



Tyne and Wear Integrated Transport Authority - Delegated Committee

Meeting to be held on Thursday 20 February 2014 at 10.00 am in a Committee Room, Civic Centre, Newcastle upon Tyne

Membership: Curran, D Wood (Chair) and P Wood

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AGENDA

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1. Apologies for Absence

2. Declarations of Interest

Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be handed to the Democratic Services Officer). Please also remember to leave the meeting where any personal interest requires this.

3. Northern Franchise Direct Award

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4. Implementing the Gold Card price change

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DATE: 20 February 2014
SUBJECT: Northern Franchise Direct Award
REPORT OF: Director General, Nexus

PURPOSE OF REPORT

To update the ITA in respect to the Direct Award relating to the Northern Franchise, and to endorse Nexus' decision to enter into the interim Franchise Agreement as co-signatory.

RECOMMENDATIONS

To endorse Nexus' decision to enter into the interim Franchise Agreement as co-signatory.

BACKGROUND DOCUMENTS

CONTACT OFFICERS

| <i>Full name</i> | <i><u>Email address</u></i> | <i>Telephone number</i> |
|--|---|-------------------------|
| <i>Bernard Garner, Director General, Nexus</i> | <i><u>Bernard.garner@nexus.org.uk</u></i> | <i>0191 203 3201</i> |

IMPACT ON OBJECTIVES

| | |
|--|---------|
| To support economic development and regeneration | neutral |
| To address climate change | neutral |
| To support safe and sustainable communities | neutral |



1 Executive Summary

- 1.1 The Department for Transport has signed Heads of Terms with Northern Rail Ltd relating to the continuation of services from the current Franchise expiry date on 31st March 2014 for an initial 22 month period. This commercial agreement will be formalised through an interim Franchise Agreement, the terms of which Nexus will have the opportunity to review and enter into as co-signatory, along with the other northern PTEs and TfGM. It is recommended that Nexus enter into the interim Franchise Agreement, subject to the terms and funding being acceptable.

2 Background information

- 2.1 The Department for Transport's rail franchising programme has experienced delays resulting from the legal action on the West Coast re-franchising process, and subsequent programme pause. A number of franchises have been extended as a result, and others which are now nearing their expiry date require short term direct award contracts to be negotiated with the existing franchisees. Under EU rules, the maximum length of such a direct award is 2 years. The Northern Franchise expires on 31st March 2014 and cannot be extended further.
- 2.2 Negotiations between DfT and with Northern Rail Limited's (Northern Rail) owning partners Abellio and Serco have been taking place over many months as summarised in previous updates to the Authority. It is now likely that commercial terms for the new short contract will be agreed. In the event that agreement is not reached, the Government-owned Directly Operated Railways (who operate East Coast) will be able to step in and have commenced mobilisation should their involvement prove necessary.
- 2.3 Heads of Terms between DfT and Northern Rail have been negotiated and signed. These set out the key commercial points. The Heads of Terms are non-binding and the draft interim Franchise Agreement and other associated documents are currently being amended to reflect their terms. The DfT have given each PTE a further 6 weeks to determine if they wish to be co-signatory to the finally drafted Franchise Agreement. Due to the status of the negotiations and the commercial confidentiality surrounding the terms the Heads of Terms cannot be reproduced, however the main points can be summarised as follows:
- Continuation of existing services from the current Franchise expiry date for a period of 22 months, with a 2 month extension option.



- Introduction of committed obligations for station improvements including passenger information screens and wifi. The precise details, including which stations will be within the scope, are not expected to be confirmed until the interim franchise has commenced.
- The introduction of an Environmental Initiatives fund totalling £250k
- Public Performance Measure (PPM) and National Passenger Survey (NPS) target improvements to 92.3% and 83% respectively.
- Continuation of Community Rail Partnership funding.
- Discontinuation of the Service Quality Regime, although PTEs will continue to manage the regime and raise the results with Northern.

It should be noted that no upgrades to the 'Pacer' rolling stock will be delivered during the Direct Award period. The three daily services between Glasgow Central and Newcastle via Carlisle, previously thought to be at risk, have been included in the ScotRail ITT for the duration of the Northern direct award.

