

**Cabinet**

**7 May 2014**

**Hitachi Rail Europe**



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**Report of Corporate Management Team**

**Ian Thompson, Corporate Director, Regeneration and Economic Development**

**Councillor Neil Foster, Cabinet Portfolio Holder for Economic Regeneration**

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**Purpose of the report**

1. The Hitachi Rail Europe investment into County Durham has been one of the major projects for Durham County Council for the last four years. With construction of the facility now under way, this paper is able to provide a brief history of the project's development and future plans, provide a context of other significant projects in strategic companies in County Durham, the contribution of inward investment to the County's economic prosperity, and potential issues in skills that might need to be addressed to ensure that County Durham is a top location for business.

**Background**

2. Hitachi Rail Europe (HRE) is part of Hitachi Group, a multinational conglomerate founded in 1910 and headquartered in Japan, with businesses in the following areas: Information and Telecommunications; Social Infrastructure (Industrial Systems and Transportation); Financial Services; Materials and Components; Power Systems; Electronic Systems; Automotive; Logistics; Construction Machinery, and Digital Media and Consumer Products.
3. Hitachi Rail Europe is the European headquarters of the Transportation Division of Industrial & Social Infrastructure Systems Company of Hitachi Ltd. Its trains have been in operation in the United Kingdom (UK) since 2009 on the high speed link between Kent and London. The company is a total railway system supplier offering rolling stock, traction equipment, signalling, traffic management systems, and maintenance depots. HRE draws on many years of experience as a leading supplier of metro, commuter and high-speed trains, such as the Shinkansen (bullet train), for the Japanese and international markets.

**Project History**

4. In 2009, HRE began seeking a site in the UK to construct a factory in which the company could build trains to win and fulfil contracts in Europe. Although County Durham was not on the original shortlist, sustained

partnership working across a group of public and private sector organisations ensured that County Durham was in the frame. This group included the then County Durham Development Company (since merged with Durham County Council's Business Services to create Business Durham), Durham County Council (DCC), Phil Wilson MP, the Northern Echo, the Engineering Employment Federation, the TUC, One North East and, critically, the developer Merchant Place Developments (MPD). This strong partnership, and the subsequent relationship between MPD, Business Durham and DCC, has been instrumental in securing the project for County Durham. Both MPD and DCC view this as an exemplary project in terms of the private and public sectors working together to increase economic prosperity.

5. In May 2012, HRE, as part of the Agility Trains consortium, was awarded a £5.8BN contract by the UK government to finance, design, manufacture, maintain and service the next generation of intercity carriages to improve the UK's mainline rail services. HRE announced its intention to locate in Newton Aycliffe, at the then Amazon Park (since renamed Merchant Park).
6. The impact of this investment is significant. The total in terms of capital investment attracted to the County is estimated to be £82M direct, with indirect investment into local companies which win contracts to supply the construction or HRE itself. At least 730 jobs will be created, with a further 150 construction jobs on site. Nearly 900 new carriages will be made in a factory with a production capability including high-speed trains, commuter trains and metro trains. The train fleet will comprise electric and bi-mode trains, some five vehicles long and others nine vehicles. These will be faster accelerating than existing stock, and will offer the potential for more frequent services. The higher train capacity will mean more seats and less crowding between Britain's major cities. A performance regime will encourage the trains to run reliably throughout the life of the fleet. The first trains will enter revenue-earning service on the Great Western Main Line in 2017 and on the East Coast Main Line by 2018. The factory will also be home to an on-site research & development facility and test track.
7. The decision by HRE was based on a number of factors: a strong engineering and manufacturing ethos in County Durham; site location; road and rail infrastructure; access to the East Coast Main Line; suitability and cost of the development site; the support that the company received from local partners, and the hard work and positive attitude of MPD.
8. In late 2013, the construction contract was awarded to Shepherd Construction, a Darlington-based company, which was chosen based on its commitment to carefully gathering insight into HRE's specific requirements before proposing exactly how the large and complex scheme could be delivered. Shepherd displayed a comprehensive understanding of what the facility had to achieve and HRE's exceptional standards in building trains. This builds on the existing design team of consultants based in the North East, and the subsequent award of the steel contract to

Finley Structures in Newton Aycliffe further highlights the commitment to the North East.

