

# *Annual Governance Statement*

Half Year 2021/22



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Section 1

***Introduction and  
Scope and Purpose of the AGS***



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## An introduction from Nick Donovan

Good governance is central to how we do things at Northern. Although it is not a mandatory requirement for Northern, in the spirit of transparency, the AGS has been prepared to provide assurance to our stakeholders that we are achieving good governance.

Effectively, the AGS shows that we are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner.

Good governance supports our vision to **Make a positive impact for the North, in all we do and for all we serve**. We put our **Customers at the Heart** of everything we do, aim for **Sustainable Growth**, develop **Valued People** and strive for **Operational Excellence**.



**Nick Donovan**  
Managing Director



## Scope and Purpose of the AGS

An Annual Governance Statement (AGS) is a way of reporting on the arrangements in place for ensuring that business is conducted in accordance with the law, regulations and proper practices and that money is safely and properly accounted for. In essence, it is an accountability statement which sets out how well the organisation has delivered good governance over the course of the previous year and details current practices and areas for development.

The AGS is underpinned by a Governance Framework which sets out seven principles of good governance, set out in Section Four, and how these are applied in Northern.

Senior Management and Board Members use different sources of information to validate and challenge the effectiveness of Northern's corporate governance. This information is used to identify any potential gaps in assurance and determine the level of reliance that can be placed on it. Section Seven sets out the three lines of defence model in effective risk management and control and how this is used by Northern to capture the different sources of information relied upon by Senior Management and the Board.

The AGS process takes information from across the three line to assess the governance arrangements in place. How we have prepared the AGS is set out in Section Three.

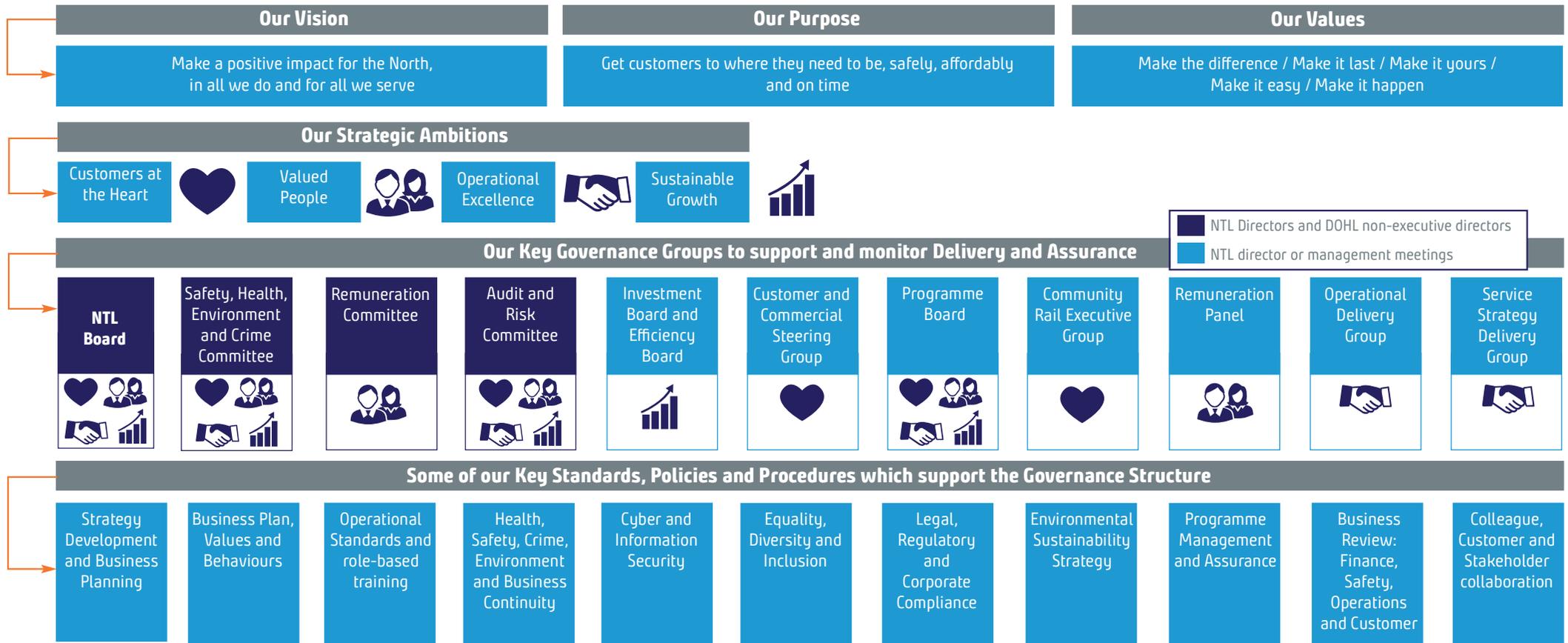
## Section 2

# ***Vision, Purpose, Values and Business Priorities***



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## Section 2 - Vision, Purpose, Values and Business Priorities