2.4 The Department for Transport has also identified a set of priced options which, if exercised, would reduce the subsidy burden on the Department. These priced options are as follows:

- Introduction of car parking charges at certain stations.
- Evening Peak ticket restrictions in certain areas.
- Introduction of minimum fare levels.

It has been confirmed that the introduction of car parking charges will not apply to stations in the North East. However, a small number of local fares for journeys between stations within Tyne and Wear would be affected by the minimum fare levels.

2.5 A side agreement, covering additional services including the Sunday services operating on the Bishop Auckland line, has been signed by all PTE's and will secure the continuation of those services for the duration of the Direct Award at no additional cost.

2.6 The Secretary of State has invited all the relevant Passenger Transport Executives and TfGM to be co-signatories to the new Franchise Agreement under his powers contained in s.13 Railways Act 2005. Nexus is a co-signatory to the existing franchise, and as such shares franchise management obligations. Co-signatory status has allowed Nexus to govern rail fares within Tyne & Wear, although to date it has only exercised this right to align rail and Metro fares between Newcastle and Sunderland. The terms of the Franchise Agreement would allow the transferal of



these powers to a Combined Authority.

- 2.7 The competitive procurement process, for a new franchise to commence in February 2016, is being led by DfT. A partnership agreement between DfT and Rail North (of which all northern authorities and PTEs are currently a part), which will see collaborative working on franchise specification, procurement and management, has been agreed in principle. Formal agreement of the terms are expected in coming months.

3 Proposals

3. Based on the above and subject to the terms of the interim franchise agreement being agreeable, the Authority is recommended to endorse Nexus' decision to enter into the agreement as co-signatory.

4 Next steps

- 4.1 PTEs and TfGM have been given until Friday 14th March to confirm agreement to the interim Franchise Agreement to allow the Direct Award to progress.
- 4.2 The interim Franchise Agreement will be formally signed shortly thereafter, ahead of commencement on 1st April 2014.

5 Financial Implications

- 5.1 In the current financial year, Nexus received £4.357m from DfT to fund a variety of obligations arising from the franchise, the most significant being the payment made to Northern Rail Limited for train services operating in Tyne and Wear (3.718m) with the balance (amounting to £0.639m) paid in recognition of Nexus' role as co-signatory and to finance investment in Sunderland station (below ground) under an agreement reached with DfT in 2006. At this point in time, Nexus has not had any confirmation as to funding for 2014/15 and beyond. The budgeted funding for 2014/15 is £4.374m and DfT have been asked for confirmation that this funding will continue.



DATE: 20 February 2014
SUBJECT: Implementing the Gold Card price change
REPORT OF: Director General, Nexus

PURPOSE OF REPORT

To provide additional information in regard to the decision in principle of the ITA at its January 2014 meeting to reduce the price of the Gold Card.

RECOMMENDATIONS

The Authority is recommended to:

1. Require Nexus to reduce the price of the Gold Card effective from 1 April 2014 from £25 to £12 (and from £35 to £25 for non-Tyne and Wear residents).
2. Undertake a comprehensive communication and marketing campaign between 21 February and 31 March to facilitate renewals.

BACKGROUND DOCUMENTS

ITA report – ITA Budget and Levy 2014/15 (January 2014)

ITA report – Revision to Metro and Ferry Fares 2014 (November 2013)

CONTACT OFFICERS

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IMPACT ON OBJECTIVES

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| To support economic development and regeneration | Positive |
| To address climate change | Neutral |
| To support safe and sustainable communities | Positive |

