



Department
for Transport

Organisational Review of Department for Transport Rail Functions

Provided to the Department for
Transport 20 December 2013

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1. Introduction

- 1.1** In December 2012 Richard Brown presented a review of rail franchising to the Department for Transport (DfT).¹ This set out recommendations on taking forward the government's rail franchising programme. It also recommended that, in the medium term, DfT should review the best organisational location for rail franchising and franchise management – whether in DfT, in an agency or a more arm's length body.
- 1.2** In July 2013, as part of the 2013 Spending Review, DfT confirmed that a review of the organisation of rail franchising and management would report by December 2013. DfT recruited me from the Department for Business Innovation and Skills to lead the review, with a small internal team of DfT civil servants. In August 2013 we appointed Deloitte as external advisers on the review.
- 1.3** The aim of my review has been to answer the question: "What is the most effective and efficient way of organising government rail functions?"
- 1.4** It was agreed at the outset that the whole of DfT Rail Group should be in scope of the review; this covers all DfT rail activities except High Speed 2 (HS2). A summary of DfT Rail Group activities is set out in appendix A. Although Richard Brown focused on rail franchising and franchise management, it was felt that in order to take a "whole system" view and analyse cross-function linkages we should look at all rail functions. HS2 was out of scope given it is a specific (and large) project; nonetheless the Review has taken account of HS2 and recommendations fit with current and future plans for HS2.
- 1.5** Only one option was explicitly ruled out at the outset of the review: Richard Brown's review, and the government response to it, concluded that responsibility for rail franchising should not be passed to the Office of Rail Regulation (ORR) as "there are no synergies to be obtained". This was further confirmed by ORR when consulted on my Review. Other than this, no options were ruled out at the outset.
- 1.6** It should also be noted that this was an organisational design review, not a policy review. The organisation of the rail industry as a whole was not in scope; nor were policy changes. The aim is to design the best organisational approach for managing government rail functions,

¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/49453/cm-8526.pdf

irrespective of policy. Whilst we have designed the best organisation for current government policies, we have done so with a view to creating an organisation that should withstand future external challenges and would provide the commercial and policy skills needed to develop and put into effect any railway policies in the future.

Adam Jackson
Director, Rail Organisation Review
January 2014

2. Methodology

- 2.1** The Review was informed by extensive interviews with stakeholders (listed in appendix B) and a comprehensive analysis and evidence gathering exercise which is summarised in this chapter.

Governance

- 2.2** The Review team reported to a steering board chaired by Ed Smith, DfT non-executive board member. Membership of the steering board included Richard Brown (DfT non executive and author of the Brown report on franchising) and senior officials from the Shareholder Executive and HM Treasury as well as the Department for Transport – full membership listed in appendix C. The review reported via the Steering Board to the DfT Executive Committee (membership listed at appendix D) and then to the Secretary of State for Transport. The review also consulted the Franchising Advisory Panel, a group of external experts chaired by Richard Brown which advises DfT on rail franchising (membership at appendix E). At each stage in the review, analysis, evidence and options were presented to these groups and our recommendations were drawn from discussion and agreement with these.

Approach

- 2.3** In partnership with Deloitte, a three phased approach was taken for the review. Rather like a funnel, this sought to start with as wide a range of options as possible and narrow these down, with more detailed and specific analysis, through to a single set of recommendations.
- 2.4** Phase 1 comprised extensive evidence gathering and analysis, with stakeholder and staff interviews and extensive case studies and optioneering, in order to define key criteria for organisational design and assess a long list of high level organisational models.
- 2.5** Phase 2 comprised more detailed analysis of a shortlist of four models and comprehensive evidence gathering on the three success measures identified in phase 1.

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2.6 Phase 3 comprised more implementation planning of the recommended options.

Detail

2.7 The following provides a summary of some of the work undertaken at each stage:

Phase 1

2.8 Phase 1 evidence and analysis included:

- Interviews with over 30 stakeholders, including Passenger Focus, the Campaign for Better Transport, Rail Freight Group, Network Rail, owning groups, rolling stock companies and Train Operating Companies (TOCs).
- Interviews with over 40 DfT officials plus a workshop with DfT Rail Group staff.
- Mapping of Rail Group teams, governance, activities and external and internal relationships.
- Initial assessment of barriers to recruiting and retaining commercial skills.
- Overview of future rail priorities and the DfT delivery agenda.
- Case studies and lessons learnt: previous UK rail organisations including (Strategic Rail Authority (SRA), Office of Passenger Rail Franchising (OPRAF)); international rail case studies; and other commercial delivery models in government.
- Development and initial appraisal of nine high level organisational options.

2.9 Phase 1 Outputs included:

2.9.1 **Agreement on design criteria**, setting out the characteristics required for any organisation design. These are summarised below:

Affordability and Value for Money	<ul style="list-style-type: none"> • Demonstrates the benefits of additional investment (if required) and a sustainable funding model.
Sustainability	<ul style="list-style-type: none"> • Encourages flexibility to be able to adapt to changing ministerial policies, priorities and events in the medium and longer term.
Accountability	<ul style="list-style-type: none"> • Drives simplicity in all structures and makes it easy to understand who does what. • Details clear and appropriate leadership roles and accountabilities (including dealing with failure). • Encourages appropriate decisions to be taken at the right level.
Capability	<ul style="list-style-type: none"> • Possesses the appropriate level of capability and capacity to make commercial & policy decisions. • Appeals to a broader talent pool, through which the organisation is able to recruit from other sectors, including externally and is increasingly able to attract and retain talent with consideration to equality and diversity.
Decision Making & Governance Processes	<ul style="list-style-type: none"> • Enables clear and appropriate processes for decision making. • Enables quick decisions to be made to commercial timescales. • Drives efficiency in approvals, not additional complexity. • Demonstrates fewer steps.
Ways of Working	<ul style="list-style-type: none"> • Shows appropriate linkages and levels of open communication between functions. • Promotes collaborative working practices between functions internally (no siloed activities), and partnership with external stakeholders. • Enables agreed strategy across transport as a whole, as well as rail. • Acknowledges and gives consideration to the needs of customers. • Promotes responsiveness and on time delivery.