 NTL Directors and DOHL non-executive directors  
 NTL director or management meetings

## Section 3

# *How has the AGS been prepared?*



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## Section 3 - How has the AGS been prepared?

In preparing the AGS, some of the key steps that the Internal Audit Team have undertaken are:

Reviewed the policies and procedures in place across Northern.

Assessed the Governance structures in place in relation to Governance Boards and Committees.



Taken the knowledge and understanding gained from carrying out recent Internal audit and assurance reviews, as well as those undertaken by other assurance teams across the business, to identify governance related measures in place.



Collaborated with appropriate colleagues and Subject Matter Experts across the business to ascertain the current processes as well as any areas for improvement.



Section 4

***Seven Core Principles  
of the AGS***



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## Section 4 - Seven Core Principles of the AGS



Our SEVEN strategic principles of governance

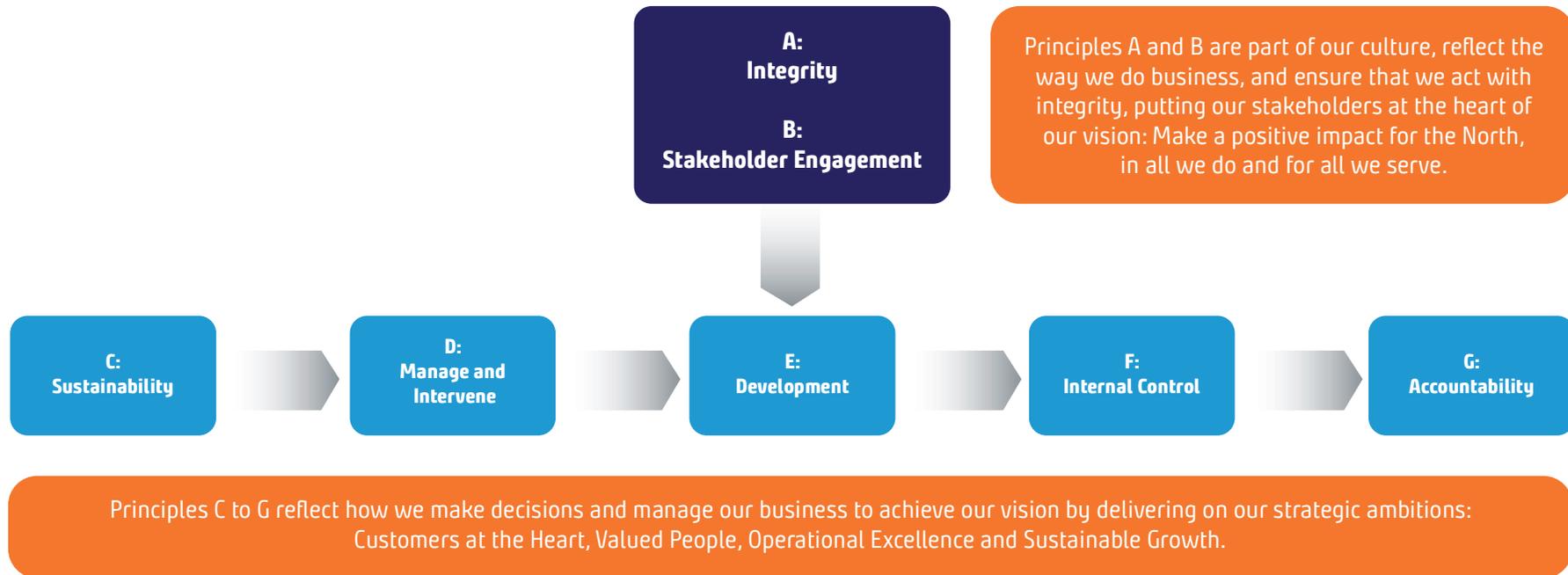
## Section 5

# *How the Core Principles apply to Northern*



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## Section 5 - Application of the Core Principles



The following seven slides set out how we demonstrate these seven principles across our business.

