

Mayoral Combined Authority Board

Tuesday, 09 January 2024

Supertram Business Plan

Is the paper exempt from the press and public?	No
Reason why exempt:	Not applicable
Purpose of this report:	Monitoring/Assurance
Is this a Key Decision?	No
Has it been included on the Forward Plan of Key Decisions?	Not a Key Decision

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Executive Summary

From 22 March 2024, South Yorkshire Supertram will be operated as an arm's length wholly-owned subsidiary of the MCA, registered as South Yorkshire Future Trams Limited (SYFTL).

To support and oversee the performance of SYFTL, a Business Plan has been developed for 2024/25. SYFTL's operating performance against this plan will be continuously monitored. The Business Plan will be updated annually, in line with the MCA budget setting cycle, and approved by the MCA Board.

This paper is seeking the MCA's endorsement of the Supertram Business Plan 2024/25, which is attached as Appendix A.

What does this mean for businesses, people and places in South Yorkshire?

The Supertram Business Plan means that the Supertram operations can be overseen effectively and dynamically by the MCA, with a view to confirming regulatory compliance and

continuous improvements in customer, people, operational and financial performance to assure a safe and sustainable tram service in South Yorkshire.

Recommendations

That MCA Board:

1. **Endorses** the South Yorkshire Supertram Business Plan, which is attached as Appendix A
2. **Notes** that the South Yorkshire Supertram Business Plan has informed the MCA's 2024/25 budget allocation to subsidise the first year of SYFTL's operation.
3. **Notes** that the Business Plan will be reviewed annually by the SYFTL Board in line with the MCA's budget planning cycle and will be approved by the MCA Board.

Consideration by any other Board, Committee, Assurance or Advisory Panel

None

1. Background

- 1.1 In 1997, the MCA (SYPTTE at the time), let a concession agreement for the operation of South Yorkshire's Supertram Limited to Stagecoach Holding plc for a term of around 27 years.

The MCA decided that upon expiry of Stagecoach's concession agreement, South Yorkshire's Supertram would be operated by the MCA under an arm's length, wholly-owned subsidiary.

To inform this decision, significant background work was undertaken, including consideration of the following:

- Market testing to assess the interest of private sector operators;
- Legal evaluation of all operating model options, including whether the existing agreement could be extended;
- Financial risk transfer; the MCA's limited access to operator data under the existing concession agreement to inform a robust procurement specification would result in bidders pricing in significant risk;
- Financial risk transfer: the pending significant tram asset renewal programme has demand and operational implications and with the detail of the works programme still evolving, the impacts on a private sector operator would have to contractually be negotiated via a change mechanism. Going through the legal and financial negotiations of multiple contractual changes would be costly, would leave the MCA exposed to financial risks and would distract from core delivery;
- Financial risk transfer: a private sector operator post-Covid would look to transfer all revenue risk to the MCA and charge a margin on the cost of operation.

1.2 To facilitate the transfer of the tram operations from private sector operation to an arm's length wholly-owned subsidiary, the MCA has established a mobilisation team and developed a programme of mobilisation activities with the core aims of:

- Achieving a seamless transition on 22 March 2024
- Setting the future operating company up for success

The mobilisation activities to transition the Supertram operations to an arm's length wholly owned subsidiary, incorporated as South Yorkshire Future Trams Limited ("SYFTL"), are progressing at pace.

1.3 To set up the company for success, a Business Plan has been developed for year 1 (2024/25). The focus of this Business Plan is on immediate initiatives and interventions needed during the first 100 days and year one to stabilise the business and to prepare a solid base for future efficiency gains and growth. The detail of the plans for years 2, 3, 4, 5 and beyond, will be captured through the annual Business Plan update process:

Transition Plan, c.100 days: 'Build Trust' – Embed new governance, trust, take regulatory control

Business Stabilisation Plan, Year 1: 'Steady & Ready' – Develop the base for growth, resilience and efficiency gains

Longer Term Strategic Horizon, Year 5: 'Modernise & Improve' – Service improvements to the tram system in South Yorkshire

1.4 The Supertram Business Plan 2024/25 is included in Appendix A. This will be supported by detailed operational plans, which are under development through the mobilisation work that continues to progress over the next 4 months. The Business Plan will include specific operational deliverables such as KPI baselines and targets.

The Supertram Business Plan 2024/25 is an important part of the governance of SYFTL, with the soon-to-be-established Supertram Board continuously monitoring SYFTL's performance against the Plan and overseeing the annual update of the Business Plan in line with the MCA's budget setting cycle for approval by the MCA Board.

The Business Plan is the mechanism to support continuous improvements and to efficiently handle emerging changes, for example those arising from renewal works on the tram assets. The Business Plan will work alongside an Operating Agreement between the MCA and SYFTL which is being drafted by the MCA's legal advisors. The Operating Agreement stipulates underlying service specifications such as the timetable.

