



Department
for Transport



South Eastern Rail Franchise Prospectus

Shaping the Future

March 2017



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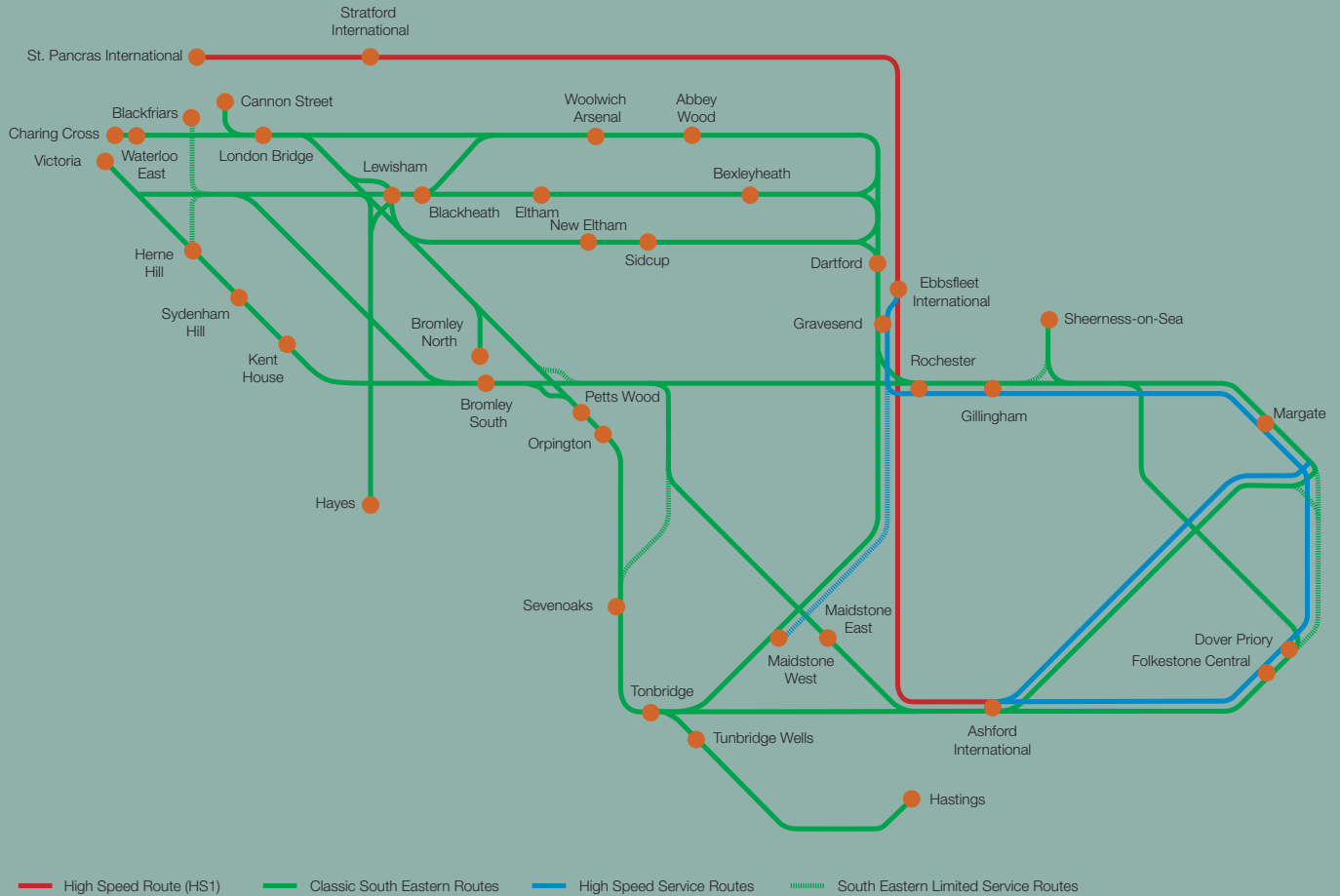
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1

Executive
summary

The franchise



The South Eastern story

The South Eastern franchise serves passengers in south-east London and parts of Kent and East Sussex. It operates over 1,900 services each weekday, and provided more than 180 million passenger journeys in 2015/16, making it the fourth largest franchise in the UK, behind Thameslink, Southern and Great Northern, South Western, and London Overground. It is one of the most important commuter railways in the UK. Around 65% of passengers travel at peak times, but there are also significant business and leisure flows.

Recent improvements to the service

The current franchise has been in place since April 2006 and expires in 2018. During this time, there has been significant investment: the rebuilding works at London Bridge are due to be completed in January 2018; and the power infrastructure has been upgraded to enable 12-car trains in the Metro area. The benefits of this will be realised during the new South Eastern franchise.

In the last two years, there have also been improvements in the train service including:

- Operations:
 - More customer-facing staff, including 100 extra front line staff members, provided across the network.
 - A deep cleaning programme and general improvement works at stations.
 - A refresh of more than 300 trains.
 - Additional capacity, with 95,000 additional seats per day introduced on services, including 1,050 additional seats on High Speed services.
- Services and connections:
 - Improved connections between London, and north and east Kent, through a new hourly high-speed service via Gillingham, Ramsgate, Dover and Ashford.
 - High Speed services calling at Snodland, Martin Mill and Walmer for the first time, along with extra high speed services for Margate, Broadstairs and Ramsgate.
 - A peak-time Hastings Business Express service providing faster journeys into London, saving up to 10 minutes on previous journey times.

- New direct services between Maidstone East and Blackfriars, and between Sheerness-on-Sea and London Victoria.
- Extra evening and weekend services between Dartford and London Victoria.
- Ticketing:
 - The extension of Oyster card acceptance to Dartford and Swanley, and the introduction of Oyster on the High Speed service between St. Pancras and Stratford International.
 - The introduction of ‘The Key’ smart card.

Finally, the High Speed service has been a clear success. Opened in full in 2007, High Speed 1 is the first high-speed railway in the UK capable of operating at speeds of up to 140 miles per hour for domestic services. This has led to a dramatic improvement in the commuter service between London and much of Kent and, consequently, demand has soared.

The Franchise

Around 90% of journeys on the franchise are either to or from London, with services going to Charing Cross, Cannon Street, Blackfriars, Victoria and St. Pancras, as well as intermediate stops at London Bridge and Waterloo East. Local links are provided by the Sheerness and Medway Valley branch lines; these are the only routes that do not start or end in London.

The South Eastern franchise is made up of three distinct parts:

- **Metro routes:** the commuter services that operate within or just outside the Greater London area. These routes serve south-east London, Hayes, Dartford and Sevenoaks.
- **Mainline routes:** longer-distance services operating between London and Kent, the Medway towns, and parts of East Sussex.
- **High Speed routes** between St. Pancras and Ashford, running on to serve towns in Kent such as Folkestone, Dover, Ramsgate and Canterbury.

With the expiry of the current franchise, bidders are being sought who can both improve the performance and capacity of these current services, and look ahead to the investment and expansion needed to prepare the system for changing demand in the coming decades.

The opportunity

We are looking for a professional operator with the skills, commitment and ambition to make South Eastern better than ever. The new operator will recognise that the franchise is becoming even more complex to operate – with increasing demand and new links with Thameslink and Elizabeth line services – and that passengers want a much better service. They will appreciate that the model for providing train services needs to change to meet this: new ideas; new structures; and new partners from outside the traditional rail sector can contribute.

Providing reliable, high-quality train services in each of the Metro, Mainline and High Speed markets will be the starting point. The operator will bring in more capacity to cope with the growth already experienced, and that which lies ahead, and work much more closely with Network Rail to optimise performance.

Then, they should think ambitiously about ways to go further – bringing in fresh technologies, innovation and investment. After a long period of large-scale investment in the network, including High Speed 1 and the rebuilding of London Bridge, change in the new franchise will come from better ways of working which can improve performance, rather than further very large scale infrastructure projects.