## Section 5 - Principle A: Integrity

### What do we have in place already and where are we improving?

	What we do	What we are enhancing	
<p><b>Principle A: Integrity</b></p> <p>Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law</p>	<p><b>Our Vision, values and business plan</b> have been shared with all colleagues, to communicate what we want to achieve and how we want to achieve it together:</p> <p><b>"Make a positive impact for the North, in all we do and for all we serve."</b></p>	<p>Our Business Plan sets out how we put our <b>Customers at the Heart</b> of everything we do, aim for <b>Sustainable Growth</b>, develop <b>Valued People</b> and strive for <b>Operational Excellence</b>.</p> <p>We embed our vision, values and objectives through <b>performance management</b> processes and team communications.</p>	
	<p>We have an internal <b>Legal Counsel</b> and use <b>external legal expertise</b> to support us in delivering our legal obligations.</p> <p>Our experienced <b>Employee Relations</b> team ensure that we comply with employment law, union agreements and terms and conditions.</p> <p>We have <b>Compliance Subject Matter Experts</b> across the business who ensure that we meet our contractual and regulatory obligations.</p>	<p>We have a range of <b>policies and processes</b> to ensure we behave appropriately, including:</p> <ul style="list-style-type: none"> <li>• Corporate compliance including Declaration of Interests, Speak Up (Whistleblowing), Anti-Bribery, Gifts and Hospitality, Freedom of Information and our Modern Slavery Statement.</li> <li>• Data and Technology policies such as Data Protection, Cyber and Information Security.</li> <li>• Safety, Health, Environment and Operational Standards policies.</li> <li>• Accessibility awareness training and policies covering disabilities, autism and dementia awareness.</li> </ul>	<p>We are developing a single overarching <b>Compliance Framework</b> to bring the work of our subject matter experts together. We have a <b>training and communications</b> plan to maintain awareness of core policies and processes.</p> <p>We are developing a single <b>How We Do Things</b> document which brings together the existing policies and processes to make it easier for our people to find what they need in one place.</p>
	<p>We have an <b>Equality, Diversity and Inclusion strategy</b>, endorsed by our Managing Director and Executive Team, which sets out how we aim to ensure fairness, respect, equality, diversity, inclusion and engagement in the workplace.</p> <p>This strategy is supported by the following policies: Equality, Diversity and Inclusion, Menopause, Agile Working, and Gender Transition.</p>	<p><b>Role based training</b> is delivered through face-to-face classroom learning, virtual sessions, online e-learning and practical on the job coaching to ensure everyone understands the standards and rules which apply to them.</p>	<p>We will continue to drive towards equality, diversity and inclusion to better <b>reflect the communities we serve</b>.</p>

## Section 5 - Principle B: Stakeholder Engagement

### What do we have in place already and where are we improving?

	What we do		What we are enhancing
	<p>We <b>share important information</b> with all our colleagues, from our Business Plan and performance, to regular updates on Covid. We use a variety of digital and traditional <b>Internal Communications</b> channels to keep our remote workforce informed and connected. A weekly message from our Managing Director <b>News from Nick</b> sets out how we're doing and our areas of focus as a business.</p>	<p>We engage with our leaders on our business plan and key priorities through monthly virtual <b>Live Business Updates; Inside Track</b>, a weekly summary of what leaders need to know and do and bi-annual leadership conferences.</p>	<p>We measure <b>employee engagement</b> through bi-annual listening post surveys and build local action plans from the responses. We have a variety of colleague engagement groups in place to involve colleagues in key decisions such as a <b>communications network, equality diversity and inclusivity group</b> and <b>wellbeing champions</b>.</p>
<p><b>Principle B: Stakeholder Engagement</b></p> <p>Ensuring openness and comprehensive stakeholder engagement</p>	<p>We are held to account by Rail North Partnership on behalf of Transport for the North and the Department for Transport against delivery of our <b>Service Agreement</b>.</p>	<p>We work in <b>Partnership with Network Rail</b> to deliver jointly for our customers. We work closely with our <b>recognised Trade Unions</b> to discuss our ambitions, business plan and any areas of concern.</p>	<p>We are working with Network Rail to improve the <b>accessibility</b> of some of our older stations. We are developing a Virtual Reality Simulation to allow passengers to explore their journey and the support they require in advance, from the comfort of their own home.</p> <p>We will continue to work <b>cross industry</b> to deliver benefits for our customers.</p>
	<p>Our <b>customer experience strategy</b> is underpinned and driven by our customers. We have a network of 7000 customers, self titled "<b>Northerners</b>" who help to provide critical customer insight.</p>	<p>Our <b>Customer Experience Centre</b> provides customer service and responds to complaints. We have a <b>social media team</b> to connect with and provide real time responses to customer queries and feedback.</p>	<p>We are delivering <b>disability awareness training</b> to bring the needs of all our customers to life for all of our colleagues.</p>
	<p>Over 300 of our stations are supported by local <b>station adoption groups</b> and we engage with over 20 <b>Community Rail Partnerships</b> helping to further our links with local communities. This activity is governed by our <b>Community Rail Executive Group</b> which includes external representatives.</p>	<p>We work closely with <b>stakeholders</b> through regular engagement sessions offering an opportunity to see our plans and priorities. We also use surveys to understand <b>stakeholder sentiment</b> and gather views on how we can improve on our plans for the future.</p>	<p>We provide stakeholders with a <b>single point of contact</b> and use stakeholder information in our business decision making.</p> <p>We continually look to use <b>technology</b> to provide our stakeholders with more <b>transparency</b>.</p>

