

# CASE FOR CHANGE GREATER MANCHESTER RAIL STATION TRANSFER

EXECUTIVE SUMMARY – MARCH 2017



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## Executive Summary

### Introduction

1. Greater Manchester (GM) places transport at the core of its growth agenda. Excellent transport connectivity is fundamental to our people, businesses and communities, fulfilling their potential at the heart of a globalised and sustainable Northern Powerhouse economy.
2. Our vision for transport in GM as outlined in our 2040 Transport Strategy<sup>1</sup>, is for world class connections that support long term, sustainable economic growth and access to opportunity for all.
3. At the heart of the Strategy is a renewed policy focus on public transport integration, to provide the mobility that modern commuters and business expect in a forward looking city region. It is vital that demand for public transport grows and that we have the infrastructure to accommodate this growth efficiently. Rail stations will be a key part of this.
4. This vision is understood and shared by national Government, culminating in the ground-breaking 2014 Greater Manchester Devolution Agreement. In accordance with this we have developed this proposal to explore options for the transfer of ownership and management of rail stations across the city-region to local control. This is part of a package of transport reforms designed to support the strategic objectives of Government and GM, to put customers and communities at the heart of everything we do in public transport, and to deliver the improvements they need and deserve.
5. Our vision for GM's rail stations is based upon achieving the following five objectives:

GREATER MANCHESTER RAIL STATION TRANSFER OBJECTIVES	
Objective 1:	Improving customer experience;
Objective 2:	Improving connectivity, through seamless integration of the transport networks, to increase productivity and economic growth;
Objective 3:	Increasing efficiency of investment and commercial returns from stations, whilst optimising the efficient management of assets;
Objective 4:	Delivering regeneration through unlocking development land and onsite opportunities including for housing; and
Objective 5:	Engendering a sense of community ownership of stations, through delivery of changes that increase wider social inclusion and community amenity.

6. We will deliver **better stations for customers, communities and the public transport network** through an immediate station deep clean and a five year station enhancement and upgrade programme.
7. We will **fully integrate** rail stations into GM's wider transport network providing multi modal real-time information and joined-up travel advice for customers;

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<sup>1</sup> Greater Manchester Transport Strategy 2040: Our Vision' Transport for Greater Manchester (July 2015) – the starting point in the development of a new long-term transport strategy for Greater Manchester.

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8. Our trained, skilled, multi-functional staff will **deliver a better, more consistent customer experience** with targeted local knowledge across modes.
9. We will optimise asset management at stations, using evidence based decision making, delivering **whole life cost efficiencies** and giving full transparency of asset performance. We will **realise investment and commercial** returns with private and public partners,
10. We will **commit local funding and make more of existing funding flows** through transparency, efficiencies and new ways of working.
11. We will provide a **catalyst for regeneration and community use** of stations, enabling **housing and job growth** aligned to the Greater Manchester Spatial Framework (GMSF) and GM Strategy 2040. Initially we will deliver developments at four stations with 119 new homes and 70,000 sq ft. of retail space.
12. We will deliver **benefits to the rail industry**. Our approach provides more than local customer, social and economic benefits. The growth, transparency and improved standards across the stations estate brings an opportunity to improve understanding, drive better decision making and deliver more effective investment across the national portfolio of some 2,500 rail stations. (**Figure 1**).

**Figure 1: High Level Rail Industry Benefits**



### Submission Background

13. This Case for Change has been prepared in line with the Department for Transport's (DfT) transport appraisal guidance and toolkit – known as WebTAG<sup>2</sup> (Web-based Transport Analysis Guidance). Given the innovative nature of this proposal, and specifically its potential as a catalyst for new development and regeneration, we have also incorporated an assessment of value for

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<sup>2</sup> This is also based on Her Majesty's Treasury (HMT) "Green Book" that sets out the framework for appraisal and evaluation of all policies, programmes and projects.

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money consistent with the Department for Communities and Local Government (DCLG) Appraisal Guidance<sup>3</sup>.

