



Department
for Transport | Rail Executive

Growth and Opportunity



TransPennine Express Prospectus

June 2014



Department
for Transport | Rail Executive

TransPennine Express Prospectus

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Foreword

This Government is committed to improving the transport system in the north of England to support economic growth and to benefit communities across the region.

Nationally and locally there have been great improvements in the railways since privatisation. We have seen record growth in passenger numbers, achieved much higher levels of passenger satisfaction and one of the best safety records in Europe. We want to continue to build on this and to deliver excellent railway services for passengers with better value for money for both passengers and taxpayers. And in line with our objectives for localisation we want to take this forward in partnership with Rail North, a new body bringing together the local transport authorities across the whole of the north of England.

The next TransPennine Express franchise is crucial to our strategy. This Prospectus sets out the franchise opportunity. It describes the business as it stands today - a business which has improved significantly over the last ten years under the current operator - but which now has the opportunity for further development.

We want to see a revitalised railway; one which delivers an enhanced franchise, with faster journeys and improved customer service at a price that is attractive to passengers and to the taxpayer. We need a delivery partner who will develop services that capitalise on the massive investment taking place, including the Northern Hub and the major Northwest and TransPennine electrification schemes. We need a delivery partner with vision, a long term plan and the best people to deliver it. Above all, we need a delivery partner who will put passengers at the heart of the business.

We want to encourage ambition. We are making record levels of investment in the region's rail infrastructure, and we are looking for bidders to bring forward innovative plans, including investment of their own or in collaboration with others, to maximise the benefits this will deliver. We want to be able to offer faster journeys to more people in greater comfort, helping to deliver better connectivity across the north of England and Scotland.

We are confident that our developing partnership with Rail North will help to bring a stronger local focus to the franchise and that, combined with the skills, investment and innovation brought by the successful bidder, we can offer an intercity franchise for the north of England. One that meets my three objectives for franchising across the network: that the passenger gains; the industry thrives and the taxpayer benefits.

Rt. Hon. Patrick McLoughlin MP
Secretary of State for Transport

Welcome



1. Introduction

1.1 Welcome to the TransPennine Express Franchise

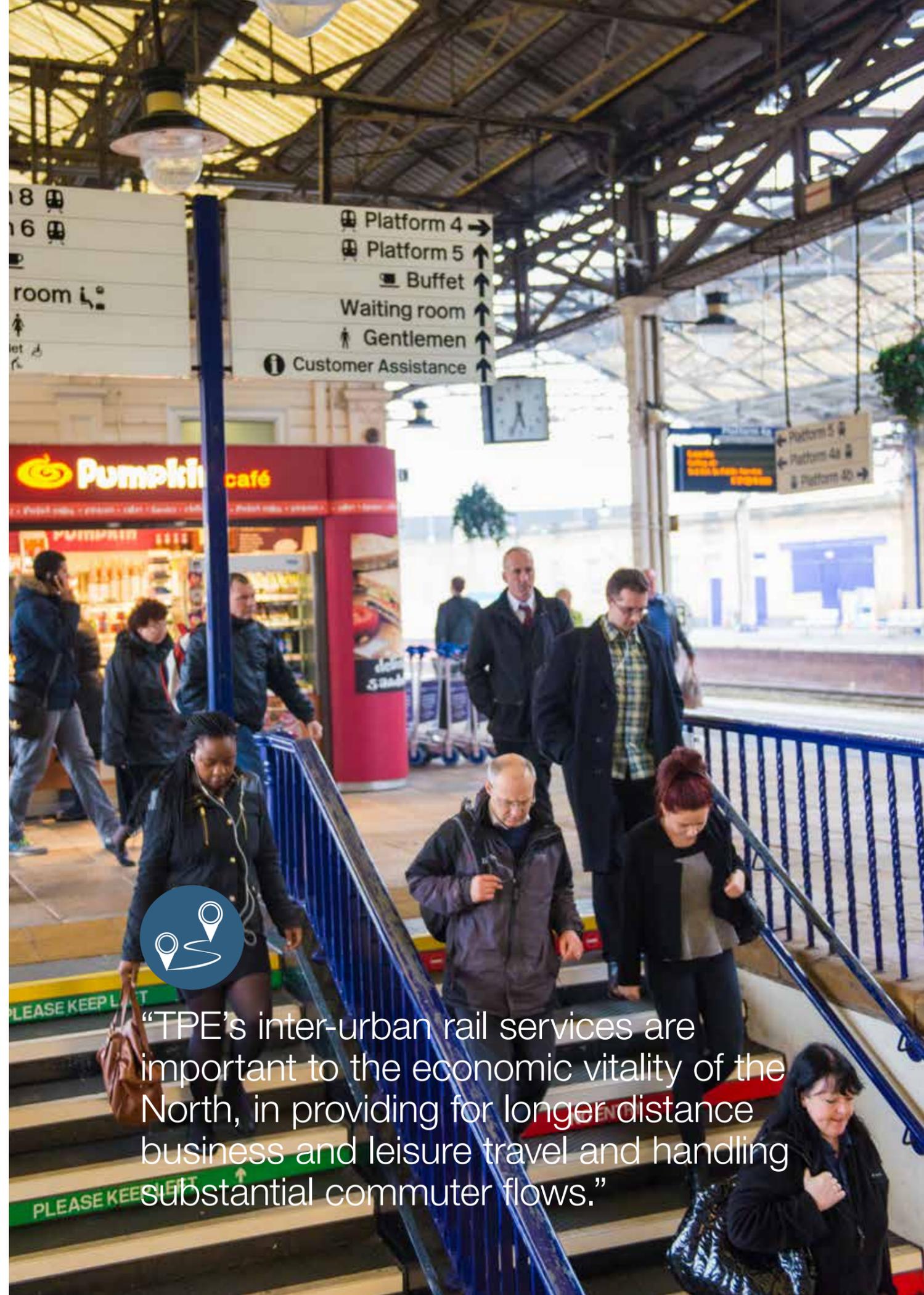
Since privatisation in 1995, private sector operators have helped to drive huge improvements in the UK's railway, leading to a doubling of passenger numbers and distances travelled, far greater levels of passenger satisfaction, a strong safety record and increased revenues.

The TransPennine Express (TPE) franchise plays an important part in the franchised railway network and represents an exciting opportunity for prospective franchise operators. The investment underway in the rail network in the north of England provides the potential for considerable development during the next franchise and a transformation of rail services for passengers.

TPE is one of the smaller franchises in the UK. It provides inter-urban rail services across the north of England, complementing the commuter, local and long-distance services operated by the Northern franchise. TPE services provide direct connections between the major cities of Liverpool, Manchester, Leeds, Sheffield and Newcastle and to other cities and towns in the North. TPE also provides important cross-border services between north west England and Scotland.

TPE's inter-urban rail services are important to the economic vitality of the North, in providing for longer distance business and leisure travel and handling substantial commuter flows.

Since 2004, passenger services have been provided by a joint venture between First Group and Keolis. Over this period, there has been significant and continuous growth in passenger demand and the level of financial support required has reduced. The Department for Transport's Rail Executive (hereafter referred to as 'Rail Executive' or 'the Department') is now seeking to let a new franchise to commence in February 2016. The new franchise offers opportunities to deliver significantly improved passenger rail services on the TPE network, taking advantage of the major planned improvements to the railway infrastructure in the north of England.



“TPE's inter-urban rail services are important to the economic vitality of the North, in providing for longer distance business and leisure travel and handling substantial commuter flows.”

1.2 Purpose of this document

This Prospectus has been produced to give information to potential bidders about the TransPennine Express passenger rail franchise and Rail Executive's current emerging approach towards its future shape.

Following the recommendations of the Brown Review of the Rail Franchising Programme¹, Rail Executive is seeking to provide a greater level of information to bidders at the start of the competition for the next franchise. Publication of this Prospectus alongside the OJEU² Notice forms part of this new approach.

This Prospectus is being published alongside the formal documentation initiating the pre-qualification process for selecting suitable organisations to receive an Invitation to Tender (ITT) for the TPE franchise. Around the same time, a separate document is being issued to a wider audience to start the public consultation on the franchise.

A franchise competition for the Northern franchise is taking place in parallel with the TPE competition, and is the subject of a separate Prospectus. Together, we are seeking to deliver approaches for these franchises which deliver improvements for passengers across the north of England.

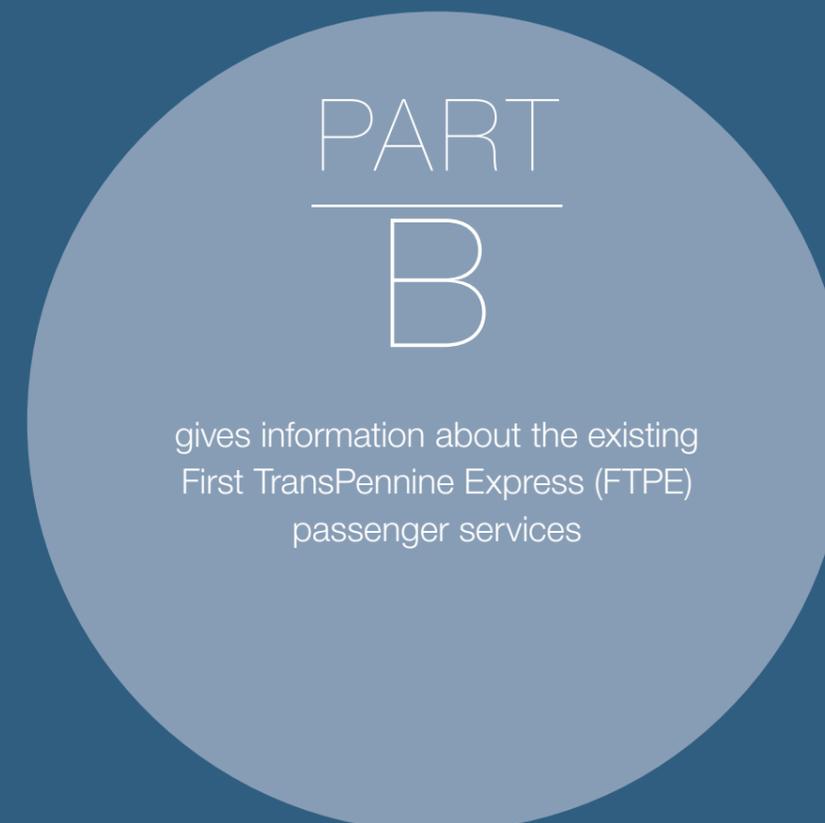
In line with UK Government procurement principles, the competition for the TransPennine Express rail franchise includes significant market engagement, where potential bidders are invited to help Rail Executive test its thinking and generate ideas for innovation for consideration by Rail Executive. Our aim in this Prospectus is to set out Rail Executive's current intent with regard to this franchise and to provide relevant information to the market. However, our thinking and final position on a number of areas within the scope of this procurement and franchise specification are still being developed and, in many cases, subject to public consultation. As such, the information in this document should not be relied upon as an indication of Rail Executive's final requirements for the TPE franchise; indeed we will continue to welcome feedback on our proposed approach where this is still under review.

This Prospectus is being issued as part of a suite of documents including the OJEU Notice³, the Pre-Qualification Questionnaire (PQQ) and the Pre-Qualification Process Document (PPD) and is divided into four sections:

¹ <https://www.gov.uk/government/publications/the-brown-review-of-the-rail-franchising-programme>

² Official Journal of the European Union

³ Rail Executive has submitted for publication a Contract Notice in the Official Journal



PART C

sets out Rail Executive's intentions for the specification of the franchise and gives details about the commercial and financial dimensions of the opportunity

PART D

provides information about the bid process and the evaluation process

The principal aims of this Prospectus are to:

- Give information about the TransPennine Express franchise opportunity to allow prospective bidders to decide whether they wish to seek pre-qualification, either as a single entity or as part of a consortium
- Communicate Rail Executive's aspirations in relation to the franchise which will inform interested parties preparing to bid

The continued success of the rail franchising programme in Great Britain relies on fair and open competition, contested by as wide a field of participants as possible, bringing a mix of experience and innovation to the franchising market.

Rail Executive aims to broaden market interest in the opportunities that rail franchising offers and wants both the continued interest and engagement of current and former market participants as well as expansion of the potential supplier market to suitable organisations. Such organisations may be companies, consortia or other suitable bodies, based within the UK or overseas and will need to demonstrate their capability to operate a business of the scale and challenge of a regional intercity passenger rail franchise.



“The continued success of the rail franchising programme in Great Britain relies on fair and open competition, contested by as wide a field of participants as possible, bringing a mix of experience and innovation to the franchising market.”

