

Meeting of the Cabinet 12th March 2014

Report of the Director of the Urban Environment

Rail Devolution

Purpose of Report

1. To inform Cabinet and seek its support for current negotiations by Centro for a devolved rail contract for the West Midlands to be known as “West Midlands Rail”.

Background

2. West Midlands Rail (WMR), a partnership of fourteen local transport authorities (see appendix A), has been invited by the Secretary of State to submit a proposal for the devolution of the specification and management of local rail services. The proposals, the detail of which is included in the Proposition (Appendix B) will split the existing London Midland franchise to create a West Midlands Rail Contract (WMRC) for the operation of local rail services. The contract would be democratically accountable to local members rather than central Government as is the case at present. The residual London Midland services would continue to be specified and managed by the Department for Transport (DfT). It is proposed that local management WMRC would commence in June 2017 and operate for a period of 7-9 years.
3. The proposal that is submitted to the Secretary of State will be non-binding and the starting point for more detailed discussions with the DfT. The DfT has indicated that it will need to make a decision in principle on whether to split the London Midland franchise in early 2015 in order to meet a June 2017 start for the WMRC.
4. The submission itself will consist of a formal business case using the standard DfT 5-stage model, and a summary of the proposal outlining the rationale for devolution (appendix B).

Benefits of local control

5. The link between passenger rail services and economic growth and regeneration are well recognised. Currently, all rail services operated in the West Midlands are specified and controlled by central Government leading to key decisions on investment and specification being made remotely.
6. Rail devolution brings decision-making close to the people who use the trains, and to the key bodies influencing the economic regeneration of the region's towns and cities. It will enable maximisation of the potential capacity released on the local rail network by HS2 and increase influence over national investment programmes. Integration between modes becomes a much simpler proposition when a substantial portion of the network is specified locally.
7. This contrasts with current arrangements, where change on the rail network is often difficult and time consuming.

Governance

8. Inclusive governance arrangements will be required to oversee the WMRC that enable Met district and neighbouring shire and unitary authorities to take part. It is proposed that these arrangements are formed independently of existing local government governance structures in a way that is transparent, inclusive, responsive and fair.
9. It is proposed that a separate body will be set up known as 'West Midlands Rail' which is likely to be a Special Purpose Vehicle (SPV), a company limited by guarantee. This company will operate by having a contract board made up of constituent authority elected members and delivery body. Strategic direction will be provided by a Leader's Rail Group sitting outside of the SPV. A brief overview of the proposed governance structure is shown below:

SPV (West Midlands Rail Ltd.)	Leaders Rail Group	<ul style="list-style-type: none">• Meeting twice-yearly• Define annual strategy, agree key funding and investment decisions• Leaders, or their nominees, from each partner authorities
	Contract Board	<ul style="list-style-type: none">• Meeting frequently• Scrutiny over the management of the WMRC by the Delivery Body, delivery of committed contract obligations by the operator and delegated authority for some financial and operational decisions• Board of directors made up of elected members representing partner authorities
	Delivery Body	<ul style="list-style-type: none">• Professional and competent team managing the WMRC, providing reports on performance, projects and other issues to the contract board• Hold the contract with the train operator

10. Appendix C includes a detailed overview of the proposed governance arrangements for WMR.

Partner authority support

11. WMR is seeking support in principle from each partner authority for the submission of the proposition (appendix B) and the proposed governance arrangements (appendix C). It should be noted that the proposition is non-binding on Centro or any partner authority at this stage and is a starting point for more detailed discussions with the DfT.

Next steps

12. Key milestones for rail devolution are shown in the table below:

2nd West Midlands Rail Leader's Conference	4 March 2014
Proposal submitted to Secretary of State	Spring 2014
Decision to proceed in principle from Secretary of State	Summer 2014
Develop detailed specifications in collaboration with the DfT and partner authorities	2014 – 2015
Contract procurement	2015 – 2016
West Midlands Rail Contract commences operation	June 2017

13. The next decision required by Cabinet will be whether to formalise a partnership through incorporation of the SPV and associated bodies. This is likely to be after the announcement by the Secretary of State in the summer confirming whether devolution can proceed.