2.9.2 Assessment of nine organisational options. It was agreed to discount the following five options:

Model	Notes and Rationale for not pursuing
“As Is”: No change	Rail Group reforms last year provide a good base to build on. But further change is needed.
Non Departmental Public Body for all Rail Group functions	This removes long term strategy from the Department for Transport, risking a disconnect with wider transport strategy. It carries significant financial risk associated with arms length responsibility for investment strategy as well as management of rail budgets. Implementation would involve significant disruption. This is similar to the Strategic Rail Authority, abolished in 2005, which became too removed from Ministers.
Non Ministerial Government Department responsible for all Rail Group functions	Effectively creates a Department for Rail, without a Minister; insufficient Ministerial accountability and control. As a civil service organisation it would deliver limited capability change in return for significant implementation disruption.
Non Ministerial Government Department responsible for commercial and operational rail functions	A relatively small organisation would carry all the financial risk associated with rail budgets. Limited capability change (as above) in return for disruption caused by implementation.
Government contract –private sector delivery organisation contractor	Model only works for a stable business. Not suitable for an area of such change/complexity as rail for foreseeable future.

It was agreed to develop further our analysis of the following four models:

- all functions in DfT, with a new organisational design and a significant change programme.
- all functions in an Executive Agency of DfT.²
- splitting some functions into an Executive Agency of DfT and retaining some in central DfT.
- splitting some functions into a more arms length body (either a statutory NDPB or a government owned company) and retaining some in DfT.

² Definitions of Executive Agency and NDPB are set out in Appendix F

2.9.3 Three success measures for organisational design were agreed, identifying the areas which the remaining four models should be assessed against and further evidence gathered:

Success Measures
Capability: <ul style="list-style-type: none">• <i>Attract and retain core, stable contract management, procurement and project management capability, as well as policy and government finance skills</i>
Delivery: <ul style="list-style-type: none">• <i>Ability to support, and avoid disruption to, current re-franchising programme, major projects underway and whole industry network investment strategy (the Rail Investment Strategy 2014-19)</i>• <i>Resilient and flexible: works for HS2 in future and lasts longer than previous models (SRA, OPRAF)</i>• <i>Effective risk and finance controls</i>
Coherence, clarity of roles, and effective management of inter-dependencies: <ul style="list-style-type: none">• <i>Clear industry interface: Industry knows who to talk to about different matters and how to get a complex problem solved</i>• <i>Internal clarity & coherence: common, coherent approach; clarity of roles and responsibilities</i>• <i>Whole system view: railway managed as integrated system; interdependencies are effectively managed</i>

Phase 2

2.10 Phase 2 evidence and analysis included:

- Assessment of the four models against the success measures.
- Qualitative survey interviews of commercial skills recruitment pools to understand what motivates potential recruits.
- A comprehensive pay benchmarking study by reward consultants QCG.
- Further assessment of workforce planning needs and delivery schedule for franchising and other programmes: to assess precise recruitment needs and timings.

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- Analysis of 2013 Rail Group recruitment exercises.
- Detailed mapping of all current functions in Rail Group and further identification of key relationships and interdependencies between Rail Group functions and with external stakeholders.
- Design of organisational models: to identify optimal high level organisational design and governance for the options under consideration.
- Assessment of implementation issues and timescales, including legislative, administrative, financial and legal requirements.
- Further case studies of delivery and commercial models in government.
- Existing DfT Agencies and NDPBs were also examined to understand the sponsorship requirements of each model.
- Feasibility assessment of each option.
- Further consultation with stakeholders including a workshop with the Rail Delivery Group (which includes owning groups, Network Rail and freight operating companies).

Details of the analysis from this phase of the review is set out in the following chapter.

Phase 3

- 2.11** In the final phase of the review, the team focussed on a high level implementation road map and business case including costing.
- 2.12** Deloitte provided advice on good practice and key principles for different aspects of organisational change, as well as specific interventions and approaches recommended for DfT to successfully implement the agreed model – providing a foundation for more detailed implementation work.

3. Analysis

3.1 As explained in the previous chapter, the Review team undertook detailed analysis of four organisational models:

- all functions in DfT, with a new organisational design and a change programme.
- all functions in an Executive Agency of DfT.
- splitting some functions into an Executive Agency of DfT and retaining some in central DfT.
- splitting some functions into a more arms length body (either a statutory NDPB or a government owned company) and retaining some in DfT.

3.2 These models were assessed against the three success measures agreed in phase 2, to identify the best options for delivering short and long terms priorities across the rail agenda.