1.3 A view from passengers

Rail Executive's principal objective is to ensure that franchises meet passengers' needs as effectively as possible. We invited **Passenger Focus**, the independent passenger watchdog set up by government to protect the interests of Britain's rail, bus and tram passengers, to provide its assessment of those needs:

The view of Passenger Focus

www.passengerfocus.org.uk



Passenger Focus is pleased to contribute to this Prospectus for the next TPE franchise. In our capacity as the independent watchdog for Britain's rail passengers we want to stress the importance of a franchise that places passenger interests at the heart of planning and operation.

Our research identifies the issues that are important to passengers. We have already published a report⁴ highlighting the views of Northern Rail and FTPE passengers based on qualitative research with users of these services and drawing on the findings of other studies into passenger experience. Over the coming months we will continue promoting passenger interests in our discussions with the Department and work with potential bidders to help shape a successful passenger-orientated franchise

Passengers' priorities for improvement are remarkably consistent. They want punctual and reliable services, value for money for the price of their ticket, and to get a seat. These factors make up the core offer – the things passengers expect to receive when they pay for, and make, their journey.

Some of the key concerns for passengers on FTPE relate to overcrowding. More carriages are required to meet the demand for travel, especially at peak times. Additional space for luggage would also be welcomed, particularly on airport services. The timetable should also meet the needs of passengers' modern lifestyles. Attention to the cleanliness and comfort of the on-train environment was also highlighted in our research.

More broadly, it is important that passengers can easily access information about their services at the journey planning stage, at the station and, particularly, during the trip if there is any disruption.

The overall passenger experience is influenced by a wide range of factors. So it is important that the franchise specification recognises the full spectrum of passenger needs and the importance of quality in all aspects of service provision. We will be looking to bidders to respond positively and creatively to the opportunities presented by a new franchise as they develop their proposals for the future.

Our recent research into passengers' understanding of franchising indicates that passengers want a greater say in the process. They want to know what is being purchased on their behalf and they want their views reflected in holding the operator to account for the quality of service they deliver. We are pleased that the National Rail Passenger Survey can play a role in harnessing passenger feedback to drive improvements for the future. Positive plans for passenger engagement and a commitment to transparency of information will also help build trust and confidence.

Passenger fares represent nearly two thirds of the income of the rail industry and TransPennine Express plays an important role in peoples' lives as they make trips for work, business and leisure. On behalf of all current and future users of these services, we ask that passenger interests are placed squarely at the heart of the new franchise.

⁴ <http://www.passengerfocus.org.uk/research/publications/passenger-views-of-northern-and-transpennine-rail-franchises>

The Secretary of State's objectives for the new TPE franchise are to:



Help the economy of the north of England to thrive by offering competitive inter-regional rail services between urban centres, providing sufficient passenger capacity and expanding rail's mode share



Realise the benefits from rail investment in the north of England, ensuring the successful delivery of journey time, frequency, reliability and connectivity benefits for passengers



Deliver excellence in customer service through all aspects of the passenger journey including consistently high standards of performance and efficiency in the operation of train services



Secure whole industry efficiencies and help reduce overall industry costs by working in partnership across the rail industry



Support local communities to help deliver local transport integration, local regeneration and investment at and around stations



Improve social and environmental sustainability to reduce carbon emissions, use resources efficiently, and build skills and capability within the business and the supply chain

We are looking for the next TPE franchise to position itself clearly as the intercity rail operator for the North, operating fast high quality inter-regional services, with a strong focus on serving its customers well. There is a huge programme of infrastructure enhancement and electrification currently underway in the region - one which is unprecedented in the North in recent years. The TPE franchise will be pivotal to the delivery of benefits from this investment but it will also present significant delivery challenges for the next franchisee, including the management of infrastructure disruption, the introduction of new timetables and the introduction into service of electric trains.

The new franchisee will be expected to deliver improvements throughout the franchise to reflect timetable changes and infrastructure improvements; also, to achieve reductions in journey times and an improved passenger journey experience with greater capacity and reduced crowding. We encourage bidders to consider the broad range of skills to operate this franchise and team up, where appropriate, with partners and the industry supply chain.

To achieve our objectives bidders will be expected to focus on:



Placing **passenger interests at the centre** of all aspects of their business planning and operations



Building the capability of the rail network in the north of England – exploiting the benefits of the Northern Hub and electrification and building a strong foundation for longer-term development of the inter-urban rail network



Innovation and efficiency – we aim to give the franchisee freedom to respond to passenger and industry challenges with new and innovative solutions, embracing existing and emerging technologies



Service quality – particularly around **operational performance**, train and station presentation, passenger information and ticketing



Enabling devolution of responsibilities to the north of England – working closely with the emerging Rail North organisation to ensure that the management of the franchise can be successfully undertaken by the Department and Rail North in partnership



Partnering and collaborating with key stakeholders both within the industry and in the communities served by the franchise. We are seeking a franchisee who can form effective and powerful partnerships with relevant organisations and stakeholders



An investment in the workforce, building skills and capability, improving employee engagement and demonstrating a genuine pride in developing staff over the long term



Social responsibility and environmental sustainability – Rail Executive is seeking a franchisee committed to benchmarking overall performance and driving improvements in both these areas



Operating a stable, profitable franchise – the new franchisee should develop the franchise, run the franchise for its full term and, while meeting our objectives, should also aim to maximise returns to the Government to the benefit of taxpayers

The ITT will describe our aims to reduce subsidy, to further support growth in demand through investment and to add value to the interests of passengers in the design and delivery of services to meet their needs. The ITT will seek to provide bidders with flexibility to determine how best to achieve this.

We are interested in receiving proposals that provide for new models to achieve and deliver investment in rolling stock and stations as well as smarter ticketing and retail. In particular we would welcome proposals on how alternative funding structures might be developed with Rail North and stakeholders to lower the cost of capital.

We are working with Rail North, representing all 30 local transport authorities in the north of England, with the aim of setting up an integrated partnership structure including both local and central government, which would be capable of managing the franchise contract once let.

We are seeking a franchisee with a passenger centric and commercial approach to running the railway, bringing in new ideas and developing new markets to serve their interests. An integral part of that approach will be offering high quality services to customers. Successful operation of TPE will need extremely effective management of change plus collaborative working across the rail industry, to deliver improvements from the Northern Hub and electrification programme and to improve efficiency over the life of the franchise.

Rail Executive, working with the support of Rail North, is now developing the franchise proposition in detail and this will be set out in the ITT. We wish to ensure that the economic benefits of the infrastructure investment programme are secured through the operation of improved rail services, whilst leaving maximum scope for the franchise operator to add value in the design and delivery of services to meet our various objectives.

We may, subject to consultation, specify some remapping of individual services, mainly between TPE and the Northern franchise, in order to achieve our aims of TPE becoming an inter-city style railway and to improve the market focus and operational efficiency of the businesses. This is not expected to fundamentally change the nature of either franchise.



2. At a glance

2.1 The TransPennine Express franchise - the existing business



Stations

FTPE operates 30 stations including Manchester Airport, Huddersfield, Hull and Middlesbrough

24.9 million

Journeys: 2012/13



£7.20

Average fare (2012/13)

1,604 million

Passenger kilometres: 2012/13



1,250

Route kilometres operated

300

Services per day (approx)



85%

Passenger satisfaction overall: Autumn 2013



1,126

Employees



50%

Recycling rate



70 train sets

51 three-car Class 185 diesel multiple units

9 two-car class 170 diesel multiple units

10 four-car class 350 electric multiple units



100%

Of buildings installed with energy smart metering



£178.6 million

Passenger revenue (2012/13)

£224.9 million

Cost base (2012/13)

First Class offer

= complimentary refreshments

Public Performance Measure

MAA (Moving Annual Average) of 90% as at April 2014



55%

leisure journeys

42%

business journeys

3%

commuter journeys

2.2 The franchise specification

The specification for the franchise will be set out in detail in the ITT, following consideration of the responses to the public consultation. However, at the current stage, Rail Executive is considering the following:

	Franchise length	7-9 years with possible extension of up to 1 year callable at Rail Executive's discretion
	Geographical area	Substantially similar to the existing franchise. The ITT may include a requirement or option for bidders to run services to additional locations
	Key events impacting franchise	Northern Hub TransPennine electrification Simultaneous re-letting of Northern franchise Re-letting East Coast, ScotRail, West Coast, East Midlands and CrossCountry franchises European Rail Traffic Management System roll out
	Capital requirements	Possible season ticket bond (around £2 million) Performance bond (around £15 million) Parent Company Support – minimum amount of £40 million with further funding to be calculated based on proposed franchise payments. Up to 50% of this will be required to be bonded
	Risk and reward	Full revenue and cost risk to be transferred to the franchisee A profit sharing arrangement will be put in place including a profit cap
Proposed key dates	Bidder shortlist confirmed: August/September 2014 ITT pack issued to bidders: December 2014 Announcement of winning bidder: October 2015 Contract start: February 2016	



3. Background and context

Since the privatisation of the UK railway in 1995, the government has fulfilled its obligations to provide passenger rail services through creating market competition for franchises.

3.1 The British passenger rail market

The rail industry in Great Britain is high profile and is, by many indicators, on an upward trajectory. Passenger numbers are increasing faster than in all other major European rail systems (passenger journeys have increased by 73% since shortly after privatisation in 1995)⁵ together with rises in passenger kilometres, train frequencies, punctuality and passenger satisfaction. Revenue earned from passengers has increased in real terms every year since privatisation despite more recent challenging economic conditions.



Forecasts for UK rail demand to 2023 indicate annual growth of between 1.7 and 2.1%⁶ driven by factors ranging from a reduction in company car usage to improvements in rail industry performance, and changes such as greater development of employment in regional city centres.

In 2012/13, franchised train operators received £7.7 billion in revenue from passengers. 32% of this came from off-peak tickets, 28% from anytime/peak tickets, 14% from advance tickets and 25% from season tickets. Revenue has steadily increased in recent years as rail use has increased, doubling in the last ten years⁷.

⁵ Association of Train Operating Companies (ATOC) growth and prosperity report from July 2013

⁶ DfT figures from Reforming our Railways: Putting the Customer First, March 2012. Network Rail figures: Long distance market study draft for consultation, March 2013.

⁷ Figures from Office of Rail Regulation. The balance of 1% relates to "other franchised ordinary fares"

Although TPE is a relatively small franchise in terms of the number of passengers carried and its route length, it has seen continued growth over the life of the current franchise. Passenger journeys have continued to grow by an average of 3.8% a year and passenger revenues by 9.6% a year since 2009/10. The TPE franchise is vital to the economic connectivity and growth of the entire north of England and provides important connections to Scotland.

Taken together, the TransPennine, Northern and other franchises provide a total rail offer that is vital to the economic well-being and future growth of the North.

3.2 Structure of the British rail industry

Figure 1 on the following page sets out the basic structure of the rail industry in Great Britain, showing the relationship between Government (Rail Executive), the independent regulator (ORR), the infrastructure provider (Network Rail), the Train Operating Companies (TOCs) – both franchisees and open access providers - and the independent passenger watchdog (Passenger Focus).

