



National Audit Office

Report

by the Comptroller
and Auditor General

Department for Transport

The Thameslink, Southern and Great Northern rail franchise

Our vision is to help the nation spend wisely.

Our public audit perspective helps Parliament hold government to account and improve public services.

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund, nationally and locally, have used their resources efficiently, effectively, and with economy. The C&AG does this through a range of outputs including value for money reports on matters of public interest; investigations to establish the underlying facts in circumstances where concerns have been raised by others or observed through our wider work; landscape reviews to aid transparency and good practice guides. Our work ensures that those responsible for the use of public money are held to account and helps government to improve public services, leading to audited savings of £734 million in 2016.



National Audit Office

Department for Transport

The Thameslink, Southern and Great Northern rail franchise

Report by the Comptroller and Auditor General

Ordered by the House of Commons
to be printed on 9 January 2018

This report has been prepared under Section 6 of the
National Audit Act 1983 for presentation to the House of
Commons in accordance with Section 9 of the Act

Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

3 January 2018

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.

© National Audit Office 2018

The material featured in this document is subject to National Audit Office (NAO) copyright. The material may be copied or reproduced for non-commercial purposes only, namely reproduction for research, private study or for limited internal circulation within an organisation for the purpose of review.

Copying for non-commercial purposes is subject to the material being accompanied by a sufficient acknowledgement, reproduced accurately, and not being used in a misleading context. To reproduce NAO copyright material for any other use, you must contact copyright@nao.gsi.gov.uk. Please tell us who you are, the organisation you represent (if any) and how and why you wish to use our material. Please include your full contact details: name, address, telephone number and email.

Please note that the material featured in this document may not be reproduced for commercial gain without the NAO's express and direct permission and that the NAO reserves its right to pursue copyright infringement proceedings against individuals or companies who reproduce material for commercial gain without our permission.

Links to external websites were valid at the time of publication of this report. The National Audit Office is not responsible for the future validity of the links.

Contents

Key facts 4

Summary 5

Part One

The franchise and its
performance to date 13

Part Two

The Department's management
of the franchise contract 30

Part Three

The Department and Network Rail's
management of the rail network 39

Appendix One

Our audit approach 44

Appendix Two

Our evidence base 46

The National Audit Office study team consisted of:
Hedley Ayres, William Francois, William Rollo, Michael Slater and Grace Williams, under the direction of Rebecca Sheeran and Lee-Anne Murray.

This report can be found on the National Audit Office website at www.nao.org.uk

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Enquiries: www.nao.org.uk/contact-us

Website: www.nao.org.uk

Twitter: @NAOorguk

Key facts

19%

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

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

£13.4m

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

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.¹

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.

¹ 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 2018.² 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.

Part One

The franchise and its performance to date

1.1 This part of the report describes the Thameslink, Southern and Great Northern rail franchise (the franchise), the service disruption that passengers have experienced and the financial performance of the franchise.

The franchise

1.2 Thameslink, Southern and Great Northern is the largest of the Department for Transport's (the Department's) 15 rail franchises, connecting London with towns and cities across the south-east and east of England (see **Figure 1** overleaf).³ The Department set up the franchise in 2014, bringing together the routes of the former Thameslink and Great Northern franchise with the Southern franchise, which included the Gatwick Express brand. It also includes some services which were previously part of the South Eastern franchise.

1.3 In October 2012, following the collapse of the competition for the InterCity West Coast franchise, the Department suspended the procurement process for the Thameslink, Southern and Great Northern franchise that it had started in December 2011. During 2013, the Department redesigned its franchising programme and set up a new Passenger Services division to run it.⁴ The franchise was the first that the Department awarded after its overhaul of the franchising programme.

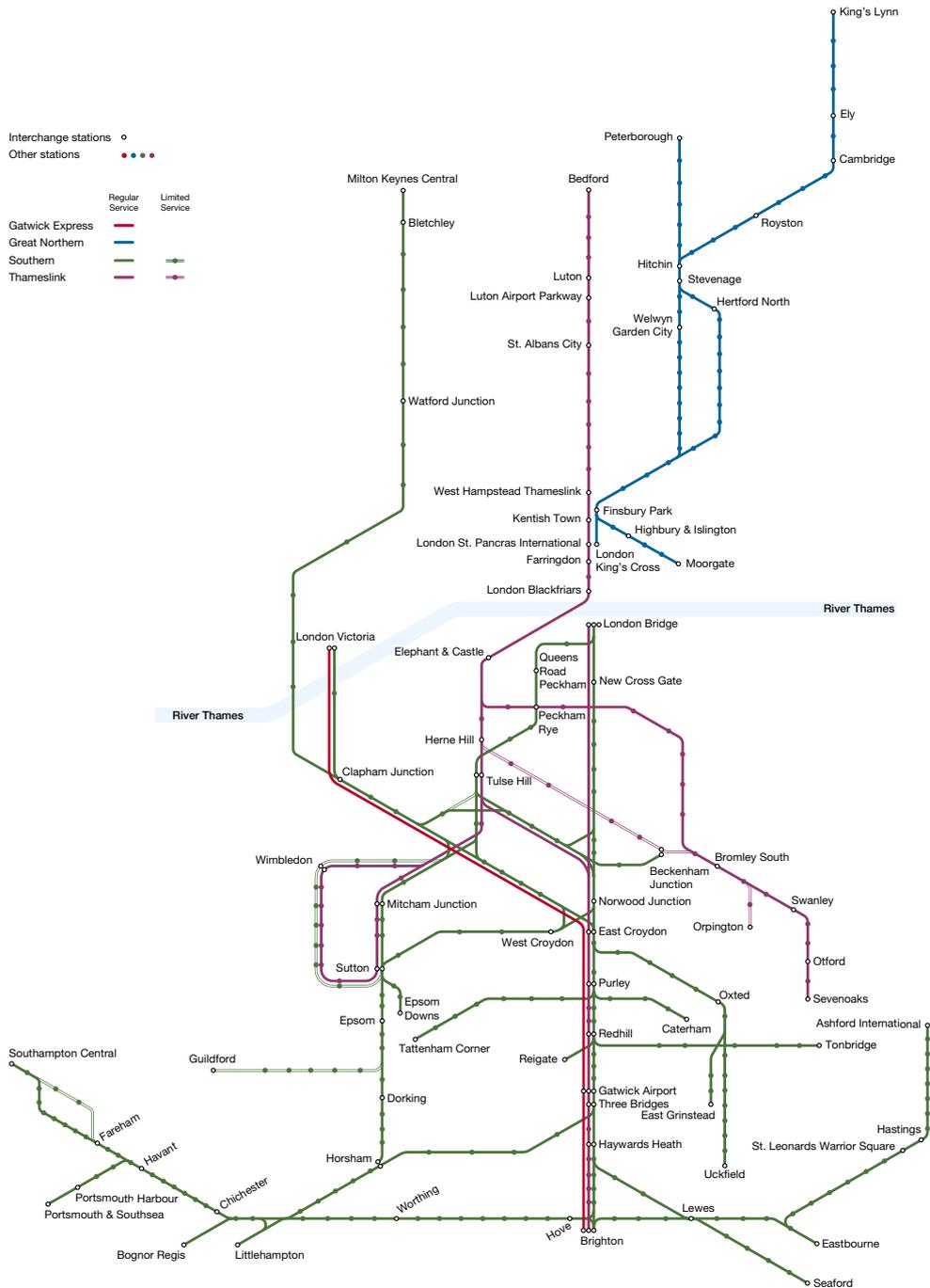
1.4 Following a competitive procurement process, the Department awarded the contract to operate services to Govia Thameslink Railway Ltd (Govia Thameslink), a joint venture between the Go-Ahead Group and Keolis, in May 2014. Govia Thameslink started operating Thameslink and Great Northern services in September 2014, some services formerly operated by the South Eastern franchise in December 2014 and the Southern and Gatwick Express services in July 2015. Its contract ends in September 2021.

³ The Department manages three of the 15 franchises, Northern, TransPennine Express and Wales & Borders, with devolved organisations.

⁴ Comptroller and Auditor General, *Reform of the rail franchising programme*, Session 2015-16, HC 604, National Audit Office, November 2015.

Figure 1
Map of Thameslink, Southern and Great Northern franchise

The Thameslink, Southern and Great Northern franchise is a complex network of routes primarily for train services into central London



Source: Govia Thameslink Railway

1.5 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, a major programme of investment in rail infrastructure and new trains, designed to increase capacity and improve services on the Thameslink routes running north–south through central London;
- ensure overall passenger experience improves through the life of the franchise, including aiming 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. The franchise contract is complex and ambitious, and it is not clear whether the Department considered the cumulative effects of its approach, described in Parts Two and Three of this report, on passenger services.

1.6 We reported on the Thameslink programme's progress in November 2017.⁵ The Department's franchise design was based on recommendations by Sir Roy McNulty, in his review of rail in Great Britain, to combine two of the network's largest franchises to form a single operator for the routes most affected by the Thameslink programme.⁶ Network Rail is responsible for delivering the infrastructure works for the programme, and Govia Thameslink is responsible for introducing the new trains.

1.7 The franchise has a financial basis unique to the Department's current franchises, in which the Department retains fare revenues and pays Govia Thameslink a fee to operate services, which varies depending on performance. Most rail franchise operators receive fare revenues themselves and therefore bear some if not all of the risk associated with changes in passenger demand. The Thameslink, Southern and Great Northern franchise model follows a suggestion by Richard Brown in his 2013 review of rail franchising and analysis by the Department.⁷ These found that sharing the fare revenue risk between the Department and the operator – 'partial revenue risk transfer' – would allow the operator to focus on the delivery of the Thameslink programme and maintaining services during these works, rather than making maximisation of fare revenues its priority.

