

Cabinet

16 September 2020

**Weardale Railway: Request for
Financial Support**

Ordinary Decision



Report of Corporate Management Team

**Amy Harhoff, Corporate Director of Regeneration and Economic
Growth**

**Councillor Alan Napier, Deputy Leader and Cabinet Portfolio Holder
for Finance**

**Councillor Joy Allen, Cabinet Portfolio Holder for Transformation,
Culture and Tourism**

**Councillor Carl Marshall, Cabinet Portfolio Holder for Economic
Regeneration**

Electoral division(s) affected:

Weardale

Purpose of the Report

- 1 This report is to advise Cabinet on the current position and opportunity regarding the development of Weardale Railway and of a request from The Auckland Project (TAP) to support its future development.

Executive Summary

- 2 The Weardale Heritage Railway line stretches from Bishop Auckland to Eastgate, a total of 19 miles although the most recent use of the line is only 16 miles from Bishop Auckland to Stanhope.
- 3 This provides an important transport link between those areas as well as an important asset to attract our visitor economy. The line connects a number of towns and villages and has open stations at Witton le Wear, Wolsingham, Frosterley and Stanhope.

- 4 Weardale Railways CIC (Community Interest Company) is the holding company for the railway. It is 75% owned by British American Rail Services (BARS). The remaining 25% voting rights are shared between the Weardale Railway Trust and Durham County Council. WRCIC provides management services for the railway and is the responsible body to the official Railway authorities.
- 5 The Auckland Project (TAP) has now concluded the purchase of the Heritage Railway and is seeking to secure the required certificates and authorisation from the Department of Transport to allow trains to run on the line.
- 6 In December 2019 TAP provided the Council with a high level business case with financial projections over a three year period. The intention is to successfully develop the railway to protect and sustain this heritage asset, provide employment and training opportunities, enhance the wider visitor experience in Durham, develop the volunteer base and eventually extend the passenger rail network to the west of Bishop Auckland. If delivered successfully, directly support the local area, economy and communities. The 5 objectives are described as:
 - (a) provide a world class tourist attraction, made available for the people of Bishop Auckland, Weardale and the wider area in addition to national and international visitors;
 - (b) economic regeneration of the areas served by the WR via tourism;
 - (c) employment for local people associated with a world class visitor attraction;
 - (d) the provision of education opportunities for local people;
 - (e) the sustainable use of the natural environment in partnership with heritage and commercial activities.
- 7 An additional 160,000 visitors to Bishop Auckland are estimated as a result of the Weardale Railway increasing GVA by an estimated £3.2 million. Successful delivery of the objectives above will result in a sustainable future for an important heritage asset and will deliver a number of economic and social benefits to the local area and wider County.
- 8 In order to make the project viable, the Council is being asked to provide financial support towards the costs of repairs to a number of bridges along the line. The financial business plan provided to the Council deals only with the first three years of operation and there are

no guarantees of the longevity of the initiative. No financial projections over the longer term have been provided.

- 9 In view of the limited detailed business case information, the current Covid-19 environment and the historical difficulty associated with creating a sustainable heritage offer at Weardale railway the provision of £2.1 million financial support represents a significant commitment.
- 10 Cabinet is asked to consider the option of linking any financial support to a requirement to repay the amount in the event of certain events occurring.
- 11 The grant funding requested meets the relevant tests to constitute State Aid. The General Block Exemptions Regulations allow aid to be granted for culture and heritage conservation which this project falls squarely within. The total amount of aid granted must not exceed the difference between the eligible investment costs and the projected operating profit.
- 12 There are a number of options for the Council to consider:
 - (a) not providing support to TAP for the Heritage railway;
 - (b) Provide the grant requested and enter into a formal agreement that has conditions that mitigate risk to the Council.
- 13 The opening of the heritage railway and the continued investment and associated economic leverage in Bishop Auckland is important to the County and local area. The financial ask, however, is significant and comes at an unprecedented time. Taking all factors into account it is suggested that the Council supports the project and provides a grant of £2.128 million subject to a formal grant agreement as referenced in the body of the report.

Recommendation

- 14 Cabinet is recommended to agree:
 - (a) to the provision of a grant totalling £2.128 million to Weardale Railway / The Auckland Project as outlined in paragraph 42(b) of the report; and
 - (b) delegated powers to finalise the agreement be given to the Deputy Leader and Portfolio Holder for Finance, the Portfolio Holder for Economic Regeneration, the Portfolio Holder for Transformation, Tourism and Culture, the Corporate Director of Resources and the Corporate Director of Regeneration, Economy and Growth.