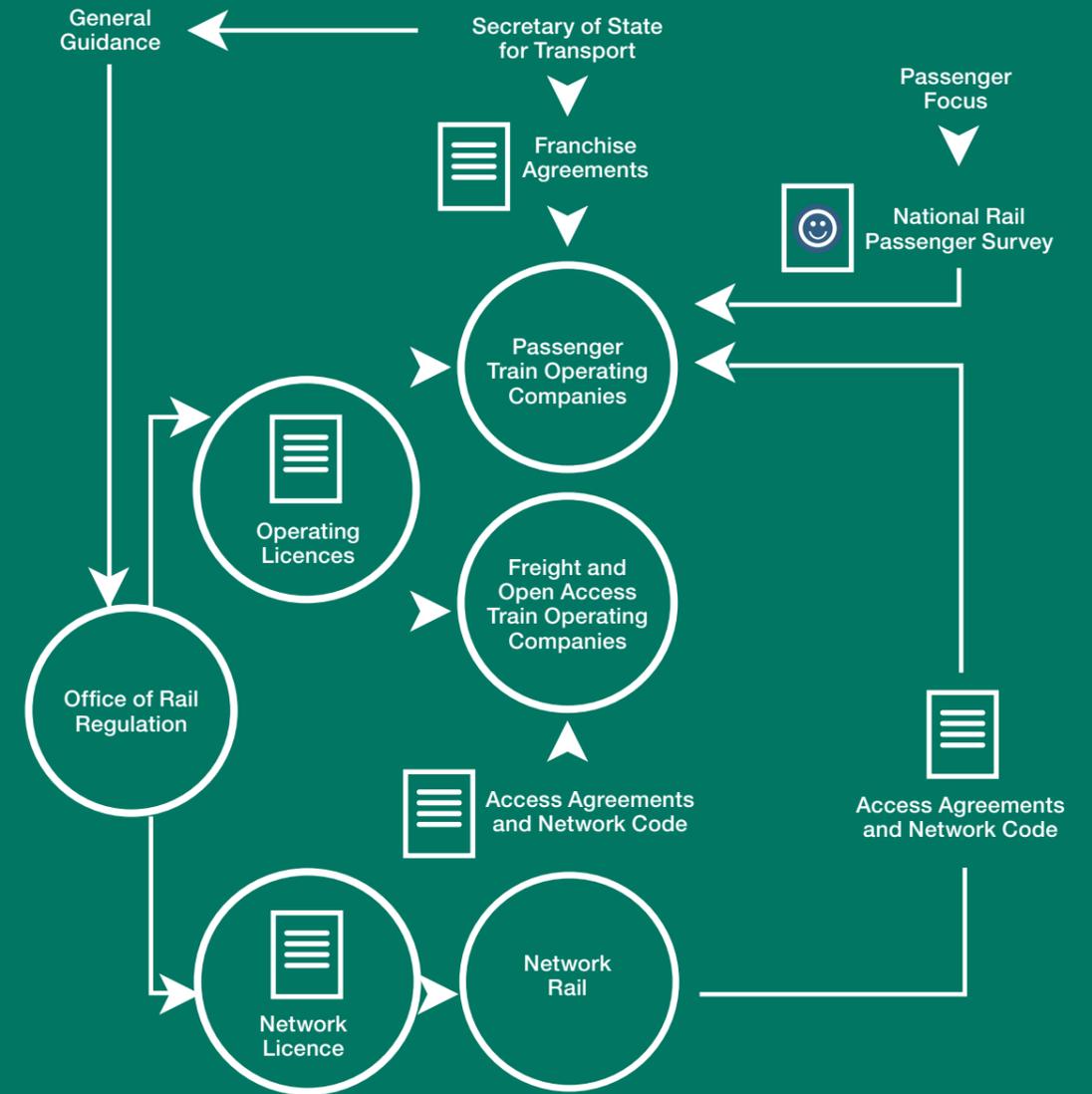
Rail Executive’s role is to provide strategic direction and funding to the railways, to procure and manage rail franchises and major rail projects.

The Office of Rail Regulation (ORR) is the independent safety and economic regulator for Britain’s railways. It is responsible for ensuring that railway operators comply with health and safety law. It regulates Network Rail’s activities and funding requirements, regulates access to the railway network and licences the operators of railway assets. The ORR is also the competition authority for the railways and enforces consumer protection law in relation to the railway. The ORR is a non-ministerial department.

Network Rail is the owner and operator of the national rail infrastructure. It must ensure safe and effective management and development of that infrastructure. It must comply with the conditions of the licence from the ORR under which it operates.

Transport Scotland is the national transport agency for Scotland. It was established in January 2006 as an executive agency of the Scottish Executive (now Scottish Government) directly accountable to Scottish Ministers. Transport Scotland has responsibility for the majority of rail powers in Scotland, while responsibility for safety regulation across Great Britain remains with the Office of Rail Regulation.

Passenger Focus is the independent passenger watchdog for the rail industry. It consults over 50,000 passengers a year to produce the National Rail Passenger Survey (NRPS) - a network-wide picture of passengers’ satisfaction with rail travel. Passenger opinions of train services are collected twice a year in spring and autumn from a representative sample of journeys. Passengers’ overall satisfaction and satisfaction with 30 specific aspects of service can be compared between train operators and over time.



Note: Other organisations are also responsible for letting franchises or concessions to operate train services in Great Britain.

Figure 1: Structure of GB rail industry



3.3 Devolution in England

In 2012 the Government undertook public consultation on future rail decentralisation, following which it confirmed its commitment to implementing an appropriate form of decentralisation where it is sensible to do so.

In July 2013 Rail North, a new organisation consisting of 30 local transport authorities covering the whole of the north of England, issued a Long Term Strategy for consultation, setting out its aims and identifying opportunities and challenges facing the railway in the region. This is now at a final draft stage.

In October 2013 Rail North submitted a proposal to the Secretary of State for the devolution of services operated by the Northern and TransPennine Express franchises.

In January 2014 the Secretary of State announced an intention to work in partnership on two fronts:

- **Collaborative development of the Northern and TPE franchises**, with Rail Executive in the lead and the Secretary of State retaining ultimate responsibility for all design and procurement decisions
- **Development of an integrated partnership structure** including Rail Executive and a more formally constituted Rail North which would be capable of managing the franchises after they had been let

It is intended that each franchise will have a specification reflecting as far as possible the aims and objectives of both Rail North and the Secretary of State. Officials from Rail North member authorities are now working alongside Rail Executive colleagues to develop these specifications.

When work on a future partnership is more advanced we will provide further information about the form of that partnership and the point at which it may take on contract management responsibility for the next Northern and TPE franchises.

3.4 Key events

During the tenure of the new franchise a number of pre-planned and significant events are planned to take place which are expected to help the new franchisee to achieve Rail Executive's objectives in delivering improvements to passengers. An anticipated timeline of these events is shown below and more information on each event can be found in this section. We will require bidders to demonstrate how they would plan for these events and optimise the benefits that they can bring.

“We will require bidders to demonstrate how they would plan for these events and optimise the benefits that they can bring.”



Figure 2: TransPennine Express timeline of events

Franchise schedule

Six franchises which closely link into the TransPennine Express network will be re-let in the period to 2020:

- Inter City East Coast (February 2015)
- ScotRail (April 2015)
- Northern (February 2016)
- Inter City West Coast (April 2017)
- East Midlands (October 2017)
- CrossCountry (November 2019)

In accordance with existing rail industry mechanisms, the new franchisee will need to work in partnership with Rail Executive and both the incumbent and new operators of these franchises to ensure seamless integration of services and no reduction in the quality of passenger experience.

Investment Projects

Network Rail is investing heavily in the region with major projects underway to transform the capability of the rail infrastructure in the north of England. The 'Northern Hub', North West electrification and Trans-Pennine electrification projects will create the opportunity for improved train services to bring benefits to passengers and to support the economy of the region by providing better connectivity across the north of England, greater capacity and quicker journeys.

In appointing a new TPE franchisee Rail Executive is seeking to secure these benefits in the most advantageous way possible for passengers and for taxpayers.



Northern Hub

The Northern Hub is a programme of targeted upgrades to the railway in the north of England which, by December 2018, is expected to allow up to 700 more trains to run each day and provide capacity for up to 44 million more passengers a year. These upgrades will improve connectivity between northern centres and consist of:

The Ordsall Curve

- A new section of route directly linking Victoria and Oxford Road and Piccadilly stations in Manchester, allowing direct running for example from the Calder Valley cross-Pennine route to Manchester Airport

Increased capacity and line speed improvements

- A new island platform on the through lines at Manchester Piccadilly, and extra tracks between Piccadilly and Oxford Road stations, to increase the number of passenger and freight trains that can use the Castlefield Corridor
- Extra capacity on the Chat Moss route between Liverpool and Manchester
- An extra platform at Manchester Airport Station
- Platform extensions at various stations to accommodate some longer peak trains
- An increase in the capacity of the 'Hope Valley' route between Manchester and Sheffield
- Line speed improvements on routes between Manchester and Sheffield, Manchester and Preston and Manchester and Bradford



North West electrification

Network Rail has embarked on a £400 million project to electrify routes in the North West. This will allow faster, more frequent and environmentally cleaner services. Key sections of the current TPE franchise route to be electrified are:

- Manchester-Liverpool via Chat Moss
- Manchester-Bolton-Preston-Blackpool North

Trans-Pennine electrification

The Manchester-Huddersfield-Leeds-York trans-Pennine route will be electrified which will enable the introduction of electric rolling stock and new service patterns.

The Ordsall Curve and North West electrification projects are due for completion in December 2016, with remaining elements of the Northern Hub and trans-Pennine electrification due for completion in December 2018.

Further information about the European Rail Traffic Management System (ERTMS) can be found in section 5.5.

Other potential routes for electrification

The Government has announced that it is keen for the Windermere branch to be converted to allow electric trains to run on the route, with an aspiration for introduction of through electric trains directly to Manchester by 2016, subject to the business case confirming that the project provides good value for money.

In December 2013, Ministers announced a joint taskforce to explore which lines in the North should be electrified in the near future. This group is expected to provide an interim report within 12 months setting out which schemes can be brought forward and their development accelerated. The routes to be examined will include:

- Selby – Hull
- East Coast Main Line – Middlesbrough
- Leeds – Harrogate – York
- Sheffield – Leeds
- Sheffield – Doncaster
- Sheffield – Manchester
- Warrington– Chester
- Crewe – Chester

Some of these potential schemes may have a direct effect on the TPE franchise specification or may take effect later during the franchise term.

We will give further details of this in the ITT.

4. The existing franchise



PART B

This section gives information on the current FTPE franchise. The description of the current franchise should not be seen as an indication that Rail Executive wishes or does not wish the activities discussed to continue in their current form in the new franchise. Discussion of Rail Executive's likely requirements for the future franchise appears in section 5 of this prospectus.

4.1 Overview

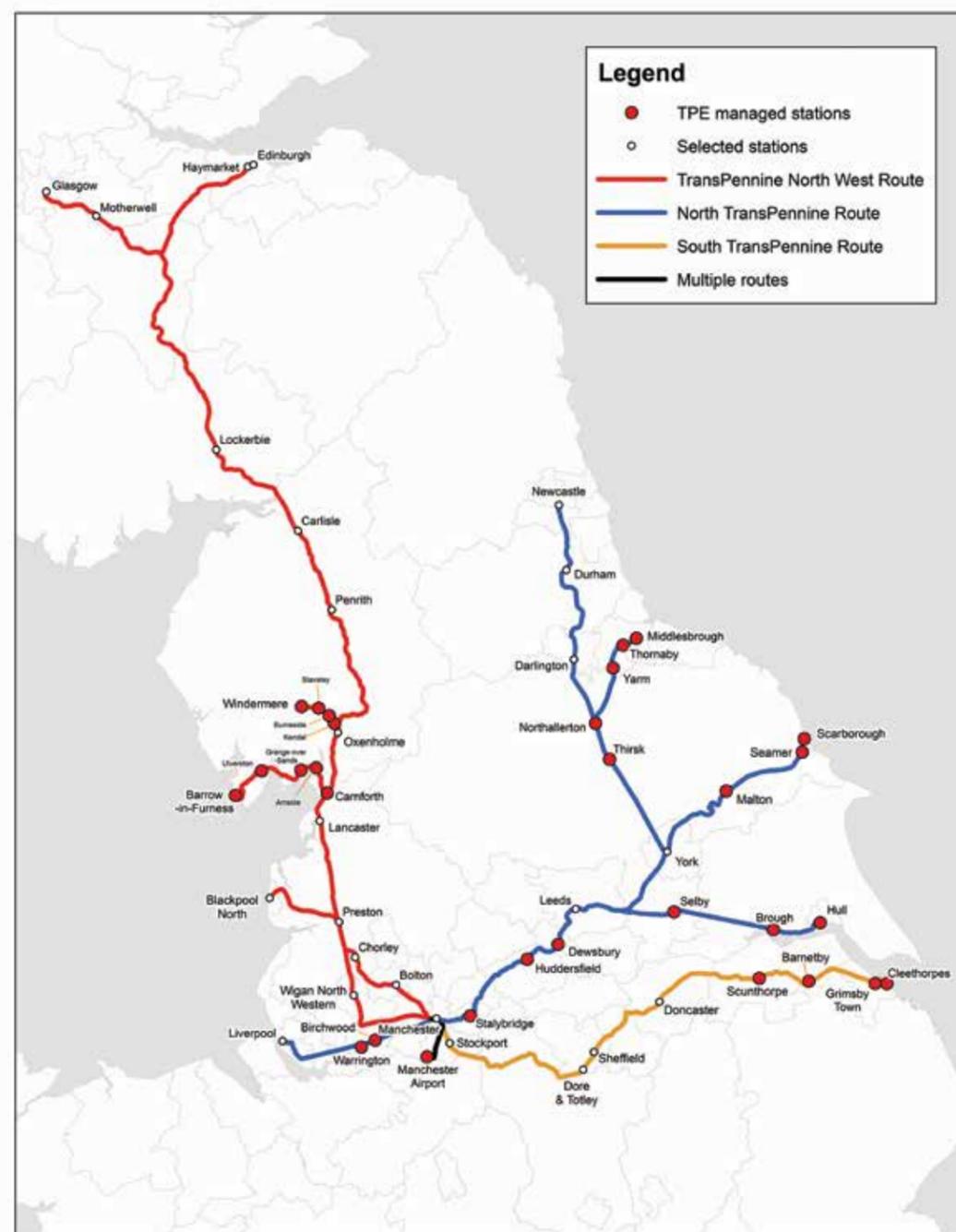
The current Franchisee is First/Keolis TransPennine Holdings Limited, and the Franchise Operator is First/Keolis TransPennine Limited, companies ultimately owned by First Group plc and Keolis SA.