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

6 Department for Transport, *Realising the potential of GB Rail*, May 2013.

7 Department for Transport, *The Brown Review of the Rail Franchising Programme*, Cm 8526, January 2013.

1.8 The Department subsequently chose to retain all the revenue risk itself. 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. The Department designed a contract with performance incentives and obligations for the operator to deliver high-quality services in the absence of the revenue incentive. These included a number of specific commitments aimed at improving passengers’ day-to-day experience of services, for example by providing new train fleets for Great Northern and Gatwick Express services.

Service performance to date

1.9 Overall performance on the Thameslink, Southern and Great Northern routes had declined by 3% in the year leading up to Govia Thameslink taking on the first parts of the franchise in September 2014 (**Figure 2** on pages 17 and 18). After Govia Thameslink took on the franchise, disruption to services has increased significantly, with the percentage of trains arriving within five minutes of their scheduled time dropping to as low as 62% in the four-week rail period from 13 November 2016 to 10 December 2016, during industrial action.⁸ The train drivers’ union ASLEF began industrial action on 6 December 2016. The RMT union had previously begun industrial action on 26 April 2016. The train services operated by Govia Thameslink have been the worst performing across the whole rail network during the life of this franchise, in terms of the number of trains arriving on time (**Figure 3** on pages 19 and 20). However, since the start of 2017 service performance has been improving, with the percentage of trains arriving within five minutes of their scheduled time exceeding 80% since March 2017 (Figure 2). This level of performance is similar to levels at the beginning of the full franchise operation in July 2015.

⁸ The measure includes both delayed trains and cancelled services.

Figure 2 *continued*

Percentage of trains that arrive within five minutes of scheduled time

Notes

- 1 The Public Performance Measure (PPM) – the percentage of trains arriving at their destination within five minutes of their scheduled time (10 minutes for long-distance journeys) combines punctuality and reliability as it includes cancelled services. This is a publicly recorded measure of performance for all operators on the network, which is gathered by the Office of Rail and Road (ORR) using Network Rail data.
- 2 Govia Thameslink's average performance is the Moving Annual Average (MAA), the average at each four-week rail period of performance over the preceding year.
- 3 'Industry average' data is the PPM MAA for all train operators in England and Wales other than Govia Thameslink.
- 4 Govia Thameslink's target performance is derived by the Department from target PPM for the entire rail network, set by the rail regulator, the ORR.

Source: National Audit Office analysis of Office of Rail and Road data

1.10 Performance has varied between the franchise's four routes (**Figure 4** on page 21). The performance of each route has been affected by a combination of influences, including the extent of staffing issues such as driver shortages and industrial action, the condition of the rail infrastructure and the reliability of the different types of trains used on the routes. As discussed in Part Three of this report, 'reactionary delay' when further delays to services are caused by initial, small incidents producing reactionary effects on a congested network, is an important issue for this part of the network:

- On Southern services, which account for more than half (621,000 or 57%) of all services operated by Govia Thameslink annually, performance has corresponded closely to that of Thameslink services. Thameslink services account for 255,000 services each year or 23% of the franchise.
- Great Northern services, accounting for 174,000 or 16% of the franchise, have outperformed the other routes.
- Gatwick Express services are performing the worst, with the number of trains arriving within five minutes of the schedule being as much as 10% lower than other routes at certain points. Gatwick Express is the smallest part of the franchise, with 46,000 or 4% of services. Govia Thameslink told us that when there are service problems, other, longer distance and less frequent trains are sometimes given priority over Gatwick Express trains, under an established industry process agreed by Network Rail with other operators, since passengers can use other trains to reach Gatwick Airport.

Figure 3

Route level performance across the network

Between September 2014 and September 2017, Govia Thameslink services have performed the worst across all routes

Route	Public Performance Measure September 2011– September 2014	Public Performance Measure September 2014– September 2017	Change (%)	Performance rank (September 2014– September 2017)
c2c	96.9	95.9	-1.1	1
North London Railways (including London – Watford) (London Overground)	96.0	95.7	-0.2	2
Northern line (Merseyrail)	95.9	95.6	-0.2	3
Valley lines (Arriva Trains Wales)	95.4	95.2	-0.2	4
Met (Chiltern Railways)	95.3	95.2	-0.1	5
Wirral line (Merseyrail)	94.8	95.1	0.3	6
Anglia Services (London Overground)	94.3	94.9	0.6	7
Other rural (South West Trains)	93.7	94.5	0.8	8
Crossrail East (TfL Rail)	93.2	94.0	0.7	9
Regional (East Midlands Trains)	92.3	93.4	1.1	10
East London Railways (including West Croydon services) (London Overground)	97.0	93.3	-3.6	11
London – Birmingham/Oxford and branches (Chiltern Railways)	94.4	93.3	-1.1	12
Tyne, Tees and Wear (Northern)	92.4	93.1	0.7	13
Nottingham – Cardiff and Birmingham – Stansted Airport (CrossCountry)	92.1	93.0	1.0	14
West and North Yorkshire (Northern)	92.5	92.9	0.4	15
South and East Yorkshire (Northern)	90.6	92.1	1.4	16
Long Distance (including Liverpool – Norwich) (East Midlands Trains)	92.2	91.4	-0.8	17
South TransPennine (TransPennine Express)	92.5	91.0	-1.5	18
West (Great Western Railway)	90.5	90.6	0.2	19
Southend and metro (Greater Anglia)	92.0	90.4	-1.6	20
WA outer excluding Stansted Express (Greater Anglia)	90.5	90.1	-0.4	21
Regional (London Midland)	87.9	89.8	2.0	22
GE Outer (Greater Anglia)	90.6	89.5	-1.1	23
Rural (Greater Anglia)	90.5	89.3	-1.2	24
Regional and inter-urban (Arriva Trains Wales)	90.6	89.3	-1.2	25
London – West Midlands (Virgin Trains West Coast)	86.6	89.2	2.7	26
Manchester and Liverpool (Northern)	90.5	89.2	-1.3	27

Figure 3 *continued*

Route level performance across the network

Route	Public Performance Measure September 2011– September 2014	Public Performance Measure September 2014– September 2017	Change (%)	Performance rank (September 2014– September 2017)
Stansted Express (Greater Anglia)	89.3	89.0	-0.3	28
London – North West (Virgin Trains West Coast)	86.1	88.7	2.6	29
Suburban (including Waterloo – Basingstoke terminators, Farnham/Alton services) (South West Trains)	90.8	88.6	-2.2	30
Metro (including other rural) (Southeastern)	90.9	88.4	-2.5	31
London and Thames Valley (Great Western Railway)	89.5	88.3	-1.2	32
North TransPennine (TransPennine Express)	89.5	87.8	-1.7	33
Lancashire and Cumbria (Northern)	89.9	87.8	-2.0	34
London – Leeds and North East (including Lincoln) (Virgin Trains East Coast)	86.7	86.9	0.2	35
South West – North/East Scotland, Manchester – Bournemouth, Newcastle – Reading and Manchester – Bristol (CrossCountry)	83.6	86.0	2.4	36
Mainline (South West Trains)	89.4	86.0	-3.4	37
Mainline and high-speed (Southeastern)	89.1	86.0	-3.2	38
Intercity (Greater Anglia)	87.1	85.5	-1.6	39
LSE (London Midland)	84.5	84.3	-0.3	40
Great Northern (Govia Thameslink Railway)	87.9	84.0	-3.9	41
High-speed (Great Western Railway)	83.2	83.9	0.7	42
Anglo – Scottish services (Virgin Trains East Coast)	84.3	83.5	-0.8	43
Manchester – Scotland TransPennine (TransPennine Express)	85.9	82.3	-3.5	44
Anglo – Scottish services (Virgin Trains West Coast)	80.1	81.1	1.0	45
Southern Metro (Govia Thameslink Railway)	88.8	79.5	-9.3	46
Thameslink (Govia Thameslink Railway)	87.3	78.8	-8.5	47
Southern Mainline and Coast (Govia Thameslink Railway)	86.7	78.0	-8.6	48
Gatwick Express (Govia Thameslink Railway)	84.0	74.6	-9.4	49