Background

- 16 The Weardale Heritage Railway line stretches from Bishop Auckland to Eastgate, a total of 19 miles although the most recent use of the line is only 16 miles from Bishop Auckland to Stanhope. The asset is important to the overall visitor offer of County Durham and supports our national heritage profile.
- 17 The line connects a number of towns and villages and has open stations at Witton le Wear, Wolsingham, Frosterley and Stanhope, providing an important sustainable transport connection between those areas.
- 18 The proposal to support the development and sustainability of the Weardale Railway, forms part of a wider investment in Bishop Auckland's visitor economy and town centre renewal.
- 19 In late 2019 the then main owners British American Railway Services (BARS) entered into negotiations with The Auckland Project (TAP). BARS US based parent company, Iowa Pacific Holdings, was put into receivership in October 2019 and this led to the potential collapse of the 'Train to Christmas Town' seasonal event with 12,500 pre booked tickets having been purchased.
- 20 TAP's intervention and financial support led to the event taking place and acted as the catalyst for proposals to purchase the American owners' interest in the Railway and take control of the Weardale Railway Community Interest Company.
- 21 Weardale Railways CIC (Community Interest Company) was the holding company for the railway. It is now in administration and its assets are now owned by the Weardale Railway Ltd which is a wholly owned subsidiary of the Auckland Project.
- 22 TAP has now concluded the purchase of the Heritage Railway and is seeking to secure the required certificates and authorisation from the Dept of Transport to allow trains to run on the line.

TAP's Ambitions for the Railway

- 23 In December 2019 TAP provided the Council with a high level business case outlining the ambitions to develop and expand the Railway. The document is at Appendix 2.
- 24 The business plan identifies 5 key objectives for the Weardale Railway:
 - (a) provide a world class tourist attraction, made available for the people of Bishop Auckland, Weardale and the wider area in addition to national and international visitors:

- i. provide a rich calendar of events and experiences relating to the love of the railways, trains and the heritage of the Weardale Railway;
 - ii. work in partnership with the National Railway Museum Shildon to develop high profile, experiences and events;
 - iii. provide a calendar of events and experiences relating to food and drink, literature, culture and heritage;
- (b) economic regeneration of the areas served by the WR via tourism:
 - i. create a unified network of visitor attractions, including Auckland Castle, Faith Exhibition, Kynren, the Mining Art Gallery, Spanish Gallery, Kynren Park and others, so as to encourage out-of-region visitors, longer dwell time and overnight visits;
 - ii. create a sustainable, profit making operation able to contribute to the wider aims of TAP;
- (c) employment for local people associated with a world class visitor attraction:
 - i. provide sustainable job opportunities associated with the management of, and running of the railway;
 - ii. offer apprenticeships associated with the running of the railway, including the maintenance and construction of associated rolling stock and locomotive engines;
 - iii. provide a range of volunteering opportunities structured around the needs and of the railway operation, focused on specific job roles and with a view to preparing people for the world of work;
- d) the provision of education opportunities for local people:
 - i. create a vibrant calendar of information events, talks, lectures and exhibitions relating to the railway and wider area;
 - ii. create and install a range of information panels relating to the heritage line and the natural environment;
 - iii. produce literature in a range of forms relating to the heritage line and the natural environment;

- iv. engage with local schools and voluntary sector organisations to build immersive experience based education sessions relating to the railway;
 - e) the sustainable use of the natural environment in partnership with heritage and commercial activities:
 - v. operate a sustainable transport solution, for the people of Bishop Auckland, Shildon, Weardale and the wider area;
 - vi. promote the use of sustainable transportation via aim 4;
 - vii. create a sustainable, profitable operation that places the natural environment at the heart of commercial activity;
 - viii. provide sustainable commercial profit in the wider social and charitable aims of TAP.
- 25 The business plan predicts that the Weardale Railway will bring an additional 160,000 visitors in to Bishop Auckland and Shildon, providing training, employment and learning opportunities, adding significantly to the local economy of the wider area by transforming TAP's current offer firmly into a two-day experience, and creating a more stable shopper presence in the high street. At an estimated spend of £20 per day visitor x 160,000 visitors, the GVA impact is c.£3.2 million.
- 26 In order to deliver the aims and objectives the Business Plan identifies four elements that are required:
- (a) creation of stability by strengthening the governance and partnership opportunities;
 - (b) ensuring adequate promotion in order to build awareness and increase visitor numbers;
 - (c) building income streams to create a sustainable and viable social enterprise;
 - (d) bolster travel options for residents along the Wear valley.
- 27 An events plan (which will now be impacted by Covid-19) is also outlined:

2019	2020	2021	2022	2023	2024 & Onwards
Train to Christmas Town	Polar Express	Polar Express	Polar Express	Polar Express	Polar Express
	Afternoon Tea Train	Afternoon Tea Train	Afternoon Tea Train	Afternoon Tea Train	Afternoon Tea Train
	Sunday Lunch	Sunday Lunch	Sunday Lunch	Sunday Lunch	Sunday Lunch
		Gin Train	Gin Train	Gin Train	Gin Train
			Hogwarts Style Train	Hogwarts Style Train	Hogwarts Style Train
			Passenger Service Stanhope-BA	Passenger Service Stanhope-BA	Passenger Service Stanhope-BA

- 28 The business case at Appendix 2, also describes rolling stock provision, schools' engagement and interpretation, industrial heritage partnerships, railway apprenticeships, and potential future fundraising opportunities. TAP views the line as providing an outstanding tourist attraction, supporting economic regeneration, increasing employment opportunities, providing skills opportunities and supporting a sustainable use of the natural environment. It plans to work in partnership with heritage and commercial stakeholders.
- 29 Over a ten year period the vision is to establish Weardale Railway as one of the major components of the visitor destination in Bishop Auckland and to provide a partnership approach to delivering a visitor offer that is Durham wide including Durham City, Locomotion, Raby Castle, Beamish and the Dales. There is an ambition to create more two day experiences to the town.
- 30 These ambitious outcomes would maintain and protect a heritage asset and be of great benefit to the town of Bishop Auckland and to the County as a whole, if successfully delivered.
- 31 It should be noted that previous attempts to transform the heritage railway into a successful and sustainable offer have not proven to be successful. In April 2009 the Council, with three other organisations, provided the Weardale Railways CIC an unsecured and interest free loan of £400k which was 'only to be repaid when the borrower becomes

self sustaining in both its revenue and capital plans”. The loan was not repaid and has subsequently been written off.

32 The four organisations that jointly provided the loan were:

- (a) Durham County Council (£250,000);
- (b) British American Railway Services Ltd (£100,000);
- (c) Weardale Railway Trust (£40,000);
- (d) Sherburn Stone Company Ltd (£10,000).

33 The partnership with the Council is described as critical to support the successful delivery of the project and the business case sought financial support to undertake repairs to a number of bridges over the next three financial years. A schedule of works to be carried out on the bridges was compiled by Jacobs.

34 The Council’s technical officers have reviewed the information provided by Jacobs in the business case and have concluded that:

- (a) previous experience indicates that bridge repairs are often underestimated at initial survey stage;
- (b) there are a number of multi span metallic structures ranging up to 75m which require further intrusive inspections before accurate estimates can be provided;
- (c) four structures have been identified as requiring structural inspections with no cost allowance being made in the schedule;
- (d) in order to identify a more accurate cost of the work required, a number of actions will be required by TAP.

35 In light of the above there is a risk of the cost of works being higher than currently identified in the TAP business case.

36 The funding request of £2.128 million over a three period is programmed as follows:

	20/21	21/22	22/23	Total
DCC Contribution for bridge repairs (£000's)	1.260	0.717	0.151	£2.128m

37 It should be noted that the spend profile will be amended to take account of the impact that Covid 19 has had on the project.