First TransPennine Express currently runs services on three groups of routes: from Liverpool and Manchester Airport to north east England via Leeds; from Manchester Airport to north west England, Glasgow and Edinburgh; and from Manchester Airport to Cleethorpes via Sheffield and Doncaster. Its services provide links between the largest cities in northern England, as well as reaching into Scotland. Most of its routes in England are shared with Northern Rail; First TransPennine Express currently concentrates on longer distance, limited stop services, while Northern Rail provides all-stations services.

The FTPE services provide for a mix of leisure and business use, with some commuting journeys. Separating the TransPennine Express services from the others in the region has allowed the current operator to develop the market for longer distance services, particularly to and from Manchester Airport and, more recently, to Scotland.

4.2 Routes and services

The map below shows the current TransPennine Express routes, divided into three service groups: North TransPennine, South TransPennine and North West.



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Figure 3: TransPennine Express route map



The current North TransPennine services operate over a core central section from Manchester to Leeds (across the Pennine range of hills). To the west and south of Manchester, these extend to Liverpool and Manchester Airport; to the north and east of Leeds, these extend to Newcastle, Middlesbrough, Scarborough and Hull.

Each destination is currently served by at least one train per hour during the day on weekdays, combining to give four trains per hour between Manchester and Leeds. This increased in May 2014 to five trains per hour between Manchester and Leeds with the introduction of an hourly service from Liverpool to Newcastle via Manchester Victoria. All other First TransPennine Express trains calling in Manchester travel via Manchester Piccadilly.

South TransPennine services currently operate between Manchester Airport and Cleethorpes, via Manchester Piccadilly, Sheffield and Doncaster. Trains operate an hourly service during the day; this is supplemented between Manchester and Sheffield by an hourly service, from Liverpool to Norwich, run by East Midlands Trains. The two operators have coordinated their timetables to give a 30 minute frequency between Manchester and Sheffield.

The third group of services – North West – currently has Manchester Airport as its southern terminus, and runs to Blackpool, Windermere and Barrow-in-Furness, with twelve services per day going to Scotland, eight of them to Edinburgh and four to Glasgow. FTPE recently introduced a fleet of 10 class 350 electric multiple units onto this route. The deployment of these units became possible when the section of line from Manchester to Newton le Willows on the West Coast Main Line was electrified, as this means that Manchester Airport is now connected to both Glasgow and Edinburgh by electrified lines. Introducing these units has increased capacity on that route, but also released some diesel units to cascade to other FTPE routes. This has enabled FTPE to introduce the extra hourly service across the Pennines and to lengthen other trains, providing extra capacity.

4.3 Recent changes

Network Rail has recently undertaken work in Manchester, including the complete closure of Manchester Victoria over Christmas 2013, which has enabled enhanced services to operate through this station. The main impact on FTPE is the introduction of a service from Liverpool to the North East via Victoria. This provides an alternative route from Liverpool to Manchester which has a shorter journey time than FTPE's other service between the two cities which goes to and from Manchester Piccadilly. It also provides a fifth train per hour between Manchester and Leeds and significantly reduces the journey duration from Liverpool to Leeds.

4.4 Financial information

The following financial information has been extracted from FTPE's annual statutory financial statements and relates to years running from 1 April to 31 March, unless otherwise stated. Where figures have been included these are approximate only and should not be read as an accurate representation of FTPE's financial performance. FTPE has been one of the subsidy-based operators, and, like most train operating companies, its cost base is largely fixed.

Since 2007/08 First TransPennine Express has continuously demonstrated an improving financial position with revenues from passenger services increasing by 68% between 2007/08 and 2012/13, representing a compound annual growth rate of 11%. For the year ended 31 March 2013, TransPennine Express generated passenger revenues of £179 million, making up 74% of its annual turnover of £241 million. The breakdown of revenue for 2012/13 can be seen in figure 4 below.

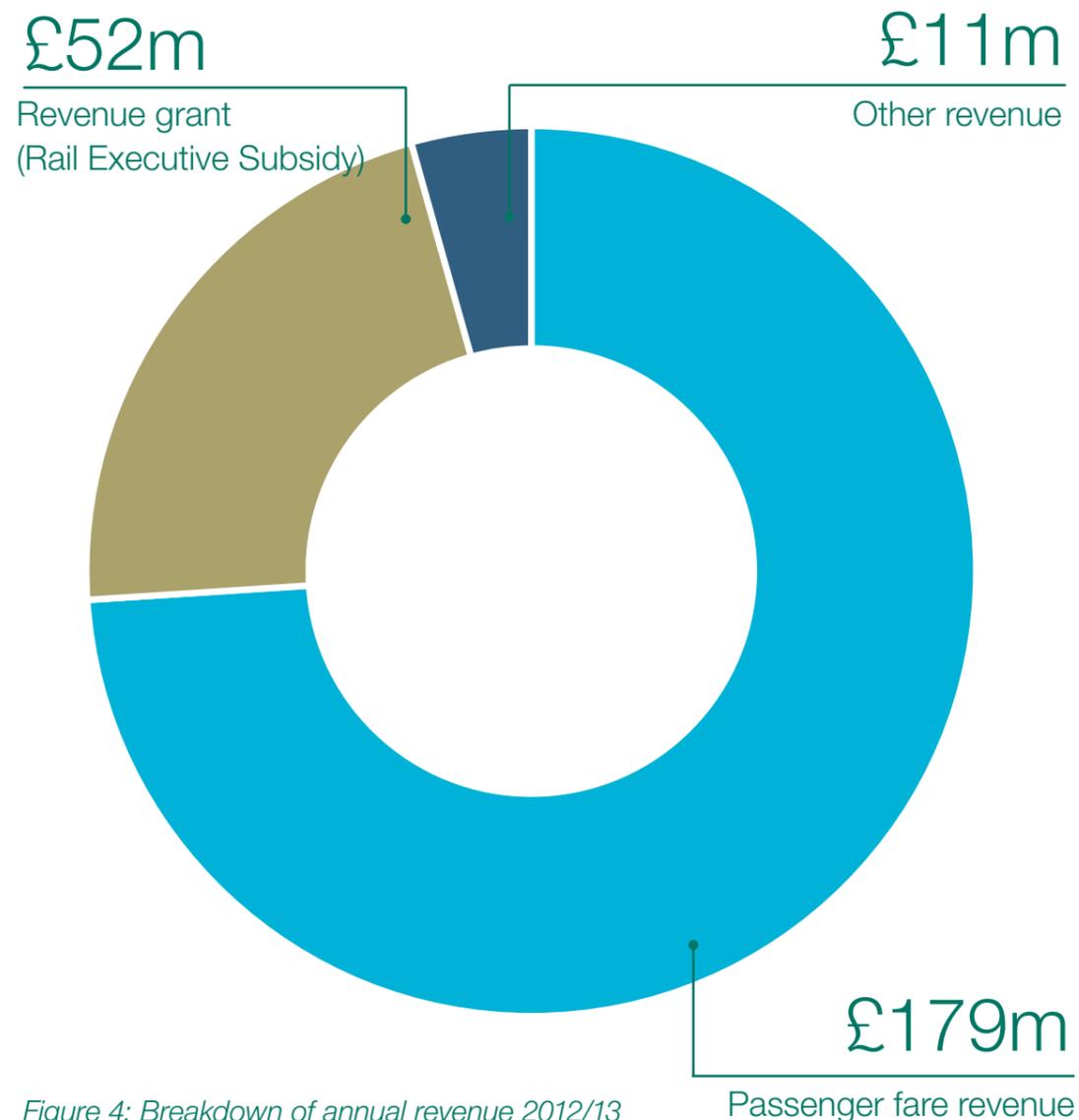


Figure 4: Breakdown of annual revenue 2012/13

Revenue grant income of £52 million in 2012/13 represents the franchise payment from the Department under the current contracted Franchise Agreement.

First TransPennine Express has experienced significant growth in passenger journey numbers. Between 2008/09 and 2012/13 the number of passenger journeys on TransPennine Express has increased by 11.2%; growing by 3 million journeys to 25 million journeys in 2012/13. During this time passenger revenue per journey increased by 26%.

This increase in passenger journey numbers has led to strong growth in passenger revenue, which has remained above 7% p.a. since 2008/09. The most recent figures for passenger revenue, from 2012/13, show growth of 7.2%. Figure 5 below illustrates how revenue has increased over the last five years.

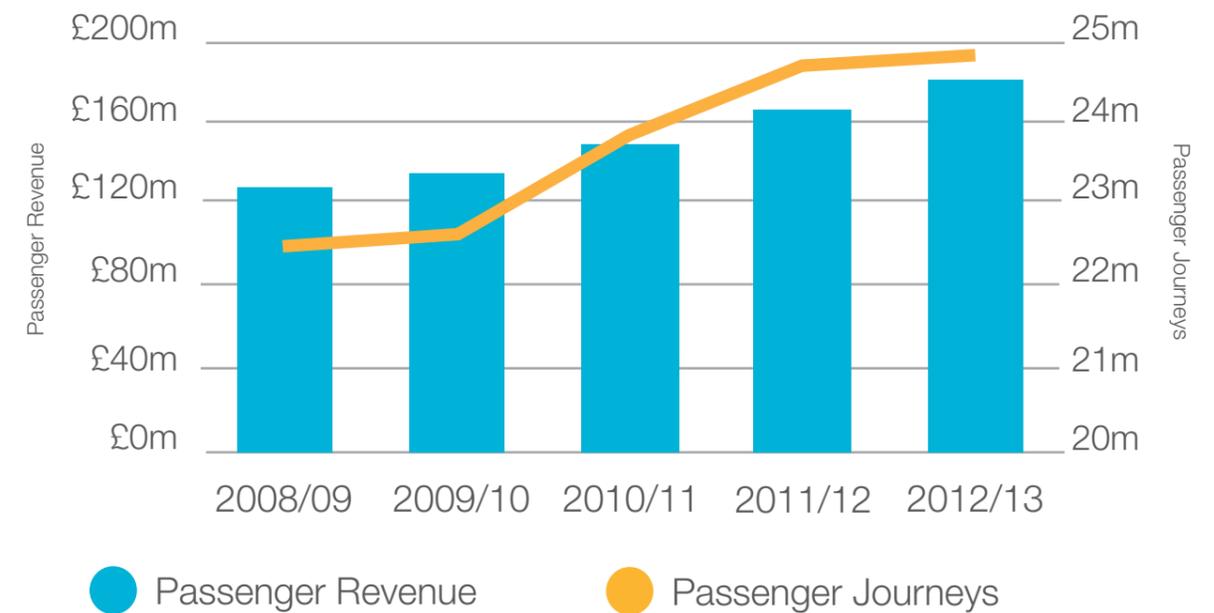


Figure 5: Year on year growth – Passenger revenue and journeys



During the year ended March 2013, First TransPennine Express reported a cost base of £225 million, up 3% from £219 million in 2011/12. The breakdown of the 2012/13 cost base can be seen in figure 6 on the following page, followed by further information on each of the elements.