### **Support for Hitachi Rail Europe**

9. Business Durham established an internal project team within DCC to assist MPD with the development of the chosen site. This included Planning, Assets and Business Durham. This team is regularly praised by MPD as the best Local Authority team they have ever worked with.
10. Business Durham additionally assisted with managing communications, acting as a buffer between interested parties and HRE over the last few years as HRE ramped up capacity. This included fielding and managing interest from those interested in supplying or working for HRE or the construction contractor: Business Durham organised two major events for HRE and MPD at the Xcel Centre in Newton Aycliffe, which were attended by approximately 1,500 people; held regular partner briefing meetings; hosted visits from senior representatives of other Hitachi divisions and Ministers, and assisted with community engagement as needed.
11. A website was constructed specifically for the project to collect data from those wishing to work for or supply HRE or the construction contractor in a consistent way to enable them to collate and analyse data when the time came to let contracts. It also enabled HRE to communicate with those who had registered and to maintain its brand awareness. This mechanism has been very valuable to HRE and it was praised for its reach and messages by HRE senior staff. The website collected 594 registrations for supply chain and 1,798 enquiries for recruitment. Now HRE has its own resources in place to deal with these enquiries, the Business Durham website has been decommissioned, and relevant content placed on the Business Durham website to avoid duplicating communication channels. Business Durham, HRE and MPD continue to meet on a monthly basis about communications, PR and business development.
12. In terms of skills development, alongside the project group, there has been a reference group meeting to provide support and advice to Hitachi in respect of accessing the skills system and providing employment support. Since the award of the construction contract, Business Durham has been liaising with both Shepherd Construction in Darlington as the main contractor for the build and fit out of the manufacturing facility, and HRE for its staff. Preliminary meetings have been held with Business Durham, DCC Employability Services and Shepherd and HRE to discuss their requirements. Both companies are at early stages of defining their requirements, and those of their subcontractors. There will be a high requirement for craft skills such as electricians and joiners. There will be a significant demand for IT skills to ensure that the customers can enjoy the latest on board services such as wifi and track side communications. Initial indications are positive, however, and a proposal to provide a number of construction apprenticeship opportunities is currently under development in conjunction with Shepherd Construction. MPD and

Shepherd Construction have a joint programme of school visits currently underway.

13. Supply chain development has been a major part of Business Durham's support for HRE. The rail industry has a mature and established supply chain globally but HRE's commitment to sourcing local suppliers, where possible, has been outstanding. HRE collated the data from all sources, including Business Durham's dedicated website, into one database which resulted in approximately 720 companies locally, nationally and internationally which had expressed an interest in supplying HRE, and also were considered as credible suppliers in terms of products or services and trading history. A number of business have become part of the supply chain and these include North east business as set out in the table below.

<b>Type</b>	<b>Company</b>	<b>Location</b>
On Board Server	Nomad	Newcastle
Driver Reminder Safety Switch	Petards	Gateshead
Passenger Counting System	Petards	Gateshead
Side Windows	Romag	Consett

14. Supply chain development for the construction contract has also been an area where Business Durham has been actively supporting the investment by HRE. The Business Durham website collected 210 registrations from companies wishing to be part of the construction contract and this list was sent out by MPD as part of the invitation to tender for the main contract. The following contracts have been awarded.

<b>Type</b>	<b>Company</b>	<b>Location</b>	<b>Confidential</b>
Factory construction	Shepherd Construction	Darlington	No
Site groundwork	Hall Construction	Rushyford	No
Steelwork	Finley Structures	Newton Aycliffe	No
Technical detailing	South Durham Draughting	South Church	No

This is representative of at least 50 businesses in the North East which are benefiting from the project. It should be emphasised that the HRE is part of the Hitachi group and as such may well choose to source 'in-house', as long as budget and quality criteria are met.

15. The completion of the facility is due in mid-2015. Durham County Council will continue to support the project as outlined above and will keep Members up to date as milestones are reached.