## Section 5 - Principle C: Sustainability

### What do we have in place already and where are we improving?

	What we do		What we are enhancing
<p><b>Principle C: Sustainability</b></p> <p>Defining outcomes in terms of sustainable economic, social and environmental benefit</p>	<p><b>Sustainable growth</b> is a key strategic ambition developed through our strategy and business planning cycle.</p> <p>We are part of the Future Timetable Services Group aiming to develop long term <b>sustainable passenger rail services</b>.</p> <p>We use data insights to understand and drive growth in <b>customer demand</b> and <b>route profitability</b>. We are focused on becoming more <b>cost efficient, investing to drive growth</b>, and reducing our <b>taxpayer subsidy</b>.</p>	<p>We work with local and national partners and stakeholders to promote “<b>Think UK Rail, Act Northern, Deliver Local</b>” to stimulate demand.</p> <p>We aim to support the Government’s commitment to <b>Levelling up</b>.</p> <p>We want to <b>generate value</b> that supports the long-term sustainability of the Northern business and makes a positive impact for the North.</p>	<p>We are developing <b>social value measures</b> to demonstrate the wider socio-economic benefit of Northern to the communities we serve, for example, by creating jobs or by connecting people and communities to their place or work, families or social network.</p>
	<p>We use <b>Energy and Environment</b> and <b>Sustainable Development</b> strategies to outline our sustainable intent.</p> <p>These strategies are supported by Business Plan initiatives which aim to deliver improvements in sustainability.</p>	<p>Our <b>stations as a place</b> initiative aims to use station buildings as a sustainable community hub.</p> <p>Our <b>fuel efficiency</b> initiative aims to track fuel use across our diesel fleet to identify effective fuel saving strategies.</p>	<p>We look for opportunities to use <b>innovation in technologies</b> to reduce our carbon emissions.</p> <p>We are developing our <b>Journey to Net Zero</b> which sets out how we aim to support the UK Government in meeting its climate goals.</p>
	<p>Our operational excellence, engineering depots and future fleet plans include <b>quality, efficiency, sustainability and value as core themes</b>.</p>	<p>We validate our plans and processes against external expertise and standards, including <b>ISO accreditations</b> in energy, environment and waste management.</p>	<p>We aim to continue to develop our <b>Environmental, Social and Corporate Governance reporting</b>.</p>