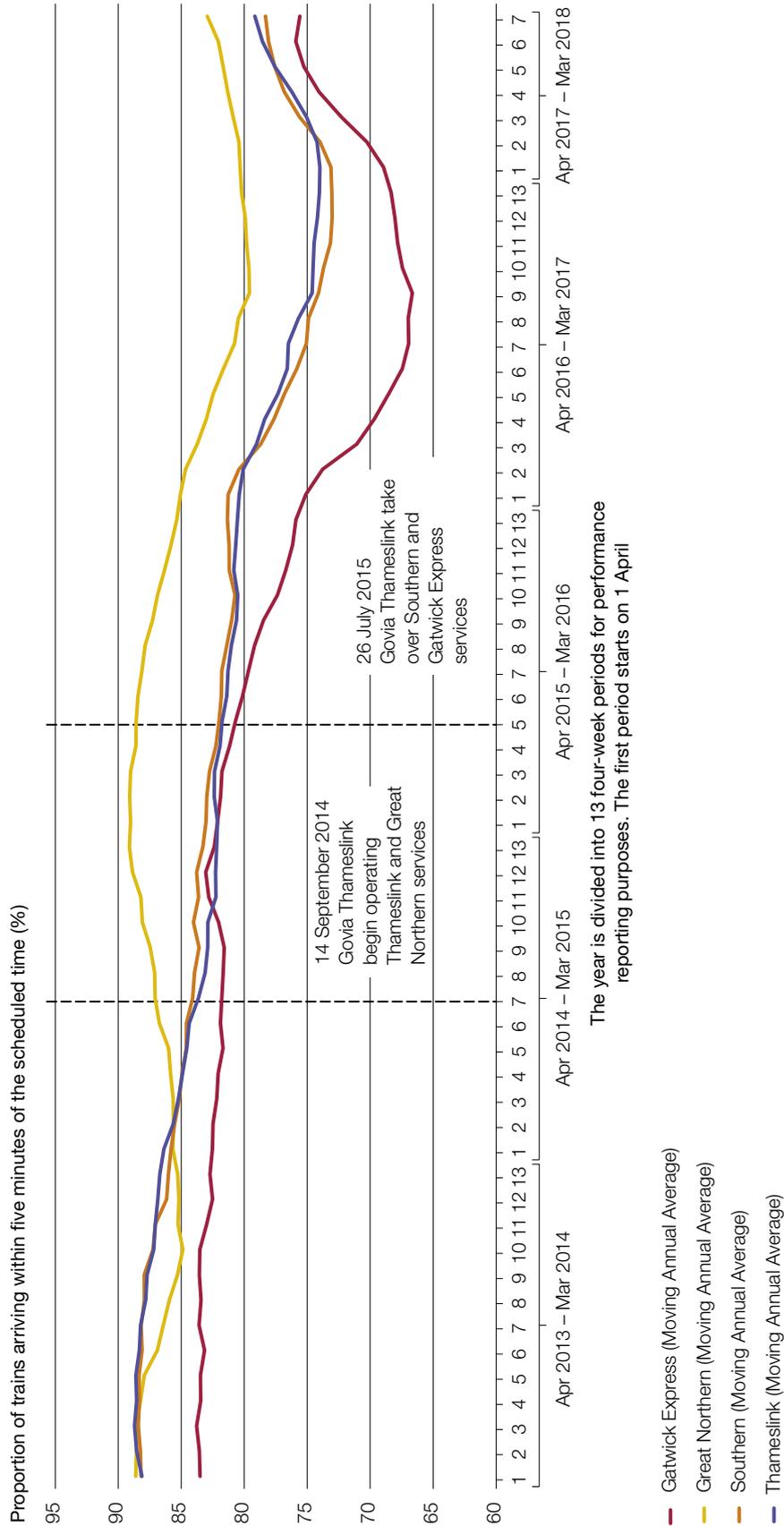
Notes

- 1 This figure includes all franchises in England and Wales.
- 2 The Public Performance Measure (PPM) – the percentage of trains arriving at their destination within five minutes of their scheduled time (10 minutes for long-distance journeys) combines punctuality and reliability as it includes cancelled services. This is a publicly recorded measure of performance for all operators on the network, which is gathered by the Office of Rail and Road (ORR) using Network Rail data.

Source: National Audit Office analysis of Office for Rail and Road data

Figure 4
 Govia Thameslink performance by route within the Thameslink, Southern and Great Northern franchise

Gatwick Express has consistently been the worst performing route



Note

1 Govia Thameslink began operating services on the Thameslink and Great Northern routes in September 2014. Southern and Gatwick Express services came under Govia Thameslink's operation in July 2015. Performance data prior to this is for the previous franchise operators.

The causes of service disruption

1.11 In addition to the Public Performance Measure described above, there is a further system for monitoring the causes of each individual train delay or cancellation. Network Rail and train operators review data on service cancellations and delays and assign a cause to each incident. Different causes are the responsibility of either Network Rail for issues such as track and systems failures, or the operator for issues such as train crew shortages. It is difficult to attribute delays and cancellations to specific causes because the railway is a complex system. This part of the report focuses on cancellations to services (which include services running more than 30 minutes late), as a means of indicating the most significant causes of disruption for passengers.

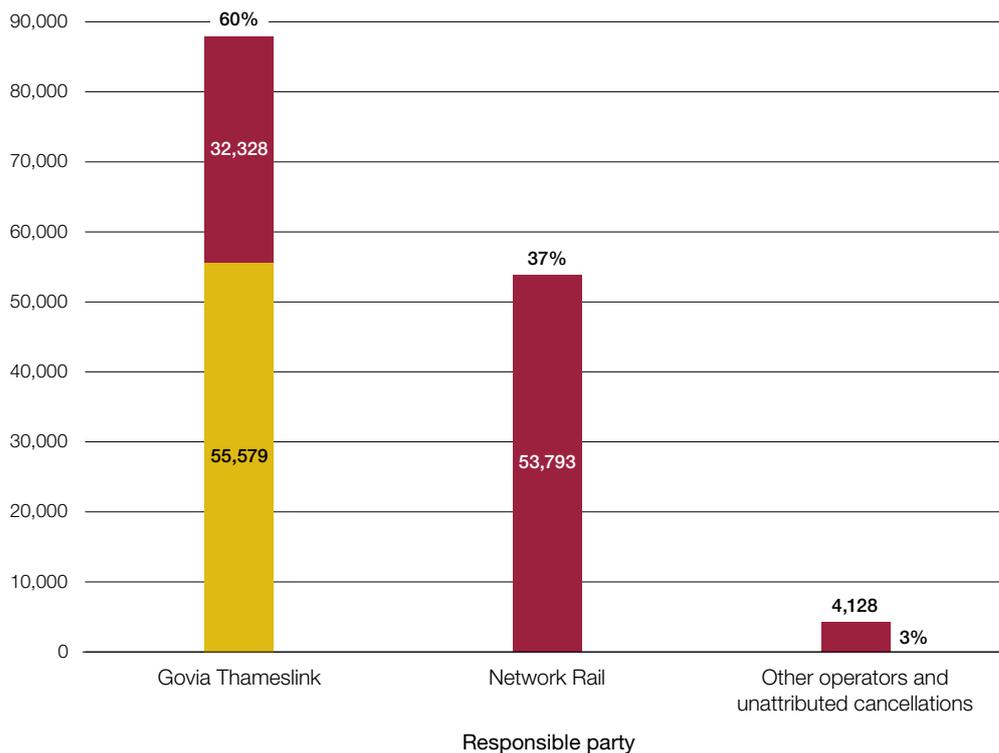
1.12 Between July 2015, when Govia Thameslink took over the running of Southern services, and March 2017 around 146,000 services (7.7% of planned services) were either cancelled or delayed by more than 30 minutes, compared with 2.8% on the rest of the network. Govia Thameslink has been responsible for 60% (88,000) of all cancellations (including significantly late trains) over this period (see **Figure 5**). Network Rail has been responsible for 37% (54,000) of cancelled services. These figures do not include train services which were cancelled before 10.00 pm on the previous day, such as pre-agreed alterations to timetables in weeks where Govia Thameslink anticipated it would not be able to operate the usual number of services.

Figure 5

Train cancellations by responsible party

Between July 2015 and March 2017 Govia Thameslink was responsible for 60% of all cancellations

Number of cancelled and significantly late trains (more than 30 minutes late)



- Other disruption
- Train crew – Govia Thameslink

Notes

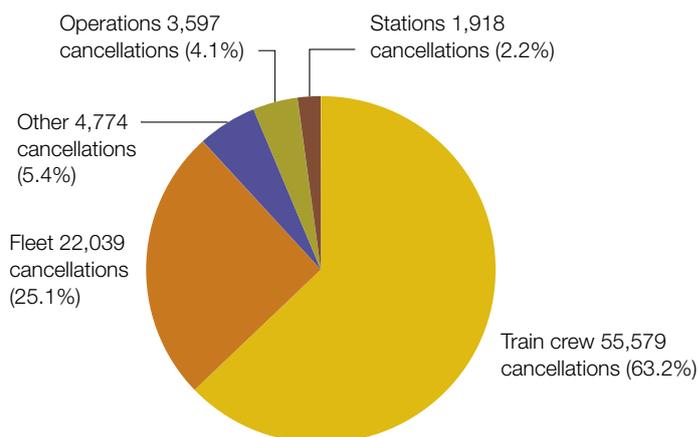
- 1 Cancelled services have been recorded between July 2015, when Southern and Gatwick Express services came under Govia Thameslink’s operation, and March 2017.
- 2 ‘Other operators’ are those whose services interact with the franchise, such as Southeastern. Unattributed cancellations are cancellations for which responsibility has not been established.
- 3 The cancellation data includes a small number of ‘significantly late’ services, typically between 1% to 2% of all incidents, that run but arrive at their destination more than 30 minutes late.

Source: National Audit Office analysis of Office of Rail and Road data

1.13 Most Govia Thameslink cancellations, 56,000 or 63% of its cancellations (38% of all cancellations), were due to issues related to train crews, followed by problems with its trains (**Figure 6**). The Department and Govia Thameslink consider, from the operator’s analysis of performance data, that industrial action is the most important cause of train crew shortages. Network Rail cancellations were mainly due to failures in the rail infrastructure and its capacity and Network Rail’s ability to manage disruption on this part of the network once it occurs (**Figure 7**). Failures of track and non-track assets caused 18,000 cancellations (13% of all cancellations). We discuss issues relating to Network Rail in Part Three of this report.

Figure 6
Train cancellations for which Govia Thameslink was responsible

Between July 2015 and March 2017 Govia Thameslink cancelled more services due to problems related to train crew than any other cause



Note

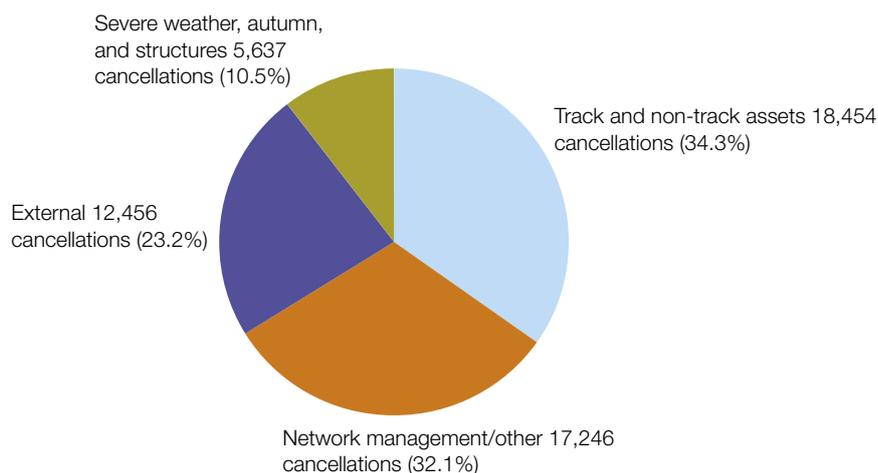
1 Cancelled services have been recorded between July 2015, when Southern and Gatwick Express services came under Govia Thameslink's operation, and March 2017. Cancellations also include a small number of 'significantly late' services, typically between 1% to 2% of all incidents, that run but arrive at their destination more than 30 minutes late.