14. The first step in the preparation of this Case for Change was the submission of the Strategic Outline Case (SOC) to the DfT in May 2016. The DfT Rail Investment Board noted in August 2016 that they remain open 'in principle' to proposals for the transfer and management of rail stations to local bodies where they demonstrate a strong, well-evidenced and supportive 'case for change'.
15. The further development of the Case for Change has required consideration from five perspectives – the Strategic Case, the Economic Case, the Financial Case, the Commercial Case and the Management Case. In preparation of this proposal we have continued to work closely with colleagues across Government and rail industry stakeholder to ensure that our case is clear about the ambition of GMCA, appropriately aligned to the priorities of all the Government Departments involved and optimises the benefits that can be realised for transport, local communities and the taxpayer.
16. Set out below is a summary of each chapter of the case.

### Strategic Case

17. The Strategic Case sets out the policy fit and investment rationale for GM's rail station transfer proposal. It is clearly linked to the GM 2040 Transport Strategy vision for the transport network and identifies the strategic policy aims and responsibilities of Greater Manchester Combined Authority (GMCA)<sup>4</sup> and Transport for Greater Manchester (TfGM)<sup>5</sup>. Objectives and strategic enablers are clearly defined, with a robust evidence base informing the need for intervention. Transfer practicalities are also discussed including identification of key stakeholders, constraints and interdependencies and used to support a detailed option assessment process.
18. The GM Transport Strategy 2040 recognises the major role that public transport will need to play in delivering GM's sustainable growth agenda. This was subsequently set out in the draft GM Spatial Framework (GMSF). 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. This 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 practical range of the network, to improve connectivity across a wider labour market. There is a need to ensure that access and interchange facilities are of a consistently high standard and appropriate to the role of each interchange.
19. The collective benefits are intended to drive growth in the local, and therefore national economy, and we understand that an integrated approach to transport, one which delivers world-class connectivity for goods and people, is the only way to deliver the transformational change that GM needs. With a unique focus on improving economy and communities, GMCA is the appropriate body to make this bold and exciting change which sees stations under local control as fundamental to achieving the aims of our GM Strategy, 2040 Transport Strategy and GM devolution objectives.
20. The GM strategic approach for stations is guided by our five objectives, and the strategic enablers to achieve these objectives are clear; we aim to be the sole facilitator for investment in stations in GM, who regenerates and binds communities together making them more inclusive and

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<sup>3</sup> The DCLG Appraisal Guide - Department for Communities and Local Government – December 2016

<sup>4</sup> The GMCA is made up of the ten Greater Manchester Councils and Mayor who work with local services, businesses, communities and other partners to improve the city-region.

<sup>5</sup> TfGM is the organisation responsible for implementing local transport policy within the city-region.

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accessible places; the intermodal integrator; the active guardian; and the customer champion across all transport facilities.

21. Through investments that drive improvements in the quality of services to our customers, we will deliver greater patronage, increased revenues and unlock the potential and latent value of many stations. Our innovative approach sees station land and property as community assets that deliver improvements and effects real change to GM neighbourhoods, some of which are the most deprived areas in England<sup>6</sup>. This approach is embodied in our development of a new 'Social Prospectus': Action Stations. Action Stations looks at how we can work with Social Business partners to lead a renaissance at stations that sees them as driving force behind wider social inclusion that builds more sustainable and cohesive communities and has a real impact on people's lives.
22. In our assessment of different ownership and operation models we investigated those that apply to rail stations, bus stations and stops, modal interchanges and airports. From this we developed an initial list of 14 options, each with different levels of ownership and responsibility transferred from Network Rail and the TOCs. These options were assessed against five strategic objectives, cost, benefits, risk and feasibility of transfer, to identify the strengths and weaknesses compared to the existing arrangements. This assessment resulted in a shortlist of four options being identified for more detailed consideration. The shortlist was subsequently expanded to six options in this submission following receipt of DfT comments on the Strategic Outline Case. The six options are set out below:
  - Scenario 1: GM responsible for Network Rail owned adjacent land and leased areas;
  - Scenario 2: GM responsible for Network Rail owned adjacent land and leased areas, and TOC 'soft'<sup>7</sup> facility management and maintenance;
  - Scenario 3: GM responsible for Network Rail owned adjacent land and leased areas, with TOC functions contracted back to the TOC via the franchise agreement;
  - Scenario 4: GM responsible for full ownership, management and operations at stations (existing Network Rail and TOC responsibilities);
  - Scenario 5: Partnership or "Alliance" with Network Rail and TOC to deliver improvements at stations; and
  - Scenario 6: GM to become 'station investor' in a very similar way that we are today.
23. Following the completion of the option assessment, including in the value for money appraisal, the preferred option has been identified as the maximum transfer case (Scenario 4). This scenario gives us true accountability and puts incentives in the right place, with GMCA, to lever and deliver more for our customers, communities and the national economy. Our rationale for recommending this option are:
  - Realisation of the 2040 Transport Strategy requires an integrated, seamless transport system for our passengers. GM will deliver this transport system; where the first and last mile are as important as the modes of transport used, and the customer service is focused upon end to end journeys, not one specific mode. It is only with a unified body, able to strategically