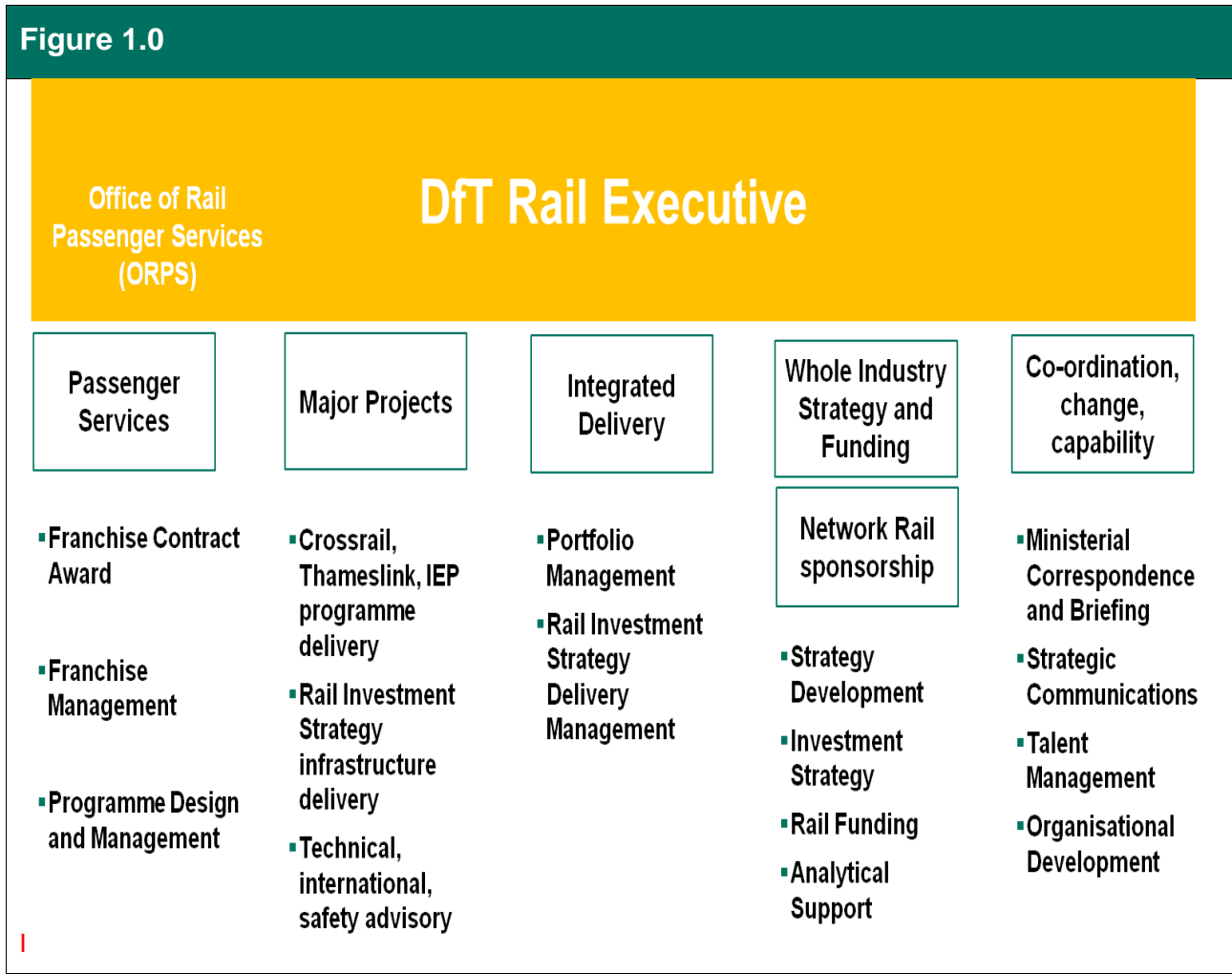
High level Organisational Design

3.3 The Review team developed two basic designs, drawing on further consultation with the internal and external stakeholders and the conclusions of wider consultation in phase 1.

These 2 designs were:

- 1 A “Rail Executive” model whereby all functions are in the same organisation. This could be either within DfT or an executive agency. Drawing on analysis and views expressed widely during the reviews, this brings together franchise award and franchise management into a new organisational unit (an “Office of Rail Passenger Services”) within the wider rail team. It also creates a new function of “integrated delivery” to manage the portfolio of rail projects across passenger services and network (including delivery of the Rail Investment Strategy). Governance arrangements were proposed to ensure joined up strategy and delivery across key areas within and outside this Rail Executive. This model is illustrated overleaf.

DfT Rail Executive and Office of Rail Passenger Services (DfT or Agency)



- 2 A model whereby functions are split, with some in a separate body (“Rail Delivery Authority” – an executive agency or NDPB). In this model “delivery” functions are brought together in a separate body outside central DfT. This agency or NDPB (a “Rail Delivery Authority”) would be responsible for franchise management, franchise award, major project sponsorship and delivery of network upgrades. The Review identified that these functions have interdependences that need to be managed together in the same organisation. In this model central DfT would remain responsible for policy, strategy and funding. Governance arrangements would seek to ensure a coherent approach between the arm’s length body and DfT. This model is illustrated overleaf.

Figure 2.0

DfT	Rail Delivery Authority – NDPB / Agency	
<ul style="list-style-type: none">▪ High-level strategy and policy▪ Agree investment strategy▪ Agree Rail Funding allocations	<ul style="list-style-type: none">▪ Crossrail Management▪ Thameslink Management▪ Rail Investment Strategy Delivery▪ Rolling Stock decisions	<ul style="list-style-type: none">▪ Franchise design and Award▪ Franchise Management▪ Integrated Delivery▪ TOC performance management and enforcement

Capability

3.4 Extensive analysis was undertaken to understand capability needs and the barriers to recruiting these. Interview evidence and analysis of DfT recruitment and workforce plans identified the following issues:

- The key areas where capability needs to be strengthened are: contract negotiation (including franchise award and major projects), contract management (franchises and major projects) and project and programme management. These require commercial skills first and, in some cases, rail experience as well (e.g. on portfolio management of rail projects).
- DfT does have capability in these areas; but not the number of permanent staff needed to run an expanding franchise and investment programme. The current permanent capability largely comprises those who joined from the Strategic Rail Authority in 2005. It has been difficult to recruit, retain and grow new permanent staff. DfT's ability to restart the franchising programme has depended heavily on interims, who represent over 50% of the workforce in some areas.
- Focus interviews revealed that 80% of stakeholders (both internal and external) viewed having additional capability in the future organisation as key.
- Recent recruitment exercises show a relatively low number of qualified applicants for certain posts advertised (in some cases with fewer people shortlisted than posts vacant) and only 12 posts filled out of 28 vacancies.
- DfT has a need to fill 30 commercial capability posts on franchise award by June 2014, plus a number of posts on major projects and franchise management.

- Whole system analysis by Deloitte revealed that there are barriers to achieving the right type and mix of commercial capability in Rail Group. The key dynamics found to contribute to this include:
 - Lack of an internal pipeline;
 - Recruitment process prevents Rail Group from recruiting effectively;
 - This is reinforced by a difficulty in attracting resources from the commercial talent pool where, given the choice, industry is a more attractive place to work making it difficult for Rail Group to compete.

3.5 The Review undertook a range of analysis of the employment market for commercial and rail skills, to identify the motivations of potential recruits and the barriers DfT needs to overcome in order to recruit the people it needs.

3.6 Deloitte interviewed a variety of people to understand the motivations of potential recruits. This identified that pay expectations were a factor, which was explored further in a pay benchmark exercise. It also identified issues around perceptions of DfT and the civil service: a desire for a commercial career path rather than a wider civil service career; a desire for responsibility and some “autonomy”, and concern about perceived “bureaucracy” of the civil service. This indicates the need for a clear commercial career path and a distinct rail and commercial organisational identity. Whilst government rail investment and franchises will always require robust procurement assurance and Ministerial sign off, there is a need to develop and communicate a clear system of governance, accountability and personal responsibility.

