



National Audit Office

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## **Report**

by the Comptroller  
and Auditor General

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## **Department for Transport**

# The Thameslink, Southern and Great Northern rail franchise

## Key facts

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**19%**

of all the passenger rail services the Department for Transport is responsible for are on the Thameslink, Southern and Great Northern franchise

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**62%**

of Govia Thameslink trains arrived at their destination within five minutes of their scheduled time, at the peak of service disruption in November to December 2016

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**£13.4m**

spending programme to improve performance agreed by Govia Thameslink for missing its performance targets

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**900,000**

passenger journeys taken on the Thameslink, Southern and Great Northern franchise each day

**7.7%**

of services cancelled or delayed by more than 30 minutes on this franchise between July 2015 and March 2017, compared with an average of 2.8% on the rest of the network

**£760 million**

net return to the taxpayer on this franchise between September 2014 and August 2017, when factoring in £3.6 billion of fare revenue received by the Department less franchise payments of £2.8 billion made to Govia Thameslink

**60%**

of all cancellations and delays of more than 30 minutes (88,000 services) were caused by Govia Thameslink, mainly due to industrial action and shortages in drivers and other train crew to operate services, between July 2015 and March 2017

**37%**

of all cancellations and delays of more than 30 minutes (54,000 services) were caused by Network Rail, mainly due to failures in the infrastructure and its management of the network, between July 2015 and March 2017

**£300 million**

funding for additional work to improve the resilience of network infrastructure on the Govia Thameslink network, to be carried out by April 2019. Network Rail estimates that up to £900 million of work (cash prices) in total is needed to achieve the resilience needed to run the new services on the Thameslink network reliably

# Summary

**1** Since the privatisation of the railways in the mid-1990s it has been government policy for passenger rail services to be run by private sector companies on franchises that serve specified parts of the country for a certain length of time. The Department for Transport (the Department) aims to provide high-performing, value-for-money services for passengers, and to improve the cost-effectiveness of the railway for taxpayers. Since it relaunched the rail franchising programme in 2013, the Department has sought to place greater emphasis on improving passengers' experiences of services.<sup>1</sup>

**2** As part of the Department's responsibility for providing passenger rail services, it is responsible for designing, letting and managing rail franchises. This report focuses on the Thameslink, Southern and Great Northern franchise (the franchise), run by Govia Thameslink Railway Ltd (Govia Thameslink), which began in 2014. Between September 2014, when Govia Thameslink took over the franchise, and September 2017 passengers using these services have experienced consistently higher levels of disruption than anywhere else on the national rail network.

**3** The franchise is the largest of the 15 rail franchises managed by the Department, bringing together four rail services, Thameslink, Southern, Great Northern and Gatwick Express, connecting London with towns and cities across the south-east and east of England. The franchise operates 19% of the timetabled services operated by these 15 franchises. In 2016-17, passengers took 321 million journeys on the franchise, which is an average of nearly 900,000 journeys a day.

**4** Alongside managing rail franchises, the Department also funds work to maintain and improve the rail network. One of the Department and Network Rail's major upgrade programmes is the Thameslink programme, a complex investment in rail infrastructure and new trains, and a significant change to services. The Department designed the franchise to support the delivery of the Thameslink programme.

<sup>1</sup> Comptroller and Auditor General, *Reform of the rail franchising programme*, Session 2015-16, HC 604, National Audit Office, November 2015.

## Scope of the report

5 This report examines the causes of poor performance on the Thameslink, Southern and Great Northern network since the franchise began in September 2014, the effects on passenger services, financial outcomes for the operator and the Department, and the Department's handling of the Thameslink, Southern and Great Northern franchise, including:

- the franchise design and levels of disruption for passengers, to date (Part One);
- causes of poor performance related to the Department's contract with the operator, Govia Thameslink (Part Two); and
- causes of poor performance related to the rail network, and the role of Network Rail (Part Three).

6 We have previously published an update on the Department and Network Rail's progress with the Thameslink programme. That report focuses on progress with delivery of the infrastructure improvements, the delivery of new trains, and progress towards meeting the Department's objective to operate a timetable for an extended Thameslink network with 24 peak-time trains an hour in each direction on Thameslink services through central London, by December 2018.<sup>2</sup> Collectively, these reports evaluate the Department's management of the Thameslink programme, related franchising issues and the impact on passengers.