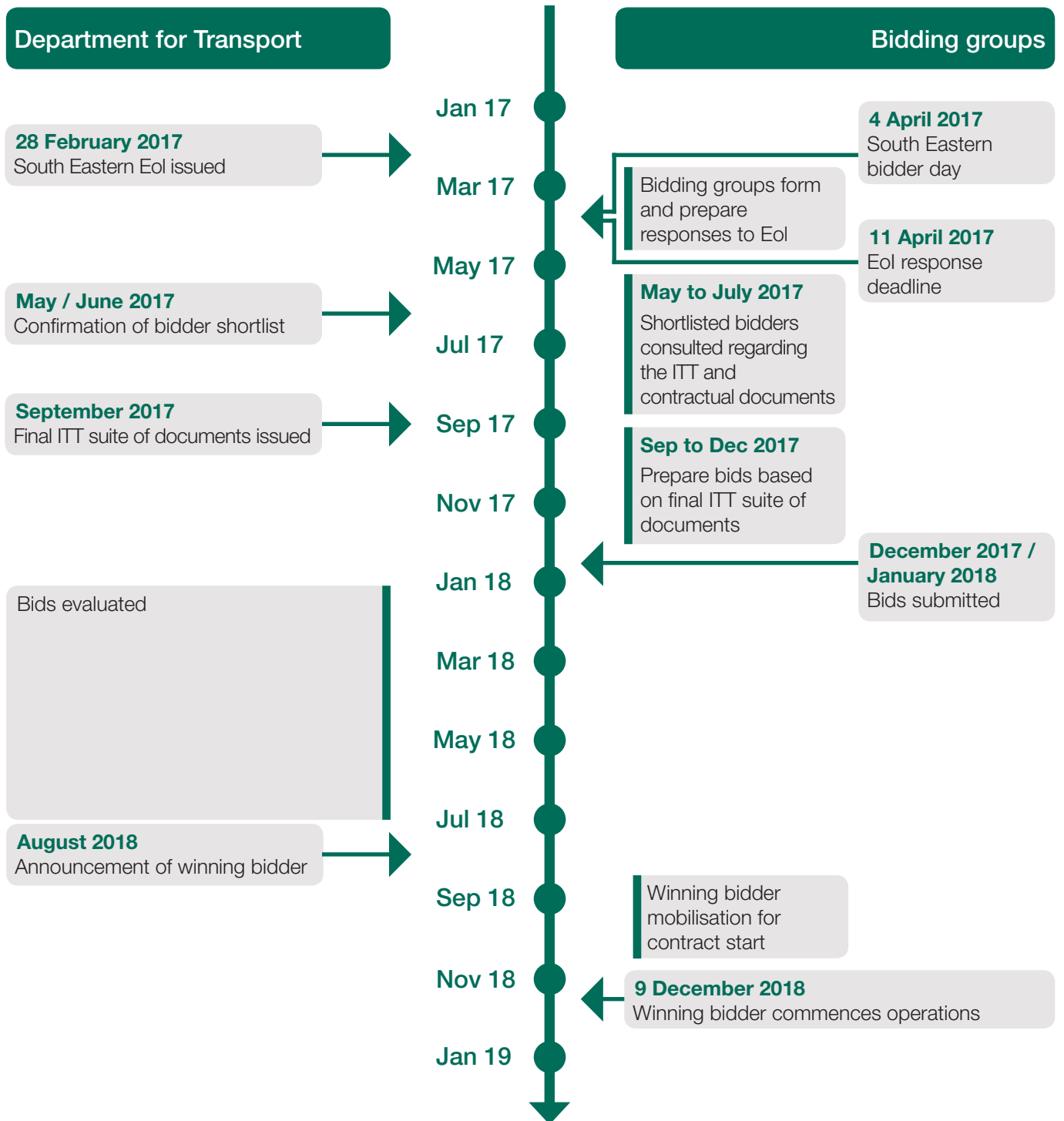
This is an opportunity for excellent management to build deep partnerships and make a difference to the service provided to passengers.

The successful bidder will see the South Eastern franchise not only as an attractive commercial proposition, but also as a model for a better way of running rail services in the UK and beyond.



Next steps

An indication of the proposed competition timetable for the South Eastern Franchise is set out below, showing the key milestones and activities from a Department and bidding group perspective.



St. Pancras Station

2

Foreword



Welcome by the Transport Secretary

The Rt Hon Chris Grayling MP

Secretary of State for Transport



When the railways were privatised in the mid-1990s, they were on a firm downward spiral. Since then the turnaround has been remarkable, with passenger numbers more than doubling. But such rapid growth also brings challenges.

South Eastern services, running on a crowded Victorian network, are carrying more people today than ever before and operating close to their limit. When things go wrong, the impact is often rapid and widespread, so passengers have regularly endured disruption, overcrowding and delays. They deserve better. But the launch of this prospectus marks a new beginning for the South Eastern franchise, and a great opportunity to transform services for the thousands of commuters who travel on South Eastern trains each day.

The document does not set out to provide answers – I want bidders to do that. But it does stress that fresh thinking and new approaches will be welcomed and rewarded. Modern train franchises must deliver growth, but they are also customer businesses, and must therefore put passengers at the heart of everything they do. I want a partner that can transform performance and customer satisfaction by rethinking the way the South Eastern franchise works, and solving the problems which have caused so much frustration for passengers, so they can feel the benefits of substantial recent investment.

To deliver the standard of services that passengers deserve, first the lessons of the current franchise must be learnt. While South Eastern operates many modern and reliable services, performance on other high capacity routes has remained unacceptably poor. It may be carrying more passengers than ever before, but when things go wrong, the impact is rapid and widespread. Passengers deserve much better.

Tackling the problems starts with the basics – providing fast, reliable, prompt and comfortable trains, and improving communication between the operator, passengers and other transport bodies. But it also requires investment in new technologies, better analysis of travel patterns, and improved planning during redevelopment work.

The business model for the franchise must change – not just from the current one employed on the South Eastern network, but also from established railway practices. The system needs to adapt to cope with current growth and the growth of the future. From the start, I want bidders to think radically about how they can do that.

I also want them to create a much closer partnership between all the organisations which help run the service. The most important alliance must be between the operator and Network Rail – one team with a shared commitment to provide a better railway for passengers. Bidders will have a stake in the design of this alliance, which must be organised and incentivised to deliver quick and sustainable results.

Other partnerships will also be crucial. For example, I want the operator to learn from companies outside the rail industry which are using technology to boost efficiency and service while controlling costs. This will include introducing smarter payment systems as we move away from traditional tickets.

A large part of South Eastern's network is a high-intensity urban railway. Passengers expect the same standards here as Metro operations in other major cities. Bids should draw on this experience.

Strong bidders will also recognise that passengers want the culture of the railway to change. They want to be treated as valued customers by staff who are able to respond quickly and effectively to their needs. To encourage this, I want to see greater staff involvement in shaping the company they work for and potentially sharing in the financial success of the business.

The new franchise also needs to invest for growth. This means finding ways to provide more space for passengers, particularly during peak hours. This could include longer trains and upgrading or replacing older trains used in and around London.

But I am open to more radical and far reaching proposals. Additional private sector investment could improve the railway; for example to lengthen platforms; or even to implement additional or bespoke services serving communities and businesses on the South Eastern network.

This is a truly exciting opportunity to build a service fit for the mid-2020s and beyond, across one of our most important stretches of railway. I am looking for a world class operator or partnership to make the improvements that passengers expect. Britain's railway has a history of innovation. Now we want to see it innovate once again.

I look forward to receiving your bids.



3

What do we
expect from
the bidder

What is required?

Meet passengers needs

Passengers expect their train journey to be reliable and fair value for money. They want:

- Trains that get them to their destination, at a time they want to travel.
- Capacity: more space to get on a train.
- Helpful staff with the right information.
- To travel on a clean, modern, safe and reliable train that arrives on time.
- The cost of their journey to be simple to understand and reasonable.
- To be able to use modern, convenient tickets.

Provide ambitious plans

Bidders will be invited to submit plans – to be set out in detail in the forthcoming Invitation to Tender document – for a franchise running South Eastern services from December 2018 until 2025-2028.