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<sup>6</sup> The Indices of Multiple Deprivation measures the relative levels of deprivation in England and is prepared by the Oxford Consultants for Social Inclusion and is used by

<sup>7</sup> The management of services at stations, or any other building, can be generally divided into 'hard' e.g. the maintaining the building fabric and 'soft' e.g. responsibility for cleaning, security...etc.

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manage the full transport system, that the integrated customer service benefits and organisational efficiencies can be realised;

- The Network Rail transfer will bring control of asset investment and the long term benefits of efficient, proactive asset and estate management in addition to an enhanced customer experience. The frequent cyclic transfer of station management and operation responsibility of TOCs limits the scope of any approach to commercialisation and 'spend to save' to around 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 and private funding for investment in stations, the funding flows need to be brought together. Taking full control of Network Rail assets, development rights and TOC's commercial interests, will provide both revenue and capital funding for GM to be able to leverage significant borrowing and investment;
- The GM Agreement 2014 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 building upon its current capabilities to establish further and full competency in the management of railway assets and all the other necessary functions to support the needs of devolution. However, only with full transfer of responsibility will we be able to realise the full economies of scale and efficiencies that we propose; and
- Finally, GM will work ceaselessly to better understand the needs of its customers and their communities, driving economic growth and regeneration. Our insight to the GMSF, housing, commercial and industrial planning, plus the development of new and innovative approaches to demographic profiling will give us the tools, remit and accountability to ensure economic growth and latent value is realised through this transfer.

## Economic and Financial Cases

24. It is estimated that, across the 96 stations reviewed, Network Rail spends some £5m p.a. carrying out its asset management and enhancement duties, with TOCs spending a further £29m on maintenance, management and operational activities. GM has derived these estimates using the limited data sources currently available and these amounts will be subject to further due diligence. To fund these activities post-transfer, it is assumed that amounts equivalent to at least today's committed funding flows would be redirected from Network Rail and the TOCs to GM, in line with any changes in 'business as usual' responsibilities, in a way that leaves all industry parties, and Government, cost neutral.
25. The transfer of rail stations will allow GM to deliver a range of new ways of managing and operating them, in line with the strategic enablers. In nominal terms, over the period to 2045/46, GM's proposed interventions will result in some £102m of capital spend and around £320m of revenue spend.
26. Approximately 75% of the capital costs are assumed to be covered by 'business as usual' future local and devolved capital grants of £75m over c.17 years, in line with the type of funding streams that have been received from Government over recent years.
27. In addition, grants equivalent to the future net increases in passenger revenues generated by the rail station investments will contribute to the overall programme. So as to minimise borrowing requirements, an upfront capital grant of £23m over the first 3 years of the programme has been assumed, representing the 'net present value' of around 60% of the increment to such revenues.



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The financial model assumes that c. £4m of borrowing will also be required to pay for capital expenditure.