Finance

14. The non bidding expression of interest to the Department for Transport has no financial implications to the Council at this stage

Law


15. Section 111 of the Local Government Act 1972 empowers the Council to do anything calculated to facilitate or is conducive or incidental to the discharge of any of its functions.

Equality Impact

16. The contents of this report comply with the Council's Equality and Diversity Policy whilst specifically seeking to introduce measures that will be of direct benefit to children and some of the most vulnerable road users in the community including young children, the elderly, pedestrians and cyclists in general, and those with impaired mobility.

Recommendation

17. Cabinet is recommended to approve the signing of a letter of 'in principle' support for the proposal for rail devolution in the West Midlands and of the outline governance arrangements.



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Director of the Urban Environment

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List of Background Papers

West Midlands Devolved Local Rail Contract Draft Prospectus Version 3.6

Appendix A

- Birmingham City Council
- Coventry City Council
- Dudley Metropolitan Borough Council
- Herefordshire County Council
- Northamptonshire County Council
- Sandwell Metropolitan Borough Council
- Shropshire County Council
- Solihull Metropolitan Borough Council
- Staffordshire County Council
- Telford and Wrekin Unitary District Council
- Walsall Metropolitan Borough Council
- Warwickshire County Council
- Wolverhampton City Council
- Worcestershire County Council

West Midlands Rail Proposition - Executive Summary

Our Vision

Championing the needs of passengers and businesses, West Midlands Rail will manage local rail services within a safe, integrated high quality public transport network. Investment will be directed at growing prosperity and a sustainable low carbon economy.

Our Proposition

To deliver our vision West Midlands Rail (WMR), representing the region's metropolitan, shire and unitary authorities, proposes to commission and manage local rail services within a new West Midlands Rail Contract from 2017. We will also have strong oversight of the West Coast Connect franchise on other key West Midlands routes through an agreement with the DfT. We will also work in partnership with Government in the delivery of other services in the region.

Our proposition represents both the West Midlands' wish to take responsibility for its own rail services and its active response to the Coalition Government's localism agenda.

WMR would transform the quality of rail services as the centrepiece of a growing, innovative, strongly branded integrated public transport network focused upon meeting the needs of passengers, businesses and the economy and contributing to a sustainable environment.

The proposition is underpinned by the clear and detailed vision for passenger rail services agreed by constituent authorities in '**A World Class Rail Network for the West Midlands**' (January 2013).

WMR would add local value to the DfT's Rail Investment Strategy ("High Level Output Statement" or "HLOS") together with investments stimulated by the Local Enterprise Partnerships (LEPs).

WMR would lay the foundations for a step-change in local rail capacity, connectivity and economic performance that would be released after HS2 commissioning in 2026.

WMR will have a robust governance structure reflecting the interests of all its constituent authorities, bringing fresh local democratic accountability close to the people who use rail services.

The Prize

5 outcomes underpin WMR's proposition:

1. Economic growth stimulated by greater rail capacity and better connectivity and integration
2. Better rail services and stations attracting more passengers and reducing carbon emissions
3. A rail service which is more accountable and responsive to local people and businesses
4. A local rail network ready to benefit from capacity released by HS2
5. A more efficient, effective railway which is better value for the taxpayer

Why Rail?

The West Midlands Rail Network is essential to the well-being of the region's economy, enabling people to reach the retail, commercial and tourism hearts of its cities and towns, carrying, for example, over 30% of Birmingham's commuters to work each day, and contributes to a sustainable regional environment.

Government investment committed to the existing rail network and HS2 offers new national connectivity enhancing the attraction and competitiveness of the West Midlands economy. It also releases capacity for our vision for more local and regional train services and better connectivity, spreading benefits across the economies of the cities, towns and rural areas of the West Midlands.

We propose that WMR would be the locally-controlled vehicle through which investment in the local rail network will generate maximum regional benefit and added value to that made by the Government.