2. Key Issues

2.1 As the Supertram operations will be owned and financially supported by the MCA via an arm's length company with effect from 22 March 2024, governance solely via a legal Operating Agreement is ineffective, as penalty regimes for below-target performance would be effectively imposed onto the MCA itself.

In addition, a programme of asset renewal, subject to Department for Transport approval, due to start in the early years following the transfer of operations, means

that a legal Operating Agreement is likely to require continuous variations. This would generate legal costs and create the risk of unnecessary distraction from achieving good operational performance as a result of continuous legal negotiations between the MCA and the operating organisation SYFTL.

Mobilisation activities to transfer the tram operations to the MCA's wholly-owned subsidiary SYFTL are ongoing and will not be fully concluded until March 2024. During this period, further data is to be obtained (for example, employee details for TUPE which the current operating company Stagecoach are not legally required to provide at this stage).

In addition, new systems are being introduced (e.g. Finance, HR and IT systems) to replace those support systems no longer provided by owning group Stagecoach.

As a result, Key Performance Indicator baselines and targets have not yet been fully detailed. Data newly accessible to the MCA will produce detailed operational plan to support the operational implementation of the Business Plan and facilitate performance monitoring by the SYFTL Board.

3. Options Considered and Recommended Proposal

3.1 Option 1

The MCA Board approves the recommendations in this paper

3.2 Option 1 Risks and Mitigations

As set out above, there are some details to be confirmed in the Business Plan that are subject to the completion of the mobilisation phase..

Although confidence in the financial projection for 2024/25 is high, the ongoing work could identify the need for some refinement of the financial projections for 2024/25. Financial and other risks in the mobilisation programme are documented through the programme's risk register and are escalated to the MCA's risk register as required.

3.3 Option 2

The MCA Board does not approve the recommendations in this paper.

3.4 Option 2 Risks and Mitigations

This would delay the development and confirmation of the MCA governance and oversight arrangements over the new operating company SYFTL through the Business Plan process. This would mean that the opportunity to agree the Business Plan oversight process and delivery prior to the transfer date of 22 March 2024 would be deferred until after the start of the operations under the MCA's arm's length wholly-owned subsidiary.

This would lead to a lack of clarity on direction for SYFTL, the Supertram Board and Supertram's employees, which in turn could result in operational and financial inefficiencies owing to uncertainties and potential unnecessary underperformance of the operating company as a result of a delayed period of embedding new governance arrangements, systems and processes during a critical period of the transition.

4. Consultation on Proposal

4.1 Consultation has been undertaken with key stakeholders within SYMCA and with the senior leadership of the current Supertram operating company.

5. Timetable and Accountability for Implementing this Decision

5.1 The Executive Director of Transport (Acting) alongside SYMCA's Chief Executive as the Transport Portfolio officer lead are accountable for implementing this decision, ultimately alongside the directors of the Supertram Board when formally established.

The timeline for implementing this decision is prior to the operations transfer date of 22 March 2024.

6. Financial and Procurement Implications and Advice

6.1 The financial implications are clearly set out in the Business Plan in Appendix A of this report. The Business Plan report sets out the 2024/25 operating budget for SYFTL and the revenue support requirements alongside the projected requirements for the years 2025/26 to 2029/30.

As noted in this cover paper, the budget requirements will be monitored continuously by the Supertram Board and reset on an annual basis through the Business Plan review process overseen by the Supertram Board for approval in line with the MCA's annual budget approval cycle.

6.2 Procurement of services, systems and goods to support the transfer of the tram operations are procured in accordance with the Utilities procurement regulations.

7. Legal Implications and Advice

7.1 SYMCA will be the owner of the tram operations through an arm's length wholly-owned subsidiary from 22 March 2024. SYMCA is advised by DLA Piper to write the Operating Agreement and on the governance arrangements that will oversee the new operating company.

8. Human Resources Implications and Advice

8.1 HR implications are captured within the Business Plan and through the mobilisation programme, which oversees HR related implications such as support systems, changes in resource requirements, TUPE and pension arrangements.

9. Equality and Diversity Implications and Advice

9.1 N/A

10. Climate Change Implications and Advice

10.1 N/A

11. Information and Communication Technology Implications and Advice

11.1 The transfer of the tram operations to an arm's length wholly-owned MCA subsidiary has significant IT implications.

Significant progress is made in the mobilisation of ICT activities to achieve a successful transition on day one. However, it has to be recognised that the scale of ICT changes needed, with upgrades to systems and processes, means that these activities will be ongoing beyond day one and into the first year of operations. This will be supported by appropriate budget provisions. with associated subsidy provisions. This includes implementing improvements that ensures SYFTL are cyber secure.

12. Communications and Marketing Implications and Advice

12.1 Communications and marketing plans are under development as part of the mobilisation programme and are overseen by dedicated communications and marketing project leads.

List of Appendices Included:

A Supertram Business Plan 2024/25

Background Papers

N/A