28. Over the 30 year programme, there will be revenue (or operating) costs of c. £320m associated with the transfer of rail stations (including an upfront spend of c. £10m on mobilisation and c. £30m on station upgrades). These costs will be funded in part by efficiency savings delivered by GM and commercial and rental income generated – together these total c. £77m over the period. In the final 10 years of the programme, £3m of incremental passenger revenues will also be available each year. The balance of the funding will be met from (a) an upfront contribution of c. £46m and (b) an ongoing contribution of c. £4m p.a. (in 2017/18 prices).
29. In the case of local government this could be achieved through Government's 2016 Autumn Statement commitment, also referred to in the March Budget to engage in discussions on future transport funding with GM, as well as broader reforms to local government finance. The final level of local funding will therefore be agreed as part of these much wider 'whole-place' funding discussions later in 2017.
30. The transport interventions that will be made possible by the transfer of rail stations to TfGM will provide major benefits to existing and new users of the rail network, as well as generate wider community and environmental benefits. These interventions have an 'adjusted' BCR of around 2.1 (representing high value for money) and a NPV of c. £76m, demonstrating the positive quantified benefits of full rail station transfer. These benefits primarily accrue from the value that passengers ascribe to the various interventions in their own right, as well as 'umbrella' security and disruption information provision that rail station customers will enjoy. In line with WebTAG we have also valued additional benefits including those from dependent developments, access and integration time-savings, improved health, reduced suicides and reduced train delays.
31. Benefits could rise even further under a 'high growth' scenario where rail patronage growth is closer to (though still significantly lower than) that projected by Network Rail's Regional Urban Market study.
32. One of the areas of proposed intervention is the regeneration of land in the vicinity of rail stations where development opportunities exist. Four sites have initially been identified for redevelopment. The land associated with these sites is expected to initially enable the development of 119 housing units, in addition to net retail space of c. 70,000 sq. ft. In addition GM will seek to improve intermodal integration by measures which include enhancing car parking provision where housing and commercial development is not feasible, as well as working with local authorities who are currently identifying land within the vicinity of rail stations for the purposes of increasing parking provision.
33. Alongside the WebTAG benefits, the regeneration of an initial portfolio of four viable sites around rail stations into residential and employment uses represents high value for money according to DCLG guidance. In addition to the land value uplift impacts that have been monetised there are likely to be additional net external impacts of regenerating the land at these locations and improving the environs of the stations, including amenity benefits to the surrounding local areas and supporting mode-shift from private cars to public transport, reducing road congestion and providing environmental benefits. There are also important local growth impacts, with the new developments having the potential to generate to 377 jobs as well as generating further employment through the construction of the developments. The regeneration of these sites would also play an important role in supporting local and national housing policy objectives by providing an additional 119 homes.



### Commercial Case

34. 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; sets out TfGM's competency in retail, property development and advertising; and provides a summary of human resource considerations.
35. 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 is the most appropriate model. This would be managed under an in-sourced model, with some sub-contracted activities as necessary, acknowledging that it may also be appropriate to novate existing contracts during the transition period.
36. We set out the detailed sequence of activities for taking full responsibility for stations:
  - 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.
37. 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, Network Rail, Rail North and the TOCs following in-principle approval by Government.
38. A key principle of our commercial case is that all existing money flows relevant to GM's stations are redirected to GM, whether or not they have been identified at this stage in the process. Some of this would happen naturally as part of the overall transfer; and other funding flows would need to be manually re-routed to GM. Further detail relating to funding is discussed in the financial case.
39. We describe GM's existing experience in delivering commercial outcomes across the GM transport estate in terms of advertising, retail and property development. Demonstrating where we have facilitated enhanced business decisions, revenue and innovative thinking through our understanding of the GM market, customers and stakeholders.
40. We conclude the Commercial Case with consideration of Human Resource (HR) implications associated with the transfer. Namely, these relate to the TUPE ("Transfer of Undertakings (Protection of Employment) Regulations 2006") process which will automatically apply to facilitate the transfer of employees working at TOCs and Network Rail who are responsible for GM station management, operation and asset management, to TfGM. Through due diligence, all aspects concerning staff will be discussed in detail and agreed with key stakeholders.

### Management Case

41. The Management Case demonstrates, with evidence, our capability to implement and manage our proposal successfully. It presents details of governance; assurance; functional requirements; our transfer strategy; risk management approach; and communications and stakeholder management strategy.