3.7 The Review commissioned specialist pay and reward consultants QCG to conduct a benchmarking analysis of a range of roles which require commercial rail skills. This identified that for project manager and contract negotiation roles DfT was offering a maximum salary that fell well short of market rates. DfT needs to fill 48 posts at this level over the next year, with current vacancies, a high dependence on interims and a need to recruit 30 additional franchise award posts by June 2014. There was also a disparity between market rates for more senior posts and the rates offered by DfT; the maximum civil service pay levels may meet market expectations for some of these but these are at levels that require approval by Cabinet Office and Treasury. Overall, greater flexibility to meet market rates of pay is needed to recruit to around 70 posts in total over the longer term. These do not all need to pay upper quartile market rates; but they do require higher pay offers than currently offered. A mix of rates is needed, enabling DfT to recruit a mix of general commercial skills and specific rail experience (for which a premium is needed in the market).

Conclusions on capability:

3.8 The Review concluded that in order to attract the required commercial skills any future organisation will need:

- competitive rates of reward for recruitment to specific commercial posts.
- a clear delivery and commercial organisational identity and culture.
- streamlined recruitment, with an ability to go direct to market for commercial technical posts.
- a longer term talent and career strategy to grow commercial skills.

Implementation and delivery priorities

3.9 The Review assessed the implementation requirements of four different types of organisation:

- **Option 1: Within DfT:** This would require a change programme to create a new identity and culture, recruitment strategy and adoption of new reward structure for recruitment of technical skills.
- **Option 2: An executive agency:** In addition to the above, a consultation and transfer of staff under COSOP rules and a framework agreement for financial delegation and accountabilities.
- **Option 3: A government owned company (NDPB):** In addition to all of the above, legislation would be required to delegate the power to carry out rail functions. The various Railways Acts specifically place exercise of franchising activities in the Secretary of State; legislation is required to enable Secretary of State to delegate these outside of government. The time required to draft, consult and then seek Parliamentary approval, whether for secondary or primary legislation, means this is not possible in this Parliament. Implementation could, therefore, only take place after 2015 (and the very earliest date for passage of legislation would be in 2016).
- **Option 4: A statutory NDPB:** This would require all of the above. Primary legislation would be required (as above) to establish the NDPB.

3.10 These factors affect the impact (both positive and adverse): of different models on delivery priorities (assisting or disrupting delivery). As noted above, there is an immediate requirement to recruit 30 more franchising posts by June 2014 plus additional posts on major projects and franchise management. A key success measure of any option must be its ability to

address these immediate needs. Only the DfT and executive agency options can be implemented in time to make a difference.

- 3.11** Furthermore, there is a very heavily loaded rail agenda over the next 24 months. This arises from a peak in franchising, as the department negotiates direct awards to extend existing franchises as well as starting the franchise competition programme, alongside major projects like Crossrail, Thameslink and IEP. Major organisational change, involving staff consultation and transfer (up to 200 posts), splitting functions and establishing new governance and financial accountability in the midst of this phase of major activity carries a high risk of project failure and delivery risk.
- 3.12** There are also complex financial issues associated with setting up an NDPB – not least how the volatile SPRS budget (franchise income and subsidy) would be managed by an NDPB.
- 3.13** Against an already heavily loaded agenda this makes setting up an NDPB (statutory NDPB or government owned company) a high risk option in the short term as well as one that might adversely affect delivery over the next 18 months and distract DfT teams and senior management from more mission critical work.

Executive Agencies

- 3.14** It was concluded that the executive agency options offered no additional benefits in terms of capability: in itself an executive agency offers no additional flexibility on pay and recruitment; in terms of wider attraction to recruits, the separate identity offered by an agency can be created within DfT under the model proposed by the Review (creating a Rail Executive and Office of Rail Passenger Services). In terms of implementation, an executive agency would require additional set up work and disruption to staff. It was therefore decided to rule out the executive agency models, as they offered no benefits over the DfT central option and involved greater implementation costs and impact on delivery.

4. Recommendations

Recommended organisational design model

- 4.1 Having considered a wide range of options, we narrowed these down to a shortlist of two:

Within DfT, a **Rail Executive** responsible for all government rail functions, with a more outward focus and clearer roles. For those areas where specialist commercial skills are needed, this should include a new recruitment and career development offer. Within Rail Executive we would establish a new integrated delivery function to coordinate implementation of the Rail Investment Strategy and an Office of Rail Passenger Services (ORPS) bringing together passenger service functions including rail franchise awards and franchise management, with a new, externally recruited Managing Director of Rail Passenger Services.

A Rail Delivery Authority: a government owned company (non-departmental public body staffed by non-civil servants) which would bring together all commercial, operational and project delivery functions. This would include not only franchise award and management, but also major projects and coordinated delivery of the Rail Investment Strategy, so as to ensure an integrated approach to managing the different components of the railway. Strategy, policy and high level funding would remain in DfT.

- 4.2 On the basis of the analysis in the previous chapter, we concluded that our primary recommendation should relate to what is achievable in the short to medium term, recognising the extremely heavy programme of activity on rail franchising, major projects and strategy over the coming year. The Rail Executive scores significantly higher than the Rail Delivery Authority in that timescale, delivering benefits faster and with less disruption, thereby best supporting delivery and recruitment priorities for 2014.
- 4.3 In the longer term the more arms length Rail Delivery Authority has potential to develop commercial delivery capability further but it will require legislation as well as careful consideration of appropriate mechanisms to avoid fragmentation across government rail activities. The Review team therefore recommends that DfT should consider moving to an arms length delivery organisation in due course, once the

majority of franchise direct awards have been finalised and the franchise competition programme has steady momentum; this will require legislation in the next Parliament to delegate statutory powers to the new body. The creation of the Rail Executive provides a strong foundation for future evolution to this.

Recommendation 1: *We recommend the creation of a Rail Executive within DfT as an immediate task for early 2014.*

Recommendation 2: *In the longer term, the Department should consider moving the delivery functions of the rail executive to an NDPB (the Rail Delivery Authority model) from 2016 subject to the passage of legislation which would be required to delegate statutory powers to this new body.*

Characteristics of Rail Executive

- 4.4** Rail functions in DfT have had a number of organisational changes over the last three years. In January 2013, following the Laidlaw Report, rail functions were brought together as one team in Rail Group under the leadership of a Director General. The franchising team has expanded substantially to deal with the programme of competitions and direct awards, with around 30 people brought in from the rail industry including the interim Franchising Director. Rail Group has recorded significant achievements over the last nine months, including launching the franchising programme, issuing two ITTs and a prospectus, negotiating a number of direct awards, achieving financial close for Thameslink rolling stock, finalising plans for IEP rolling stock, and publishing the Fares and Ticketing Review.
- 4.5** As important as the “what” has been the “how”. Stakeholders told the review team how much they have valued the way the Director General and Franchising Director have personally made a significant difference in modelling external engagement, working in partnership with stakeholders and with greater transparency and openness. Much progress has also been made since the start of 2013 in developing a more “joined up” approach, covering rail “end to end”.
- 4.6** There is now a real opportunity to make a further step change, embedding these behaviours and values across the organisation. Rail Executive (and in turn a Rail Delivery Authority in the future) should be seen as a natural evolution of this work. Rail Executive builds on the existing Rail Group but it is significantly different, with a new name acting as a statement of a more confident, outward focused, commercial organisation.

