Chair of the Committee of Public Accounts
House of Commons
London
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Dear Chair,

The Government published its response to the Committee’s report titled “Rail Franchising in the UK” on 28 June 2018. It accepted all five of the report’s recommendations, and agreed that the Department should write back by September 2018 to set out progress against two of these in particular.

Recommendation 3: The Department should write to the Committee by September 2018, explaining how it has reviewed its approach to performance management of rail franchises, in order to reduce the risk that performance regimes break down in practice and to set clear expectations for protecting passengers and taxpayers if alternatives to the contracted regime need to be found. It should also set out how it held Govia Thameslink to account between September 2017 and September 2018, and how it will do so after the current agreement ends.

Improvements to performance management regimes are made regularly to ensure that, as new franchises are let, we reflect any lessons identified from the management of franchises in life, including those from TSGN. These improvements are designed to better incentivise operators to deliver for passengers while providing value for money for taxpayers.

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One such change has been to include measures to encourage the franchisee to work more closely with Network Rail to drive improvement, instead of concentrating solely on the operator-only elements of performance. This was first used as the core approach to performance management in the South Western Railway franchise, and has been further updated for inclusion in the new South Eastern franchise.

We are also exercising levers outside of our contractual performance management frameworks. We have been clear – both at Ministerial and official level – that we expect to see the industry challenging itself to deliver sustained improvement by working together, demonstrating leadership, and developing a culture focused on the passenger experience.

For example, we have made it clear that we expect to see the rail industry working to develop strong Joint Performance Strategies, specifically addressing areas of underperformance on the network. One particular area of focus is seasonal delivery plans to mitigate the effects of weather on the railway in order to minimise disruption to passengers as we move into Autumn.

Whilst we expect this to be routine business, the Department wrote to all franchised train operators in July of this year to remind them of their obligations on preparation for Autumn. Deep dives on the efficacy of their plans are now taking place to track and monitor their compliance. In addition, the Rail Minister has recently met senior rail industry representatives to challenge them on the robustness of their preparations.

The Government has been clear that operators should be properly held to account for breaching performance targets, and we have applied this principle throughout the life of the Govia Thameslink Railway (GTR) contract. In February 2016, GTR agreed a Remedial Plain to address a number of issues relating to a breach of its cancellation benchmarks during 2015/16. Under the terms of that Remedial Plan, GTR recruited a number of additional trainee drivers, established an Alliance Board with Network Rail, and strengthened elements of its management team.

In late 2017, the Department identified further breaches in relation to cancellations and peak short formations taking place over the previous 12 months, and took action by implementing a second Remedial Plan. This came into effect on 25 January 2018; and included a set of interim performance measures, identified the steps the operator was to take to
remedy the breach, and set out the timescales for taking these steps. The plan also included a fund, paid for by GTR, which has been used to deliver additional passenger benefits including on-board supervisors, enhancements to GTRs smarter ticketing offer, and the establishment of an Operational Excellence Steering Group. GTR continues to deliver this benefits package.

The Department is clear GTR must also be held to account for its part in the unacceptable levels of disruption suffered by passengers since the May 2018 timetable change. The Secretary of State has commissioned an independent Office of Rail and Road (ORR) investigation into the industry’s planning and delivery of the change, led by Stephen Glaister. This investigation has considered the effectiveness and application of GTR’s governance and assurance processes, as well as their approach to resourcing. The Glaister Review published its interim findings on 20th of September, and the Department is currently comparing these to our own independently-led internal investigations. The Review’s final report is expected in December.

The Department has a range of actions it could take against GTR if their role in the May 2018 timetable change is deemed to constitute a breach of contractual obligations, or if they fail to comply with the second Remedial Plan. These include requiring the operator to deliver additional passenger benefit at their own cost, direct financial penalties, or in extreme cases, contract termination. The Department is currently completing its investigation of these matters and will not hesitate to take action if GTR is found to have failed to meet its obligations.

**Recommendation 4:** The Department must take urgent action to improve its understanding of what causes changes in passenger demand, and use its understanding of these factors to model a range of likely outcomes before awarding franchises. It must write to the Committee before it awards any more franchises to explain the improvements it has made.

We have seen changes in passenger travel patterns that have made demand harder to predict. We therefore recognise the importance of properly understanding its drivers, and make regular improvements to our forecasts in line with the latest best practice and evidence. The most recent update to our forecasting guidance took place in May 2018, and has improved its robustness by – among other changes – taking into account how changing employment in different sectors will affect number of train journeys.
The Department works closely with the industry on its research programme. Current work includes a study led by the Rail Safety and Standards Board to better understand the factors influencing travel behaviour. The Department is also in the process of improving the database used in demand forecasting estimation studies, and has commissioned work relating to important determinants of demand, such as fares and the number of journeys taken per season ticket.

The Department has introduced a new approach to testing the financial viability of franchises when evaluating bids, which was first applied to the South Eastern franchise competition. This incorporates a more testing set of scenarios into the financial robustness test in order to provide greater assurance of a franchise’s viability; as well using a downside (less optimistic) scenario in the formula to evaluate which bid wins the competition. The Department continues to consider changes to evaluations and robustness tests on a franchise-by-franchise basis.

I hope that this is helpful.

Yours sincerely,

Bernadette Kelly CB
Permanent Secretary