## Key findings

The franchise

7 **In letting and managing franchises, the Department seeks to balance value for money for the taxpayer and quality of service for the passenger.** For this franchise, the Department's aims were that it should:

- take a lead role in enabling successful delivery of the Thameslink programme;
- ensure overall passenger experience improves through the life of the franchise, including aiming for it to be among the most reliable and punctual services on the national rail network; and
- deliver services in the most cost-effective and efficient manner possible.

The Department awarded the contract, worth £8 billion over seven years, to Govia Thameslink after it scored the highest of five bidders for its proposals on service quality and put forward the lowest cost to run the franchise (paragraph 1.5).

2 Comptroller and Auditor General, *Update on the Thameslink programme*, Session 2017–2019, HC 413, National Audit Office, November 2017.

**8 The Department anticipated that the Thameslink programme would cause disruption and chose a franchise model which it considered reflected this risk.**

In this franchise, the Department retains fare revenue rather than the operator, meaning that it bears the risk of revenues reducing should there be disruption. The Department considered that this model would incentivise the franchise operator to support the Thameslink programme rather than to prioritise generating revenue. It considered that bidders for the franchise would 'price in' the risks under a normal franchise model since their revenue forecasts would be subject to greater uncertainty, reducing value for money for the taxpayer. However, because the franchise route is a commuter route, despite disruption, passengers had limited alternatives (paragraphs 1.7, 1.8 and 3.2).

**9 The resulting franchise contract is complex and ambitious, and it is not clear whether the Department considered the cumulative effects of its approach on passenger services.**

The franchise is the largest franchise in the country, bringing together two previously separate franchises including four major London train services, all of which are affected by the Thameslink programme. It operates on a very congested part of the network where the underlying infrastructure is unreliable. The Department wanted to increase capacity and improve services. The franchise contract also included commitments to increase the extent of 'driver-only operation' beyond the Department's original specification and included additional train services. The Department had not developed fully how the individual elements would work together within the contract, nor the potential effects on passengers, particularly if the risks it identified around industrial action crystallised (paragraphs 2.6 to 2.15 and paragraphs 3.2 to 3.7).

**10 Between September 2014 and September 2017, Govia Thameslink passengers have experienced the worst overall service performance on the national rail network in terms of the number of trains arriving on time.**

Additionally, since Govia Thameslink took over the running of Southern services in July 2015, around 146,000 services (7.7% of planned services) have either been cancelled or have been delayed by more than 30 minutes, compared with 2.8% on the rest of the network. The number of trains arriving at their destination within five minutes of their scheduled arrival time fell to 62% in November–December 2016 during industrial action. Since the start of 2017 service performance has been improving. The percentage of trains arriving within five minutes of their scheduled time has exceeded 80% since March 2017. This level of performance is similar to levels at the beginning of the full franchise operation in July 2015 (paragraphs 1.9 and 1.12).

**11 The main cause for cancelling services was driver or train crew availability.**

It is difficult to attribute delays and cancellations to specific causes because the railway is a complex system. However, based on data produced by Network Rail and Govia Thameslink about services cancelled, around 56,000 cancellations (38% of the total) were related to the availability of drivers and other train crew. The Department and Govia Thameslink consider, from their analysis of performance data, that industrial action was the most important cause of train crew shortages. Other important causes of delays and cancellations include the reliability of some train fleets, Network Rail's management of the rail network, and failures of track and other infrastructure assets such as signalling (paragraphs 1.11, 1.13 and 2.12).

**12 The Department accepted Govia Thameslink's 'driver-only operation' plan and, recognising it would increase the risk of industrial action, contracted some contingency arrangements.**

The Department told us that it supports the railway industry's ambition to modernise and, as part of this, bidders for new franchises take the opportunity to review whether, where there are guards on trains, the role of opening and closing the doors is still best undertaken by them or the driver. This is known as 'driver-only operation' (DOO) or 'driver-controlled operation' (DCO). All of the five companies who bid to run the franchise proposed more widespread use of DOO than the Department had originally specified. The Department recognised that, given the scale of the increase in DOO, accepting Govia Thameslink's plan would increase the risk of industrial action. It noted that previous industrial action related to the introduction of DOO on other rail services, had been limited. The Department did not fully evaluate the possible effects on passengers of different scenarios of industrial action before awarding the contract, nor did it ask Govia Thameslink to do so. It did, however, include Govia Thameslink's contingency plan in its franchise contract. In November 2015, 18 months after contract award in May 2014, the rail unions RMT and ASLEF issued a joint statement opposing DOO, which would have been difficult for the Department or bidders to foresee (paragraphs 2.6 to 2.10).