Source: National Audit Office analysis of Network Rail and Office of Rail and Road data

Figure 7

Train cancellations for which Network Rail was responsible

Between July 2015 and March 2017, 35% of Network Rail cancellations were due to failures in track and non-track assets

**Notes**

- Cancelled services have been recorded between July 2015, when Southern and Gatwick Express services came under Govia Thameslink's operation, and March 2017. Cancellations also include a small number of 'significantly late' services, typically between 1% to 2% of all incidents, that run but arrive at their destination more than 30 minutes late.
- The Network management/other category is largely made up of uninvestigated cancellations and services cancelled due to Network Rail possession overruns, signaller error and the time taken to recover from other delays.
- 'Non-track assets' cancellations are largely due to track circuit, electrification infrastructure and points failures.
- 'External' cancellations are largely due to fatalities and trespass on the line.

Source: National Audit Office analysis of Network Rail and Office of Rail and Road data

1.14 In late 2016, the Secretary of State for Transport commissioned Chris Gibb to provide advice on how to deliver improvements to train services on the franchise. The Department published Chris Gibb's report in June 2017 (**Figure 8** overleaf).

Financial returns to Govia Thameslink

1.15 Govia Thameslink has not earned the profits it was expecting on this franchise to date as its costs have been greater than it expected. Over the three years that Govia Thameslink has operated the franchise up to September 2017, it has incurred a total loss of £5.25 million after tax.⁹ This compares to a forecast profit of almost £130 million that it expected to make when it bid for the franchise (**Figure 9** on page 27).

⁹ Figures from Govia Thameslink management accounts submitted to the Department. Govia Thameslink's statutory accounts, available from Companies House, cover a different time period.

Figure 8

The Gibb report on the franchise

Chris Gibb's report was an extensive review of multiple aspects of the franchise, based on the concept of the railway as a system of multiple, interlocking elements (including train operators, regulators, infrastructure, money, the weather, the timetable and many other elements) with passengers at its heart. His findings included:

- the rail system served by Southern trains is running at absolute capacity in peak times while also undergoing a period of dramatic change. Key changes include the introduction of new trains, enhanced infrastructure and the merger of train operating companies;
- the overall system was not working to passengers' satisfaction because key elements (including infrastructure, the timetable, station capacity and staffing) were not interacting effectively, meaning the system was under excessive strain. The current timetable could only be operated with reliability if "every other component in the system is operating at the top of its game";
- although no one organisation was solely responsible for placing the system under strain, industrial action by the RMT and ASLEF unions was the "primary cause" of the system breaking down in 2016;
- during the time he carried out his work, between September and December 2016, Gibb noted that "For most of the time I have observed there has been unusual sickness levels, official and unofficial industrial action by train crew, which has been enough to consistently cause the timetable to fail, delivering PPM of 60%–70%";
- the infrastructure is in a poor and unreliable condition, requiring an extra £300 million of spending to support the new 2018 timetable under the Thameslink programme. Additional spending on maintenance must continue until the condition of the network improved to the point where it could sustainably support a good level of performance; and
- the plan for determining which drivers and guards operate which train allocated staff efficiently, but increased the fragility of the system, meaning performance was too slow to recover after an incident of disruption.

Source: National Audit Office summary of *Changes to improve the performance of the Southern network and train services, and restore passenger confidence: An independent report by Chris Gibb*, 22 December 2016. Available at: www.gov.uk/government/publications/southern-rail-network-gibb-report

1.16 The Department and Govia Thameslink told us that this is largely due to:

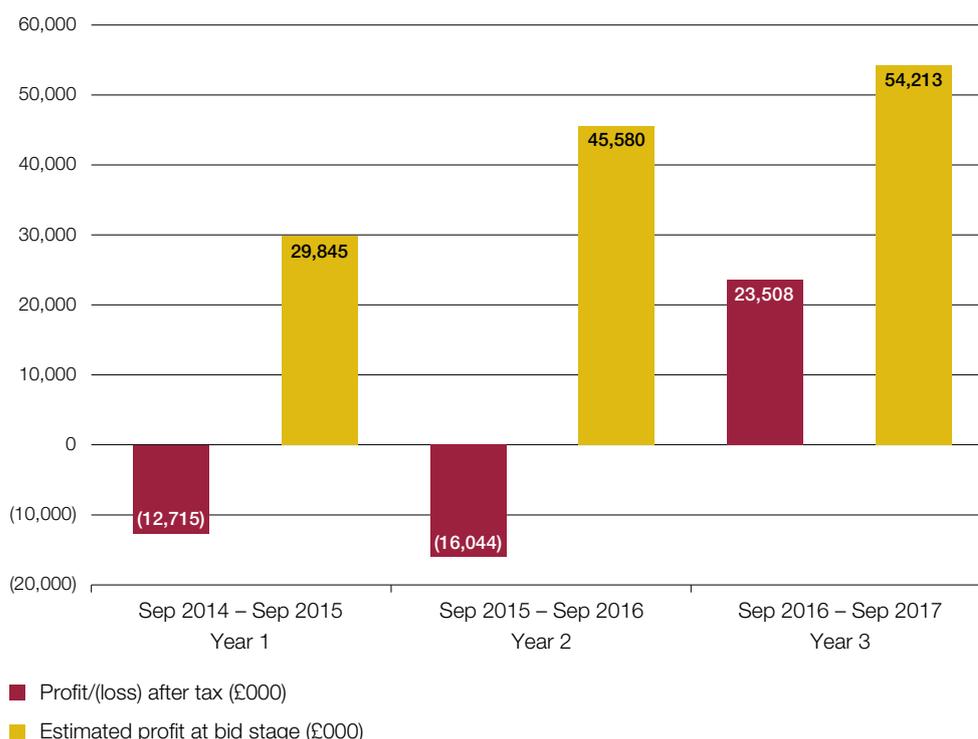
- Govia Thameslink underestimating certain costs in its bid, including Network Rail charges and the cost of drivers;
- unrealised efficiency savings. Govia Thameslink's bid was based on large efficiency savings, which it expected would be realised once Southern joined the franchise;
- financial penalties placed on Govia Thameslink by the Department as a result of poor performance;
- Govia Thameslink adding extra operational managers to deal with timetable changes and performance issues; and
- interim Govia Thameslink staff hired to deal with disruption at London Bridge and delayed modernisation plans.

Figure 9

Comparison of actual profits and losses against Govia Thameslink's original bid

Govia Thameslink has made an overall loss to date of £5.25 million

Govia Thameslink profit or loss (£000)

**Notes**

- Figures are annual, September–September, from the start of the franchise on 14 September 2014 and are based on National Audit Office analysis of management accounts submitted to the Department. The franchise began with Thameslink and Great Northern services in September 2014. Southern and Gatwick Express services joined the franchise in July 2015.
- Profits and losses are after taxation.

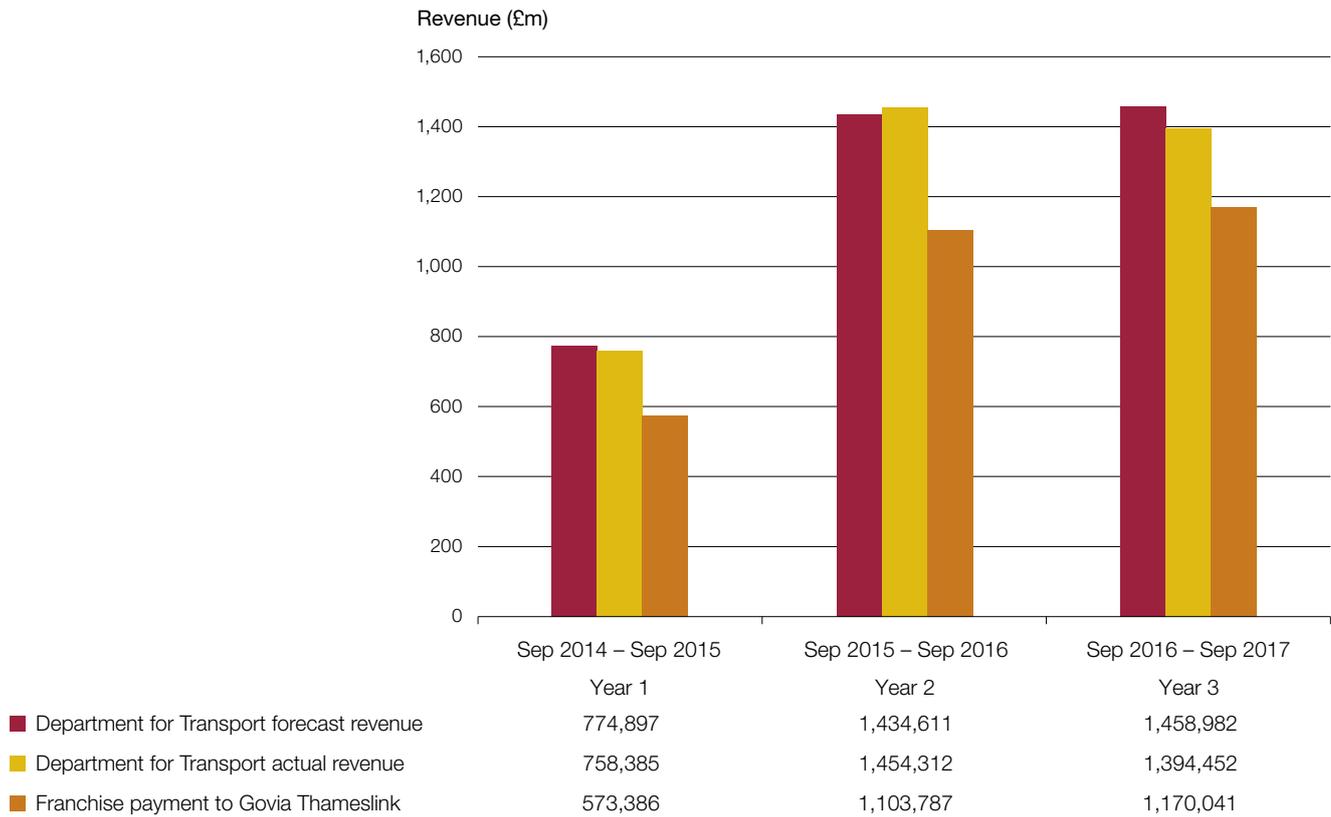
Source: Department for Transport and Govia Thameslink

Financial returns to the Department

1.17 The Department has received more than £3.6 billion in revenues through passenger fares since Govia Thameslink took on the franchise in September 2014, in line with forecasts that the Department made for revenue at the start of the franchise. Revenues in the latest year up to September 2017 have been below forecast, largely due to the impact of industrial action and an increase in refunds to passengers. Overall, after paying Govia Thameslink the franchise payments of £2.8 billion as set out in the contract for the first three years of the franchise, the Department has retained £760 million in revenues (**Figure 10** overleaf). This retained revenue is net of £33 million, which the Department has paid to passengers to compensate them for service disruption.