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42. We believe that through our existing experience managing GM bus station operations; ownership, infrastructure asset management and management of the franchisee for the Metrolink network; delegated responsibilities for the KRN; as well substantial delivery experience for physical infrastructure projects, we have the core future rail station management capability and competencies to deliver sustained customer improvements across the GM network.
43. The scope, size and neighbourhood typology of stops, stations and interchanges across bus, rail and Metrolink networks are highly comparable. Our experience in managing and developing infrastructure of this nature is covered in detail in the case but examples of important transport hubs include Bury Metrolink and Bus interchange, Bolton rail and bus stations, Stockport rail station and the soon to be redeveloped Stockport bus interchange, and Manchester Victoria Metrolink.
44. Our proposed approach to management of this transfer is based upon three principles:
  - Operational railway risk will stay with the party best placed to manage those risks; for instance operational railway elements (such as the track, overhead lines and other operational infrastructure) is proposed to remain with Network Rail;
  - TfGM's existing organisational capability is strong however this will need to be flexed and grown to accommodate the requirements of the transfer. The case reviews our existing competence across all modes including rail, Metrolink, road and bus, demonstrating transferrable skills which position GM to effectively and efficiently manage the customer experience and facilities at rail stations; and
  - GM will ensure that quality, safety and performance are protected. This protection, particularly for the TOCs and our 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 right mechanism to partner with us for the benefit of all station users and, should it be required, the means to hold GM to account.
45. The Management Case assumes, subject to an 'in-principle' agreement from Government in Spring 2017 that station transfer could be delivered within two years. This presumes that due diligence is undertaken during 2017 with enhanced engagement between Network Rail, the TOCs and TfGM, and mobilisation during 2018. Manchester Oxford Road and Manchester Victoria stations have been programmed to transfer in the mid 2020's following the conclusion of planned enhancement works. Manchester Piccadilly, which remains part of the GM ambition, is excluded from the case at this time due to the current wholesale review of the station as part of the HS2 programme and recognition of its strategic place in the context of the national network.
46. Whilst all aspects of a transfer import some risk, the Management Case notes that the majority of 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 Network Rail have previously been agreed with Abellio on the Greater Anglia franchise, Transport for London (TfL) on the London Overground network and Stagecoach/Virgin on the East Coast franchise.
47. We recognise that this is an innovative approach given that GMCA is not the same as a TOC; however, we do already have comparable responsibilities for our light rail network. Also, when taking on these duties for rail stations we are committed to follow industry best practice and learning in this area to ensure a successful and seamless transfer for customers and protection for all parties.

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48. With our proposed mobilisation and governance approach TfGM can assure the successful transfer of people and operational safety. Agreed contractual mechanisms will ensure GM can deliver, for TOC and Network Rail as industry partner clients, a high quality of service; our ambition is for this to be better than under existing arrangements.
49. The practicalities of transfer will emerge through due diligence and negotiation at the next stage. This may lead amongst many things to phasing, withheld liabilities, or temporary continuation of existing contracting maintenance arrangements. However, we are firm in our belief that customers and communities will benefit most from a rapid, seamless, collaborative approach that effects the transfer as soon as is practicably possible. In this way the total sum of the benefits of transfer can be realised to the advantage of all transfer stakeholders as quickly as possible.