£1m

Other costs

Other costs:

These non-cash costs relate to depreciation, amortisation of grants and other intangible asset amortisation

£123m

External charges

External costs:

This category accounts for 54% of the cost base and includes costs of leasing the fleet from Rolling Stock Leasing Companies, rolling stock maintenance and administration expenses

£48m

Station & track access facilities

Station and track access costs:

This accounts for 22% of FTPE's costs. It relates to access to the rail network, and is mainly payable to Network Rail, with both fixed and variable elements, the value of which is set by the ORR under the Periodic Review mechanism

£53m

Staff

Staff costs:

The salaries and associated employment costs of the 1,064 staff (2011/12: 1,018 staff) represent 24% of the cost base. The staff number is distributed between operations (438), customer service (532) and other (94)

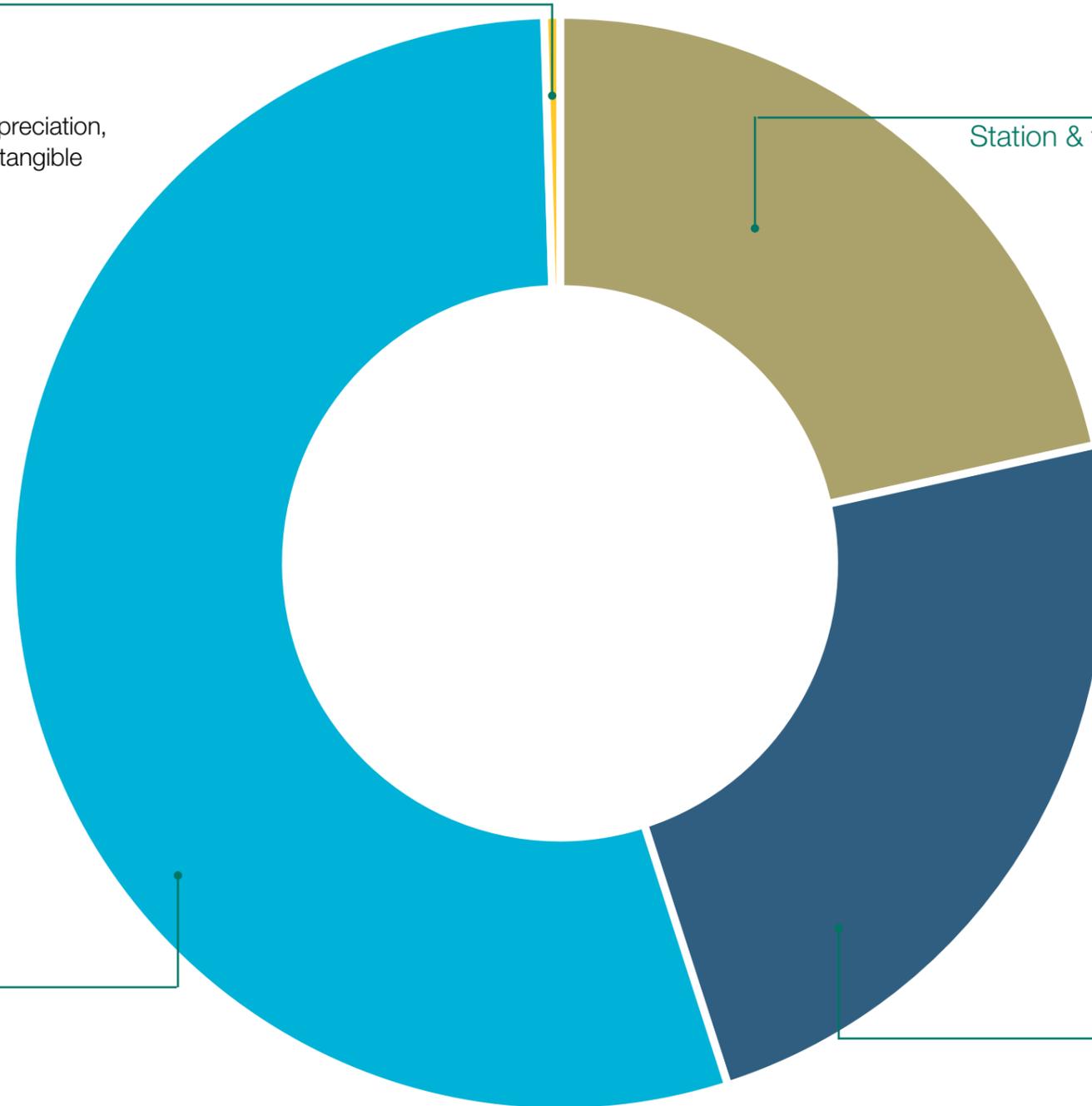


Figure 6: Operating costs for 2012



4.5 The TPE market

The TPE passenger market is currently dominated by discretionary travel, with around 60% of TPE passengers travelling for leisure purposes. Commuter flows make up around a quarter of the market, with substantial flows into Manchester in particular and also into Leeds. The business market is smaller but still significant. Overall, the highest revenues are generated from medium-distance inter-urban travel, particularly between the cities of Manchester, Leeds, Edinburgh, Glasgow, Newcastle, York, Sheffield and Preston.

In recent years, TPE's revenue growth has outperformed that of other long distance operators and has been particularly strong in the leisure market.



Figure 7: Historic annual passenger journeys and revenue by ticket type

4.6 Customer satisfaction

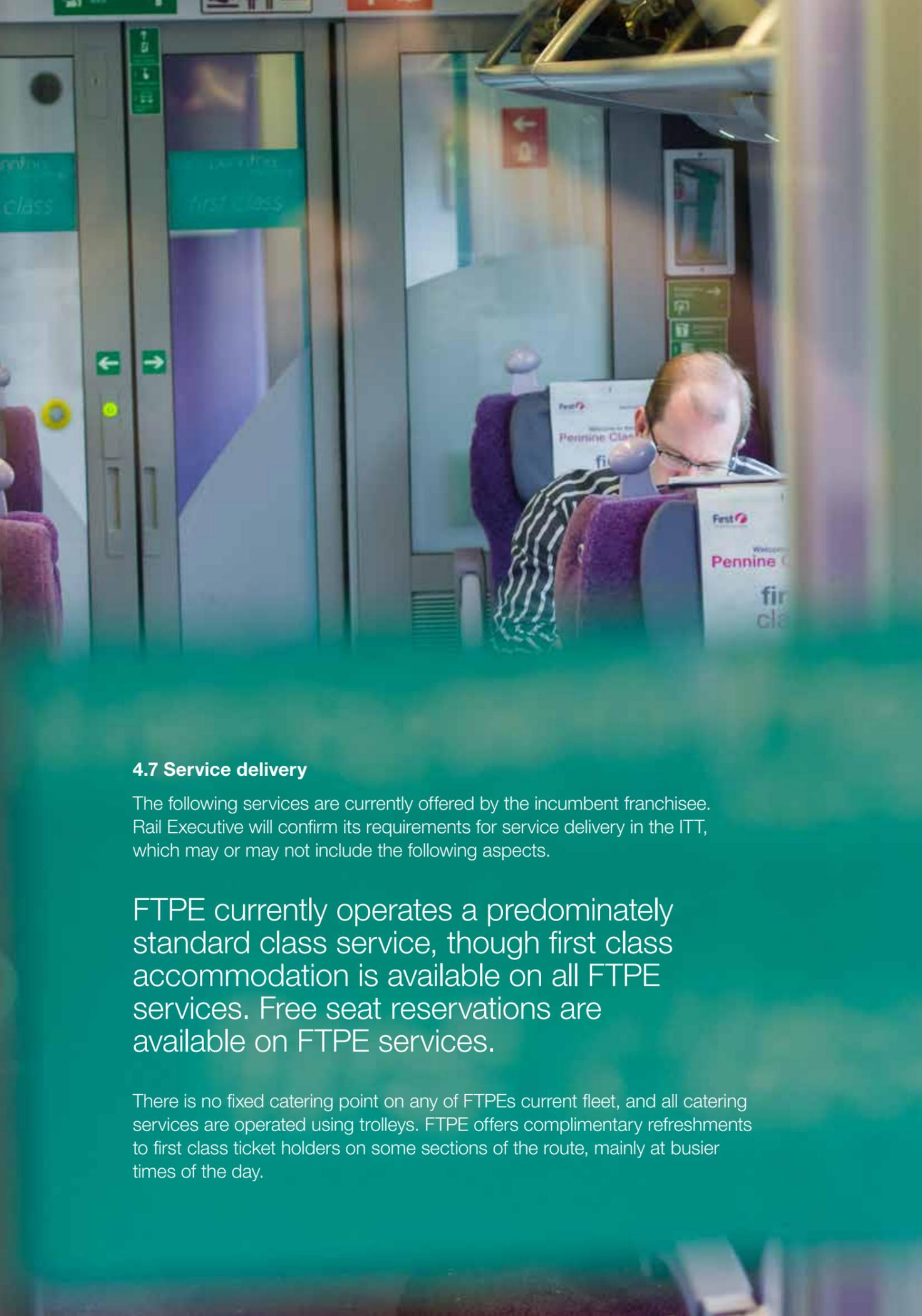
The overall satisfaction of FTPE's passengers, as measured by the National Rail Passenger Survey, was 85% in autumn 2013. Over the last seven years, overall satisfaction (the proportion of passengers who were fairly or very satisfied) with FTPE services has been broadly similar to that of comparable long-distance franchises. However, it has been slightly below average for the last few years and significantly lower than the best franchise in its class.

The results of the National Rail Passenger Survey have shown that crowding is a significant issue on FTPE services and passenger satisfaction with room to sit or stand is the lowest of any train operator. There are also passenger concerns about the lack of luggage space, and its impact on crowding, on trains serving Manchester Airport.



“The overall satisfaction of FTPE's passengers, as measured by the National Rail Passenger Survey, was 85% in autumn 2013.”





4.7 Service delivery

The following services are currently offered by the incumbent franchisee. Rail Executive will confirm its requirements for service delivery in the ITT, which may or may not include the following aspects.

FTPE currently operates a predominately standard class service, though first class accommodation is available on all FTPE services. Free seat reservations are available on FTPE services.

There is no fixed catering point on any of FTPEs current fleet, and all catering services are operated using trolleys. FTPE offers complimentary refreshments to first class ticket holders on some sections of the route, mainly at busier times of the day.

4.8 Fleet and engineering



The main rolling stock used by First TransPennine Express is a fleet of 51 class 185 Desiro 3-car diesel multiple units, built by Siemens and introduced into service from 2006.

They are sufficiently powered to sustain a top speed of 100mph and to cope with the hilly routes across the Pennines. They have an Eco mode, which allows one engine (out of three) to be shut down on appropriate journey sections, leaving the train cruising on the other two engines. This reduces fuel consumption and extends engine life, with no adverse effect on journey duration. Siemens maintains the trains at its main depot at Ardwick, a short distance from Manchester Piccadilly, with other work being carried out at Siemens' facility at York and various overnight stabling locations.

Whilst the class 185 units operate on nearly all routes, FTPE has introduced 9 class 170 Turbostar 2-car diesel units. These operate the services from Manchester to Hull and also some of the services to Cleethorpes. These units were built by Bombardier, who also maintain them at their Crofton facility near Wakefield. They were transferred to TransPennine Express after service with other operators, but have been refurbished to an FTPE specification. These units will transfer to another operator in 2015.

FTPE has recently introduced a fleet of 10 class 350 4-car electric multiple units into service on the Manchester Airport to Glasgow / Edinburgh route. The first units entered service in December 2013, with the full fleet operating from May 2014.



“There is no fixed catering point on any of FTPEs current fleet, and all catering services are operated using trolleys. FTPE offers complimentary refreshments to first class ticket holders on some sections of the route, mainly at busier times of the day.”

4.9 Stations

FTPE currently operates 30 stations, although its services call at over 100 in total. The FTPE stations are spread across the TPE network; 11 to the north and east of York, 9 on the routes from the West Coast Main Line to Barrow and Windermere, 6 on the North TransPennine route between Liverpool and Leeds, and 4 between Doncaster and Cleethorpes. The stations range in size and footfall from Manchester Airport and Huddersfield at the large end of the spectrum, to country stations including Barnetby in North Lincolnshire and Kendal in the Lake District.

Key developments within the FTPE station portfolio include:

- Manchester Airport is currently being extended to provide a fourth platform
- Stalybridge has recently been remodelled to add two new platforms, including turnback facilities for trains from Manchester
- Manchester Victoria has recently been added to the TPE network



Stations for which FTPE is the current Station Facility Owner (SFO)

Arnside	Manchester Airport
Barnetby	Middlesbrough
Barrow-In-Furness	Northallerton
Birchwood	Scarborough
Brough	Scunthorpe
Burneside	Seamer
Carnforth	Selby
Cleethorpes	Stalybridge
Dewsbury	Staveley (Cumbria)
Grange-Over-Sands	Thirsk
Grimsby Town	Thornaby
Huddersfield	Ulverston
Hull	Warrington Central
Kendal	Windermere
Malton	Yarm

4.10 Operations

Performance

The Public Performance Measure (PPM) for FTPE is a measure of the proportion of trains that arrive at their final destination within ten minutes of the planned timetable. Figure 8 shows PPM for each of the FTPE routes.