Figure 10
Franchise revenue to the Department

Since the start of the franchise, the Department for Transport's revenues from passenger fares have broadly met its expectations



Notes

- 1 Forecast revenues are based on the Department's forecast revenues at the start of the franchise taken from the financial modelling used during the bid stage. Figures are annual from the start of the franchise on 14 September 2014.
- 2 The Department's revenue is made up primarily of passenger fares and the amounts included are net of any repayments made to passengers including Delay Repay and season ticket refunds.
- 3 The franchise payment to Govia Thameslink is the payment set out in the franchise contract.

Source: The Department for Transport and Govia Thameslink

The Thameslink programme

1.18 Govia Thameslink also support the delivery of the Thameslink programme. The programme involves two phases of infrastructure works to redevelop stations and introduce new signalling technology in central London, and the introduction of 115 new longer, more spacious Class 700 trains. These will allow services to connect destinations across the South East through central London from early 2018. This will increase capacity throughout the region, and reduce passenger journey times by removing the need for interchanges through central London.

1.19 The Thameslink programme is now delivering benefits to passengers through station improvements and more spacious trains. In November 2017, we reported fully on the progress of the Thameslink programme.¹⁰ At that time, Network Rail had rebuilt and brought into use 10 platforms at London Bridge station, and opened two-thirds of the new street level concourse. Network Rail has also brought into use tunnels at King's Cross, allowing the East Coast Mainline to connect to the Thameslink network. As of September 2017, Govia Thameslink had accepted 64 out of the 115 new trains, and brought 45 of them into passenger service. Siemens has built the two maintenance depots for these trains. Separately from the programme, the franchise has introduced new trains on Gatwick Express services and on the Great Northern route.

1.20 The Department has decided to introduce new services under the Thameslink programme 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.

¹⁰ See footnote 5.

Part Two

The Department's management of the franchise contract

2.1 This part considers the issues on the franchise where the Department for Transport's (the Department's) franchise agreement (contract) with Govia Thameslink Railway Ltd (Govia Thameslink) has directly influenced services for passengers. It includes the effects of driver shortages, the impact of industrial action and train reliability issues. The part also considers the Department's response to Govia Thameslink's failure to meet its contractual targets.

The franchise start – train crew shortages

2.2 Govia Thameslink took on the franchise in two main stages.¹¹ It took over Thameslink and Great Northern services from the previous operator, First Capital Connect, in September 2014. In July 2015, Govia Thameslink integrated Southern and Gatwick Express services into the franchise. Govia was the previous operator of Southern. Train crew, including drivers, transfer to the new operator when franchises change hands. The time required to train a driver, around 14–18 months, means that driver shortages take some time to resolve.

2.3 Driver shortages affected services on the Thameslink and Great Northern routes from the start of the franchise. Govia Thameslink received fewer drivers from First Capital Connect, the previous operator, than it assessed it needed to run the franchise. Several aspects of this process are disputed by the two train operators. These include the number of drivers needed, the number Govia Thameslink expected to receive from First Capital Connect, the number of drivers Govia Thameslink actually received and whether information on 'rest day working' (where drivers volunteer to work additional shifts) and 'banked' rest days (days which drivers are entitled to take as leave in the future), was shared. Govia Thameslink's records show that it received 605 drivers, a shortfall of 77 against the 682 drivers it considered that it required. Govia Thameslink always expected some shortfall against its requirements and in summer 2014, once it had won the franchise, arranged for an additional 15 drivers to start training. The company also planned to recruit more drivers over time and reduce levels of rest day working.

¹¹ In addition to the two main stages described, some services which were previously part of the South Eastern franchise came under Govia Thameslink's control in December 2014.

2.4 Although the Department and Govia Thameslink have acted to address the driver shortages, they have persisted on the Great Northern route:

- The Department made increasing driver numbers a key element of the ‘remedial plan’ which it agreed with Govia Thameslink in February 2016, because of its failure to meet its required performance levels. Govia Thameslink had already introduced a ‘driver resilience programme’ to recruit additional drivers, reduce training times and deploy drivers more efficiently.
- Although Great Northern driver numbers increased from 298 at franchise handover in 2014 to 377 in July 2017, there was a shortfall of 21 drivers on the Great Northern routes. There were sufficient drivers for Thameslink services.

2.5 The Department accepts that it can do more to ensure sufficient provision of drivers when franchises are transferred between operators. The existing process, which was used on the handover of Thameslink and Great Northern services to Govia Thameslink in 2014, includes requirements for the previous operators to share information on driver numbers with prospective new operators, at the franchise bid stage, and there are mechanisms in franchise contracts to encourage previous operators to maintain staffing levels in the final months before handover. However, a consultancy report for the Department in 2016 recommended further improvements, such as the Department having a more detailed understanding of train crew rostering patterns.

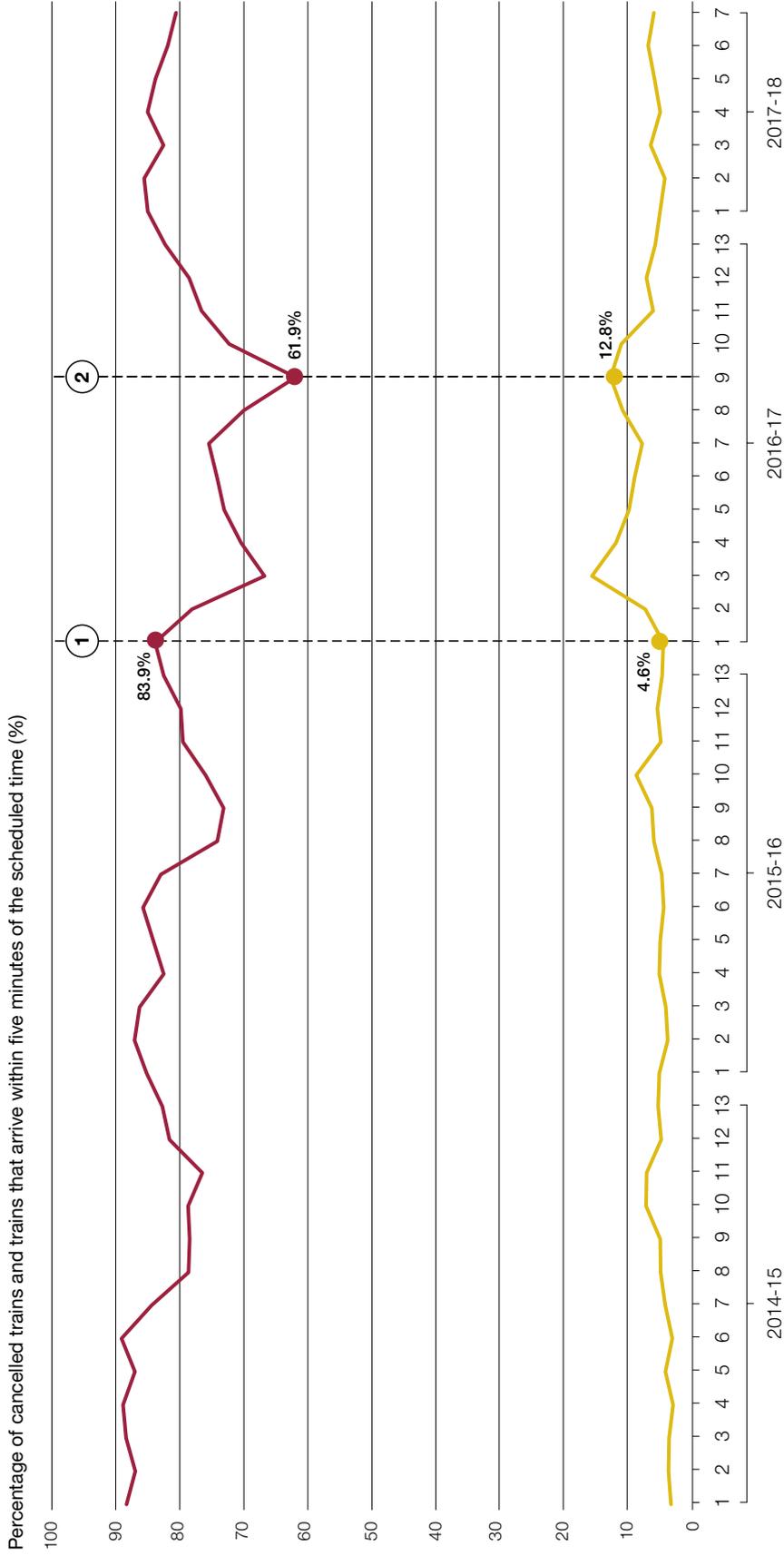
Industrial action

2.6 During 2016 and 2017, the rail unions RMT and ASLEF carried out separate industrial actions which disrupted Govia Thameslink services (**Figure 11** overleaf):

- RMT began industrial action in April 2016. The union called 38 strike days between April 2016 and November 2017. At the time of writing this report, RMT was continuing industrial action.
- ASLEF, the train drivers’ union, began industrial action in December 2016 and called six strike days between then and November 2017. ASLEF drivers also introduced a formal overtime and rest day working ban that lasted 43 days between December 2016 and January 2017. A second overtime ban by ASLEF ran for 21 days between June 2017 and July 2017. At the time of writing this report, ASLEF members had voted to accept an offer from Govia Thameslink of new employment terms and conditions, pay and the use of ‘driver-only operation’ (**Figure 12** on page 33), which was due to be implemented from January 2018.