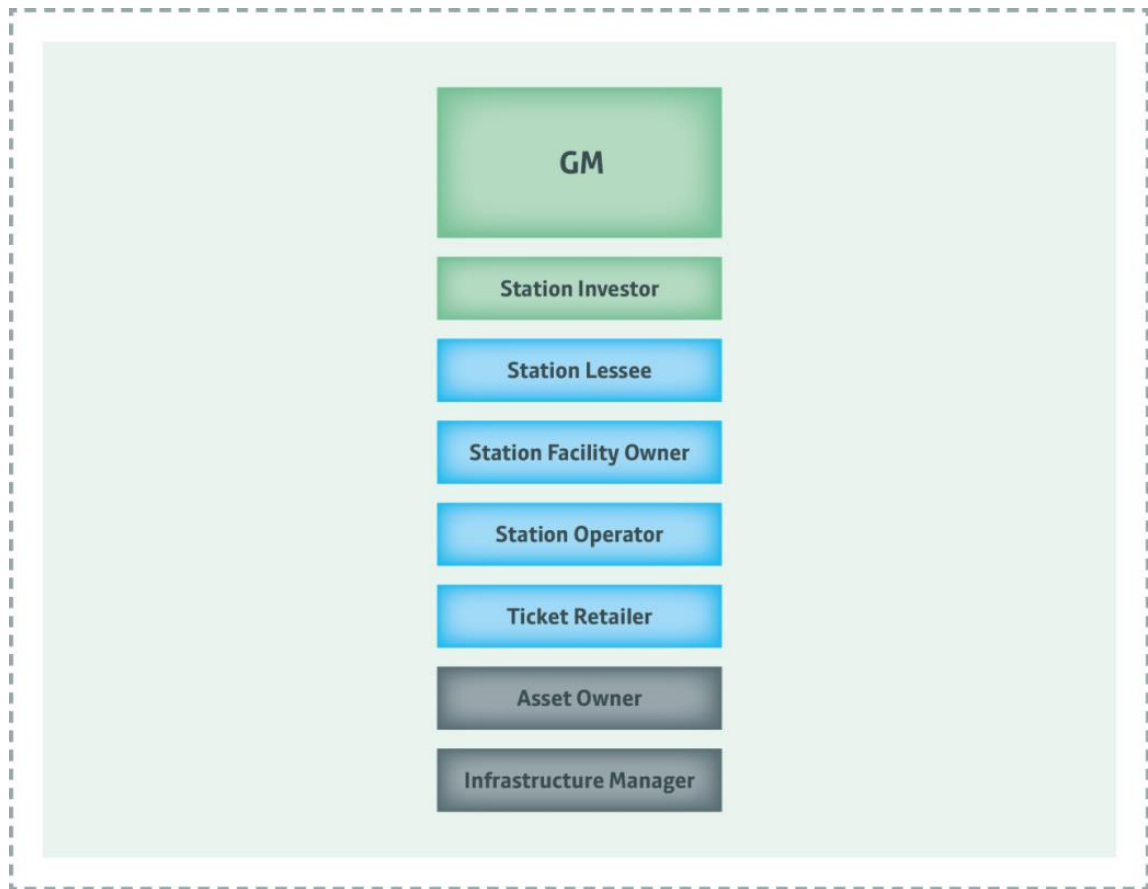
### Conclusion<sup>8</sup>

50. The Case for Change is simple: putting customers and communities back at the heart of everything we do in public transport, delivering to them the benefits they need and deserve.
51. Our plans will allow us to create a truly integrated transport system for GM, supporting the city region's economic growth and placing it at the heart of a globalised and sustainable Northern Powerhouse economy.
52. Bringing GM rail stations within our control complements our existing capabilities across other modes and will further strengthen our position as the overall coordinating authority for transport across GM. It also supports our expanding portfolio of responsibilities under the wider devolution remit, including proposed bus reform facilitating the delivery of a truly integrated approach to transport management and provision in GM.
53. Our vision for transparent and evidence based station management offers Government and the rail industry the opportunity to change the approach to stations management. This will allow more insight and understanding of the cost of stations, and their value to customers and communities, to drive better decision making and more effective investment across the national portfolio of some 2,500 rail stations.
54. Our case for change presents strong evidence and a clear rationale, which fully supports our recommendation to proceed with our preferred transfer model, Scenario 4 (**Figure 2**).

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<sup>8</sup> Please note that particular commitments made by GM/TfGM in this document are subject to (amongst other things) due diligence following 'in principle' approval of the Case for Change, and assume successful negotiation of all relevant legal and commercial arrangements with other industry stakeholders and third parties.

Figure 2: GM's preferred station transfer model



Note: Responsibility for the operational railway elements (such as the track, overhead lines and other operational infrastructure) is to remain with Network Rail.

- 55. Our railway stations are enablers of development and growth, and have significant potential for improved access to communities, businesses and wider investment. Our new, innovative approach will allow us to unlock the true value of stations; a catalyst for redevelopment that supports our ambitious targets for new housing; a more attractive experience for our public transport customers and a revival of these community assets that help build more sustainable and cohesive communities.