## Section 5 - Principle D: Manage and Intervene

### What do we have in place already and where are we improving?

	What we do		What we are enhancing
 <p><b>Principle D: Manage and Intervene</b></p> <p>Determining the interventions necessary to optimise the achievement of the intended outcomes</p>	<p>Our <b>Business Planning Steering Group</b> provides thought leadership, review and coordination of business planning and long-term strategy development.</p> <p>This is articulated in our annual <b>Business Plan</b> which is delivered through a range of <b>initiatives</b> with defined success measures.</p>	<p>Objective challenge to our strategic goals and annual business plan is provided by the NTL Board which includes Non-Executive Directors from our parent company, DOHL.</p>	<p>We are developing our <b>Business Insights</b> capability to improve the quality of data and information used to make decisions and to monitor and manage performance more efficiently.</p>
	<p>Management and intervention is executed through a variety of internal challenge and review process, including:</p> <ul style="list-style-type: none"> <li>• <b>Investment, Efficiency and Programme Boards</b></li> <li>• <b>Safety, Health, Environment and Crime (SHEC)</b> reviews</li> <li>• <b>Customer and Commercial</b> Steering Group</li> <li>• <b>Remuneration</b> panel</li> <li>• <b>Operational Delivery</b> and <b>Service Strategy</b> Review Groups</li> <li>• Regular <b>performance reporting</b> and quarterly <b>financial budget reviews</b></li> <li>• <b>Benchmarking</b> against best practice</li> <li>• <b>Risk management</b> cycles</li> <li>• <b>Strategic reflection</b> and alignment with performance of the business plan.</li> </ul>	<p>We use a <b>Programme Management</b> structure which supports and assures over the delivery of our critical business projects.</p> <p>We use a variety of measures to monitor our <b>safety performance</b> including close call reporting, Leadership Safety Tours, Planned General Inspections, Internal and External Audit, accident and incident reporting and investigations.</p> <p>Our quarterly <b>financial budget reviews</b> and departmental challenge and review processes are designed to ensure that we have responsible and robust financial management.</p>	<p>We are continually improving our <b>contract and supplier management</b> processes so that we can apply the same management and intervention principles to our core supply chain.</p>

## Section 5 - Principle E: Development

### What do we have in place already and where are we improving?

	What we do		What we are enhancing
 <p><b>Principle E: Development</b></p> <p>Developing the entity's capacity, including the capability of its leadership and the individuals within it</p>	<p>Our <b>strategy development process</b> considers the capability and capacity of the business to deliver on our intent and brings in new experience and expertise when we need it.</p>	<p>Our <b>Information and Cyber Security framework</b> is compliant with the Networks and Information Systems regulations to ensure protection and resilience of national infrastructure.</p>	<p>We are implementing an <b>asset management</b> system which supports our aim to achieve the best operational value from our critical assets.</p>
	<p>Our DOHL Board includes <b>Non-Executive Directors</b> who provide independent challenge, expertise and insight over business development.</p> <p>We use our <b>Remuneration Committee</b> to assess leadership capability and reward.</p> <p>We <b>independently assess</b> all our senior leadership positions for fit with their role and alignment with our values.</p>	<p>We use a <b>performance and development review</b> process for our managers, which links their annual objectives to our strategic ambitions and our core values.</p> <p>We review the effectiveness of our training, performance and development processes for non-manager roles to ensure we best meet the needs of our people and our customers.</p>	<p>We publish our <b>gender pay gap reporting</b> and are using our Equality, Diversity and Inclusion Strategy to close our gender pay gap and improve the diversity of our people.</p>
	<p>We invest in <b>training and apprenticeships</b> to provide our people with the skills and qualifications they need to perform their roles.</p> <p>As part of our <b>Equality, Diversity and Inclusion Strategy</b>, we have changed our <b>attraction</b> and <b>recruitment</b> processes. This is helping us to bring more diverse people into our business, with a greater diversity of experiences and skills.</p>	<p>We use <b>succession and talent planning</b> to identify critical roles within our business, put plans in place to support succession and continuity and retain our top talent.</p>	<p><b>We use employee engagement, listening post and pulse surveys</b> to gather feedback from our people, which includes the support we provide for personal development and training.</p>