Figure 11
Franchise performance and the effect of industrial action

Trains arriving late and cancellations have significantly increased during periods of industrial action



The year is divided into 13 four-week periods for performance reporting purposes. The first period starts on 1 April

- Percentage of trains arriving within five minutes of the scheduled time
- Percentage of services cancelled or significantly late (greater than 30 minutes)

Notes

- 1 RMT industrial action started on 26 April 2016, within rail period 1 (1 April – 30 April 2016).
- 2 ASLEF industrial action began on 6 December 2016, within rail period 9 (13 November – 10 December 2016).

Source: National Audit Office analysis of Office of Rail and Road data

Figure 12

Driver-only operation

'Driver-only operation' (DOO) means that train guards are not required to operate the train doors, and services can therefore run without a second person (a guard or conductor, in addition to the driver) crewing the train. 'Driver-controlled operation' (DCO) is an alternative term. The rail unions believe that this method of operation is less safe for passengers and the workforce. However, RSSB, the rail industry safety body, has concluded that DOO is safe and "the removal of any possible miscommunication, which could exist between driver and guard could, potentially, deliver some safety benefits". The independent safety regulator, the Office of Rail and Road, states that "with suitable equipment, proper procedures and competent staff in place, [DOO] is a safe method of working."

Source: National Audit Office summary of information from the Department, Govia Thameslink, RMT, ASLEF, the Rail Safety and Standards Board and the Office of Rail and Road

2.7 Both unions opposed Govia Thameslink's use of 'driver-only operation' on the franchise. In November 2015, 18 months after the Department's award of the franchise to Govia Thameslink in May 2014 and before the start of RMT's industrial action in April 2016, the two unions issued a joint statement opposing 'driver-only operation'. This joint statement would have been difficult for the Department or bidders for the franchise to foresee.

2.8 The Department's approach to rail franchising is to set out its minimum requirements in a tender document while encouraging bidders to exceed the minimum requirements through its quality-scoring framework. It then contracts the winning bid, including the elements that exceed its original specification. 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. Govia Thameslink's bid included details of its experience introducing DOO elsewhere on the network.

2.9 When the Department appointed Govia Thameslink to run the franchise, it recognised that the company's plans carried a risk of industrial action. During its assessment of Govia Thameslink's bid for the franchise, the Department described the plan as "...such an ambitious scale of change that the trade unions are expected to resist or delay the implementation of change". It noted previous examples of limited industrial action when DOO was introduced on other services. The Department assessed that Govia Thameslink's plan was likely to be delayed but would ultimately be deployed as intended. 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. Its contract with Govia Thameslink included the operator's contingency plan for industrial action. Govia Thameslink implemented its contracted obligation for DOO in January 2017.

2.10 The Department recognised that this franchise contract, which was different from other franchises in that fare revenue was received by the Department rather than the operator, meant that Govia Thameslink may have less incentive to avoid strikes than other operators. Industrial action is also defined in the contract, in common with other rail franchises, as a 'force majeure' event, meaning that the operator cannot be held responsible for the resulting poor performance, providing certain conditions are met. In 2014, before it appointed Govia Thameslink, the Department judged that there were other financial incentives in the contract to avoid strikes, for example the potential impact on other revenues such as car-parking fees at stations.

2.11 As the employer of train crew, Govia Thameslink is responsible for engaging with the rail unions and for negotiating with them during industrial action. The Department reviewed Govia Thameslink's industrial relations strategy before appointing it and gave the company positive feedback. The Department's direct engagement with the unions was limited to a small number of high-level meetings and correspondence.

Train reliability issues

2.12 Some of the trains which Govia Thameslink operates have been unreliable and this has contributed to the performance of its services. Between July 2015 and March 2017, 25% (22,000) of the cancellations and delays of more than 30 minutes which were caused by Govia Thameslink were due to problems with trains. Reliability problems have affected both some older trains, which Govia Thameslink inherited from previous operators, and new trains including the Siemens-built Class 700 trains, which began to be introduced from June 2016. We examined the delivery and performance of the Class 700s in more detail in our report on the Thameslink programme.¹²

¹² Comptroller and Auditor General, *Update on the Thameslink programme*, Session 2017–2019, HC 413, National Audit Office, November 2017.

Govia Thameslink's performance against its contractual targets

2.13 The Department's contract with Govia Thameslink includes a performance regime consisting of:

- Targets for service performance – limiting the number of delays, cancellations¹³ and 'peak short formations'¹⁴ of train services; passenger satisfaction and 'ticketless travel'.¹⁵ These performance measures are linked to incentive payments if Govia Thameslink achieves them and penalties if it does not.
- Definitions of 'breach' levels of under-performance, at which the Secretary of State for Transport is required to take action. One option is to require the operator to produce a remedial plan to improve performance, if the Secretary of State considers this to be the appropriate course of action. Otherwise, the Secretary of State can act in accordance with the enforcement regime contained in the Railways Act 1993.
- 'Default' under-performance definitions. When 'default' under-performance is continuing, material and unremedied, according to criteria which the franchise contract defines, the Secretary of State has the power to terminate the contract at his discretion.

2.14 After Govia Thameslink breached required performance levels in July 2015, the Department agreed a remedial plan with Govia Thameslink, which was finalised in February 2016. The plan included commitments on driver recruitment and training, additional management resources, improvements in passenger information and investment in rolling stock modifications to reduce the number of technical faults, including issues with the train doors.

2.15 After industrial action began in April 2016, the Department realised that the industry performance system, on which operators normally record the reason for each individual cancelled or delayed train, could not cope with the large increase in problems reported (**Figure 13** overleaf). To determine Govia Thameslink's performance, the Department and the operator needed to agree whether or not each service cancellation was due to industrial action, defined as 'force majeure' – meaning, providing certain conditions are met, that the operator cannot be held responsible for the resulting poor performance – or to some other cause. The large rise in cancellations would not necessarily mean that Govia Thameslink had breached its target, if much of the increase was due to 'force majeure' industrial action.

13 Both full and part cancellations. 'Part cancellations' are trains which ran for at least 50% of the planned journey length but which did not stop at all planned stations.

14 Services which run with fewer train carriages than planned, at peak hours.

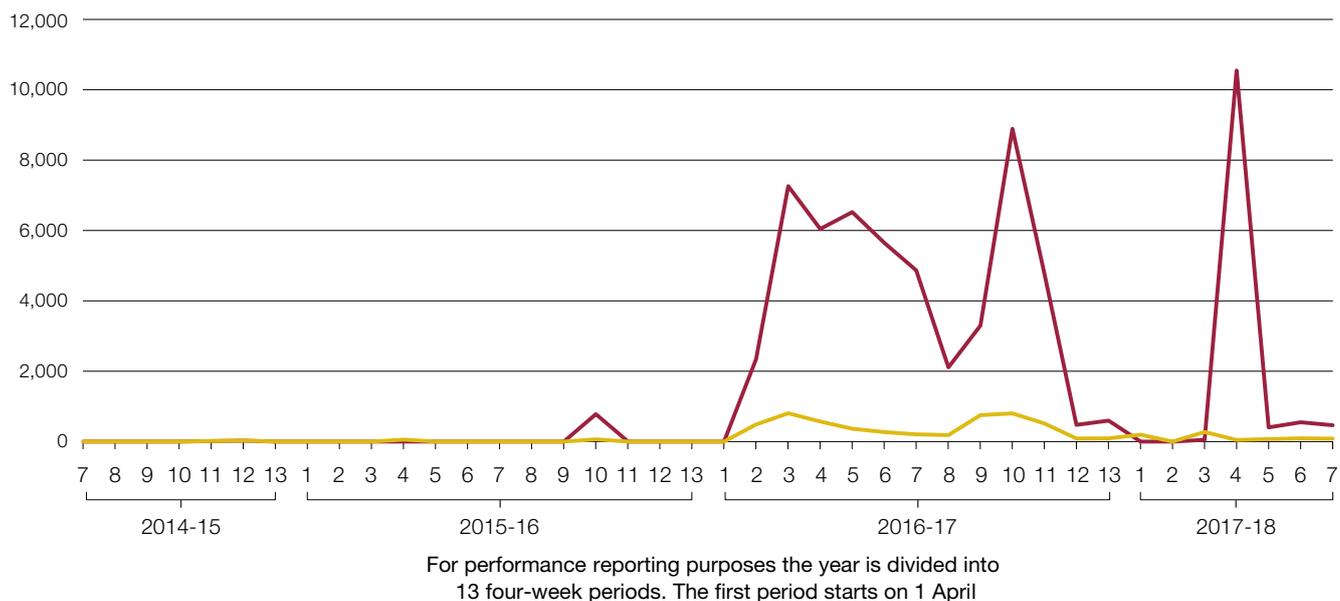
15 Targets limiting the number of passengers travelling without a ticket or with the wrong ticket.