**13 The Department did not seek sufficient assurance that Govia Thameslink would have enough train drivers when it took on the franchise.**

When a new operator takes over a franchise, it can expect to inherit drivers from the previous franchisee. Govia Thameslink received fewer drivers than it expected from the previous operator of the Thameslink and Great Northern routes, and driver shortages have persisted on Great Northern services. Even if Govia Thameslink had received the number it expected, there would still have been some shortfall (paragraphs 2.2 to 2.5).

**14 The Department contracted Govia Thameslink to deliver a specific level of increased services despite concerns from Network Rail and Govia Thameslink that the network could not support the proposed timetables reliably.**

Network Rail is ultimately responsible for balancing demand with available capacity to determine which timetable will operate. In this capacity, it advised the Department that the December 2018 timetable would require further development to make it workable. Govia Thameslink also raised concerns. The Department considered that the normal industry timetable development process, where Network Rail negotiates and agrees operators' access rights to the network, would address these concerns, following which the level of train services specified in the contract would be amended to reflect the reality of what Govia Thameslink was able to deliver. It is possible, however, that the demands placed on the network by the December 2015 timetable have contributed to the service disruption which passengers have experienced. Network Rail is now carrying out work to improve its understanding of the demands being placed on the system (paragraphs 3.6 to 3.8 and 3.15).

**15 The Department and Network Rail did not have a good understanding of the underlying condition of the existing network at the point when the Department set the requirements of the franchise.** Between July 2015 and March 2017, 13% of all cancellations and delays to services of more than 30 minutes have been due to failures of track and other Network Rail assets such as signalling systems. While the Department's franchise design took account of the need to deliver the Thameslink programme, it did not consider the underlying state of the network. In 2016, Network Rail estimated that an investment of up to around £900 million (cash prices) on maintenance and renewal work was needed to achieve the resilience needed to run the new services on the Thameslink network reliably, in addition to infrastructure investments already planned in that area. Limits on access to the railway means that Network Rail has prioritised a £300 million programme of work in its South East and London North Eastern routes to improve particularly vulnerable parts of the network (paragraphs 1.13, 3.10, 3.13 and 3.14).

**16 The franchise has delivered some improvements for passengers.**

The Thameslink programme is now delivering benefits to passengers through station improvements and more spacious trains. The Department has decided to introduce new services more gradually than originally planned, deferring the full benefits of the programme by one year. We think this is a sensible step to protect value for money and passengers from further disruption. The franchise has introduced new trains on Gatwick Express services and on the Great Northern route (paragraphs 1.18 to 1.20).

**17 Despite the performance of train services, fare revenue returned to the Department met its expectations.** Between September 2014 and August 2017, the Department received £3.6 billion in fare revenue, which is broadly in line with its expectations at the time that it let the contract. During the same period it made franchise payments to Govia Thameslink of £2.8 billion, meaning that it has earned a return for the taxpayer of £760 million, net of £33 million of passenger refunds paid by the Department to compensate for disruption (paragraph 1.17).

### **How the Department has responded**

**18 The Department has used the performance levers in its contract with Govia Thameslink, but because of the multiple issues affecting services, while performance is improving, it is still below the average of the rest of the network.**

Soon after Govia Thameslink took on the franchise, performance dropped below the levels specified in the contract. The Department required it to agree a remedial plan to address the key failings for which it was responsible. The plan was agreed in February 2016 and required Govia Thameslink to introduce reduced timetables to increase the reliability of passenger services, recruit more drivers and address technical issues with its train fleet. Although service performance has improved during 2017, and is broadly back at the same level as July 2015 when the full franchise began, passengers continue to experience disruption (paragraphs 1.9, 2.13 and 2.14).