In particular, bidders should set out creative plans for:

- Taking on current services, while adapting them to enable the successful delivery of the Thameslink programme and the opening of the Elizabeth line.
- Entering into an alliance with Network Rail, which will be key to improving performance.
- Investing in, and building the skills and capability of, staff as part of a commitment to outstanding customer service, and investing in their health and wellbeing.

These first steps, to be delivered in the early years of the franchise, should be followed by more far-reaching proposals for:

- Providing extra passenger capacity in peak hours.
- Developing new routes, where demand exists.
- Using technology to maximum effect to provide passengers with information about their journeys and simple ways to buy the right tickets.
- Exploiting commercial opportunities, from small retail options at stations to ambitious, long-term proposals linked to large development plans in the region.

Adapt new ways of working

To do all this, the operator will need to bring in skills and ideas from other organisations, including those outside of the current rail sector. The operator will need to embrace a new style of working in partnership.

Success will bring growing passenger satisfaction, more public trust in the railway, and respect in the industry.



A better South Eastern

Franchise objectives	Considerations for bidders	Challenges to be taken into account
Making more space for passengers	<p>Overcrowding is an issue on Metro and High Speed routes at peak hours. Bidders should consider how they will provide more space to meet demand and minimise crowding with no compromise on performance, including with:</p> <ul style="list-style-type: none"> • Longer trains. • Further Metro-style rolling stock. <p>Bidders should also consider the merits of innovative approaches to demand management that have been implemented on mass transit railways in other countries, particularly when thinking about future working patterns.</p>	<p>There are constraints on the infrastructure, including:</p> <ul style="list-style-type: none"> • The length of some platforms at London Charing Cross and Victoria stations. • Stabling and depot capacity. • Station capacity at the busiest times of the day.
Improving performance	<p>Performance is linked to passenger satisfaction. Both have been falling in recent years, in part because of the redevelopment works at London Bridge.</p> <p>Bidders will need to show credible plans to improve performance. The formation of an alliance with Network Rail will be at the heart of them.</p> <p>Both will work together to:</p> <ul style="list-style-type: none"> • Reduce disruption from repairs. • Improve preventative maintenance. • React more promptly to incidents on the track. 	<p>Bidders have a challenge of improving the level of operational performance, at the same time as lowering the railway's overall running costs.</p> <p>This will be a benefit to the passenger, operator and Network Rail alike.</p>
Making passengers feel like valued customers	<p>There is a significant opportunity to deliver a step change in customer satisfaction scores on the network.</p> <p>In the Autumn 2016 National Rail Passenger Survey, satisfaction was 77%, below the London and South East operator average of 80%.</p> <p>Bidders need to understand the things customers value the most and focus on delivering them.</p>	<p>Bidders should consider how they plan to consult with passengers and show a commitment to reflecting their needs in the service provided. They should communicate effectively at all times, and deal with disruption quickly and well.</p>
Improving connectivity	<p>Assessing where and when passengers actually want to travel. Rethinking the timetable could make journeys faster and more reliable and make the best use of connections to Transport for London services, and other local links.</p> <p>Many new opportunities will come from the start of new Thameslink services, and the Elizabeth line, in 2018.</p>	<p>The service will need to link easily with other train operators and modes of transport. Passengers connect onto the London Underground and Overground, the Docklands Light Railway, Tramlink, buses, taxis, as well as walk and cycle to stations. Accessibility requirements need to be considered.</p> <p>Passengers on South Eastern have a choice of several of the seven primary London stations.</p>

Franchise objectives	Considerations for bidders	Challenges to be taken into account
Improving the timetable	<p>We are asking the public whether they would support more radical approaches that would improve the service provided, including options for:</p> <ul style="list-style-type: none"> • Moving to a regular 15-minute service on Metro routes. • Focussing services on a particular London terminal. <p>These improvements would create a simpler, faster, more frequent, and more reliable timetable. The speeding up of longer distance journeys by providing hourly fast services is also under consideration.</p>	<p>Within the parameters of the specification, bidders will need to balance support for the current service patterns with the opportunities for improvement to a clearer, less tangled network.</p>
Simplifying fares and ticketing	<p>The current system of fares and ticketing is complex and passengers are not confident that they are getting the best value. Providing part time commuters with better value options would be popular.</p> <p>Bidders will need to think about ways in which they can make fares simpler and clearer, and how new technology can replace traditional paper tickets to make travel quicker and more convenient.</p>	<p>The ticket system must be integrated with other parts of the transport system including, but not limited to, rail to make travel as simple as possible. Effective revenue protection measures are also important.</p>
Improving stations	<p>The current operator manages 165 of the total 180 stations on the network.</p> <p>The bidder will need to consider making these stations:</p> <ul style="list-style-type: none"> • More pleasant and modern, with a wider range of services. • Better linked to other forms of transport. • Play a greater role within their local community. <p>Bidders should also consider the feasibility of providing more car parking spaces at stations where the need is greatest, and the proportion of these allocated to season ticket holders.</p>	<p>Bidders will need to be innovative when thinking how to encourage private investment to fund station improvement.</p> <p>We understand that there are constraints at many stations in relation to parking.</p>
Working with others	<p>Running a successful service on the South Eastern network will require the operator to collaborate effectively with a wide range of partners, including:</p> <ul style="list-style-type: none"> • Network Rail, as part of an alliance to improve performance. • Other train service providers, including Transport for London. • Kent, East Sussex and Medway Councils, and the London Boroughs. • Organisations which can provide expertise, for example in customer service and technology. • Passenger groups and other local organisations. <p>Further detail on alliancing is provided in Section 4.</p>	<p>This will require a flexible and intelligent approach, breaking out of the established way of doing things on the railway.</p> <p>The aim will be to put the passenger, not the structure of the system, at the centre.</p>

Franchise objectives

Considerations for bidders

Challenges to be taken into account

Capability

Bidders will recognise that staff are central to the success of the franchise.

Bidders must set out how they intend to invest in the franchise workforce, their training, skills, and career development.

Bidders will need to set out plans to:

- Provide employees with the information and tools they need to communicate effectively with passengers.
- Incentivise employees at all levels to meet passengers' needs.
- Give employees a stake in the decisions of the franchise, and an opportunity to share in the success of the business.

The challenge is to create an environment that makes this franchise a place people are proud to work in.

Investment must endure and thrive beyond the franchise length.

Sustainability

Bidders will set out plans to develop a sustainable and resilient franchise, in line with the Rail Sustainable Development Principles.

This should include options to:

- Improve social and environmental sustainability.
- Reduce carbon emissions.
- Use resources effectively.
- Build skills and resilience within the core business and supply chain.

It will also be important to improve the links between local communities and the stations and train services they use by supporting and promoting Community Rail Partnerships.



Integrating South Eastern with new train services

Our ambition is for a South Eastern train service that fully complements the new Thameslink and Elizabeth line services planned to be introduced in 2018. These two major infrastructure programmes will provide new trains, additional journey opportunities, and allow more passengers to travel between central London, south-east Boroughs and beyond.

Thameslink programme

The Thameslink programme is transforming north-south travel through London to help meet a huge rise in demand from passengers. By 2018, passengers will benefit from:

- Improved connections. More stations outside London will be connected to the Thameslink route, giving faster and more direct travel options to more destinations. There will be a brand new rail hub at Farringdon, connecting Thameslink and the Elizabeth line, and providing direct links to three major airports (Gatwick, Heathrow and Luton) and St. Pancras International.
- More reliable journeys. Trains will run every 2-3 minutes in each direction through central London at the busiest times. New track and modern trains will provide more reliable journeys.
- Better stations. Work is complete at Blackfriars and Farringdon. When redevelopment work is complete at London Bridge in 2018, it will provide passengers with more space and easier connections to other rail services and the London Underground.
- The current plan, from 2018, is for Thameslink to operate services into Kent all day at a frequency of two trains per hour on each of the following routes;
 - To Sevenoaks, as now.
 - To Orpington and Kentish Town, extending to Luton at the busiest times.
 - To Maidstone East and Cambridge, via London Bridge.
 - To Rainham and Luton, via Greenwich and London Bridge.

In addition, occasional services to Kent House via Herne Hill and Penge East will be remapped from Thameslink to the South Eastern operator.