Figure 13

Number of train service cancellations Govia Thameslink claimed were due to ‘force majeure’

The industrial dispute has significantly increased the number of cancellations Govia Thameslink has claimed under the ‘force majeure’ provisions of the Franchise Agreement

Train service cancellations Govia Thameslink claimed were the result of ‘force majeure’



- Full cancellations
- Partial cancellations

Notes

- 1 ‘Full cancellations’ are trains which covered less than 50% of the planned journey. ‘Partial cancellations’ are trains which ran for at least 50% of the planned journey length but which did not stop at all planned stations.
- 2 The increase in cancellations in June 2017 (Period 4, 2017-18), was because Govia Thameslink operated a reduced timetable since it expected industrial action would mean that sufficient drivers would not be available. It did this to provide certainty about which trains would run.

Source: National Audit Office analysis of Department for Transport data

2.16 Govia Thameslink started submitting claims for ‘force majeure’ in June 2016. The Department’s assessment of the performance data and discussions with the operator took more than a year, partly because industrial action was continuing at the same time and partly because it had to wait for each performance period to come to an end. In March 2017, the Department’s assessment was that Govia Thameslink was in breach of the cancellations target.

2.17 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, which at the time of writing was not finalised.

2.18 In June 2017, the Department concluded its analysis of Govia Thameslink’s ‘force majeure’ claim. In July 2017, Govia Thameslink accepted the Department’s analysis as part of the overall commercial discussion. They then agreed that the operator will spend £13.4 million on various measures aimed at improving services for passengers (**Figure 14**). The agreement included several elements:

- £2.4 million is Govia Thameslink’s payment for underperformance against its service performance targets, in the franchise year from mid-September 2015 to mid-September 2016.
- A further £10 million of the agreement is to buy out Govia Thameslink’s liability in respect of its performance obligations for franchise years September 2016 to September 2017, and then to September 2018; that is, £5 million for each year. The Department decided to agree these sums in order to avoid further protracted analyses and negotiations, particularly as it would also need to agree further contractual performance benchmark changes regarding the Thameslink programme and the changed timetables (see paragraph 3.9). The amount was also in line with the Department’s analysis of Govia Thameslink’s performance in the 2016-17 franchise year.
- The final £1 million of the £13.4 million agreement is for franchise issues unrelated to service performance and that would have been invested in passenger benefits regardless of the settlement.

Figure 14

The July 2017 agreement between Govia Thameslink and the Department

Money Govia Thameslink agreed it owed to the Department for Transport		How Govia Thameslink will spend this money	
£2.4 million	Payment for disruption between Sep 2015 and Sep 2016 (Performance Year 2).	£1 million	To develop performance benchmarks with the Department from Sep 2018 until the franchise ends.
£5 million	Amount due in lieu of performance payments for disruption between Sep 2016 and Sep 2017 (Performance Year 3).	£1.4 million	Strengthening the franchise management team and closer working with Siemens on the reliability of the Class 700 trains.
£5 million	Amount due in lieu of performance payments for disruption between Sep 2017 and Sep 2018 (Performance Year 4).	£4 million	Retaining 50 on-board supervisors for an additional 24 months (Jan 2018–Dec 2019).
£1 million	Amount due to the Department since Govia Thameslink spent less than expected delivering Franchise Agreement commitments (not related to performance).	£7 million	Funding for improvements to benefit Govia Thameslink passengers, to be decided later by the Department.
£13.4 million	Total	£13.4 million	Total

Source: National Audit Office analysis of Department for Transport information

2.19 The Department initially raised settling for future underperformance at the March 2017 Departmental Board Investment and Commercial Committee, where it was explaining its approach for agreeing the amount of poor performance related to ‘force majeure’. The Committee oversees major contractual and commercial decisions and would not normally oversee commercial decisions of this size. However, given the risks around the franchise and the high-profile disruption, the Department decided it should discuss the ‘force majeure’ negotiation at the Committee. The Department did not seek a decision from the Committee on how this should be handled, or support for its approach.

2.20 At the end of June 2017, the Department had concluded that Govia Thameslink owed it £2.4 million for poor performance over the period to September 2016. On 29 June the High Court ruled that the Department had to make a final decision within 14 days about whether, in light of Govia Thameslink’s ‘force majeure’ claims, Govia Thameslink had breached its performance benchmarks, or would face a judicial review. Following this ruling, the Department decided to agree a broader package of investment in the franchise to improve passenger services within the same timescale. We have not seen evidence of formal discussions with the Department about the amount that Govia Thameslink might be willing to pay to settle its obligations.

2.21 The decision resulted in a fast-moving negotiation between the Department and Govia Thameslink. The Department told us that its senior officials, including the managing director of passenger services and the acting director general for rail, had approved the agreement and that decisions had sometimes been made verbally because of the rapid timescale. Officials also consulted the Secretary of State for Transport, who agreed to the approach proposed including the buyout of a future performance year and approved the final package.

2.22 At the time of writing, it is unclear how the Department will incentivise Govia Thameslink to deliver good services for passengers in the future, having removed its ability to use financial performance penalties up to September 2018. This is because the negotiations on a second remedial plan, and interim performance measures, are ongoing. The Department told us that this remedial plan, along with its powers to fine operators for breaches of the franchise under the Railways Act 1993, mean that it can still manage Govia Thameslink’s future performance despite the agreement.

Part Three

The Department and Network Rail's management of the rail network

3.1 This part evaluates how the capacity of the rail infrastructure in the franchise area, its condition and the demands placed on it have contributed to the performance of the franchise. It also considers the impact of the Thameslink programme works, managed by Network Rail, on the franchise.

The effects of Thameslink programme work on services

3.2 As noted in Part One, one of the Department for Transport's (the Department's) main aims for the franchise was to help deliver the Thameslink programme infrastructure (the programme). Bidders for the franchise had to provide a plan of how they would help to deliver the programme infrastructure, using information from Network Rail. Govia Thameslink Railway Ltd's (Govia Thameslink's) approach to the franchise took account of the Thameslink programme work and changed train services accordingly:

- Diverting Thameslink services away from London Bridge, via Herne Hill and Tulse Hill, due to the closure of the Thameslink connection between London Bridge and Blackfriars.
- A series of 'blockades' for Network Rail to carry out Thameslink programme works during 2015, 2016 and 2017, affecting London Bridge, Cannon Street and Charing Cross stations. These primarily affected Southeastern services, with only marginal impacts on Govia Thameslink services.

3.3 Beyond these pre-planned changes to service patterns, Thameslink programme works have had relatively little 'unplanned' effect through overrunning work on Govia Thameslink services. In 2015-16, the programme accounted for 10,338 minutes of delay on Govia Thameslink services, 0.41% of the total delay minutes (2.49 million). Other Network Rail issues, such as infrastructure work outside the programme and equipment failures, accounted for more than 1.5 million delay minutes, or 60%, in the same period. Unplanned effects of the programme have mainly fallen on Southeastern services, which fall outside the scope of this report.

3.4 The programme has caused other indirect delays to services on the franchise, however, as well as to Southeastern services. Network Rail has to take platforms and track out of service to carry out its works at London Bridge station. This means there are fewer lines available to manage trains as they arrive in the station, making it more difficult to recover from delays, and causes further knock-on delays, known as ‘reactionary’ delays, in the approaches to London Bridge station. An assessment carried out by the rail regulator, the Office of Rail and Road (ORR), in March 2017 found that reactionary delay in the Kent area and at London Bridge “...may be, to some extent, an indirect impact of the [Thameslink programme]”.¹⁶

3.5 However, Thameslink programme work at London Bridge in late 2014 and early 2015 did cause significant disruption for passengers on Southern services (**Figure 15**). ORR also reported on this disruption in August 2015.¹⁷ At that time, Southern services were run by Govia but under a separate company called Southern Rail Ltd. Govia Thameslink took Southern services into the Thameslink, Southern, Great Northern franchise in July 2015.

Figure 15

Thameslink programme disruption at London Bridge station in early 2015

Starting from 5 January 2015, many passengers travelling through, from and to London Bridge station experienced significant delays and disruption to their journeys, as well as periods when the station was overcrowded. The cause of the problems was Thameslink programme works carried out at the station over the Christmas and New Year period, including two new platforms, changes to the station concourse and to the track layout, plus a new timetable for Southern services.

Network Rail completed the works on time, but some track circuits and points systems failed to operate properly once the railway had been reopened. There was a high level of service disruption in the first week of January and problems with overcrowding at the station. During January, only 75% of Southern trains arrived at their destination within five minutes of their scheduled arrival time.

On 3 March, serious overcrowding occurred again at London Bridge when lines in and out of Victoria station were suspended due to an attempted suicide and passengers were sent to London Bridge. This coincided with other problems including investigation of a track defect and passengers coming to London Bridge following a train failure at Hoxton on the London Overground. In addition, Network Rail and Southern found that the planned timetable through the station could not be delivered in practice, because it was based on over-ambitious assumptions and drivers were proceeding cautiously through the unfamiliar new layout.

Source: National Audit Office, based on Network Rail information

¹⁶ The Office of Rail and Road, *Network Rail's performance delivery to Southeastern*, July 2017, available at: http://orr.gov.uk/__data/assets/pdf_file/0011/25202/network-rail-performance-delivery-to-southeastern-july-2017.pdf

¹⁷ The Office of Rail and Road, *Network Rail's performance delivery to Southern and Govia Thameslink Railway in 2014-15*, August 2015, available at: http://orr.gov.uk/__data/assets/pdf_file/0006/18699/performance-investigation-report-southern-gtr-august-2015.pdf

The rail network's capacity for train services

3.6 In 2013, when the Department invited bids for the franchise, it wanted to increase the capacity of the services in line with the aims of the Thameslink programme, to benefit passengers. Passenger numbers on its routes have been increasing for many years and are forecast to continue rising.¹⁸ The Department encouraged bidders to go beyond the Department's minimum requirements, for example by proposing additional train services or additional capacity for passengers, or introducing high-frequency services through the centre of the Thameslink route (the 'core') earlier than the base plan for the programme.