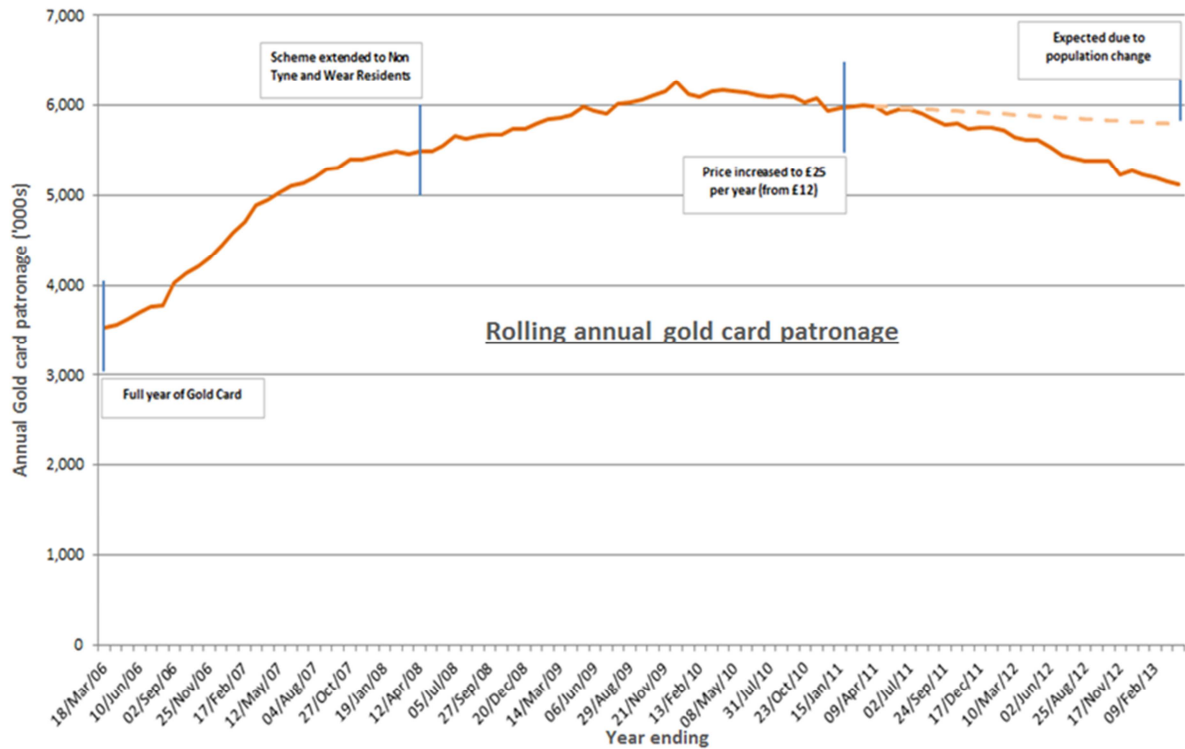


1 Executive Summary

- 1.1 A reduction in the price of the Gold Card will contribute to reversing the decline in elderly and disabled patronage on Metro, contributing to the LTP target of increasing patronage on Metro by some 4m across the ten years 2011/12 to 2021/22. Whilst this initiative will come at a cost, this should be seen as part of a wider, forward thinking fares strategy agreed by the ITA in November 2013 which will deliver Metro passenger growth in the medium/long term.

2 Background information

- 2.1 The Gold Card for unlimited travel on Metro for the over 60s and disabled after 09:30 was introduced in April 2006 when free local travel on bus was also introduced. At that time, Nexus was facing a significant increase in the cost of its concessionary travel scheme for bus, without a compensating increase in funding and in order to reflect the distorting effect that the introduction of the free local bus pass would have on public transport usage (and expenditure) the ITA decided to charge £8 per annum for the Gold Card product.
- 2.2 The price of the Gold Card increased to £12 per annum following the introduction of the ENCTS in April 2008 and as a budget saving measure, the ITA agreed to an increase to £25 (£35 for non-Tyne and Wear residents) in April 2011.
- 2.3 The table below shows Gold Card patronage since its introduction in 2006 but what is particularly evident is the circa 1m reduction in patronage since the increase in price to £25.



Gold Card patronage is expected to fall further (to 4.7m) by the end of 2013/14.

Gold Card pass holders have fallen from 82,000 issues (34% take-up) in 2010/11 to 46,000 issues (19% take-up) in 2013/14.