16. This report focuses on the Hitachi Rail Europe project itself but it should be noted that it is a significant project and will be a catalyst in developing further activity in Merchant Park itself (a further 35 acres with an estimated 500 jobs) as well as in the wider Newton Aycliffe and County Durham areas.

### Inward Investment

17. The Hitachi Rail Europe project is significant in County Durham's history of attracting inward investment. Inward investment (both from overseas and from within the UK) continues to be crucial to raising the economic prosperity of the County; an analysis of significant projects handled by Business Durham in the nine months April to December 2013 indicates the important contribution made by this activity.

Number of Projects 2013/14 YTD		Capex	Jobs created	Jobs safeguarded
<b>Total Number</b>	<b>45</b>	<b>114,991,591</b>	<b>1,400</b>	<b>960</b>
From Indigenous Companies	24	43,282,011	634	314
From Inward Investment	21	71,709,580	766	646
Existing investors	13	30,349,580	230	412
New investors	8	41,360,000	536	234
<b>Lost Projects</b>	<b>5</b>	<b>3,239,580</b>	<b>84</b>	<b>3</b>
From Indigenous Companies	1	221,000	0	0
From Inward Investment	4	3,018,580	84	3
Existing investors	3	2,658,580	58	3
New investors	1	360,000	26	0
<b>Successful Projects</b>	<b>20</b>	<b>60,915,071</b>	<b>931</b>	<b>346</b>
From Indigenous Companies	11	16,965,071	391	94
From Inward Investment	9	43,950,000	540	252
Existing investors	2	2,950,000	30	18
New investors	7	41,000,000	510	234

18. Successful projects in 2013/14 include:
- Pacrestore: a company which has created a system to enable manufacturers to rectify packaging errors and place the packaging back in the supply chain, reducing environmental impact. The company started-up in Tyne and Wear and was investigating production options in Northumberland, Ireland and County Durham before deciding on Aycliffe Business Park. Forecast jobs are 165 within two years.
  - TSC Simulation: a company based in the East Midlands which models industrial processes. The company has set up an office in Aycliffe Business Park, employing one person.
  - Compound Photonics' acquisition of the RFMD facility in Newton Aycliffe creating and safeguarding 200 direct jobs
  - Cubis Industries' acquisition of part of GT Group (10 jobs)

In addition, two companies have been acquired by overseas investors, saving 146 jobs.

19. Business Durham works with colleagues to ensure that County Durham is a top location for inward investors, primarily in land and premises development and skills development, whilst also working with partners to ensure access to finance and market opportunities.
20. Skills development is a particular area of concern in County Durham, and also in the UK. It is recognised by several associations, such as the IET, the Engineering Employers Federation, SEMTA the Sector Skills Council, the Royal Academy of Engineering, the Institute of Physics and others, that there are not enough skilled scientists and engineers available to meet the forecasted needs. The arrival of HRE and Compound Photonics, along with the continued success of NETPark, highlights this issue for the County particularly. It is recommended that a further paper is submitted to Cabinet investigating this in more depth, outlining actions already underway and making recommendations, as appropriate, to ensure that County Durham is well-positioned for future inward investment opportunities, and that indigenous companies' growth plans are not held back by the lack of a skilled workforce.

### **Recommendation**

21. Cabinet is recommended to note the report and to agree to the development of an integrated, targeted and proactive process to build upon existing and future inward investment opportunities.

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## **Appendix 1: Implications**

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**Finance –**

Not applicable.

**Staffing –**

Existing staff resources have been utilised to deliver work to date.

**Risk –**

Not applicable.

**Equality and Diversity/Public Sector Equality Duty –**

Not applicable.

**Accommodation –**

Not applicable.

**Crime and Disorder –**

Not applicable.

**Human Rights –**

Not applicable.

**Consultation –**

Consultation related to delivery of the Hitachi project has been extensive to ensure its flexible implementation and to ensure the appropriate benefits are maximised.

**Procurement –**

Not applicable.

**Disability Issues –**

Not applicable.

**Legal Implications –**

Not applicable.