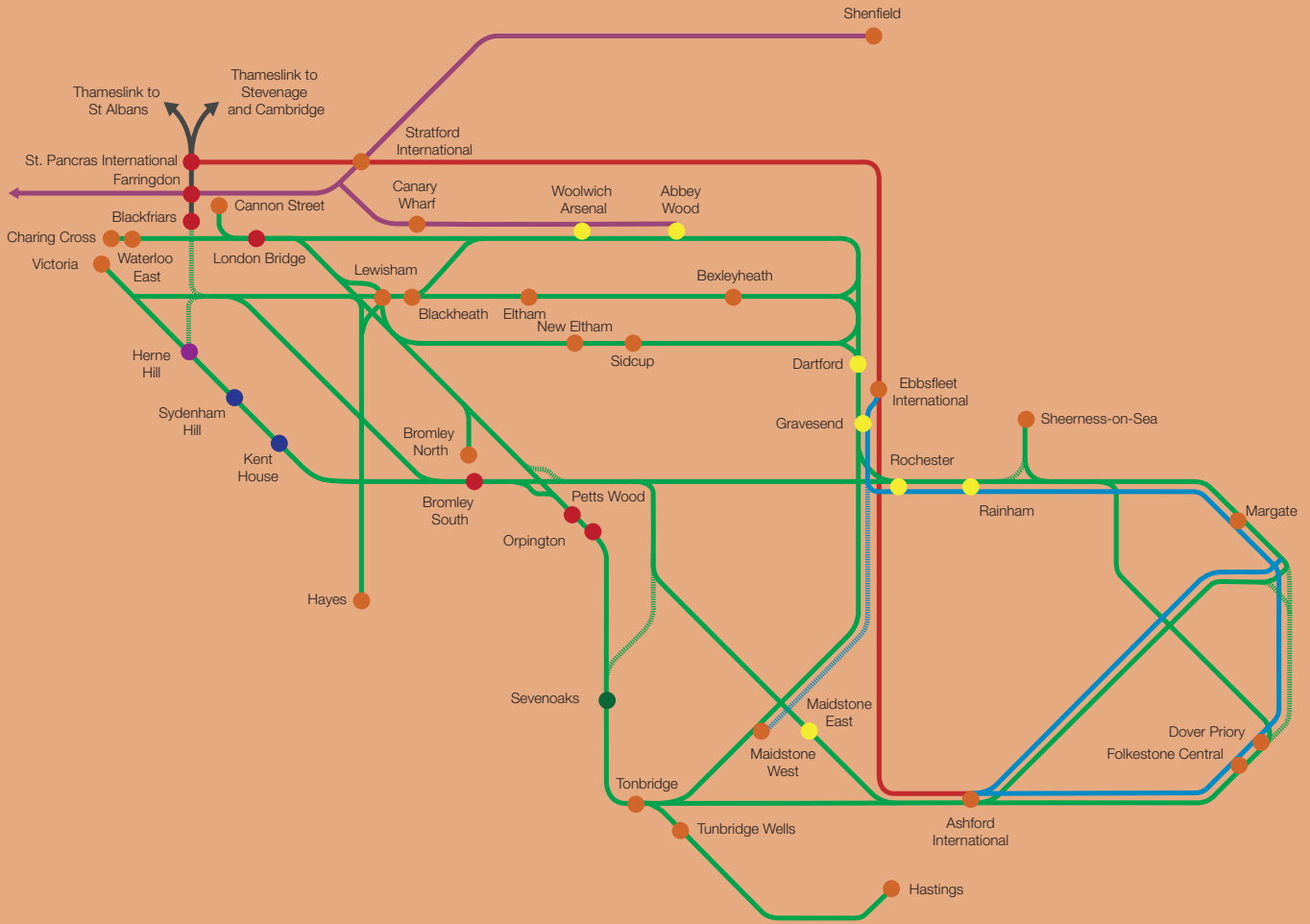
These changes will require some South Eastern services to be rearranged.

Elizabeth Line

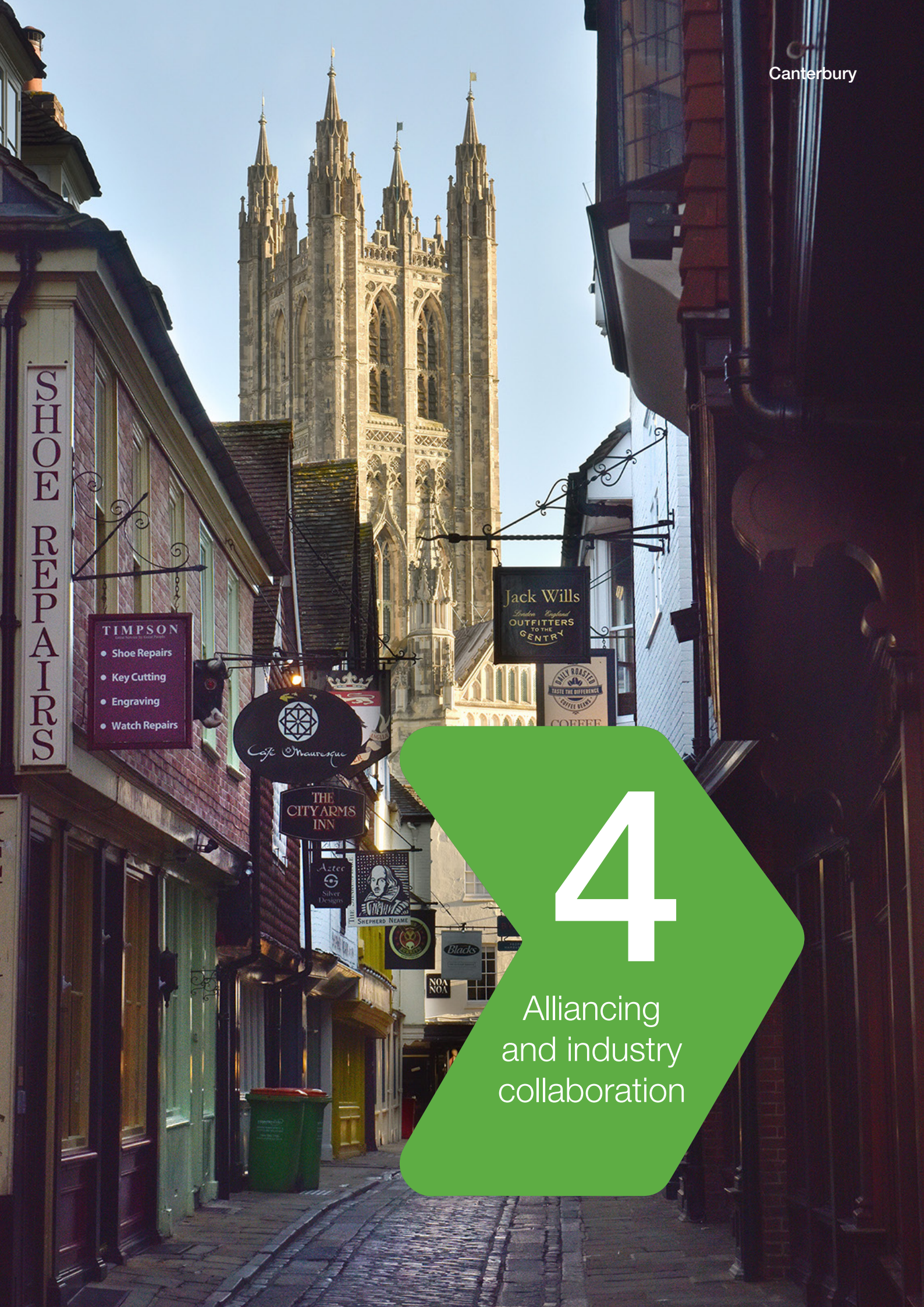
The Elizabeth line (previously known as Crossrail) is a new railway for London and the South East opening in 2018. It runs from Reading and Heathrow in the west through 42km of new tunnels under London to Shenfield and Abbey Wood in the east. The project is building 10 new stations and upgrading 30 more, while integrating new and existing infrastructure. The new service will speed up journey times, increase central London's capacity by 10%, and bring an extra 1.5 million people to within 45 minutes of central London. A train will run every two and a half minutes at peak times through central London. From December 2018 South Eastern passengers will be able to join Elizabeth line services at Abbey Wood and Woolwich and travel quickly to Canary Wharf, central London, Reading and Heathrow and, from May 2019 also join High Speed services at Stratford.