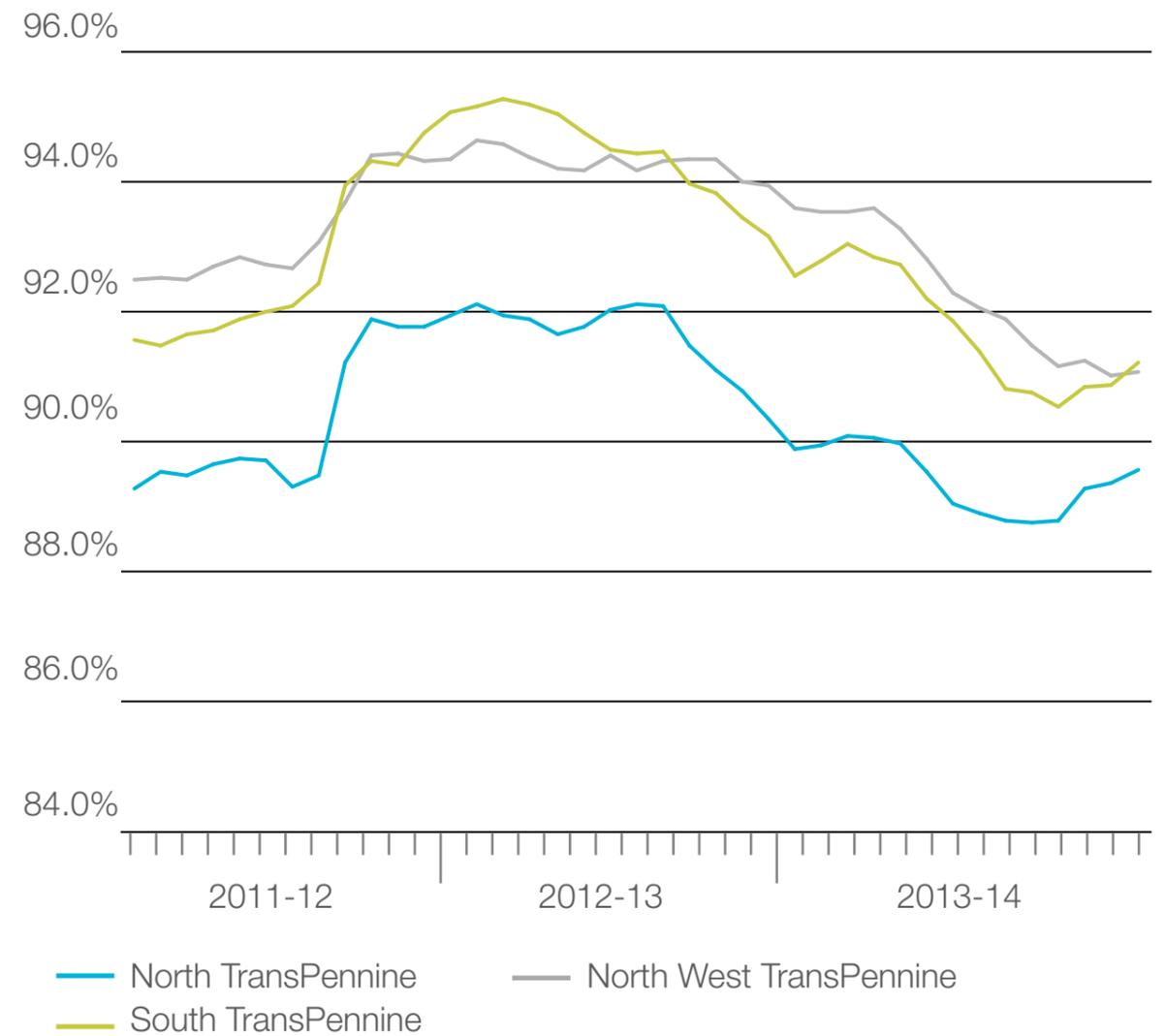


Figure 8: TPE PPM by route

FTPE is currently one of the highest performing long distance Train Operating Companies.

4.11 Community Rail

Community Rail is a Government strategy, supported by the rail industry, which seeks to increase the economic value of local rail by encouraging local communities to play a greater role in the delivery of rail services. Community Rail Partnerships aim to increase revenue and patronage, reduce costs, increase local community involvement and facilitate local social and economic development.

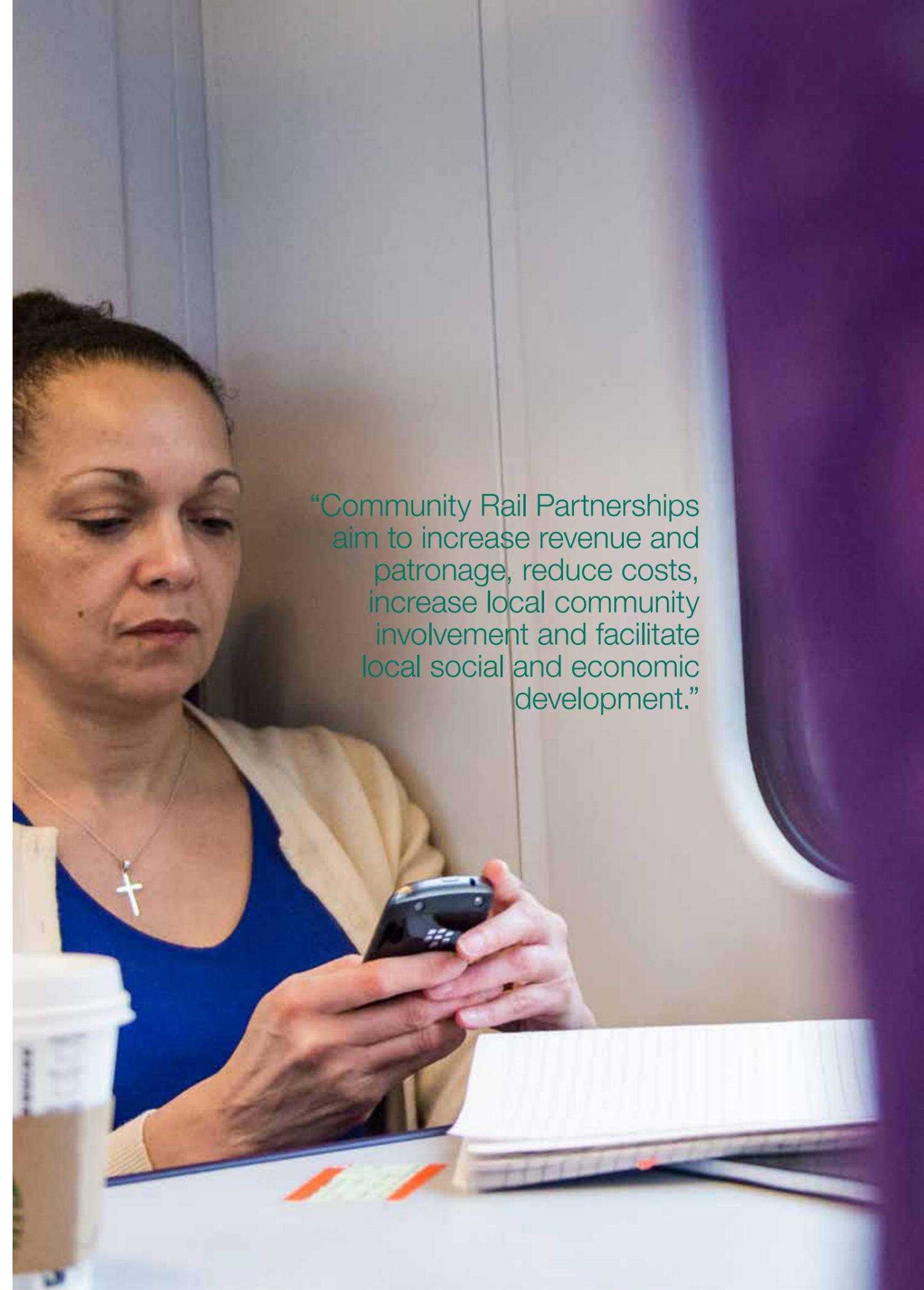


The Department has formally designated 36 community lines or services.

Designation of lines is intended to encourage appropriate standards and excludes the lines from some elements of EU regulation. It also provides a more flexible approach to the management of the franchise and allows more flexible arrangements on timetables and fares. Designation of lines reinforces the importance and status of the community rail partnership for the line. Designation of services serves similar ends but does not include track or signalling.

Several sections of the existing FTPE network are covered by Community Rail Partnerships:

- The Furness line between Lancaster and Barrow-in-Furness, which is shared with Northern Rail. The stations covered are Carnforth, Arnside, Grange-over-Sands, Ulverston and Barrow
- The Lakes Line between Oxenholme and Windermere. Stations covered are Kendal, Staveley, Burneside and Windermere
- Hope Valley - TPE services to Cleethorpes pass along this line and make occasional calls at certain stations. No stations on this line are operated by FTPE
- Barton on Humber: Northern Rail have a contractual relationship with FTPE to operate part of the service. No stations are operated by FTPE



“Community Rail Partnerships aim to increase revenue and patronage, reduce costs, increase local community involvement and facilitate local social and economic development.”

5. Franchise requirements



PART C

This section presents a summary of the franchise specification that Rail Executive is considering and outlines some of the important options that are being considered about the franchise requirements. It is intended that these matters set out a framework for a commercially viable proposition that delivers Government policy and desired outcomes from the rail network, represents value for money to the fare-paying passenger and the taxpayer and is affordable within the Government's finances.

Passengers are at the centre of our approach and, as such, these franchise requirements will be developed following the formal public consultation which is commencing alongside publication of this Prospectus.

This section sets out Rail Executive's current thinking on the scope of the specification only. Rail Executive reserves the right to change any aspects of the specification and Rail Executive's requirements will be set out in the ITT.

5.1 Franchise objectives

Rail Executive’s vision is for a TransPennine Express franchise that delivers excellence in service quality, enables transformation of the customer experience, trains and stations and delivers competitive intercity services across the north of England. To realise this vision we have defined objectives for the new franchise which are set out in section 1.4.

5.2 Geographical area

Section 4.2 sets out the current routes and services provided by FTPE. For the next TPE franchise we are consulting on the geographical scope of the franchise which may involve services currently operated by FTPE being operated by other franchisees or vice versa as set out below (referred to as “remapping”). Subject to the outcome of that consultation, this service remapping is being considered in order to focus the TPE franchise to a greater extent on the long-distance inter-urban market which can be served by intercity-style services. It is also being considered where it might help facilitate delivery of the benefits from the north of England infrastructure investment programme.



The current proposals which may affect the TPE franchise are:

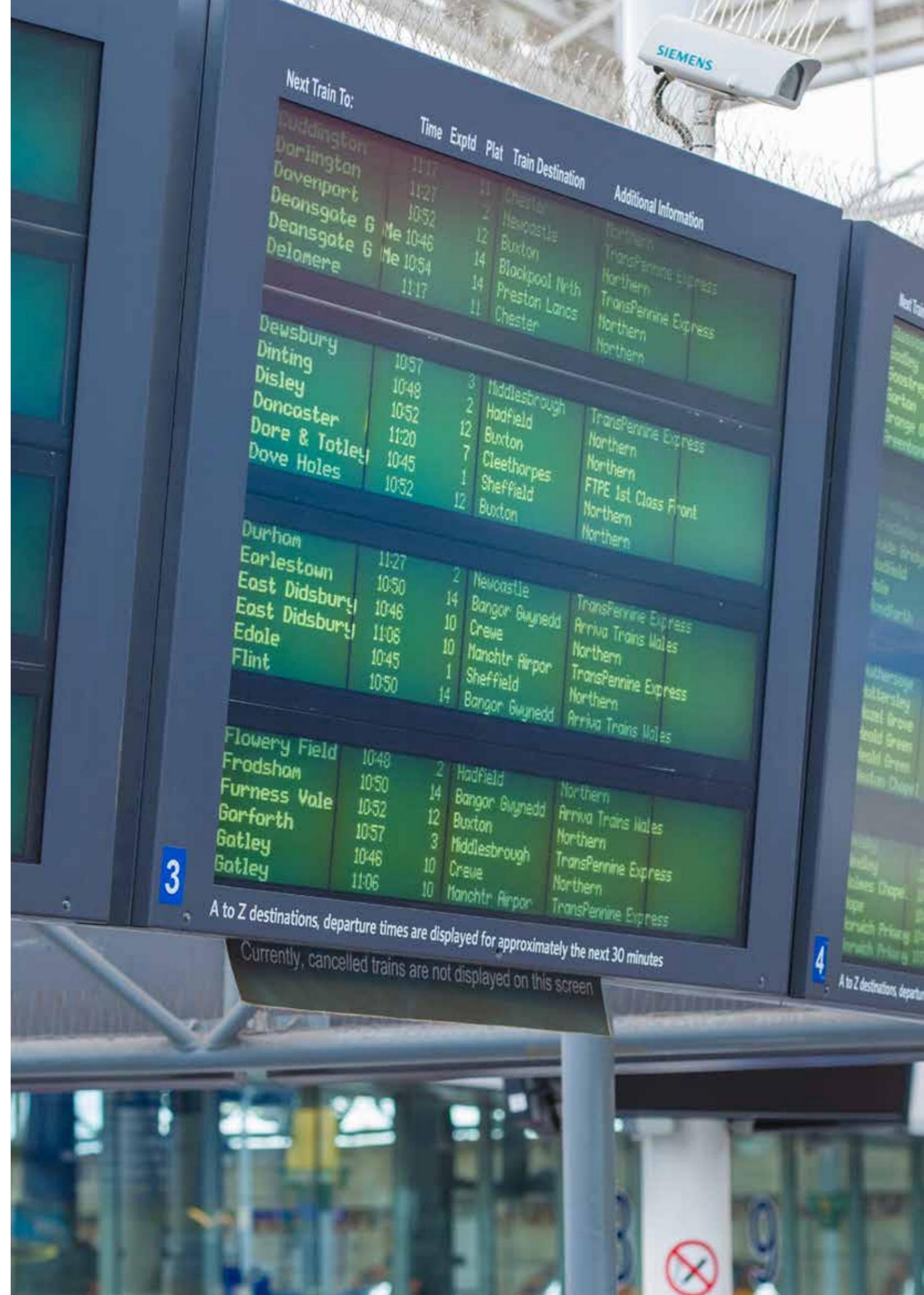
Transfer from TPE to the Northern franchise:

- Manchester Airport to Blackpool North
- Services to Windermere
- Services to Barrow-in-Furness
- York to Scarborough
- Doncaster to Cleethorpes

Transfer from East Midlands Trains to TPE:

- The Nottingham – Liverpool portion of the existing East Midlands Trains Norwich – Liverpool service

These franchise remapping proposals may result in a number of stations being operated by the Northern franchisee rather than the TransPennine Express franchisee. Further information on stations is included later in this document.