- 38 Over the same period TAP has advised that it will contribute £1.5 million. This is to cover the purchase costs and the first two years of operation as well as approximately £250,000 pa on track bed repairs. TAP aims to start the revival of services as soon as possible after regulatory approval is granted and to increase scale as the visitor season starts in Easter 2021. It is unlikely that a Christmas offer will be available this year due to the current C19 implications.
- 39 The Council is being asked to invest a significant sum that will deal with bridge repair issues over a long period. The financial business plan provided to the Council deals only with the first three years of operation and there are no guarantees of the longevity of the initiative. No financial projections over the longer term have been provided. In view of the limited detailed business case information, the current Covid-19 environment and the historical difficulty associated with creating a sustainable heritage offer at Weardale railway the provision of £2.1 million financial support represents a significant commitment by the Council.
- 40 As a consequence, it is suggested that Cabinet consider the option of linking any financial support to a requirement for Weardale Railway or TAP, as a guarantor, to repay the amount in the event of certain events occurring.
- 41 The grant funding requested meets the relevant tests to constitute State Aid. The General Block Exemptions Regulations allow aid to be granted for culture and heritage conservation which this project falls squarely within. The total amount of aid granted must not exceed the difference between the eligible investment costs and the projected operating profit.
- 42 Since the business case was completed, the Covid-19 pandemic has significantly impacted on the visitor and leisure economy. In terms of the first three years, TAP has advised that business case stands as it is since it is a high level plan that is especially focussed on the work needed to get the infrastructure back into shape after the years of BARS stewardship and covering the first years of running costs. No information has been provided on the financial viability of the railway in the longer term.
- 43 There are a number of options for the Council to consider:
- (a) not providing support to TAP for the Heritage railway. This is not recommended as the initiative is innovative and, if successful, will provide significant economic and regeneration outcomes;

- (b) providing a grant of £2.128 million over a three year period. This should be accompanied by a formal grant agreement that includes:
- i. assurance to the Council that any required repayment of grant will be made from Weardale Railway and / or TAP;
 - ii. an appropriate procurement process for the works;
 - iii. identification of works to specific bridges and a prioritised schedule of investment for agreement with the Council;
 - iv. payment arrangements linked to completion of works and appropriate invoices being submitted;
 - v. a commitment from Weardale Railway / TAP to complete the full schedule of works in the event of cost increases above the £2.1 million and that a funded long term future maintenance plan is in place;
 - vi. the provision of a more detailed 5 year costed financial and business plan with appropriate risk assessments, and agreed delivery outputs;
 - vii. confirmation that the Council has no future liability on any structure that is in Weardale Railway Ltd ownership;
 - viii. provision of enforceable conditions to secure grant repayment (from Weardale Railway Ltd or TAP as guarantor) in certain circumstances including:
 1. the Railway ceasing to operate within a defined period (eg 10 years);
 2. not significantly delivering against the agreed business plan;
 3. failure to invest in the Railway in accordance with the agreed business plan.

44 The opening of the heritage railway and the continued investment and associated economic leverage in Bishop Auckland is important to the County and local area. The financial ask, however, is significant and comes at an unprecedented time. Taking all factors into account it is suggested that the Council supports the project and provides a grant of

£2.128 million subject to a formal grant agreement as referenced in 42(b) above.

Recommendation

45 Cabinet is recommended to agree:

- (a) to the provision of a grant totalling £2.128 million to The Auckland Project as outlined in paragraphs 42(b) above; and
- (b) delegated powers be given to the Portfolio Holder for Economic Regeneration, the Portfolio Holder for Transformation, Tourism and Culture, the Corporate Director of Resources and the Corporate Director of Regeneration, Economy and Growth to finalise the agreement.

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Appendix 1: Implications

Legal Implications

The grant funding requested meets the relevant tests to constitute State Aid. The General Block Exemptions Regulations allow aid to be granted for culture and heritage conservation which this project falls squarely within. The total amount of aid granted must not exceed the difference between the eligible investment costs and the projected operating profit.

Finance

The recommendation requires a grant of £2.128 million to be paid over a three year (2020 -2023) period. The sum to be financed from capital contingencies.

Equality and Diversity / Public Sector Equality Duty

Not applicable.

Climate Change

The project aims to provide a sustainable transport solution, for the people of Bishop Auckland, Shildon, Weardale and the wider area.

Human Rights

Not applicable.

Crime and Disorder

Not applicable.

Staffing

Not applicable.

Accommodation

Not applicable.

Risk

A grant of £2.128 million represents a significant commitment from the Council at a time of national uncertainty. In order to mitigate risk to the Council and protect the investment, the report suggests a legal agreement which includes the requirement for grant repayment in certain circumstances.

Procurement

Durham County Council is committed to ensuring local wealth benefit through procurement practices, benefiting the local supply chain. This grant will be subject to those principles.