The next franchise operator will face challenges and opportunities in catering for the new travel patterns that are expected to develop as passengers take advantage of these new connections. For example, more passengers will wish to interchange at Abbey Wood.

The franchise – new connections from 2018



- High Speed Route (HS1) — Classic South Eastern Routes — High Speed Service Routes — Elizabeth Line — Thameslink — South Eastern Limited Service Routes
- Existing Thameslink served station with enhanced Thameslink services from 2018
- Existing Thameslink served station with Thameslink services broadly as now from 2018
- Existing Thameslink served station with Thameslink services wholly replaced by South Eastern services from 2018
- Existing Thameslink served station with Thameslink services partly replaced by South Eastern services from 2018
- Existing South Eastern served station with new all day Thameslink service from 2018 which partly replaces existing South Eastern services
- South Eastern served station



4

Alliancing
and industry
collaboration

Who do you need to work with?

South Eastern runs on a particularly complex part of the network which connects to other London train operators, the London Underground, the Docklands Light Railway, and the new Thameslink and Elizabeth line routes. The franchise holder will be responsible for a train service that carries 640,000 passengers each day during weekdays, on over 1,900 trains. Making all this work will not be easy.

That is why in this new franchise we are looking for bids that set out new ways of working with others. This will mean working with Transport for London, Local Enterprise Partnerships, regional transport authorities in Kent and Sussex, Network Rail, and other partners to bring specific areas of expertise to the operation.



Alliancing with Network Rail

The priorities and leadership of the train operator and Network Rail must be better aligned. Currently, the operator is focussed on running the day-to-day service and profitability, whereas Network Rail is focussed on maintenance and long term infrastructure projects, which involve much larger budgets and longer timescales. Under the current arrangements, the train operator is protected from the financial impacts of delays caused by infrastructure failures. This does not encourage organisations to work together for the benefit of the passenger. The current operator and Network Rail have taken sensible steps to work more closely together; for example, the co-location of staff at the Kent Integrated Control Centre (KICC). This provides a joined up approach to running the service on the South Eastern network, including the provision of information to passengers, responding to incidents, and maintenance.

We want to build on this and drive greater alignment between the operator and Network Rail to deliver a modern, innovative, and reliable railway. In particular, we expect this to reduce disruption from repairs, improve preventative maintenance, and lead to quicker reactions to incidents on the track.

We believe that by creating an alliance with the right incentives, the organisations will work together to improve performance, and present a single accountable face of the railway to the passenger.

With the completion of the London Bridge redevelopment, no significant infrastructure projects are planned during the next franchise. This provides a period of stability for the alliance to form and mature. The following features may either be specified or incentivised in the franchise:

Joint strategy



A clear joint strategy to improve performance on the network. This will include working together to optimise operations, maintenance and access, timetabling, and to improve knowledge on the condition of the infrastructure.

Investment



An operator who is prepared to invest in the train operating infrastructure, for example:

- Platforms
- Depots
- Train cleaning plant
- Staff facilities

Organisational structure



An organisational structure that provides effective, joined-up, accountable leadership. Beneath this, there will be joint operational teams, which may include responsibility for day-to-day operations including recovering from incidents, maintenance planning and access, incident management, performance, and customer engagement.

Incentives



A clear, simple and effective set of incentives which may include a limited financial incentive (it would not, however, require financial risk sharing at the organisational level). We are seeking to incentivise joint working and improved performance, not transfer risk of network performance.

Staff



Staff must feel supported by an employer investing in their skills and wellbeing. They will be collaborative, capable, and allowed by their employers to act in the best interests of passengers. They will have a say in the decisions, and a stake in the success of the franchise.

Performance measurement



Performance measurement that focuses on things that matter to passengers, for example trains that arrive on time, clear communication, and limiting delays and cancellations.

What is required of the bidder?

Bidders will want to work with Network Rail to consider the key elements of the alliance. This will be facilitated by the Department for Transport during the Invitation to Tender phase.

Bidders will be required to submit proposals which set out how they will deliver the specified requirements and this will form part of the evaluation of bids. This will cover:

Joint working



How joint working at the organisational level will result in improved performance on the network.

Staff



How the operator will act as an excellent employer.

Governance



How the governance will work so that it is meaningful, with clear actions and oversight of delivering improvements. Decision making should be localised, with all those involved incentivised to deliver the best possible service for the passenger.

Communications



How communications will be improved, both internally and externally.

Investment



What investment is required by the operator to enable the smooth running of the railway.

Working together



How the teams of each organisation will work together effectively, so that it is not merely a meeting of senior people, but those individuals who effect change on the ground.

Measurement and monitoring



Clear measurement and monitoring of KPIs so that performance improves.

Incentives



Suggestions of incentives that will encourage collaborative behaviours and innovative ways of working.

Consideration will be given to incremental and innovative proposals for improving performance and passenger satisfaction.

Collaborating with other partners

Other train service providers



Passengers in Greater London also see their journey as part of the wider London travel area. The operator will therefore need to work with train service providers that connect with the South Eastern network to optimise existing journeys and reflect new choices and passenger flows. The most significant of these are:

- Transport for London, which operates the London Underground, London Overground, and Docklands Light Railway. The Elizabeth line will open at the start of the next franchise, bringing new connections through Abbey Wood station.
- Other train operating companies, which provide services into London, to which passengers connect. Thameslink will provide new services to Rainham and Maidstone East from 2018, and this will require some South Eastern services to be altered.

Organisations that can provide external expertise



Railway operators have not always looked beyond the industry for good ideas. There are many other organisations which have experience of providing good service at low cost which could help. Fresh thinking in the new franchise about things such as customer service and technology will be encouraged.

Local Government



Bidders will wish to consider how they will work with Kent, Medway and East Sussex Councils, and the London Boroughs, to shape services to local needs and developments.

Bidders will be required to submit a plan for all this. This will form part of the evaluation of bids.

What control do you have?

We know that, even with aligned objectives and incentives, organisations will still have competing priorities.

We will mandate some of the key elements of the alliance with Network Rail, so that the expected benefits can be secured. We may also mandate accreditation of specific Customer Service standards during the life of the next franchise, and engagement activities with, for example, local authorities and passengers. We will seek to do this only where it will improve passenger outcomes.

We will engage with bidders as these proposals are developed so that they reflect the views of the market. Bidders will have freedom to deliver these mandated objectives in the way they see fit, and to propose further initiatives to improve the service.





5

Our vision for
a better
South Eastern

Our vision for the future

The next South Eastern franchise will run until at least 2025. This is the moment to start planning transformative improvements that will be implemented beyond the first few years of the franchise. Bidders will be expected to show how they can help.

Culture



People involved in South Eastern today work hard to provide passengers with a good service. But everyone who uses the service knows that there is more that can be done. That means questioning some of the ways things have been done up to now on the railways and drawing on techniques from other sectors. Airlines, for instance, have made much better use of digital systems. Successful bidders will look outwards for new ways of working. The leadership will be focussed entirely on passengers and staff. They will be an excellent employer – investing in the workforce, including skills and wellbeing.

Alliancing



The alliance between the operator and Network Rail should develop over time. Work in the next franchise could create the conditions for greater integration between track and train in the years beyond that. This will require work to understand the organisational, legal, financial and commercial issues, and the benefits, of bringing track and train closer together.

New investment



The next South Eastern franchise will gain from several large investment programmes which are almost complete. The rebuilding of London Bridge, for instance, funded by the Government through Network Rail, will remove one of the worst bottlenecks on the system. But there are many other schemes, large and small, which could improve the service if the right funding model can be found.

Private funds are unlikely to bear all the cost. But a partnership between the public and private sectors could lead to big improvements for passengers more quickly than any other model. This document does not set out detailed ways of achieving this. But this is the moment to explore options, and bidders will be encouraged to do this during the lifetime of the franchise.