5.3 Service quality

Delivering excellence in service quality is a key element in achieving our objectives for the TPE franchise. In practice, service quality is likely to manifest itself through:

- Operational performance
- Train and station presentation
- Staff attitude and helpfulness
- Passenger information, before and during the journey including during disruption
- Ticket retailing

Rail Executive expects that quality will be offered to customers on this franchise through a combination of:

- The commercial incentives incumbent on the franchisee to improve quality, given the largely discretionary nature of travel on the TransPennine Express franchise and the expectations of passengers
- Requirements which will be defined as part of the specification and set out in the ITT

The specification of the franchise may include:



Passenger satisfaction targets

Rail Executive may specify targets for passenger satisfaction with the facilities and services provided by the franchise. This would be likely to include indicators drawn from the regular NRPS conducted by Passenger Focus.



A Customer Experience and Communities Strategy

We are considering requesting that bidders set out how they intend to improve the customer experience. We may also ask bidders to develop a strategy for community engagement focussed on creating links between the community, businesses and the railway.



A Passenger's Charter

Bidders will be required to commit to a Passenger's Charter including a Delay Repay compensation scheme in line with Regulation (EC) No 1371/2007 on rail passengers' rights and obligations.



A Customer and Communities Fund

Rail Executive is considering requiring bidders to set aside a defined sum of money throughout the franchise term to fund schemes which are developed by the franchisee during the franchise in response to customer and community engagement. This is for schemes which would either be non-commercial or will not generate a commercial return within the remainder of the term. Proposals to spend from this fund would be subject to criteria set out in the Franchise Agreement.

We welcome proposals for improving access for all sections of society who want to use the railway but need assistance to do so. This includes people with disabilities, the elderly and young, those with carer responsibilities, and passengers with luggage, bicycles, small children and baby buggies.

We also welcome proposals for improvements to personal security and crime prevention and reduction both on trains and at stations at all times.



A Customer Report

Rail Executive may require the franchisee to produce a regular report, setting out its commitments to customers, its targets and performance against these targets.

Facilitating change and investment

Rail Executive wishes to see continued long-term development of the railway in the north of England and to TPE services. There may be opportunities to enhance the customer experience beyond the investments already planned through investment in areas such as stations, further infrastructure works, rolling stock, integrated transport facilities and passenger information. The ITT may identify particular areas where bidders may be asked to make proposals for investments or bidders may be invited to put forward their own investment proposals.

Provision is already made in the standard Franchise Agreements:

- To encourage franchisees to propose investments through alternative benefit sharing arrangements for approved investments which improve efficiency, reduce costs and enhance the revenue earning potential of services where the timescales for implementation limit the benefit to the franchisee or the payback period is longer than the franchise term
- To incentivise the franchisee to propose changes which achieve savings and improved financial performance during the term of the franchise by fairly rewarding the franchisee for proposing them and reasonably incentivising the franchisee to propose similar changes

Rail Executive would welcome considered proposals for enhancements to such mechanisms and is willing to engage in discussions on residual values.

5.4 Partnerships

Network Rail



We expect bidders to develop close and collaborative working arrangements with Network Rail. Options could include forming an alliance appropriate to the multi-operator nature of TPE's routes, with the aim of reducing industry costs and maximising value.

After PQQ submission, we would encourage applicants to engage with Network Rail on a number of topics including alliancing. Following PQQ submission and prior to shortlisting, Network Rail would only expect to engage with applicants through one high level meeting per applicant. Once bidders have been shortlisted, more frequent engagement would occur during the bid period under confidentiality agreements.

We would encourage bidders to engage with Network Rail to investigate a number of joint tasks which span the range of Network Rail's and the franchisee's business. These may include:

- Timetable development in order to secure passenger benefits from planned infrastructure investment
- Reducing operating costs, including at stations
- Reducing whole industry project costs and increasing value
- Improving train service performance
- ERTMS deployment

Where FTPE and Network Rail currently undertake joint tasks to deliver industry efficiencies and improve performance we would expect bidders to engage with Network Rail regarding the continuation of these tasks.





Communities

The TPE franchise provides a wide range of socially and economically important services to communities across the region. In some places, partnership working between the train operator and the local community has stimulated interest in and use of the railway, and enabled improvements in quality which would otherwise not have been affordable.

To achieve the transformation we envisage under the next franchise we would expect the new franchisee to build on these successes and to develop partnerships with local transport authorities in the north of England, with Transport Scotland and with other bodies so that those who depend on and benefit from the railway can play a greater part in supporting and improving it.

Community rail

We would expect the new franchisee to work in partnership with Rail Executive, Network Rail, Association of Community Rail Partnerships, the relevant Community Rail Partnership and/or other relevant parties to develop initiatives to support any Community Rail Route.



5.5 Operations

Train service requirements (TSR)

Train services

Over the summer of 2014 Rail Executive will be considering, through a consultation process in association with Rail North, changes to service patterns and levels which should be made in support of its objectives for the Northern and TransPennine Express franchises. Options for both franchises will be considered in parallel to ensure that they complement each other to produce a coherent overall network. Indicative options for changes to services will be set out in the public consultation document.

With the franchise due to commence in February 2016, the next franchisee will have only very limited scope to influence the train service and timetable to be operated from December 2016, a key output stage for the investment projects. This timetable will therefore be developed by the current operator, working with Network Rail under guidance from Rail Executive. The final stage in the current investment programme should enable further service improvements from December 2018. Our specification for the franchise will outline our requirements from this point in full while leaving the next franchisee to develop its own timetable and resource plans working through normal industry processes.

The Northern and TPE franchises operate over many of the same routes providing complementary services. The full benefits of these changes can best be realised through co-ordinating timetables across the two franchises. Network Rail is leading an industry process to develop indicative timetables, and the output from this process will be available to bidders.

Track access rights for FTPE's current service pattern exist up to the December 2016 timetable change. The closing date for submitting proposals to Network Rail for access rights beyond that date is the "priority day" – the first Friday of March 2016 – and Rail Executive plans to arrange for the current franchisee to bid for a roll-over of existing rights, to ensure continuity. Potential bidders should be aware that rights beyond December 2016 may be expressed as quantum rights, in line with the ORR's current approach.

The planned infrastructure investments, particularly the Northern Hub and electrification, will be a key enabler of improvements to frequencies and journey times. Bidders will be required to design and implement changes to train services to meet requirements set out in the ITT in order to support the delivery of these passenger improvements. Rail Executive may specify more than one TSR over the life of the franchise to reflect the planned investment programme.

The Brown Review recommended that TSRs are constructed in such a way as to give flexibility to franchisees to offer more resource efficient ways of delivering them. For TransPennine Express, the TSR specified by Rail Executive will include the minimum level of service required and may, for example, include:

- Number of station calls per hour/day
- Specified first and last trains
- Certain calling patterns

Rail Executive will seek to ensure bidders can develop a range of potential service options, which they can use to exploit the commercial capabilities of the route. The amount of flexibility is still being considered by Rail Executive and will be set out in the ITT.

Interaction with other services

Interaction with other services may need to be considered when developing a timetable. Rail Executive anticipates that it will provide guidance in the ITT to enable bidders to timetable services to fit in with other operators. This may apply, in particular, to the Northern franchise which is being procured at the same time as TPE, and where the level of interaction is very high.

Planned timetable changes on the route

Network Rail has established a cross-industry North of England Event Steering Group to consider the major timetable changes to be implemented in December 2016 and December 2018 as a result of the Northern Hub and electrification schemes. The Event Steering Group will develop a project plan to achieve a smooth transition for the timetable changes, oversee and facilitate delivery of the project in time to inform the timetable development process and carry out consultation with stakeholders.

“...a core driver of the TransPennine Express business will be the improvement in journey times to key destinations.”



Infrastructure works

A number of major infrastructure works will take place in the north of England over the projected life of the franchise. Section 3.5 gives details of the major Northern Hub and electrification works which are planned and which are expected to be exploited by the new franchisee.

European Rail Traffic Management System

ERTMS is expected to be the standard technology for re-signalling schemes, and may be installed on parts of some TPE routes during the life of the franchise. It is expected that the franchisee will be responsible for ensuring that its rolling stock is ready to operate under ERTMS control and fitted with ETCS train-borne equipment. The franchisee will also be responsible for the supply, installation, testing, commissioning, approvals, maintenance and warranty support for any ETCS train-borne equipment they propose to retrofit to rolling stock. If required, arrangements for retrofitting of rolling stock will be outlined in the ITT.



Rail Executive is seeking bidders who will work collaboratively with Network Rail in the deployment of ERTMS and to maximise the benefits of the new signalling system.

Rolling Stock

Rail Executive's requirements as to rolling stock will be set out in the ITT. A major challenge will be the introduction of a fleet of high-performance electric rolling stock capable of exploiting the enhanced electrified infrastructure on the north TransPennine route.

We will be seeking a franchisee who can enhance the passenger experience through the deployment of rolling stock during the franchise who is able to:

- Seamlessly manage the introduction of an electric fleet, minimising disruption to passengers
- Manage depot and maintenance provision effectively including any changes resulting from fleet changes
- Maximise the capacity and commercial value of the fleet through its service offering
- Ensure a high-quality of passenger service in terms of rolling stock reliability, train presentation and customer service offering

The Department's requirements on rolling stock will be set out in the ITT.



We would expect bidders to propose and be able to efficiently procure high quality rolling stock suitable to serve the mix of passengers and journey distances on TPE with capacity to accommodate expected growth in passenger numbers.

Rail North has commissioned work to advise on alternative procurement and financing options for rolling stock across the north of England. More detail of potential options will be shared with prequalified bidders.

Performance

During the course of the franchise a number of initiatives are expected to provide the opportunity to achieve a significant improvement in the performance and reliability of TransPennine Express services, notably the Northern Hub and electrification works.

Bidders may also be asked to set out their strategy for working in partnership with Network Rail to take joint action to achieve shared objectives for whole-industry performance.

The franchisee may be required to collaborate with Network Rail to develop and implement a Performance Strategy.



Through the infrastructure improvements over the franchise and improved working with partners the franchisee will be expected to improve this level of performance.

The franchisee may be encouraged to actively participate and share data in relation to improving Right Time operations at origin, destination and at key nodes. At the heart of this concept is the adoption of metrics that measure the proportion of train movements that are early or on time compared with the planned timetable.

We are considering a performance regime which covers the three elements of delays, cancellations and capacity in which the franchisee could receive bonuses for outperforming against its targets and make payments to improve performance if underperforming.

The performance regime will be described in the Franchise Agreement.



Safety

Rail Executive intends that the franchisee should exhibit excellence in safety leadership and management and develop a proactive, positive, open and inclusive health and safety culture with each member of staff feeling that he/she has an important part to play in achieving the highest levels of health and safety for customers, staff and suppliers.

Capacity and Crowding

Providing sufficient capacity is a key driver of passenger satisfaction and passenger demand; crowding is a major issue on TPE. Changes to future timetables and rolling stock provision are expected to provide opportunities to improve on current capacity and crowding performance.

Rail Executive is likely to encourage bidders to develop proposals that provide capacity where it is needed most and mitigate crowding on TransPennine Express services. Rail Executive expects to require Bidders to give due regard to accommodating growth in demand and to exploit any other opportunities to deliver additional capacity including that which might be enabled by infrastructure improvements. We expect to give further guidance on capacity requirements in the ITT.