- 4.7** Rail Executive should look different. It signals the development of an organisation with new functions designed to tackle future challenges. A new team should coordinate portfolio management delivery of the Rail Investment Strategy, managing interdependencies between rolling stock, track, stations, and freight and passenger services. This should include promoting the McNulty report on efficiency, including alliancing between operators and Network Rail. A new Office of Rail Passenger Services within the Rail Executive would bring together the different aspects of passenger services, including the negotiation and management of franchises. Bringing franchise award and management together was a recommendation of the Brown Review and was something that stakeholders uniformly recommended to the review team. An Office of Passenger Rail Services, with a new Managing Director, within the Rail Executive, provides the best immediate way of maximising the synergy between these functions. Alongside this, Rail Executive should provide a clearer focus on network infrastructure issues, including a new Network Rail sponsorship function. This should lead on developing future arrangements for Network Rail, including putting in place an effective regulatory and control framework, following the Office for National Statistics' (ONS) decision to classify the company to the public sector from September 2014.
- 4.8** Due to its size and complexity, the HS2 development programme will continue to be led by a separate DfT group and Director General, working closely with the Rail Executive. Rail Executive should be positioned to lead work on HS2 linkages with existing infrastructure and services, overall rail strategy and future passenger services. It should also ensure strong linkage with DfT London and local transport teams and wider inter-modal transport strategy.
- 4.9** Rail Executive should also embody a new commitment, backed by action, to recruit, grow and retain talented people with world class commercial as well as policy and analytical skills. It should increase capability at all levels through a new approach to recruitment, reward and career development for commercial rail skills as well as developing commercial apprenticeships; this will reduce the Department's dependency upon consultants and increase its ability to negotiate the best deal for passengers and the taxpayer.

Future Rail Delivery Authority

- 4.10** These recommendations allow for further evolution to an arms length delivery body to be considered in the future. Such an arms length body would bring together all rail delivery functions including passenger services (award and contract management), rolling stock, major infrastructure projects and integrated delivery. The integrated delivery

function of Rail Executive therefore provides a key component for this evolution.

Pre-conditions of success

4.11 For any future model to succeed, it would require the Department for Transport, HM Treasury and Cabinet Office to agree as prerequisites:

A new approach to pay when recruiting specific rail commercial skills: offering a competitive package, based on the business case of reducing dependency on expensive interims and negotiating greater benefits on high-value franchising contracts and major projects. Payment of more competitive rates to recruit to these roles should not be at the expense of the capped budget available for pay awards across the rest of central DfT.

Recruitment flexibility: Recruitment experience to date shows that a significant majority of people shortlisted and appointed to rail franchising and commercial posts in the last year have been outside the existing civil service. Rail Executive should have the ability to go straight to market for rail commercial posts.

Programme budget funding: It is quite clear that many rail functions are front line delivery (delivery of rail passenger services) and government budgeting treatment should recognise this by funding the relevant staff costs from the associated programme budget. The total value of contracts and franchises being negotiated this year equates to a total value of £30.4billion. The additional salary costs of recruiting top class contract negotiators and managers should be far outweighed by the value of the benefits they will negotiate (a 1% improvement in value of contracts would be worth over £300 million).

Recommendation 3: *DfT, HMT and Cabinet Office need to agree the flexibilities needed to recruit and retain staff from the external commercial rail labour market plus the appropriate budgetary treatment, as identified above, before proceeding further with implementation.*

Implementation Principles

4.12 Deloitte have provided advice on implementation. This identifies some key themes which are central to successful implementation:

- Successful delivery of the interventions outlined will require dedicated resource, with the right capabilities to deliver, along with clear leadership and sponsorship. It will require leaders to champion the

new organisation, demonstrate new behaviours, and challenge the status quo;

- Narrowing the scope of delivery down to a few tactical interventions will not deliver a successful Rail Executive. Wider challenges will only be addressed by change led across multiple workstreams; and
- Pay interventions will not entirely solve challenges around capability. Building a more attractive place to work, appropriate autonomy in roles, and a different culture are also contributing factors.

Recommendation 4: *DfT should embed these themes into its implementation. More specifically:*

DfT should provide dedicated resource for implementation, with an implementation team. This should have dedicated senior leadership to enable focus and delivery at a time when senior rail officials have significant delivery and policy priorities.

- *All aspects of implementation should be brought together in a “change and capability” programme.*
- *Implementation should be overseen by a steering board with some DfT non executive membership. This should build on the success of the steering board which has overseen the Review.*
- *Implementation should include short term interventions that would be executed within the change programme and longer term interventions that would be embedded within the normal business operations of the Rail Executive.*
- *Implementation should include development and use of metrics and KPIs, related to the success measures identified in the review, and the Rail Executive should be evaluated against these within 12-18 months.*

Organisational Design and Governance

4.13 The Review team has identified a number of key principles for organisational design of the Rail Executive:

- Franchise award and management should be brought together in an Office of Rail Passenger Services to provide a single hub on passenger franchises.

- Alongside this approach to passenger services, Rail Executive organisational design should also provide a focal point for network infrastructure issues.
- An “integrated delivery” function should be established to ensure portfolio management of interconnected franchise and network projects and effective decision-making in relation to potentially competing priorities across the Rail Investment Strategy portfolio.
- Following the decision of the ONS that Network Rail will be classified as a central government body in the public sector from September 2014, Rail Executive should include a new Network Rail sponsorship team. This will lead on developing future arrangements for Network Rail including putting in place an effective regulatory and control framework.
- We have also identified the need to maintain the focus of longer term strategic thinking, enabling development and articulation of industry-wide strategy.
- More broadly, the structure as a whole needs to have the right balance between functions and the promotion of corporate behaviour.