Proposals will be judged on whether they deliver improvements to passengers and value for money for the taxpayer.

Outreach



The operator will realise that it needs to build the support and trust of the communities it serves. It will be involved in and provide staff for local communities, communicating like never before. Activities will include outreach to schools and other educational establishments, and the provision of apprenticeships.

Stations



The operator is best placed to run stations in the way that best meets passengers' needs, and to maximise both community and commercial opportunities, including providing new retail, leisure, community and parking facilities. Flexibility will be provided for the operator to enter into partnership arrangements with third parties to attract private sector and/or local authority investment. Bidders are encouraged to develop ambitious proposals.

New routes and services



This franchise offers a chance to reshape the rail system of London, Kent and East Sussex to serve these fast-growing areas better. Currently, much of the South Eastern network runs to a pattern set many decades ago, but the opportunity exists to change this. Examples of possible new links include:

- The extension of High Speed services to Hastings, Bexhill and Rye to speed up links between Hastings and London and support the development of the town. This would reduce the current excessive journey time. There is support for this option and we will discuss with bidders how they consider this might be achieved and funded.
- The Ashford to Tonbridge line, which connects on to Redhill and Reading could potentially form part of a fast and frequent London orbital service, taking pressure away from the M20 and M25.

Rolling stock



There are currently three main types of trains used on the South Eastern network, but there is the opportunity to introduce new and/or refurbished trains that are more fit for purpose to the network. For Metro services, these could be the spacious Metro-style trains used on London Overground lines and/or those being introduced on Thameslink Services. Providing more space for passengers is a priority.

New technology and innovation



The train operator must adapt to make the most of technology. This will include building on work already underway on smart ticketing by increasing its availability and usage, and delivering plans through the Smart Ticketing on National Rail project. Technology has been used in many industries to drive rapid change, and we expect the train operator to use it to improve services.

We also expect bidders to explain how they will modernise and simplify the journey experience through the use of technology and best practice from other industries.

Looking to the future, it could also be possible to create local innovation zones – hubs of high technology industry – with the rail service tailored to match its needs, for example by the innovation of specific services or even a light railway. The Thames Gateway would be an example of a region where this approach could be introduced. Bidders will need to set out how their business will support innovation, including staff skills, structure and process.

6

Further
information



Further information

Introduction

This section outlines the commercial proposition for the South Eastern franchise – which will be finalised in the Invitation to Tender – and provides a snapshot of key financial and operational information.

The Department expects that this franchise will be viewed as a proposition with excellent potential for prospective investors.

Commercial proposition

Franchise term

- We envisage letting the South Eastern franchise for a period between 7 and 10 years, starting in December 2018.
- Additional optional extension period currently anticipated to be up to 2 years, activated at the Secretary of State's discretion.

Risk allocation

Cost and Revenue Risk

It is currently envisaged that the franchise operator will bear a proportion of both cost and revenue risk for the duration of the franchise. A range of options are being considered to limit the operator's exposure to revenue risk including, but not limited to, a Gross Domestic Product / Central London Employment exogenous risk share mechanism and/or a Forecast Revenue Risk share mechanism.

Profit Share

- There will be a proportional profit-sharing mechanism.
- The Department will consider the appropriate level of returns commensurate with the risks taken when developing the mechanism.

Change mechanism

- An appropriate change mechanism may be considered.
- The operator will then be able to react appropriately to certain changes in circumstances, technology and infrastructure delivery.

Capital requirements

We currently expect that the private sector partner will need to provide:

- Season ticket bond - at least £95 million.
- Performance bond – c. £15 million.
- Parent Company Support (PCS) (referred to in the EOI documentation as 'the Guarantee') comprising of a minimum fixed PCS amount of £25 million (or such higher amount as the Department may decide at the tender stage), plus a further variable PCS amount which will depend on the level of the franchise payments bid. We will work to ensure that this is at a level that protects the taxpayer, and enables a healthy market. It is anticipated that up to 50% of this PCS will be required to be bonded by a suitable bond provider depending on the financial standing of the bidder.

Residual value

As some investments that could improve economic life and commercial value may have long payback periods that extend beyond the lifetime of the Franchise, we may put in place a residual value mechanism to support the asset values at the end of the term.

Liquidity

- The new franchise will need to comply with liquidity ratio tests.
- These are the same tests as those set out in Schedule 12 of the Franchise Agreement, and are the same as used for recent franchises.
- The ratios will include defined trigger points which, if met, results in a 'lock-up'.
- A 'lock-up' is where the operator will be unable to make distributions.

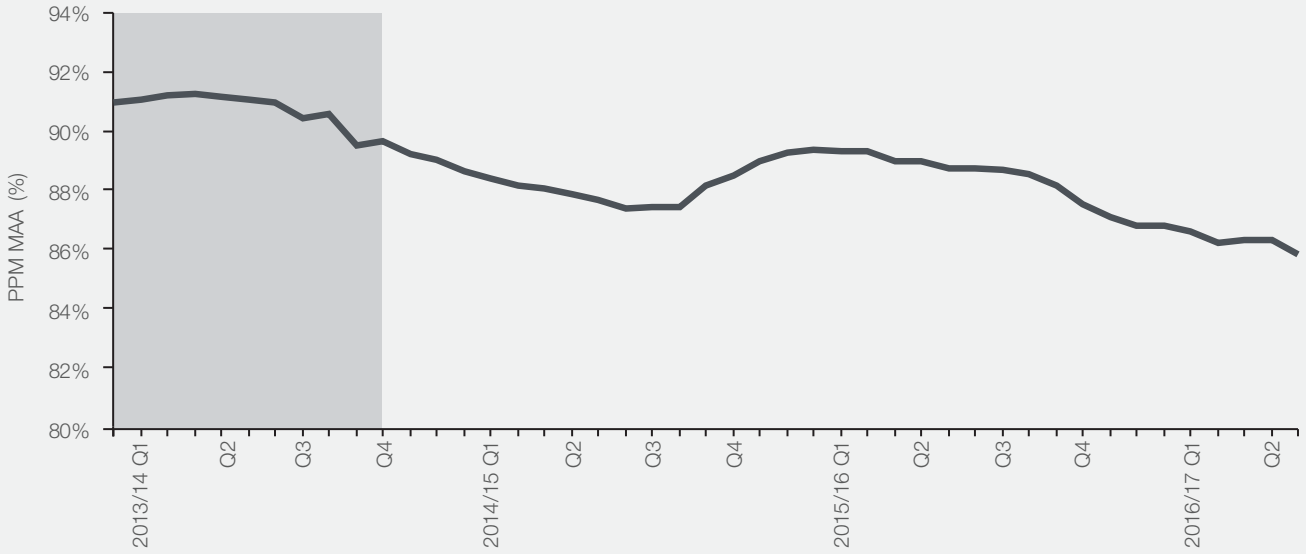
Current performance snapshot

Operational performance

- South Eastern operational performance is ranking 18th out of 23 train operators, below the national average, as reported by Network Rail.
- Over the past three years, performance has declined with the moving annual average (MAA) of Public Performance Measure (PPM) dropping from 91% in 2013/14 to 87% in 2015/16. The current PPM MMA is 86% (Period 12 2016/17).
- The majority of delays on the South Eastern network are attributed to:
 - Network Rail: this proportion has been increasing in recent years.
 - London Bridge redevelopment: beginning in 2013/14, this disruption has been a significant contributing factor to this decline in performance.
 - Train operator: increasing demand during peak periods, particularly with London commuters.
- An opportunity exists to deliver much improved performance with:
 - The completion of London Bridge and the Thameslink programme, and the opening of the Elizabeth line, all in 2018.
 - Collaboration with Network Rail.

Figure 1

South Eastern franchise Public Performance Measure (PPM) as a Moving Annual Average (MAA) from 13/14 to 16/17 (Source: Network Rail, 2016).