Why Local?

The rail network matters most to local people and businesses who need it to connect the places they want to travel to, be affordable and easy to use, and to attract others to visit the West Midlands.

WMR understands what local people want and how growth in capacity of the rail network can support the vibrancy of the West Midlands economy and the quality of its environment.

Decision-making close to communities and customers who use West Midlands rail services would maximise the benefits from national and local investment in the existing rail network and HS2.

Locally commissioned and managed, WMR would offer significant advantages over the existing DfT centrally-led franchise process, being:

- **Local** - a locally-directed organisation for delivering our locally-developed Rail Vision
- **Flexible** - more expeditious in responding to local growth and investment priorities
- **Connected** - directly and routinely with local people, businesses, local government and LEPs
- **Informed** - closely understanding the patterns and growth of demand for local rail capacity
- **Integrated** - direct capability to integrate rail, metro, buses, bicycles, pedestrians and roads
- **Balanced** - understanding the local links between fares, service levels, facilities and investments
- **Demanding** - locally setting and scrutinising the highest commercial and operational standards

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How Are We Going To Do It?

The proposed West Midlands Rail Network reflects a substantial part of the economic geography of the West Midlands Travel to Work Area.

In covering this with a single accountable client body WMR becomes a principal point of contact for the DfT and client for Network Rail's delivery in the region.

Our proposition would be delivered through a practical plan for the 2017 Rail Contract:

1. A robust governance structure reflecting the interests of all its constituent authorities
2. Specification of passenger services, standards and performance indicators by WMR
3. A budget agreed with DfT for local passenger services for the length of the contract
4. Direct control over contract management by WMR
5. Fares, ticketing arrangements and innovative technology specified by WMR
6. Visible, attractive local branding and marketing integrated with other local transport services
7. Prioritised, funded network enhancement investment planned with rail and local stakeholders
8. Agreement with DfT on specification of other franchises operating in the West Midlands
9. Continued delivery of a safe, secure railway in partnership with operators and Network Rail

Most importantly we WANT to provide a growing, better, more relevant local rail service for the people and economy of the West Midlands and to do so through the ENTERPRISE and DETERMINATION WMR will bring.

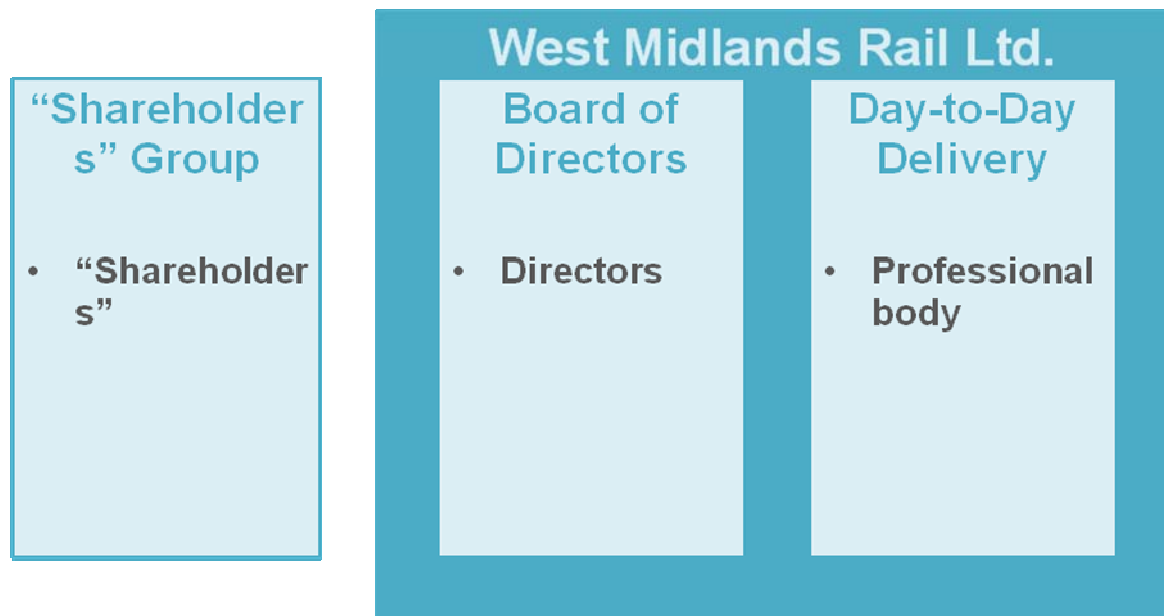
Governance Arrangements for West Midlands Rail Devolution