4.14 Further work is needed with management teams to develop the detailed organisational design which implements these principles. In particular, further organisational design work should consider how best to ensure effective delivery of major rolling stock and infrastructure programme benefits through franchising as they move from the infrastructure and systems build phase into operations over time. Effective decision-making in relation to potentially competing priorities across the Rail Investment Strategy portfolio will also need to be explored. The location of franchise-led rolling stock procurement, rolling stock management and fares and ticketing implementation should also be considered as part of this more detailed design work.

Recommendation 5: *More detailed organisational design work should be undertaken as soon as possible to develop the detailed structure and roles of Rail Executive, including the scope of the Office of Rail Passenger Services. This should draw on the analysis undertaken in the Review and should be completed by the end of April 2014 at the latest.*

Recommendation 6: *An external recruitment campaign should be launched as soon as possible, and by February at the latest, to recruit a Managing Director to lead the Office of Rail Passenger Services (ORPS). Clear responsibilities and accountabilities for this role need to be agreed in good time for this recruitment. Once appointed the Managing Director should review the detailed structure of the ORPS and agree this with the Director General of Rail Executive. ORPS should have its own board with non executive members. Whilst this might build on the existing Franchising Advisory Panel it may also include wider membership, including passenger representation.*

Integration

- 4.15** The Review identified the importance of integration and managing interdependencies across projects and contracts. Rail Group has already given thought to developing portfolio management and integrated management of the Rail Investment strategy. The Review endorses this.

Recommendation 7: *Rail Executive should create a new Integrated Delivery team, a portfolio office that identifies interdependencies between investment projects and services and works with other teams in Rail Executive including ORPS. Additionally, it should work with Network Rail and RDG to ensure a joined up approach that manages interdependency and promotes efficiency.*

Strategy

- 4.16** In interviews with stakeholders it was noted that there is no single forum that brings together all rail stakeholders (Government, regulator, network providers, rolling stock companies, operating companies, Passenger Executives, Scotland, Wales, passenger groups and think tanks).

Recommendation 8: *Rail Executive should consider creating a new stakeholder group which meets up to three times a year, bringing together all rail stakeholders to discuss key strategic issues.*

Governance

Recommendation 9: *DfT should define a framework for the Rail Executive and ORPS, as soon as possible, setting clear accountabilities, responsibilities and governance and including appropriate board structure. DfT will need to conclude this before commencing recruitment of senior roles. The outcome of this should be robust governance that provides appropriate challenge and assurance but also reinforces individual accountability and responsibility. The overall structure should be simpler and clearer than current arrangements. Governance arrangements should make a clear distinction between how assurance is provided and where formal decisions are taken. This should be finalised by the end of April 2014 at the latest.*

Capability Plans: Recruitment, Reward and Career Development

4.17 The Review has identified that in order to strengthen commercial skills, Rail Executive will need to: (i) develop a pipeline of “home grown” talent and, (ii) tackle barriers to external recruitment. “Rail commercial” skills are a small and specialised niche in the labour market, attracting a market premium. In terms of “home grown” talent, commercial apprenticeships and graduate development programmes will provide future capability for DfT and, if developed in conjunction with industry and professional services, can also help grow the overall pool of talent in the labour market.

Recommendation 10: *Rail Executive should develop and resource strategies for recruitment, reward and career development. Career development and recruitment plans should not only cover commercial skills but also policy and analytical skills and other technical skills specific to rail.*

Recommendation 11: *Rail Executive and DfT Human Resources should work with the rail industry and professional services to create a new generation of rail and integrated transport professionals, to grow talent and to increase diversity in the sector. This might include a graduate development programme and an apprenticeship scheme, focused on commercial and project management skills.*

Recommendation 12: *Rail Executive should promote interchange with the rail industry and Regulator, working with the Rail Delivery Group. This could include short and longer term secondments and joint development programmes. It should review barriers to interchange and identify ways of overcoming these.*

Reward and Recruitment

4.18 The Review has identified that DfT’s current recruitment offer for some specific commercial skills is not competitive in the market. Other government departments have succeeded in developing models for recruiting commercial skills. The Rail Executive should develop a reward and recruitment strategy for future recruitment of specific commercial skills associated with contract negotiation, contract management and major projects. This must be focused on recruitment to those specific roles where rates are uncompetitive, and needs to guard against wider pay inflation. This needs to cover more than just franchise negotiation; it also needs to cover some key roles on contract management on franchises and major projects as well as the rail knowledge needed to identify interdependencies across rail projects and services.

4.19 The Review has identified that attracting and recruiting people with the appropriate skills, knowledge and experience does not depend on competitive salaries alone. In addition, Rail Executive needs to develop an attractive identity to support its offer as a career proposition. This includes developing and communicating a strong brand and culture, with clear brand values which are visibly demonstrated by action, communicating successes, developing streamlined governance with clear role accountabilities, and career development. Senior appointments should also reinforce Rail Executive as an attractive career destination for others.

Recommendation 13: *The Rail Executive should develop appropriate pay arrangements by January 2014 to ensure a competitive offer for future recruitment of specific commercial skills (notably contract negotiation, contract management and major projects). Alongside this, all aspects of the wider change programme must reinforce the attractiveness of Rail Executive to potential recruits and should link into the recruitment strategy.*

Wider understanding of passengers and markets

4.20 Stakeholders noted the need to ensure that rail policy is not dominated by supply side arguments, often from the perspective of physical assets and engineering solutions. There has been an effort in DfT Rail group to better reflect the passenger perspective. There has also been development of understanding of TOC finances and the economics of passenger services. This could be embedded further.

Recommendation 14: *Rail Executive should consider how best to ensure a wide understanding of passenger behaviour and trends and rail service costs and economics across its teams.*

Behaviours and ways of working

4.21 DfT has people who are very highly regarded in the rail industry and who have strong networks across the sector. Industry praised the Director General of Rail and the Franchising Director in particular for their visibility across the industry and strengthening dialogue with the rail sector. The organisation should build on this to become more externally focused and develop a culture of reaching out to stakeholders and industry. Deloitte have recommended that Rail Executive should drive and embed new behaviours focused on: collaboration, confidence in decision making and accountability, and a focus on the bigger picture and outward focus. This will be an important element of building the Rail Executive brand.