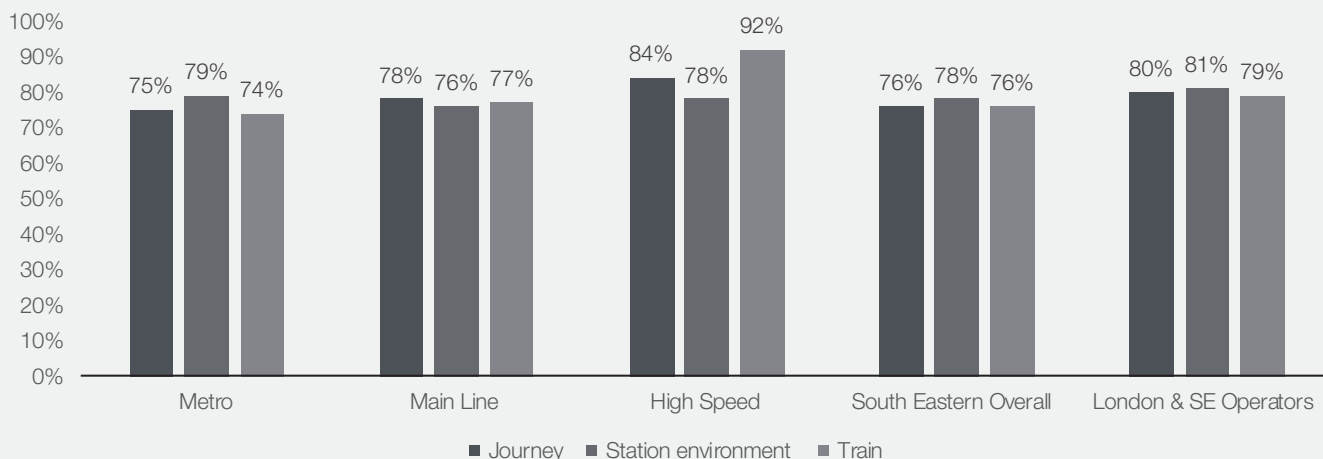
Satisfaction performance

- Southeastern passengers scored 77% on their overall satisfaction, through the Autumn 2016 National Rail Passenger Survey (NRPS).
- This is below the London and South East operator average of 80%.
- The next franchise operator therefore has a significant opportunity to deliver a step change in satisfaction scores.

Figure 2

Overview of customer satisfaction results (Source: NRPS, Autumn 2016).

Passenger Satisfaction (NPRS Score 2016)



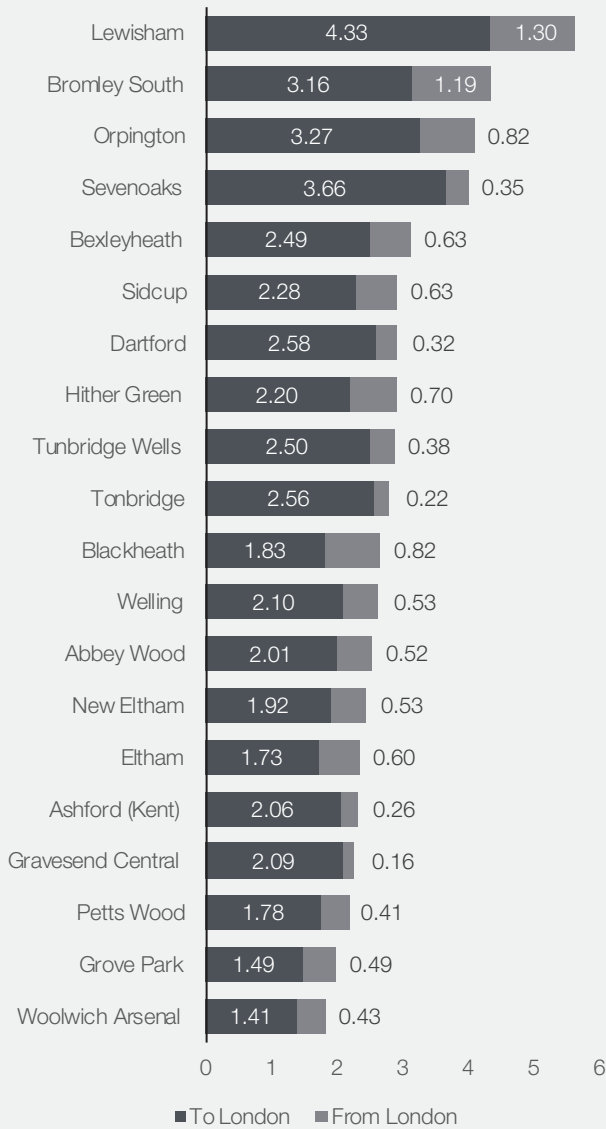
Current passenger demand

- This franchise is led by a large commuter base, where a growing market of business and commuter travellers are taking advantage of the high speed connectivity and diverse access into London.
- The Metro area has the highest demand, which includes the top stations Lewisham, Bromley South, Orpington, Sevenoaks and Bexleyheath.
- Due to longer distance and therefore higher fares, Ashford, Sevenoaks, Tunbridge Wells, Tonbridge and Canterbury generate the most revenue.
- There are also counter-peak flows on routes out of London to Ashford, Canterbury and Tunbridge Wells.
- The highest non-London termini revenue flows are the two routes Ebbsfleet to Stratford International, and Ashford to Canterbury.

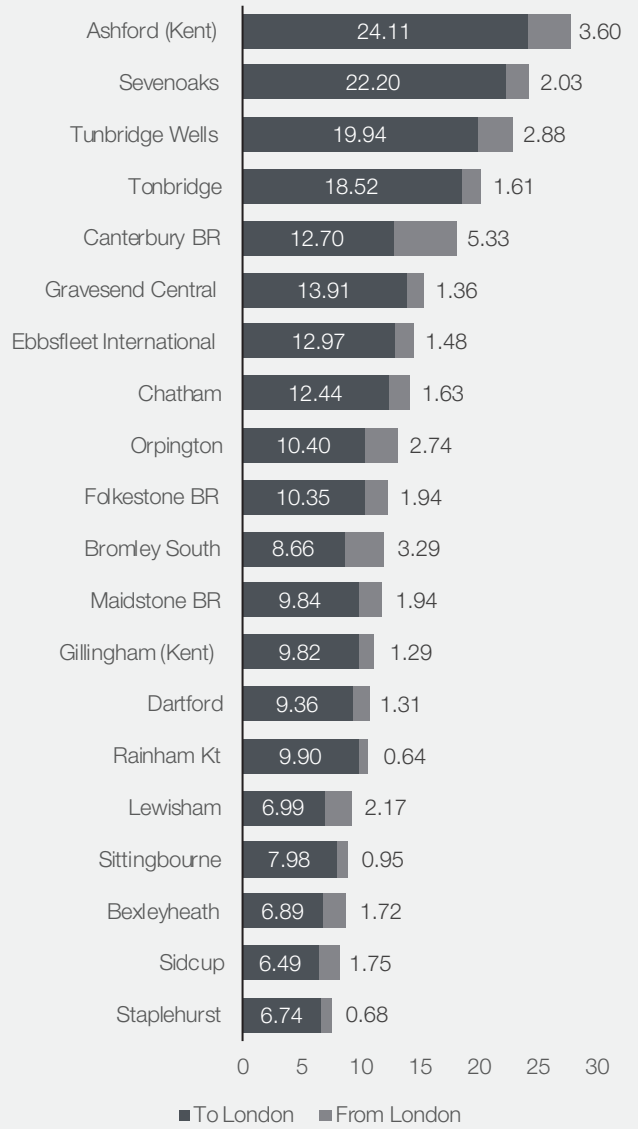
Figure 3

Top 20 journey and revenue flows to London (left, number of journeys; right, revenue generated) (Source: Lennon, 2016).

2015/16 Journeys (m)



2015/16 Revenue (£m)



Demand growth

- Growth in the Mainline, closer to London, has increased through a rising suburban and regional population, that take advantage of strong connectivity with the capital for business, employment and leisure.
- There has also been robust growth in the Metro area, driven by travellers connecting to Docklands Light Railway, London Overground and Thameslink services.
- The High Speed route has seen strong growth at Ebbsfleet (+39%) and Stratford (+73%), as Ebbsfleet Garden City, London Legacy Corporation and other developments progress.