1. Introduction

- 1.1. A key part of the Proposition for West Midlands Rail Devolution is that Government will want to be satisfied that governance arrangements provide for robust and effective decision making and sound management of public funds for the duration of the Rail Contract/s. For the purposes of the submission to the Secretary of State in April 2014, outline principles for the proposed governance arrangements will be sufficient, recognising that further discussion between partner authorities will be required
- 1.2. The proposed governance arrangements set out how the West Midlands Authorities will make decisions together in a manner which balances democratic accountability, inclusivity and focussed financial decision making, with the capacity to manage and bear risk. The organisational structure has therefore been designed to allow effective delivery through timely decision making, sound financial management through positive engagement with rail users and key stakeholders.
- 1.3. Following extensive discussions with both members and officers from partner authorities which considered a number of possible models, the favoured approach the creation of a new body, West Midlands Rail Limited, (a company limited by guarantee). This new organisation would be the delivery body, with direct oversight by the “Shareholders Rail Board” made up of senior elected members from each participating authority.
- 1.4. The principle benefits of this approach over other models based on existing local authority structures are its inherent benefits to be an independent, inclusive body for both Metropolitan and Shire/Unitary local authorities.
- 1.5. This paper outlines the proposed governance arrangements, including shareholder authorities, addressing contract risk management, decision making, funding arrangements, contracts and powers.
- 1.6. West Midlands Rail Ltd. structure is shown in figure 1.

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Figure 1 Outline West Midlands Rail Ltd. Governance Arrangements



2. Governance Objectives

2.1. In developing these governance arrangements the following principles have been considered as key requirements:

- Effective, inclusive and transparent decision making between Partner authorities
- Democratic accountability
- Robust financial management and capacity to manage and bear risk.
- Agility to respond to unexpected events affecting the delivery of the contract/s
- Respect for individual partner requirements against a minimum baseline for contracted services
- Flexibility to enable individual authorities to enter into direct agreements with the delivery body
- Ensuring integration/coordination with other transport modes, other rail franchises and innovative initiatives

3. Working Assumptions

3.1. The purpose of West Midlands Rail Ltd. would be to manage the West Midlands Rail Contract and other related agreements under the direction of a Shareholders Rail Board.

3.2. A number of assumptions have been made regarding the form of the West Midlands Rail Contract as a basis for developing the governance structures:

- That the contracting body will be West Midlands Rail Ltd. comprising the thirteen West Midlands Transport Authorities in the proposed contract area, Birmingham, Coventry, Dudley, Herefordshire, Sandwell, Shropshire, Solihull, Staffordshire, Telford and Wrekin, Walsall, Warwickshire, Wolverhampton and Worcestershire
- DfT has determined that it will retain responsibility for the Birmingham - Northampton service. Recognising the importance of this route to the local rail network, its economy and stakeholders, it is proposed that West Midlands Rail Ltd. will have a direct agreement with DfT over the specification of services on that corridor. In respect of this agreement, Northamptonshire may wish to be part of the proposed West Midlands Rail Ltd. governance arrangements.
- DfT will pay WMR grant to cover the subsidy requirement between fare revenues and operating costs for the duration of the West Midlands Rail Contract. This will be ring fenced and include local administrative costs. Such matters will be set out in a DfT Funding Agreement
- A key element of the proposed governance framework relates to managing decision making and underwriting the financial risk.
- Other bodies, such as DfT and Local Enterprise Partnerships may be invited to attend the Shareholders Rail Board and have a voice in a non-voting capacity.

