

Transport for the North

Rail North Committee Meeting

Item 10.0

Subject: Northern Trains Interim Arrangements

Author: Jane Cornthwaite

Sponsor: David Hoggarth

Meeting Date: 12 March 2020

1.	<p>Purpose of the Report:</p> <p>To update Members on the interim arrangements for the Operator of Last Resort (OLR) and Northern Rail. Richard George, Chair of the OLR holding company will be in attendance at the meeting.</p>
2.	<p>Executive Summary:</p>
2.1	<p>The OLR took over the Northern Rail Franchise on 1 March 2020. The OLR is governed by Directly Operated Holdings Ltd (DOHL) which is a company owned wholly by the Secretary of State.</p>
2.2	<p>Services now operate under the name 'Northern Trains Ltd', however the change of ownership will have very little (if any) immediate impact on passengers. Nick Donovan has been appointed as the new Managing Director of Northern Trains.</p>
2.3	<p>The OLR will be undertaking a '100-day plan' which will provide an opportunity for the new team to examine the current business in more detail.</p>
2.4	<p>The Rail North Partnership (RNP) arrangements will remain with Northern Trains operating to a 'Services Agreement.' This is managed by the Rail North Partnership team in a similar way to the previous franchise and the existing TransPennine Express (TPE) franchise.</p>
2.5	<p>It is likely that OLR will want to engage with Stakeholders as they develop their business plan and they have established a panel of experts to advise them. However, legally and from a formal</p>

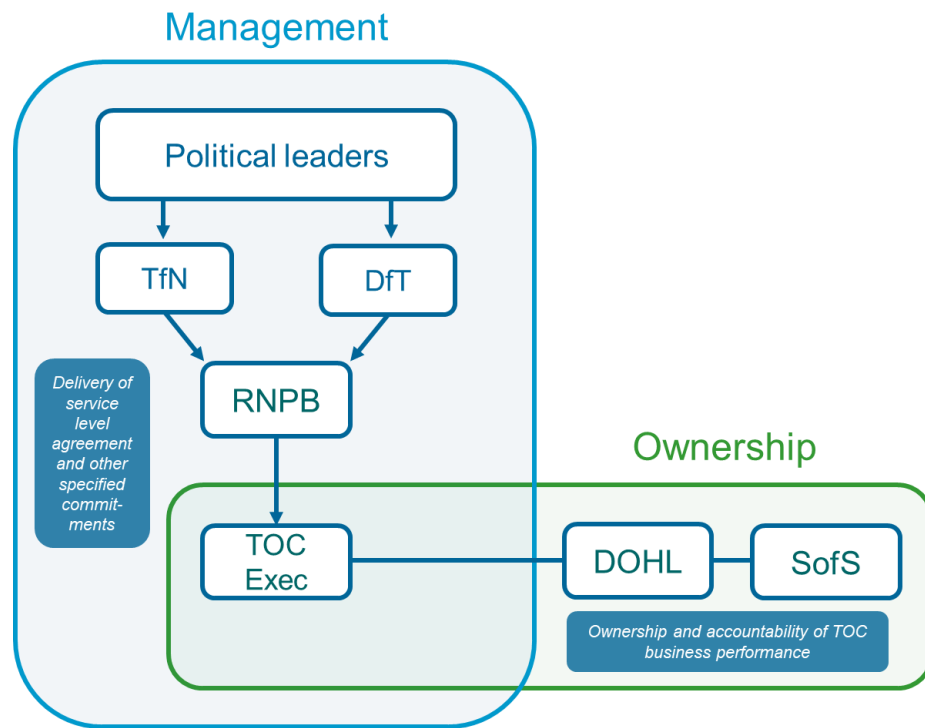
	accountability perspective, OLR is separate and independent from the Rail North Partnership.
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3.	Consideration:
3.1	<p><u>How does the OLR work?</u></p> <p>The Operator of Last Resort function is currently provided to the department through a partnership of consultants SNC Lavalin /ARUP and EY. The OLR offer a 'last resort' franchise function to the DfT, to ensure continuation of passenger services in the event of a franchise 'failure' and being unable to find a suitable, value for money private sector alternative.</p>
3.2	<p>The transfer to OLR has taken place in a similar way to a normal franchise mobilisation process. Typically this takes around 3 months although a decision on the OLR being appointed took place only a month before the new arrangement start date (1 March 2020). Mobilisation work had commenced before that in the knowledge that the existing contract would be ending.</p>
3.3	<p>The mobilisation time is needed to ensure that working systems, finances, contracts, operating licences, rolling stock and depot leases, passenger facing elements, offices, TUPE arrangements, uniforms, branding etc. are in place. Staff were TUPE-ed to the new OLR company – as for a normal franchise handover.</p>
3.4	<p>The DfT has a small OLR sponsorship function who manage the OLR contract and give direction through an Oversight Board. However, the OLR team operate in an analogous way to an Owning Group and operate separately to the DfT. They expand and contract resources/staff depending on requirements and need.</p>
3.5	<p>The new 'Northern Trains' business reports to the DfT OLR Holding Company (DOHL) which is wholly owned by the Government. The DOHL board is appointed by the Secretary of State and consists of five directors, – the Chair (Richard George), the CEO (Robin Gisby), a Finance Director, a Shareholder Representative Director (the sponsor of the OLR function in the DfT) and a non-Executive Director.</p>
3.6	<p>The DOHL Board are accountable to their Oversight Board and their Shareholder (the Secretary of State) and not to the RNPB.</p>
3.7	<p><u>100-day plan</u></p> <p>The Secretary of State has asked DOHL to prepare a plan in its first 100-days. The failings of the Northern Rail franchise have been well-</p>