Figure 4

Figure 4 – Forecast demand growth to 2028/2029 (current estimate in millions of passenger journeys per year).

	2015/16	Additional journeys by 2028/2029	Total journeys by 2028/2029
Main line	50	5-7	55-57
Metro	118	12-16	130-134
High Speed	13	1-2	14-15
Total franchise	181	18-25	199-206

Financial performance

- Passenger income has been performing very well for several years, underpinned by strong demand growth, with compound annual growth rate of 7.2% since 2009/10.

Figure 5

Total passenger income for South Eastern franchise, 2009/10-2015/16 (Source: Lennon, 2016).

Passenger Income

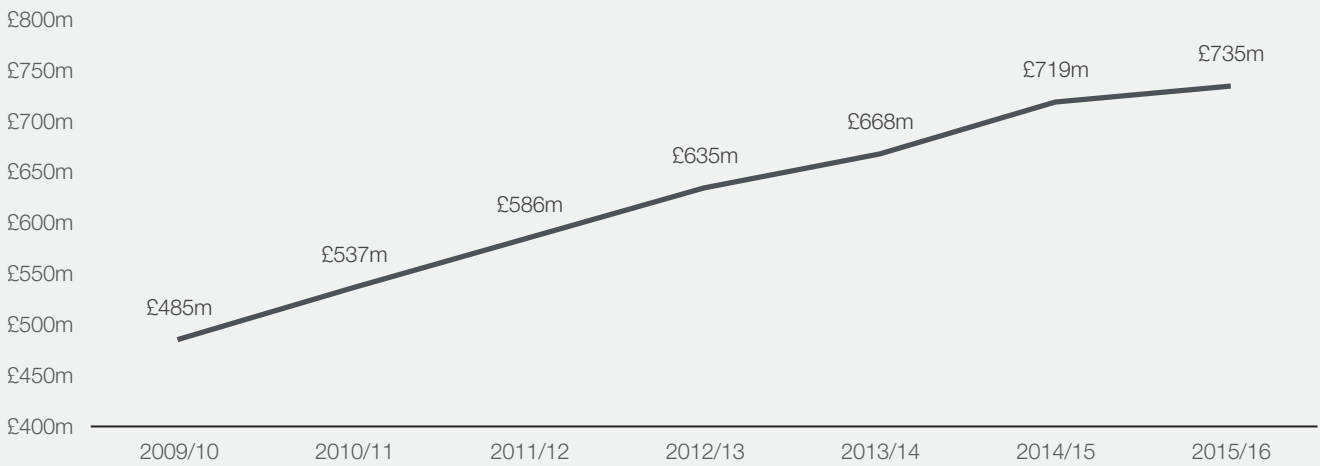
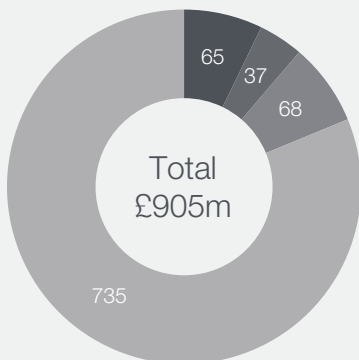


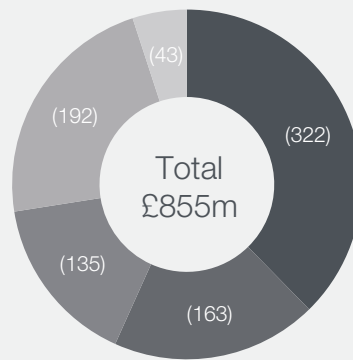
Figure 6

Southeastern Railway profit and loss accounts for financial year 2015/16 (Source: 2015/16 Southeastern Management Accounts).

SE franchise revenues



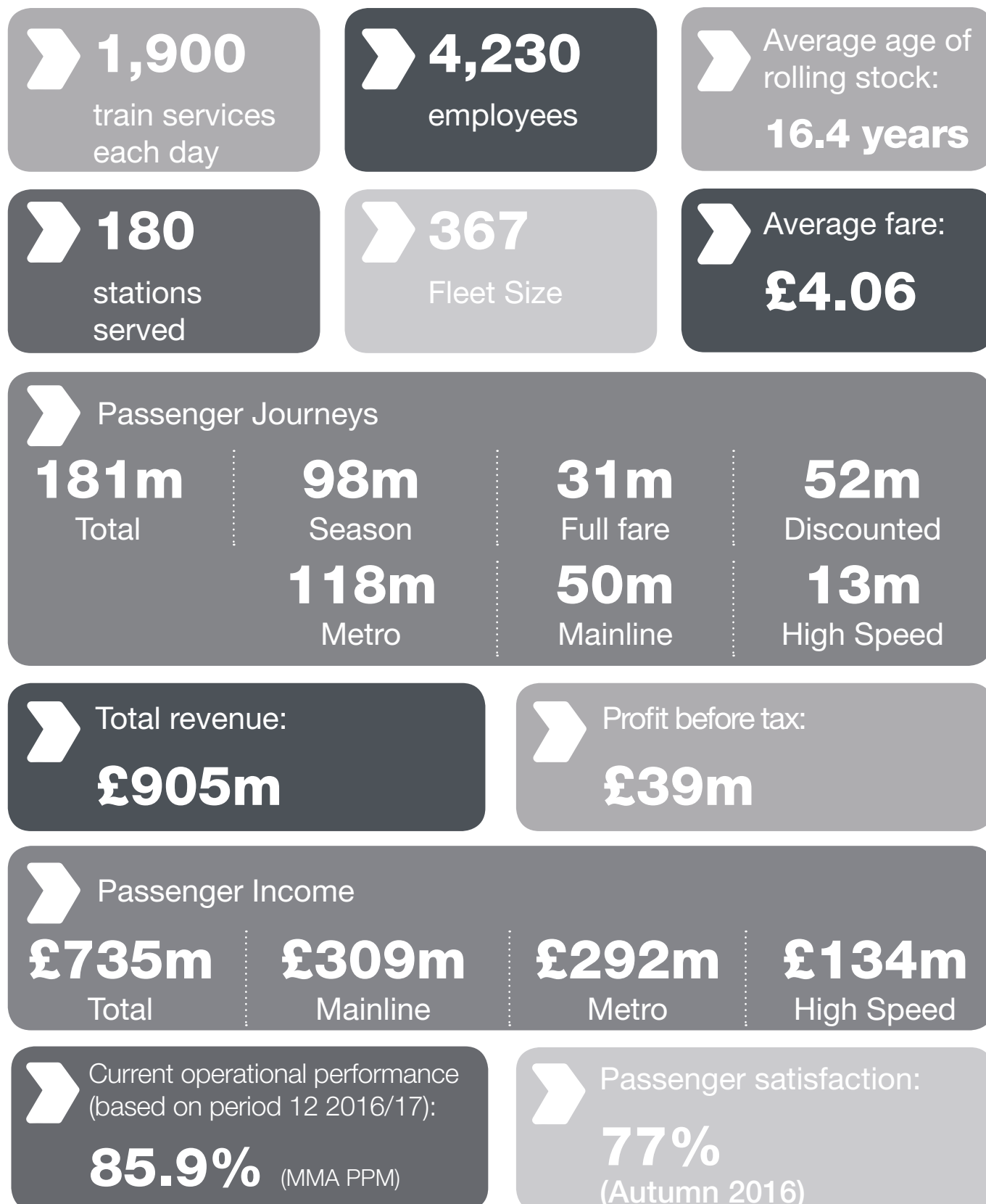
SE franchise costs



- Subsidy 7.2%
- Performance Regime 4.1%
- Access Charges 37.7%
- RS Lease Charges 19.1%
- Other Income 7.5%
- Passenger Income 81.2%
- Operating Expenses 15.8%
- Staff Costs 22.5%
- DFT Profit Share 5.0%

Staff costs include costs of 4,230 employees. Of this figure, the headcount split is as follows: Station and retail – 2028, drivers – 1095, engineering – 529, depot and control – 401 and headquarters – 177.

Key franchise facts



Note: all financial figures quoted are for the financial year 2015/16, unless otherwise stated.

Important notice

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