3.7 Network Rail is ultimately responsible for balancing demand with available capacity to determine which timetable will operate. It was concerned that even the Department's minimum timetable plans went beyond the capacity of the rail network, and Govia Thameslink also raised concerns:

- Before the Department published its invitation to tender in September 2013, Network Rail wrote to the Department stating that its December 2018 train service requirements, the second of two major timetable plans which the appointed operator would have to deliver "...did not yet constitute a workable timetable".¹⁹ After the five bids for the franchise came in, Network Rail continued to express concerns that the timetables which bidders had produced based on the Department's requirements were not realistic. In a report to the Department in early February, it rated all five bidders' plans, for both the December 2015 and December 2018 timetables, either 'Orange', indicating 'significant concerns' or 'Red' (partly or completely unworkable plans). It gave Govia Thameslink's plans an 'Orange' rating, due to the number of 'non-compliances' with Network Rail's timetable planning rules and requirements for access to do engineering work.
- While the Department was developing its invitation to tender, it discussed its train service requirements with bidders and invited comments on them. Govia Thameslink wrote to the Department suggesting that Network Rail was likely to object to some aspects of the Department's specification, in a letter two weeks before the Department issued it in September 2013. Govia Thameslink detailed its concerns about specific aspects of the 2018 plans, such as the number of trains required to run to and from Moorgate station from 2018, and the number of peak time stops required at Norwood Junction on the Brighton Main Line.

¹⁸ For example, Network Rail's 2012 plan for the Sussex route, which includes the Brighton Main Line, noted that passenger numbers were forecast to grow by 30% in the next 10 years.

¹⁹ The first timetable plan required from bidders was for services from December 2015 to January 2018. After taking on the franchise in September 2014, until December 2015, the operator would run timetables inherited from the previous operators.

3.8 The Department judged that the normal industry timetable development process, in which Network Rail negotiates and agrees operators' access rights to the network, would allow such concerns to be addressed before the December 2015 timetable and the new Thameslink programme services in 2018 come into effect. The level of train services specified in the contract would then 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 actual December 2015 timetable have contributed to the service disruption which passengers have experienced. In his review of the Southern rail network for the Department in late 2016, Chris Gibb found that the timetable was "... theoretically possible to deliver, but only if every other element is operating at the top of its game".²⁰ The joint industry development of the 2018 timetable has continued in parallel with the operation of the franchise and at the time of this report, this timetable is not yet finalised.

3.9 At the time of writing this report, the Department and Govia Thameslink were negotiating two significant contractual changes in accordance with the terms of the franchise contract. One contractual change will reflect the impact of changes to the 2018 train service requirements compared with those in the franchise contract. These changes have to be agreed across the rail industry, and were anticipated in the franchise contract. The second major change reflects the delayed introduction of the new Class 700 trains for Thameslink services, which has meant that Govia Thameslink has needed to continue operating older trains. The impact of the changes is expected to amount to tens of millions of pounds a year. These negotiations are affected by the Department's decision to extend the final phase of timetable implementation for the Thameslink programme by a year, as discussed in our report on the Thameslink programme.²¹

The condition of the rail network

3.10 In addition to the timetable issues, limitations on the network's capability because of its condition and complexity have also contributed to the service performance on the franchise. The Department did not take account of these in its specification of the franchise.

3.11 Infrastructure failures have been a significant cause of disruption to Govia Thameslink services. In December 2016 Network Rail reported that in the previous year, there had been an infrastructure failure on average every 1.5 hours affecting Govia Thameslink services, and the failures on Govia Thameslink had accounted for 11% of all Network Rail infrastructure-related delay across the national rail network. There was a 'significant' incident (causing 1,000 to 10,000 minutes of delay in total) on average every three to four days and a 'severe' incident, accounting for more than 10,000 minutes of delay, on average every four months.

²⁰ Chris Gibb, *Changes to improve the performance of the Southern network and train services, and restore passenger confidence*, Department for Transport, June 2017, available at www.gov.uk/government/publications/southern-rail-network-gibb-report

²¹ Comptroller and Auditor General, *Update on the Thameslink programme*, Session 2017–2019, HC 413, National Audit Office, November 2017.

3.12 The Department funds Network Rail spending and sets overall requirements for the network. Network Rail developed its plans for work on the rail network in the current five-year funding cycle, from 2014–2019, on the basis of the Department’s priorities in its 2012 ‘High Level Output Specification’. Plans for maintenance and renewal work were then determined by Network Rail and the Office of Rail and Road, within the funding envelope set by the Department.²² This process is entirely separate from the Department’s rail franchising programme.

3.13 In 2016, as part of Chris Gibb’s review, Network Rail identified a package of railway maintenance work that would reduce the amount of delays from railway asset failures.²³ This includes a range of works, such as track replacement and cutting back trees and shrubs on and around the tracks. The Department agreed the need for additional infrastructure investment on the franchise routes in January 2017, more than two years after Govia Thameslink began operating the franchise, following a recommendation in Chris Gibb’s review.

3.14 Network Rail estimated that it will cost up to £900 million to address all the issues it has identified. However, because of limits on the amount of access Network Rail has to the infrastructure to carry out these works, it has had to prioritise £300 million of the works that will have the biggest impact on reducing delays to central London, which it plans to complete by April 2019. These works are on its South East and London North Eastern routes and have been funded by a £250 million grant from the Department, with the remaining £50 million being reprioritised from Network Rail’s existing maintenance budget. It is considering including the remaining £600 million of works in its plans for the next railway spending period starting in April 2019.²⁴

Network congestion and sensitivity to disruption

3.15 In addition to increased investment in infrastructure, Network Rail acknowledges that there is a need to better understand the sensitivity of the network to small disruptions. In 2015, Network Rail and Govia Thameslink commissioned a review focusing on ‘reactionary delay’ when further delays to services are caused by initial, small incidents producing reactionary effects on a congested network. The ‘Draper review’ of reactionary delay on the southern franchise routes, excluding Great Northern, carried out by Steven Draper of Network Rail, was part of the response to the significant performance issues at London Bridge in early 2015 before Govia Thameslink had taken over Southern in July 2015. It found that the congested network had “lost the ability to recover from delay”. Key issues included trains starting late from London Bridge and Victoria stations, and reactionary delay on the Brighton Mainline near Gatwick, with Thameslink services being delayed by Southern services.

22 Comptroller and Auditor General, *Planning and delivery of the 2014–2019 rail investment programme*, National Audit Office, September 2015.

23 See footnote 20.

24 See footnote 21.

Appendix One

Our audit approach

This study examines whether the Department for Transport (the Department) has effectively managed this franchise to meet the objectives it set for it. Our key areas of review were:

- 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).

Our evaluative framework for assessing value for money considers the objectives the Department set itself for this franchise and whether these have been met.

Our audit approach is summarised in **Figure 16**. Our evidence base is described in Appendix Two.

Figure 16

Our audit approach

The objective of government

The Department for Transport’s overarching aims are to provide high-quality rail services to passengers, while generating income from the use of the national rail network.

For the Thameslink, Southern and Great Northern franchise the Department’s specific objectives were to support delivery of the Thameslink programme while maintaining and improving service levels for passengers.

How this will be achieved

The Department designing, awarding and managing the franchise, Network Rail’s delivery of the Thameslink programme and its wider infrastructure management in an integrated and consistent way which enables the delivery of the Department’s objectives.

Our evaluative criteria

Has the Department designed, awarded and managed the franchise to deliver good services for passengers?

Has the Department integrated the franchise with Network Rail’s delivery of the Thameslink programme and the condition of the wider network?

Our evidence
(see Appendix Two for details)

We assessed whether the Department has designed, awarded and managed this franchise effectively by:

- conducting interviews with the franchise operator Govia Thameslink, Department staff and other stakeholders;
- reviewing Department documentation;
- reviewing evidence provided directly by Govia Thameslink and others; and
- analysing data on the performance of the franchise and of other rail services.

We assessed whether the Department has integrated the franchise with rail infrastructure work, including the Thameslink programme, by:

- conducting interviews with Network Rail and Department staff;
- reviewing and analysing documentation and data provided by the Department and by Network Rail; and
- collaborating with colleagues responsible for our parallel report on the Thameslink programme.

Our conclusion

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.

Appendix Two

Our evidence base

1 Our conclusion as to whether the Department for Transport (the Department) has effectively managed this franchise to meet the objectives it set for it has been reached following our analysis of evidence collected between February and October 2017.

Our audit approach is outlined in Appendix One.

We examined whether the Department has designed, awarded and managed the franchise to deliver good services for passengers:

- We reviewed the Department's rationale for the design of the franchise including the scope, contract model and commercial arrangements within it. This involved reviewing relevant Departmental documentation and interviews with Department staff who were directly involved in setting up this franchise. We interviewed key staff in the Passenger Services area of the Department to obtain further information about how the Department managed this franchise with the operator.
- We reviewed performance data for this franchise and the rest of the rail network and discussed it with the Department and Govia Thameslink.
- We reviewed data on financial returns to the Department and Govia Thameslink.
- We reviewed documentation and analysis supporting the Department's financial settlement with Govia Thameslink in July 2017.
- We interviewed key stakeholders, including the rail unions, to understand the decisions made and working relationships in place on this franchise.

We assessed whether the Department has integrated the franchise with rail infrastructure work, including the Thameslink programme:

- We interviewed Network Rail staff responsible for the Thameslink programme and its interfaces with the operator. We also interviewed Network Rail staff responsible for managing the infrastructure at a route level.
- We reviewed documents that Network Rail submitted to the Department during the development and award of the franchise to Govia Thameslink.
- We reviewed documentation provided by Network Rail on rail infrastructure performance in London and the South East.
- We reviewed documents on Network Rail's work with Govia Thameslink during the franchise operation to date.

This report has been printed on Evolution Digital Satin and contains material sourced from responsibly managed and sustainable forests certified in accordance with the FSC (Forest Stewardship Council).

The wood pulp is totally recyclable and acid-free. Our printers also have full ISO 14001 environmental accreditation, which ensures that they have effective procedures in place to manage waste and practices that may affect the environment.



National Audit Office

Design and Production by NAO External Relations
DP Ref: 11597-001

£10.00

ISBN 978-1-78604-151-7



9 781786 041517