**19 The Department considered its options for the future of the franchise including terminating the contract, but decided that enforcing the contract was the most appropriate option.** In late 2016 and early 2017, the Department considered whether it had grounds for terminating the contract as one of a number of options. It did not pursue terminating the contract because there were insufficient grounds. The most significant reason for disruption was industrial action, a 'force majeure' event in the contract, meaning that the operator could not be held responsible for the resulting poor performance. Instead, the Department decided to take enforcement action and require the operator to produce a remedial plan (paragraph 2.17).



**20 The Department and Govia Thameslink have agreed a £13.4 million settlement covering the period to September 2018.**

In July 2017, the Department agreed a £13.4 million settlement with Govia Thameslink comprising:

- £2.4 million for its underperformance between September 2015 and September 2016;
- £10 million as a settlement for the period up to September 2018, to avoid further protracted analyses and negotiations over the financial impact of performance during that period; and
- £1 million for franchise management issues unrelated to service performance.

Instead of paying the Department, Govia Thameslink will spend the agreed sums on various measures aimed at improving services for passengers, including extra train crew (paragraph 2.18).

**21 Having agreed in advance performance payments up to September 2018, it is not clear how the Department will incentivise performance in the franchise year from September 2017 to September 2018.**

As well as assessing Govia Thameslink's performance for the contract year September 2015 to September 2016, the Department also negotiated a settlement for Govia Thameslink to buy out its liability in respect of the performance sums in the contract years September 2016 to September 2017 and September 2017 to September 2018. The settlements for these two latter years were £5 million in each year, totalling £10 million. The Department told us it did this in order to agree more investment in the franchise to improve performance. At the time of writing, it is not clear how the Department will incentivise Govia Thameslink to improve performance for passengers since the Department and the operator are currently negotiating a revised remedial plan and interim performance measures (paragraphs 2.17, 2.18 and 2.22).

**22 In accordance with the contract, the Department also expects to pay Govia Thameslink for the additional costs resulting from changes to the Department's requirements.**

At the time of writing this report, the Department and Govia Thameslink were discussing contract changes which are expected to result in a payment by the Department to Govia Thameslink, potentially amounting to tens of millions of pounds a year. The changes are needed because the Department has agreed to alter the train services required in the franchise contract and to reflect delays to the delivery of new trains for Thameslink services. The franchise contract anticipates and allows for such changes. The Department is also considering the impact of its decision to extend the final phase of timetable implementation for the Thameslink programme by a year (paragraph 3.9).

## **Conclusion on value for money**

**23** The Department intended that this franchise should take a lead role in enabling successful delivery of the Thameslink programme, improve passenger experience and deliver services cost-effectively. The Thameslink programme has a realistic chance of achieving value for money and the return to the Department from the franchise has broadly met its expectations. However, passengers have suffered periods of significant disruption during the first three out of seven years of the franchise. While industrial action has been a major contributor to disruption, on a scale which would have been difficult for the Department to foresee, the Department did make decisions on this franchise, the cumulative effects of which have negatively impacted on passengers. We cannot therefore conclude that the Department has to date achieved value for money from this franchise.

## **Recommendations**

- a** When designing future franchise contracts, the Department should give more consideration to the potential impact on passengers of its decisions. For example, it should carry out scenario planning to assess how the constituent parts of the contract work together, how the performance levers would work and the likely effect on passengers should risks crystallise.
- b** The Department should work more closely with Network Rail to understand the impact of high frequency of services on congested parts of the network on passenger disruption, and how to manage and recover from disruption more quickly. This could enable:
  - the Department to make more informed decisions about the trade-offs between a high capacity but unreliable service, and a reduced capacity but more reliable one; and
  - Network Rail and train operating companies to return more quickly to planned patterns of services after a period of disruption.
- c** The Department should strengthen its monitoring of train operators' crew planning when they are near the end of their franchise terms as well as ensuring that the workforce projections in franchise plans are realistic.
- d** Because any major enhancement project is likely to produce planned disruption to services, the Department and Network Rail should gain assurance at the outset that the likelihood of unplanned disruption on passenger services is minimised. This will require the Department and Network Rail to take a more integrated approach to planning renewal and major improvement work, and to consider whether renewal work that could improve resilience should be carried out before the enhancement project begins.