## Section 5 - Principle F: Internal Control

### What do we have in place already and where are we improving?

	What we do		What we are enhancing
	<p>We have an established <b>risk management</b> cycle where we review our business risks and mitigating controls every period and challenge ourselves every quarter.</p>	<p>We have <b>Business Continuity Plans</b> in place which are designed to provide service resilience and continuity of control in periods of disruption. We aim to update these for <b>lessons learned</b> during the Covid-19 pandemic.</p>	<p>We are working closely with <b>industry peers</b> on risk management to share best practice and adopt industry wide approaches where appropriate.</p>
<p><b>Principle F: Internal Control</b></p>	<p>We use functional and business wide <b>performance management</b> reporting and review to challenge the effectiveness of internal control.</p>	<p>We use <b>internal assurance</b> and control checks to validate the effectiveness of the internal control environment.</p>	<p>We use <b>Control Self Assessments</b> across our key finance processes to monitor the effectiveness of internal controls.</p>
<p>Managing risks and performance through robust internal control and strong public financial management</p>	<p>We use our <b>Information and Cyber Security Committees</b> to review risks and threats to our operating environment. We use technology and third-party expertise to validate the effectiveness of our control environment.</p>	<p>We have a robust <b>financial management</b> process where we challenge and review our budgets every period and perform an in-depth review and reforecast every quarter. We use defined <b>Delegated Authorities</b> to set out limits to role-based authorities.</p>	<p>We are implementing a new <b>Purchasing system</b> which will help us to improve the effectiveness and efficiency of our purchasing controls</p>
	<p>We have a well established <b>operational and safety management</b> culture which uses training, monitoring and sharing to manage and maintain a safe rail network for all, supported by our <b>safety certificate and operator license</b>. This is overseen by Safety, Health, Environment and Crime review group and executive committee and supported by regular local inspections and fault reporting</p>	<p>We operate within an <b>open, industry-wide safety and reporting culture</b>, sharing experiences and data to ensure the integrity and safety of the network. All colleagues can raise safety concerns through the industry <b>safety whistleblowing line</b>, CIRAS. This is supplemented by our <b>Speak Up</b> whistleblowing line where colleagues can raise any other legal or ethical concerns and is provided by an independent third party.</p>	<p>We will <b>continue</b> to work with industry colleagues such as Network Rail to ensure that our people and infrastructure remain safe.</p>

## Section 5 - Principle G: Accountability

### What do we have in place already and where are we improving?

	What we do		What we are enhancing
 <p><b>Principle G: Accountability</b></p> <p>Implementing good practices in transparency reporting and audit to deliver effective accountability</p>	<p>We have an <b>Internal Audit</b> team who provide independent and objective assurance over key business risks or processes. This team report into our <b>Audit and Risk Committee</b> with independent oversight by our parent, DOHL.</p> <p>DOHL and our Non-Executive Directors also provide independent challenge and review through our <b>Safety, Health, Environment and Crime (SHEC) Committee</b>, and <b>Remuneration Committee</b>.</p>	<p><b>Internal assurance</b> is provided by:</p> <ul style="list-style-type: none"> <li>• Safety, Health and Environment teams</li> <li>• Operational Safety teams</li> <li>• Engineering quality and supplier audit teams</li> <li>• Service Quality audits</li> <li>• Performance management assurance</li> <li>• HR assurance</li> <li>• Quarterly financial budget and forecast reviews</li> <li>• Retail Compliance audits</li> </ul>	<p>We are <b>working closely</b> across assurance teams within Northern, with our sister companies LNER and LSER and as an industry to share insights and best practice.</p>
	<p>We are subject to the Companies Act 2006, apply <b>UK Accounting Standards</b> and have independently audited financial accounts.</p>	<p>We use <b>external</b> audit including:</p> <ul style="list-style-type: none"> <li>• Statutory accounts audit</li> <li>• Regulatory audits by the Office and Rail and Road and Rail Safety and Standards Board</li> <li>• ISO accreditations in Health and Safety, Energy and Waste Management, Quality and Asset Management</li> </ul>	<p>We are developing our understanding and plans to respond to changes in the <b>UK Corporate Governance</b> environment so that we can enhance our internal control environment, risk processes, business resilience and reporting.</p>
	<p>We have regular, <b>transparent reporting</b> to our stakeholders; the Department for Transport and Rail North Partnership.</p>	<p>We have processes in place to ensure that we comply with reporting requirements, including:</p> <ul style="list-style-type: none"> <li>• <b>Freedom of Information</b> requests</li> <li>• <b>Modern Slavery Statement</b></li> <li>• <b>Gender Pay Gap</b> reporting</li> </ul>	<p>We are looking to develop our <b>Environmental, Social and Corporate Governance</b> reporting to provide a holistic and transparent view of our commitments and performance.</p>

# Section 6

## *Next Steps*



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## Section 6 - Next steps in governance