	<p>documented and addressing these issues will take many months. The 100-day plan will be a period to gather detailed and accurate information about the business and establish a budget and business plan to which the business can operate, whilst the wider and longer-term arrangements are developed.</p>
3.8	<p>Whilst aiming to offer passengers some immediate improvements (such as an immediate deep cleaning programme), it is likely that much of the plan will be focussed on:</p> <ul style="list-style-type: none"> • Stabilising the business financially; • Delivering the basics well - improving the day-to-day performance, and communicating accurately and helpfully; • Delivering the in-flight transformation programme (fully introducing the new and refurbished trains, and delivering planned service improvements where possible); • Supporting and empowering staff who have borne much of the passenger frustrations of the challenges of the last 2 years; • Re-establishing constructive relationships with partners, stakeholders, commentators, and most importantly passengers; and • Creating an environment in which positive reform, improvements and investment can be planned and implemented over a longer time frame.
3.9	<p><u>Budget setting</u></p> <p>One of the biggest differences between OLR and the previous franchise is that any changes to budget fall directly to the DfT Passenger Rail budget. If (for instance), Northern Rail does not meet its performance targets, or fails to deliver a committed obligation, normal franchising procedure would be to extract a 'passenger benefit' from the Owning Group as a financial penalty for contravening committed deliverables in the contract. Under OLR, there is no equivalent mechanism.</p>
3.10	<p><u>Resetting the operational baseline</u></p> <p>The new Northern Rail arrangements completely replace the old franchise from a contractual perspective. The intention has been to retain as many of the originally planned improvements from the 2015 contract as possible. However, not all the original committed obligations have been included in the new Services Agreement – generally because of infrastructure or other delivery constraints.</p>

3.11	Also, as is the case in all new contracts, performance benchmarks have been re-set to reflect the prevailing performance environment and to set stretching but achievable targets.
3.12	It is against the new Service Agreement and these revised performance benchmarks that Northern Rail will be measured. The old Northern Franchise Agreement will no longer have any status.
3.13	<p><u>Rail North Partnership Agreement/Board</u></p> <p>Following the appointment of OLR the arrangements in place as part of the Rail North Partnership Agreement, and the existing relationships between DfT and Transport for the North will be maintained . Northern Trains will be operating to a 'Services Agreement' (SA) which acts as a proxy for the franchising agreement used in other franchises.</p>
3.14	The SA is important because even though Northern Trains is publicly owned, the business still needs to be working to an agreed plan and agreed specifications. The RNP team will continue to manage this on a day-to day basis as it does now.
3.15	In practice though, it is inevitable that the roles of RNC Members under the Rail North Partnership Agreement and as important stakeholders to the DOHL board will overlap. This overlap will offer opportunities as well as possible tensions between 'ownership' and 'management' functions in play. Overall, the opportunities offered by these new arrangements should be very positive particularly in the light of pending rail reform.
3.16	The diagram overleaf illustrates the difference between the different ownership and client responsibilities for Northern Trains.

3.17



4. Recommendation:

4.1 That the report is noted.

List of Background Documents:

There are no background papers to this report.

Required Considerations
Equalities:

Age		No
Disability		No
Gender Reassignment		No
Pregnancy and Maternity		No
Race		No
Religion or Belief		No
Sex		No
Sexual Orientation		No

Consideration	Comment	Responsible Officer	Director
Equalities	A full Impact assessment has not been carried out because this is a paper for information only	Jane Cornthwaite	David Hoggarth

Environment and Sustainability

	No
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Consideration	Comment	Responsible Officer	Director
Sustainability / Environment – including considerations regarding Active Travel and Wellbeing	A full impact assessment has not been carried out because this paper is for information only.	Jane Cornthwaite	David Hoggarth

Legal

	No
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Consideration	Comment	Responsible Officer	Director
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Legal	There are no direct legal implications to Transport for the North identified in this paper.	D Dimock	J Openshaw
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Finance

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Consideration	Comment	Responsible Officer	Director
Finance	There are no direct financial implications to Transport for the North identified in this paper.	Gareth Sutton	Iain Craven

Resource

	No
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Consideration	Comment	Responsible Officer	Director
Resource	There are no direct human resource implications to Transport for the North identified in this paper.	Stephen Hipwell	Dawn Madin

Risk

	No
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Consideration	Comment	Responsible Officer	Director
Risk	Underperformance of franchises is identified as a corporate risk for TfN . There are no additional risks identified in this paper.	Jane Cornthwaite	David Hoggarth

Consultation

	No
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Consideration	Comment	Responsible Officer	Director
Consultation	A consultation has not been carried out because the paper is for information	Jane Cornthwaite	David Hoggarth