Recommendation 15: *Rail Executive should develop a consistent approach – values and way of working – to guide its interaction with the rail industry and other stakeholders and the way teams within Rail Executive work with each other and with DfT more widely. These should build on the DfT values of “ambitious, outward facing, and one team”.*

GLOSSARY

COSOP – Cabinet Office Statement of Practice; the policy that applies to staff that are transferred to the private sector from the Civil Service or transferred within the Civil Service.

DfT – Department for Transport

FAP – Franchise Advisory Panel

HA – Highways Agency

HS2 – High Speed 2

IEP – Intercity Express Programme; a project to replace trains on the East Coast and Great Western Main Lines, along with associated infrastructure improvements.

ITT – Invitation to Tender

NDPB – Non-Departmental Public Body

OPRAF – Office of Passenger Rail Franchising

ORR – Office of Rail Regulation

RDG – Rail Delivery Group; a group formed in response to the McNulty report, bringing together the owners of the TOCs, freight operating companies and Network Rail to focus on industry-wide issues.

RIS – Rail Investment Strategy

ROSCO – Rolling Stock Company

SPRS – Support for Passenger Rail Services; the name of the line in the Department for Transport's budget where rail franchise subsidy and premiums are accounted for.

SRA – Strategic Rail Authority

TfL – Transport for London

TOC – Train Operating Company

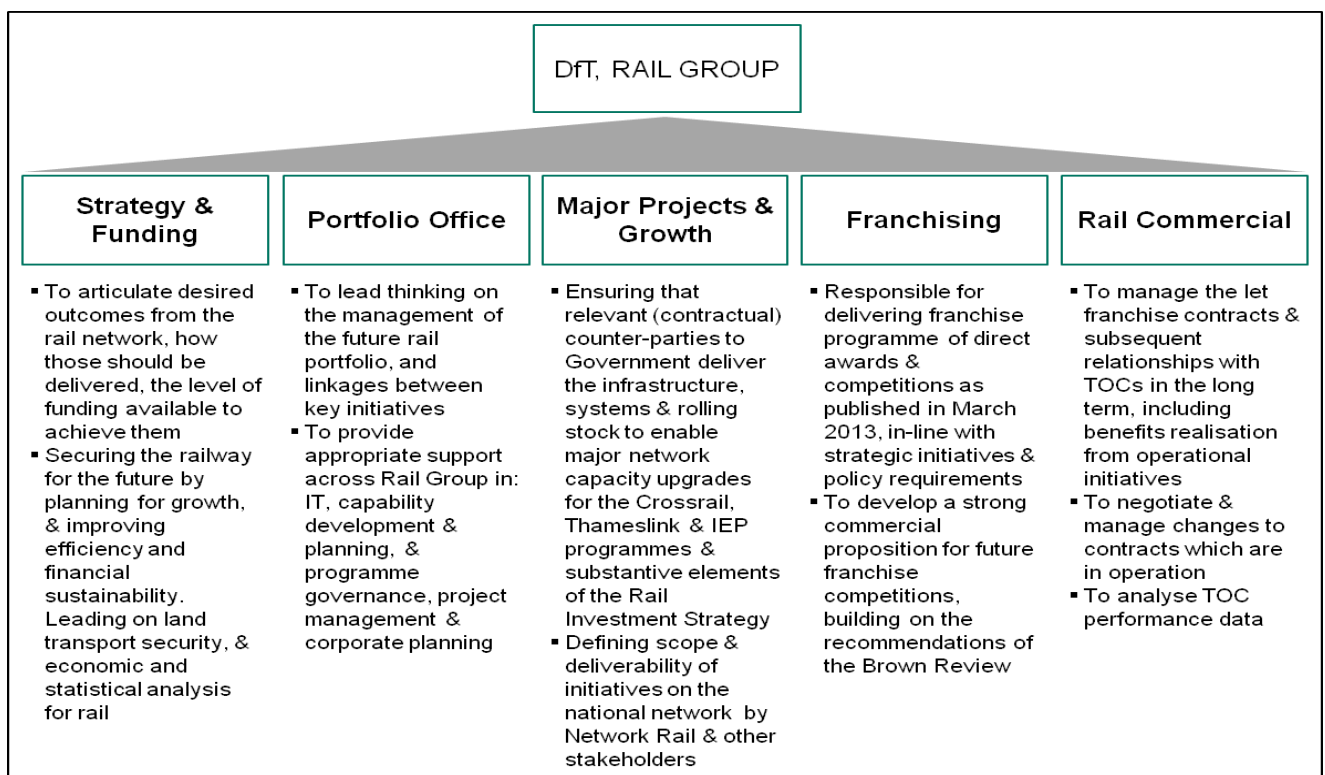
Appendix A

UK Rail and DfT Rail Group

The current DfT rail teams, the UK Rail system as a whole, and the interaction between these, provide the starting point and the context for this Rail Organisation Review. The following is an attempt to summarise these.

Rail Group is structured as follows, under the leadership of a Director General in DfT and reporting to DfT Ministers.

Figure 3



Rail Group's role is to set the Government's strategy and high level outputs for rail transport, agree investments, and negotiate and manage contracts to deliver these. In practice this is highly complex: with different levels of devolution to Scotland, Wales, London and some passenger transport executives; passenger services run by franchises and the network run by Network Rail (with a mix of

responsibility for stations); rolling stock leased by rolling stock companies (ROSCOs); regulation by DfT (eg regulated fares) and the Office of Rail Regulator (e.g. network access charges); and separate freight operators. The Rail Industry is an interconnected ecosystem: linking Network Rail, franchise operators, rolling stock companies, manufacturers and the wider supply chain. In turn it links to a wider transport infrastructure, including ports, airports, roads and tubes. There is, moreover, significant political and media interest in rail (in comparison to, say, road transport).³

Within this complex environment DfT has the following roles:

- It sets strategy and agrees medium term investment plans (the Rail Investment Strategy, including the High Level Output Specification plus funding allocation or “Statement of Funds Available”) to ensure the railway industry has clear and timely information about the strategic outputs that Government wants the railway to deliver for the public funds they are prepared to make available. ORR then determines the outputs that Network Rail must deliver to achieve these, the cost of delivering them in the most efficient way, and the implications for the charges payable by train operators to Network Rail for using the railway network. DfT’s strategic decisions also include the setting of policy on fares and ticketing.
- DfT then sponsors delivery of projects agreed under the Rail Investment Strategy (RIS). This includes major infrastructure projects (eg Crossrail, Thameslink, the “electric spine” for freight) as well as network upgrades (e.g. new Reading Station) and station and signalling improvements. Some aspects of the RIS are also delivered through franchises or have knock-on effects on franchises (e.g. network improvements leading to timetabling changes). This includes TOC led rolling stock procurement. DfT guarantees the life time use of rolling stock, which involves DfT in rolling stock procurement and management with the ROSCOs (who own the rolling stock) and franchisees (who lease the rolling stock). This has also included involvement in procurement of IEP rolling stock, private sector finance for Thameslink and IEP rolling stock, and managing the “cascade” of rolling stock when new stock arrives and older stock is circulated to other services.
- DfT awards and negotiates the contracts for provision of passenger services (franchises), through competitive tender. Negotiation includes agreement on levels of premium paid by the franchisee or subsidy paid by government for provision of services. DfT then manages the contract for the lifetime of the franchise, during the course of which there can be amendments to the original agreement and contract performance is monitored and enforced. The specification of franchise contract competitions must take account of

³ It is worth noting that although complicated, this approach has been successful in growing passenger numbers (almost doubled since 1992) and in comparison with other European countries Britain now has the second safest network and passengers are more satisfied with the frequency, speed and punctuality of their services than in many other countries.

the RIS and major projects on the relevant parts of the network and franchise management increasingly involves delivery of specific elements of the RIS.

In summary, DfT: sets strategy, specifies outputs and provides funding; sponsors the resultant investment projects delivered through the network and through franchise services; and procures and manages passenger services through franchises. Delivery of services and projects then feeds back into future strategy. In practice this creates a high degree of inter-dependencies between the different activities and financial control and efficient and effective delivery place a premium upon joined-up or integrated working between the different teams.

Appendix B

Review Contributors

The review team met the organisations and individuals listed below, in many cases as a result of a wider invitation to stakeholders.

Abellio Group
Angel Trains
Arriva
Association of Train Operating Companies (ATOC)
Campaign for Better Transport
Centro
Crossrail Ltd
Directly Operated Railways
First Group
Franchising Advisory Panel members
Go Ahead Group
HS1 Ltd
HS2 Ltd
National Express Group
Network Rail
Office of Rail Regulation
Passenger Focus
Rail Delivery Group (RDG)
Rail Freight Group
Rail Industry Association
Richard Brown
Shareholder Executive
South West Trains
Transport for London
Transport Scotland
Transport Wales
Virgin Group

Appendix C

Rail Review Steering Group members.

Ed Smith – Chair, Non-Executive Director, DfT

Adam Jackson – Rail Review Director

Clare Moriarty – Director General Rail Group, DfT

Jeremy Pocklington – Director, Enterprise and Growth Unit, HM Treasury

Richard Brown – Non-Executive Director, DfT

Alison Rumsey – Human Resources Director, DfT

Natasha Robinson – Deputy Director Strategic Finance and Planning, DfT

Richard Parkes – Chief Executive, Maritime and Coastguard Agency

Steve Gooding – Director General, Roads, Local and Traffic, DfT

Anthony Odgers – Director, Portfolio Office, Shareholder Executive

Appendix D

DfT Executive Committee members.

Philip Rutnam – Permanent Secretary, DfT

Clare Moriarty – Director General, Rail, DfT

Lucy Chadwick – Director General, International, Security and Environment, DfT

Steve Gooding – Director General, Roads, Local and Traffic, DfT

Jonathan Moor – Director General, Resources and Strategy Group, DfT

David Prout – Director General, High Speed Rail, DfT

Vickie Sheriff – Director of Group Communications, DfT

Alison Rumsey – Human Resources Director, DfT

Nick Olley – General Counsel, DfT

Appendix E

Franchising Advisory Panel members

Richard Brown – Non-Executive Director, DfT

Martin Buck – Commercial Director, Crossrail

Michael Holden – Chief Executive, Directly Operated Railways

Nicola Shaw – Chief Executive, HS1

Stephen Paine – Managing Director, UBS

Annex F

Definitions of NDPBs and Executive Agencies.

The Cabinet Office's document "Categories of Public Bodies: A guide for Departments" provides the following definitions for Executive Agencies and NDPBs.⁴

Executive Agencies

Executive agencies are part of a Government department and are defined business units headed up by a chief executive (CEO) who is often supported by a management board.

Executive agencies carry out executive functions, with policy set by ministers. They operate with a degree of autonomy from ministers and the main department.

Ministers do not concern themselves with the day-to-day running of executive agencies but are directly accountable to Parliament and the public for the overall performance of the agencies and for their continued existence.

They do not have a separate legal personality, are staffed by civil servants and typically deliver a service.

They are included within the "parent" department's estimate. They publish their own annual report and accounts. Accounts are consolidated into those of the parent department.

Executive NDPBs

Executive NDPBs are usually established in bespoke legislation or under the Companies Act. A small number of NDPBs have been established by Royal Charter. They are (with a couple of exceptions) not part of the Crown but have their own legal personality.

⁴https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/80075/Categories_of_public_bodies_De c12.pdf

They carry out a wide range of administrative, commercial, executive and regulatory or technical functions which are considered to be better delivered at arm's length from ministers.

They have varying degrees of operational autonomy and independence from ministers and the sponsoring department – but all work within a strategic framework set by ministers. They are directly accountable to ministers who, in turn, are ultimately accountable to Parliament and the public for the performance of their NDPBs and their continued existence.

They are headed by boards (or occasionally office-holders) comprising of an independent, non-executive chair and a majority of non-executive members. Board members are usually appointed by ministers or by the Queen on the advice of ministers. Generally, the board will appoint a CEO with day-to-day responsibility for managing the body. The CEO and staff are not usually civil servants.

In most cases the CEO would be designated as the Accounting Officer for the NDPB and the sponsor department's permanent secretary, as Principal Accounting Officer, would usually be involved in the designation.

They do not have their own estimate; they are instead funded within the estimate of their sponsor department. This is usually delivered through a grant or grant-in-aid, although many executive NDPBs also generate additional income through other sources. Some are funded by levies on particular sectors and receive no central funding.

They are accountable for their own budget and publish their own annual report and accounts. Each will have a sponsor department with whose accounts the NDPB's will be consolidated (as they are considered as central government for ONS purposes).

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