also on the agenda for the GMCA meeting includes a request to release £5m of the local contribution from Reserves in 2017/18.
- 2.14 In addition, the financial model currently assumes that a further circa £4m p.a. (in 2017/18 prices) is required to operate and maintain the enhanced station facilities and services. This amount is subject to ongoing review given the existing and likely future pressures on revenue funding, including options for increased levels of commercial revenues, further cost efficiencies and 'value engineering'.
- 2.15 The Benefit to Cost Ratio (BCR), accruing from the transfer of rail stations to TfGM, represents medium value for money as defined by DfT guidance. There are a significant number of benefits that cannot be monetised, including those relating to community interventions, due to a lack of quantifiable evidence.
- 2.16 A DCLG analysis of benefits, which does include the land development and regeneration impacts around the station, show that the proposal represents high value for money.

Commercial Case

- 2.17 The commercial case sets out the preferred commercial structure and transitional approach to deliver new commercial and regulatory arrangements for GM to take control of rail stations. It also presents the existing and proposed funding flows; TfGM's commercial competency in the retail, property development and advertising realms; and a summary of human resource considerations.
- 2.18 The case contends that the current condition of GM's stations and the rail industry commercial structure means that in the first instance, full management and control of the GM's stations under an in-sourced model, with potential for some opportunity to include sub-contracted activities as necessary is the most appropriate model.
- 2.19 Whilst acknowledging the above position, the commercial case is also clear that we do not intend to preclude the opportunity to explore contracted out management proposals for part or all of the activities in the future.
- 2.20 The commercial case also sets out the sequence for taking full responsibility for stations, namely:

- GM acquisition of relevant 'powers': the required safety, regulatory and contractual powers will need to be in place before the transfer of any asset, service or operation;
- Transfer of station infrastructure;
- Transfer of TOC assets and facilities and associated management responsibilities; and
- Transfer of TOC services and associated management responsibilities.

2.21 In practice, the transfer of some of the above functions may be progressed together. The order of any functional transfer/implementation of new contractual arrangements will be subject to separate negotiation with DfT, NR and the TOCs following in-principle approval by government.

Management Case

2.22 The management case demonstrates that our proposal can be implemented and managed successfully. To do this it presents details of governance; assurance; functional requirements; our transfer strategy; risk management approach; and communications and stakeholder management.

2.23 Our approach to the transfer of stations is based upon three simple principles:

- operational railway risk will stay with the party best placed to manage those risks;
- TfGM's organisational capability and capacity will need to be adjusted as a prerequisite of the transfer; and
- GM will ensure that quality, safety and performance are protected. This protection, particularly for the TOCs and their customers, will be provided through a process of due diligence, mobilisation, shadow running, and phased implementation. Beyond the point of transfer, a contract framework that builds upon station access with TfGM acting as the TOCs' delivery partner will ensure that TOCs have the mechanism to partner with us for the benefit of all station users and should it be required the means to hold GM to account.

2.24 Whilst all aspects of a transfer import some risk, the management case notes that TOC risks are essentially known and their management and mitigation are standard practice, as this happens as part of the changeover process from one rail franchise to another. Station lease transfers from NR have previously been agreed with Abellio on the Greater Anglia franchise, TfL on the London Overground network and Stagecoach/Virgin on the East Coast franchise. GM will follow industry best practice and learning in this area to ensure a successful and seamless transfer for customers and protection for all parties.

2.25 With appropriate mobilisation and governance TfGM can assure the transfer of people and operational safety. With appropriate contractual mechanisms

TfGM can deliver, for TOC and NR as industry partner clients, a quality of service that is as strong, our ambition is stronger, than existing arrangements.

- 2.26 We have assessed the deliverability and risks associated with transfer. We recognise that the transfer of complete responsibility for the customer experience brings some risks, particularly those associated with people, but equally it brings the opportunity to make real changes to the customer experience and this can commence as soon as the transfer is complete.
- 2.27 The practicalities of transfer will emerge through due diligence and negotiation. This may lead amongst many things to phasing, withheld liabilities, or temporary continuation of existing contracting maintenance arrangements. Whatever final arrangements do take place however one thing is clear, customers and communities will benefit most from a rapid, seamless, partnership approach that effects the transfer soon as is practicably possible. This way the total sum of the benefits of transfer can be realised to the advantage of all transfer stakeholders.

3. NEXT STEPS

- 3.1 We have demonstrated in our Case for Change that Option 4 (full transfer of responsibility) delivers the best outcomes for GM against our objectives, however, with ambition comes risk and we acknowledge that once approval is given from government we may need to consider a pragmatic, phased delivery approach.
- 3.2 In our case to Government we set out two types of phased transfer to reduce the risk to all parties. Our model is designed to retain the flexibility to sensitivity test the impact of delayed or reduced transfer of elements of control.
- Increasing portfolio: We have considered options that could be phased according to best management of the risk, i.e. smaller groups of assets transferring over a number of years or deferring complex elements of TOC responsibility until the end of the current franchise.
 - Progressive transfer of areas control: To achieve full transfer of responsibility we envisage two independent transactions, one with NR and one with the TOCs. Although possible, a simultaneous transfer would carry higher risk. We consider that a pragmatic phased approach may allow the risks to be better managed, our organisation capability to be developed and any possible impacts on users to be minimised.
- 3.3 We will still need to undertake full due diligence on the assets, contracts and liabilities of transfer, however, we believe that our work using benchmarking and sampling puts GM in a position to submit our Case for Change to Government, seeking approval in principle to proceed with due diligence around a single option.

3.4 The submission will be made to government in Spring 2017, subject to approval by the delegated signatories. Following consideration by Government it is anticipated that a short period of high level dialogue will result in an 'in principle' approval decision.

4. RECOMMENDATIONS

4.1 It is recommended that members:

- Note the content of this report;
- Agree to delegate authority to the Interim Mayor, Chief Executive (TfGM) and the Head of Paid Service, to submit the case to HMT and DfT in Spring 2017.

Dr Jon Lamonte

Chief Executive, TfGM