4. West Midlands Rail Ltd.

4.1. West Midlands Rail Ltd. would be incorporated as a company limited by guarantee whose aims and objectives would be to contract with a train operating company to provide rail services covering the West Midlands contract area. In further detail:

- West Midlands Rail Ltd. would be a limited company operating under the Companies Act 2006 with a Memorandum and Article of Association setting out its objectives, the responsibilities of directors and how the shareholders exert control over the board of directors
- West Midlands Rail Ltd. will act as the delivery body for rail services and funding.
- West Midlands Rail Ltd. 'shareholders' would be all partner local authorities
- The 'shareholders' would form a 'Shareholder' Rail Board as the policy making body, and it would be responsible for appointing a Board of Directors who would need to hold relevant experience and knowledge
- The Board of Directors would prepare a business plan (to deliver the policies of the 'Shareholder' Rail Board) and would manage the operation and finances of the Rail Contract.

- The 'Shareholder' Rail Board meetings would constitute general meetings under the articles and would normally meet in public. It would set the strategy and be able to call in decisions of the Board of Directors and have a monitoring role.
- West Midlands Rail Ltd. would require parent authority guarantees to provide the Government and bidders with confidence in West Midlands Rail Ltd. as a contracting body.
- A West Midlands Rail Ltd. Members Agreement would regulate details of governance, decision making and funding arrangements between West Midlands Rail Ltd. as the delivery body and partner/member authorities

5. 'Shareholder' Rail Board

5.1. This would comprise the Leader (or other senior elected member nominated by the Leader) of each authority in the contract area. The 'Shareholder' Rail Board would take the strategic policy and funding decisions.

6. Board of Directors

6.1. The Board of Directors will adopt the code of corporate governance and would oversee the management of the contract/s by the West Midlands Rail Ltd. delivery team.

7. Call-In

7.1. The Rail Contract with the TOC will include an agreed rail service specification. Each authority will have the power of "call-in" over any decision to reduce the agreed minimum level of service in that authority.

8. Funding

8.1. Funding for the Rail Contract will be through a combination of Fare revenues and Government (DfT) Grant. If higher than assumed fare revenues are achieved then surplus grant could be reserved against future shortfalls or invested in improved rail services. In the event of a deficit arising, the Board of Directors will be required to propose a Deficit Reduction Plan which would set out how the finances of West Midlands Rail Ltd. can be brought back into balance. Such measures may include adjusting fares, reducing resource utilisation and running promotions. The plan may also set out how each risk taking authority could be required to fund its share of the deficit if required, based on risk proportions.

Appendix D - Letter of support

West Midlands Rail
16 Summer Lane
Birmingham
B19 3SD

XX [month] 2014

Support for West Midlands Rail Devolution Proposals

I am writing to express our support for the principle of rail devolution in the West Midlands. Local passenger rail services in the West Midlands are very important to the economy in the region. The *West Midlands Rail* proposals provide for greater local accountability that would enable us to enhance rail services, focussing them on regional prosperity and growth.

Passenger rail services in the West Midlands are extremely important to [authority] and our businesses, residents and visitors. [*Insert brief overview of authority record of investment in rail*].

We welcome the West Midlands rail devolution initiative being developed by West Midlands Rail and participating local authorities, and consider that the proposed governance arrangements provide a robust structure in which our interests will be appropriately represented. The West Midlands rail devolution proposals would be a key delivery vehicle for the delivery of the draft rail vision for the region, '*A World Class Rail Network for the West Midlands*', bringing greater prosperity to the region and enhanced personal mobility to individuals, by developing an integrated, branded, public transport network. We also support the underpinning objectives of delivering a local rail service that meets capacity demands, whilst providing better value for money to the taxpayer. On this basis we support the submission of the formal proposition and business case to you, and look forward to hearing the outcome the Secretary of State's consideration.

Yours...

[name]
Leader of [authority]