Section 7

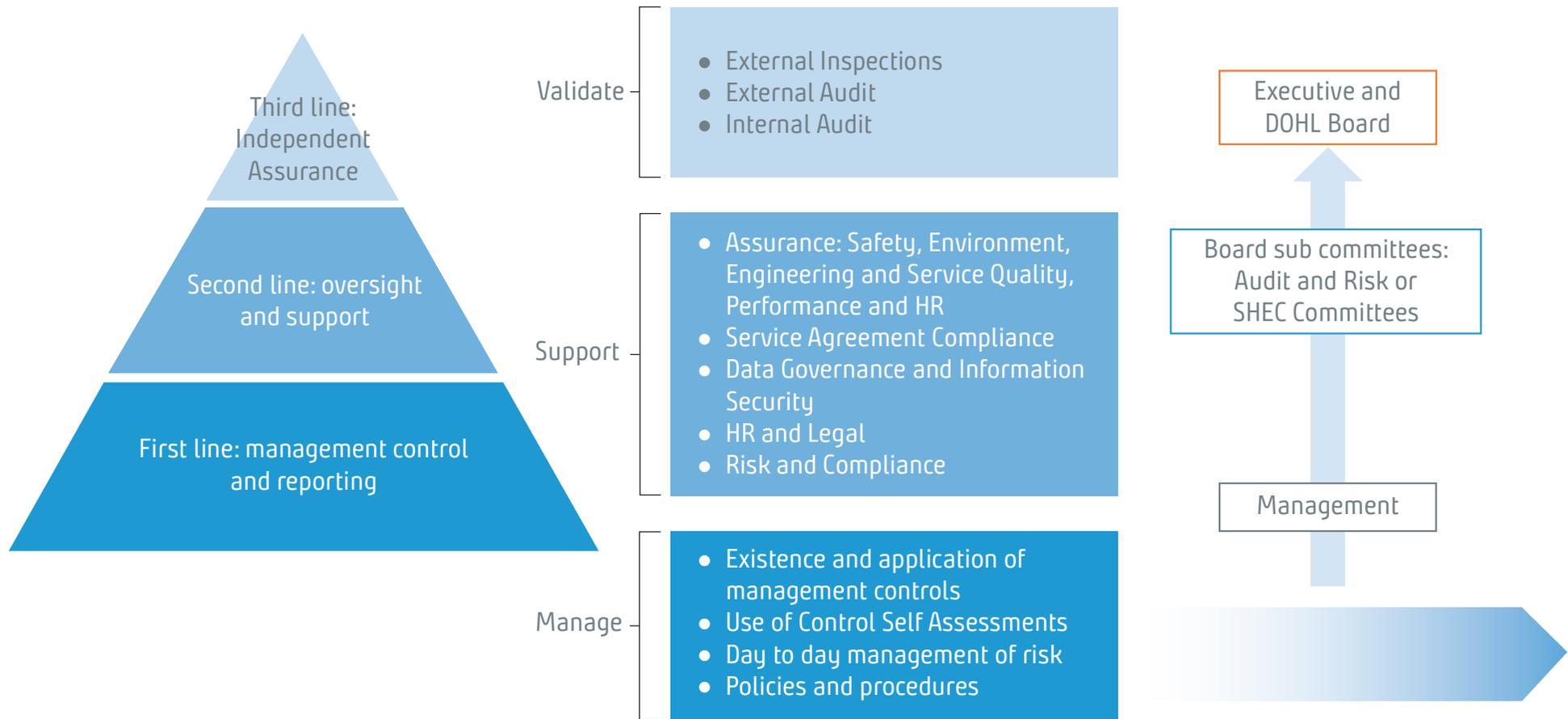
# *Three Lines of Defence*



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## Section 7 - Three Lines of Defence



Section 8

***Collaborative Assurance  
within Northern***



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## Section 8 - Collaborative Assurance within Northern

The Internal Audit team are just a single part of a wider network of audit, risk and assurance specialists within Northern. The activities of each of these teams form a fundamental part of the governance arrangements within the organisation and play a major role in the items listed in the AGS.

Although not exhaustive, this includes our colleagues within the following teams:

**Risk and Compliance Team**

**Regulatory Compliance Team**

**SHEC Management and Assurance Team**

**Information Systems, Cyber Security and Data Governance Teams**

**Engineering Assurance Team**

**Human Resources Team**

**Performance Assurance Team**

**Programme Assurance Team**



# *Appendices*



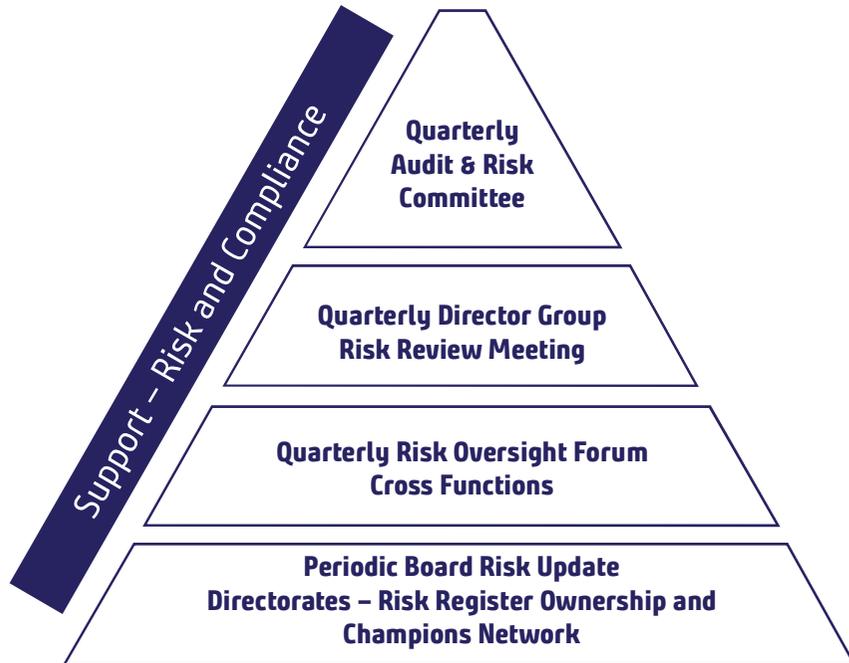
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## Appendix A – Key Governance Roles and Responsibilities

Key Roles of those responsible for developing and maintaining our Governance Framework.

<b>DOHL Board</b>	<ul style="list-style-type: none"> <li>• Provides a support and stewardship role to Northern, promoting effective governance of its operations.</li> <li>• Promotes best practice within the DOHL Group and wider rail industry.</li> <li>• Ensures that Northern is operating in accordance with the Service Agreement, health and safety obligations and the terms of its licences.</li> </ul>
<b>Northern Board</b>	<ul style="list-style-type: none"> <li>• Main decision making body for Northern.</li> <li>• Approves the organisational strategy, key policies and budgetary frameworks.</li> </ul>
<b>Audit and Risk Committee</b>	<ul style="list-style-type: none"> <li>• Provides independent assurance to the Board on the adequacy and effectiveness of the governance arrangements, risk management framework and internal control environment.</li> <li>• Approves the Annual Statement of Accounts and Annual Internal Audit Plan.</li> </ul>
<b>Remuneration Committee</b>	<ul style="list-style-type: none"> <li>• Provides oversight over Equality, Diversity and Inclusion Strategies, approves our Equal Pay reporting and authorises key pay and benefit decisions for the business</li> </ul>
<b>SHEC Committee</b>	<ul style="list-style-type: none"> <li>• Provides oversight over our Safety, Health, Environment and Crime strategic delivery, compliance and performance.</li> </ul>
<b>Executive Team</b>	<ul style="list-style-type: none"> <li>• Implements the policy and budgetary framework set by the Northern Board</li> <li>• Contributes towards the effective corporate management and governance of Northern</li> </ul>
<b>Management Team</b>	<ul style="list-style-type: none"> <li>• Responsible for developing, maintaining and implementing Northern’s governance, risk and control framework.</li> <li>• Contribute to the effective corporate management and governance of Northern.</li> </ul>
<b>Second Line Teams</b>	<ul style="list-style-type: none"> <li>• Provide internal guidance and assurance over legal, risk, compliance, quality, safety and supply chain risks, processes and controls.</li> </ul>
<b>Internal Audit</b>	<ul style="list-style-type: none"> <li>• Provides independent assurance on the adequacy and effectiveness of Northern’s governance, risk management and control framework.</li> <li>• Delivers an annual programme of risk based audit activity and makes recommendations for improvements to the control environment.</li> </ul>
<b>External Audit</b>	<ul style="list-style-type: none"> <li>• Audit and report on Northern’s financial statements, providing an opinion on the accounts.</li> </ul>

## Appendix B – Risk Governance Structure



The risk management framework provides a structure to identify, assess and manage our risks and opportunities.

The layers of challenge and review enable:

- Management risk owners to have responsibility for their risks.
- Cross functional challenge to identify common or aggregate risks.
- Risk and Compliance review to bring wider industry and outside industry challenge.
- Director review to provide strategic challenge and peer review of risks and their mitigations.
- Non-executive review by the Audit and Risk Committee.