3 Reversing the Decline

3.1 The Local Transport plan has a stretch target for Metro to increase patronage from 37m to 41m across the ten years commencing 2011/12 (as agreed by the ITA at its July 2013 meeting). However, the decline in Gold Card patronage shows strong correlation to the increase in its price.

3.2 If the ITA is to encourage patronage by the elderly and disabled on Metro, a reduction in the price of Gold Card would suggest a corresponding increase in ridership is possible, using research from 2011.

4 Metro Ticketing and Pricing / Financial implications

4.1 At its November 2013 meeting, the ITA approved a package of fares increases that had three clear objectives:-

- to deliver revenue growth in line with Nexus' Medium Term Financial Strategy;



- to grow patronage on the Metro system; and
 - to encourage customers to switch to smart ticketing wherever possible.
- 4.2 The fares strategy noted that the proposed increases were set against a backdrop of improving revenue performance from adult fare paying passengers (but continuing declines amongst other market segments such as students and concessionary passengers).
- 4.3 The student market benefited from the introduction of a new termly ticket plus a discount of 30% against the full adult equivalent fare (60% for 16 to 18 year olds). The issue for concessionary fares was only partly addressed insofar as the child concession was frozen for another year but no proposal came forward at that time for Gold Card holders.
- 4.4 Against a backdrop of a strong recovery in the fare box and given the need to address the decline in elderly and disabled patronage, a reduction in the price of the Gold Card from 1 April 2014 is felt appropriate.
- 4.5 The reduction in the price of the Gold Card will come at a short term cost however because the reduction in price (52% weighted average) will not be compensated for by an equal percentage increase in sales (estimated at +20% using a standard elasticity of -0.37):-
- 2013/14 sales forecast = 58,400 (NB – almost 2,000 are the £35 non-Tyne and Wear sale)
 - 2013/14 revenue = £1.480m
 - 2014/15 sales forecast = 70,200 (NB – just over 2,000 are the £25 non-Tyne and Wear sale)
 - 2014/15 revenue = £0.870m
- 4.6 The apparent £0.610m reduction in cash sales is exacerbated by an estimated £58K loss of casual full adult ticket sales as some casual users are hypothesised to buy the Gold Card at the reduced price.
- 4.7 Whilst this projected potential loss of income has been accommodated within the overall Nexus budget for 2014/15 given the strong commercial performance of Metro, it is envisaged that this could be further offset in the medium term through changes in concessionary travel patronage.



5 Linkages with other modes

- 5.1 Analysis based on customer research in October 2011 to determine the impact of the original price increase from £12 to £25 suggests a 73.8% modal shift factor. This implies that the decision to increase the price of the Gold Card had an adverse effect on the cost of ENCTS reimbursement although it is difficult to truly quantify whether this was actually the case or not given both the complexities of the 'no better, no worse' calculation for reimbursement and the reduction seen in ENCTS patronage in Tyne and Wear of -3% since 2009/10 (from over 46m in 2009/10 to under 45m in 2013/14).
- 5.2 It is evident however that the ENCTS has a distorting effect on Metro usage and any price differential between modes for over 60s and disabled passengers is both complex and requires careful consideration.

6 Next Steps / Gold Card marketing and sales channels

- 6.1 A significant marketing campaign will precede Gold Card renewals due during April 2014. The campaign will be targeted at:
- Informing as many card holders as possible ahead of the price change
 - Generating the extra sales needed
 - Pushing sales to channels other than Travel Shops to ensure we can cope with additional demand. This will include TVMs and Payzone agents

The campaign will consist of poster and cove cards adverts on Metro, local press ads, a PR launch, direct sales to some lapsed holders and adverts in specialised media targeted at older people.

- 6.2 In addition, allowing the Gold Card product to be placed onto the ENCTS pass (the first and so far only initiative of its type) is also seen as a more efficient way of making the product available and Gold Card customers will also be encouraged to use Metro Ticket Vending Machines (TVMs), new Payzone retail outlets and the internet as well as Nexus Travel Shops to buy or renew their Metro concession.

7 Potential impact on objectives

- 7.1 Positive impact on Metro patronage.

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