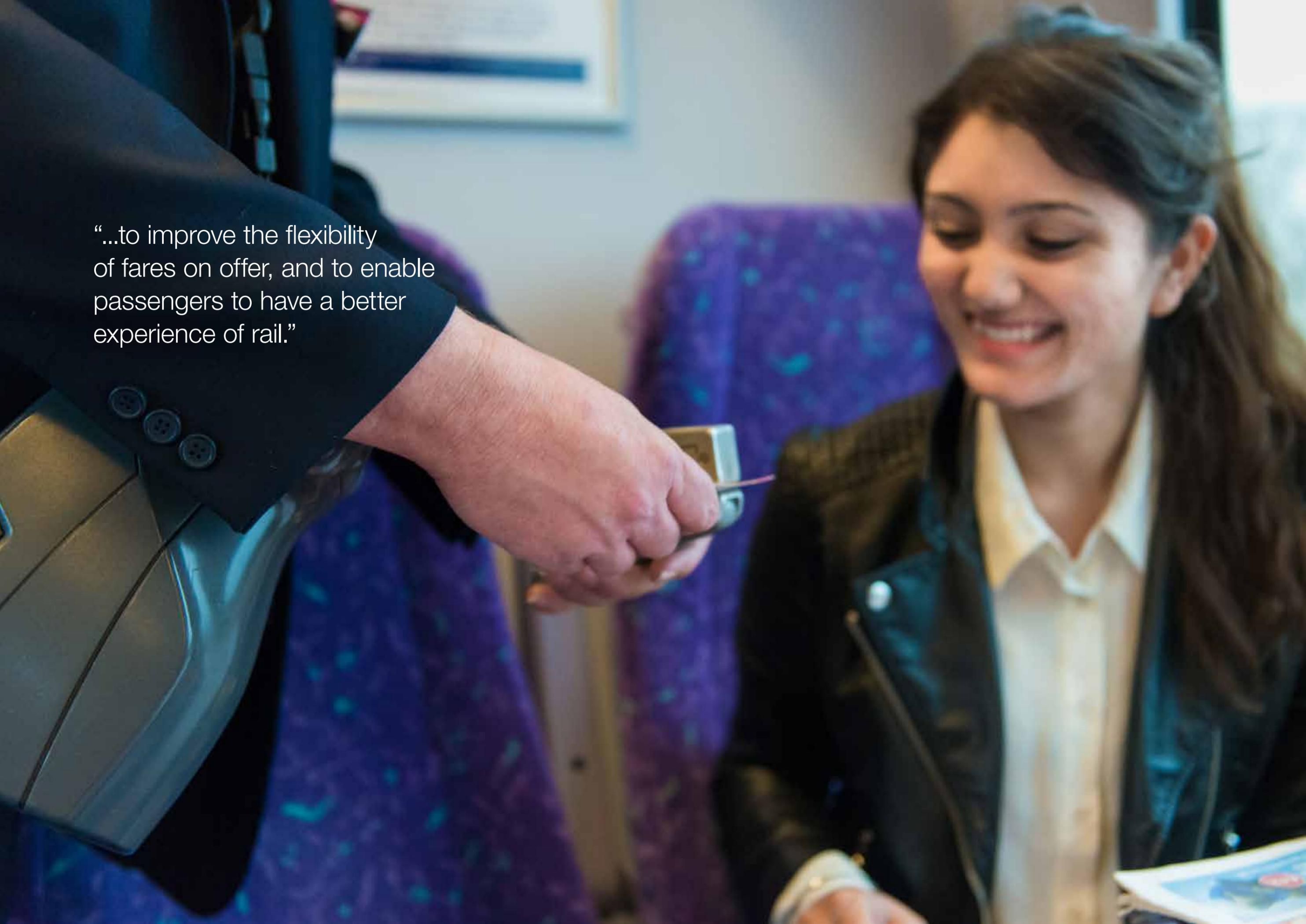
The 2012 High Level Output Specification (HLOS) includes a statement of passenger capacity to be provided by the end of Control Period 5 (March 2019), which will inform the passenger capacity requirements in the ITT.



Providing sufficient capacity is a key driver of passenger satisfaction and passenger demand; crowding is a major issue on TPE.



“...to improve the flexibility of fares on offer, and to enable passengers to have a better experience of rail.”



Operation of train services

Rail Executive expects to invite bidders in the ITT to put forward proposals for improving the efficiency and cost-effectiveness of train service operation, but is unlikely to specify how these should be delivered.

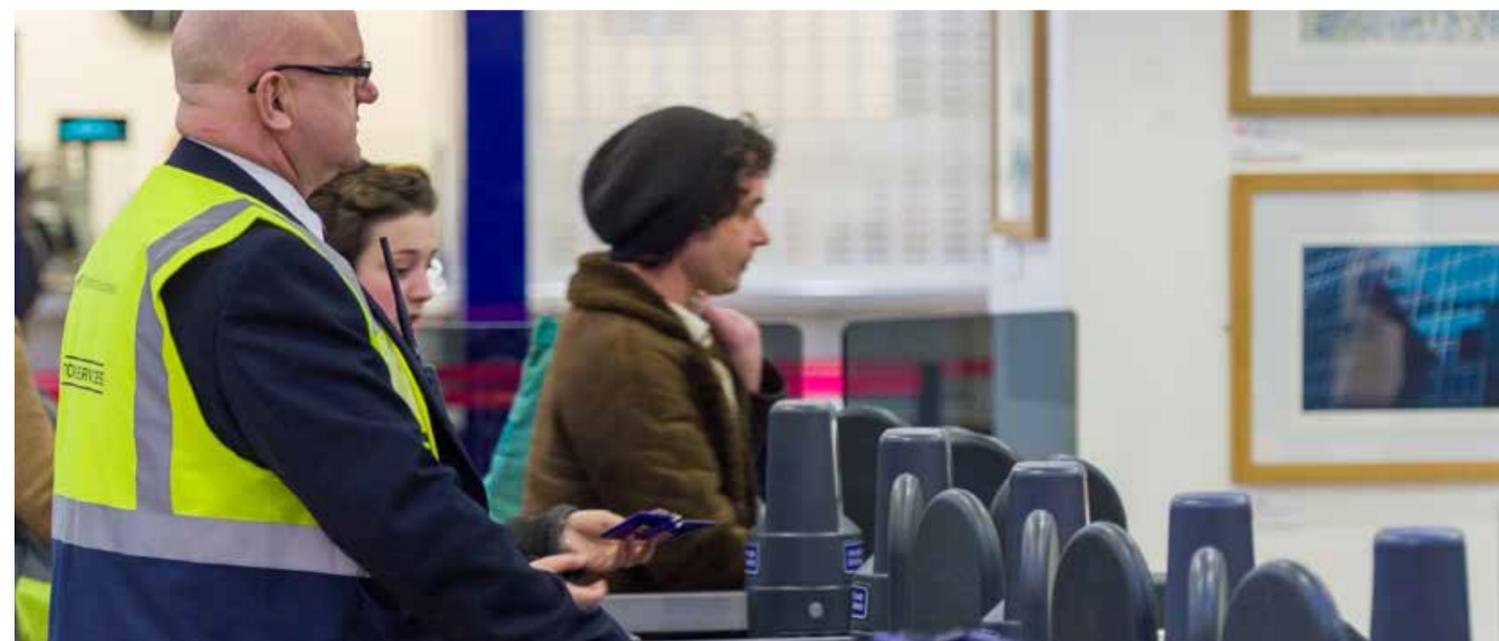
For example, FTPE currently operates trains with a driver and guard. Rail Executive does not intend to specify Driver Only Operation (DOO) or Driver Door Operation (DDO) for the new TPE franchise but if bidders consider there is a case to change on-board staffing responsibilities they may put that forward.

5.6 Stations

The Department is looking for a franchisee who will deliver excellent station services that meet the expectations of passengers, local communities and businesses.

The franchisee is also expected to share the Department's vision for the exciting development opportunities offered by stations across the network. This development may go beyond the traditional rail perspective; working with partners from both inside and outside the industry to make stations destinations in their own right for socialising, culture, health, wellbeing, creativity and learning, with flexible office space and shops. Stations are expected to be integrated with local communities, making them social places that make creative use of space and support vibrant local economies.

FTPE is currently the operator of 30 stations on its network (see Section 4.9). The remapping proposals, which are subject to consultation, may transfer up to 12 of these stations to the Northern franchise operator. The TPE stations currently have good levels of overall customer satisfaction (86% in NRPS Autumn 2013) and we expect the franchisee to maintain and build upon these results in line with the vision outlined above. Rail Executive also wishes to reduce the costs of providing station services and make better use of resources at stations.





We may ask bidders to set out in their bid how they will address challenges in the provision of station services such as:

- Managing the condition of key station assets, including improved performance and qualitative metrics
- The provision of more inclusive station services to meet the needs of customers now and in the future
- Innovative solutions at stations that adapt to the increasing numbers and expectations of passengers

Matching the level of station facilities provided to better meet passengers' needs and drive more effective and efficient management.

Rail Executive is looking for a franchisee to improve the efficiency and effectiveness of station maintenance, renewal and station operations, for instance through:

- Good asset management and utilisation
- Design and specification of station layout, fittings and facilities
- Staff responsibilities
- Non-fare revenue growth (for example, retail, car parking, etc.)

We do not intend to mandate leases longer than the term of the franchise for the management of stations where TPE is Station Facility Owner (SFO). The current model allows TOCs and Network Rail to agree revisions to maintenance and repair responsibilities to give clearer responsibility for certain asset types if they see benefit in doing so. Bidders will be expected to ensure that their proposals for station ownership and management support delivery of Rail Executive objectives for station investment and enhancement.

Other stations served by TPE are managed by other bodies, including Network Rail, and the Northern, Inter City East Coast and Inter City West Coast franchisees.

There may be some changes to station ownership during the next franchise, including:

- The potential transfer of Manchester Oxford Road and Manchester Victoria from the Northern franchise to Network Rail managed station status
- The potential transfer of York and Newcastle stations from ICEC to Network Rail managed station status

5.7 Fares and ticketing

The Fares and Ticketing Review published in October 2013 set out the Government's vision for a modern and customer-focused fares and ticketing system. The Review sought to reduce the impact of fares increases on passengers, to improve the flexibility of fares on offer, and to enable passengers to have a better experience of rail.

In the Fares and Ticketing Review: Next Steps, published in October 2013, Rail Executive set out its plans for improving the way changes to ticket office opening hours are managed.



We want to make it easier for the rail industry to propose innovative changes that harness new technologies for the overall benefit of passengers and taxpayers.

We are exploring whether the existing arrangements can be moved to franchise agreements to encourage TOCs to bring forward packages of measures to improve their services at ticket offices and stations more widely as well as encouraging more innovation in ticketing technology.

Rail Executive is likely to require bidders to put forward proposals for the improved retailing of products and services, from ticket search and acquisition to on-board and at-station services. Tickets should be easily accessible on the widest variety of media (smartphones, tablets, print at home, etc.) and their pricing, availability and time of use transparent in order to facilitate seamless travel across boundaries with other transport authorities.

We expect bids to be based on our regulated fares policy, including the outcome of the Fares and Ticketing Review⁸. We are currently working with Rail North on options to address fares anomalies and potential relaxation in fares regulation to help fund enhancements.

Should Government policy change during the franchise competition, Rail Executive reserves the right to ask bidders to change the assumptions underpinning their bids.

⁸ <https://www.gov.uk/government/consultations/rail-fares-and-ticketing-review>

Innovation is central to meeting the objectives of the franchise. We welcome bids which demonstrate convincingly how passenger satisfaction in relation to ticketing/retail will improve and how they will deliver efficiency savings. In doing so, we will expect bidders to provide passengers with widespread and easy access to the full range of tickets and to ensure that passengers have the information they need to select and purchase the most appropriate ticket for their journey.

We may also require the franchisee to:

- Cooperate with any future schemes led and funded by Rail Executive, Rail North or local authorities to implement smart ticketing on a geographical basis
- Cooperate with Rail North and local authorities within the franchise area who wish to implement smart rail and/or multi-modal ticketing. Smart ticketing schemes are currently under development in each of the five PTE areas
- Ensure that any new smart ticketing infrastructure (such as new gates, gate upgrades or validators) will be capable of recognising cards complying with ITSO (Integrated Transport Smartcard Organisation) and contactless credit or debit cards



5.8 Improving efficiency

Cost reduction plans

One of the key findings from the Rail Value for Money study, published in May 2011, was that the industry should be aiming to achieve a 30% reduction in unit costs (i.e. costs per passenger-kilometre) by 2018/19 in order to give a fair deal to passengers and taxpayers. Reducing the cost of the railway is therefore an important objective for Rail Executive. We are seeking a franchisee who will create, develop and manage high performing partnerships, alliances and arrangements with industry and other key stakeholders throughout the franchise term to deliver the requirements of the ITT efficiently and effectively whilst achieving improvements in whole industry cost efficiency.

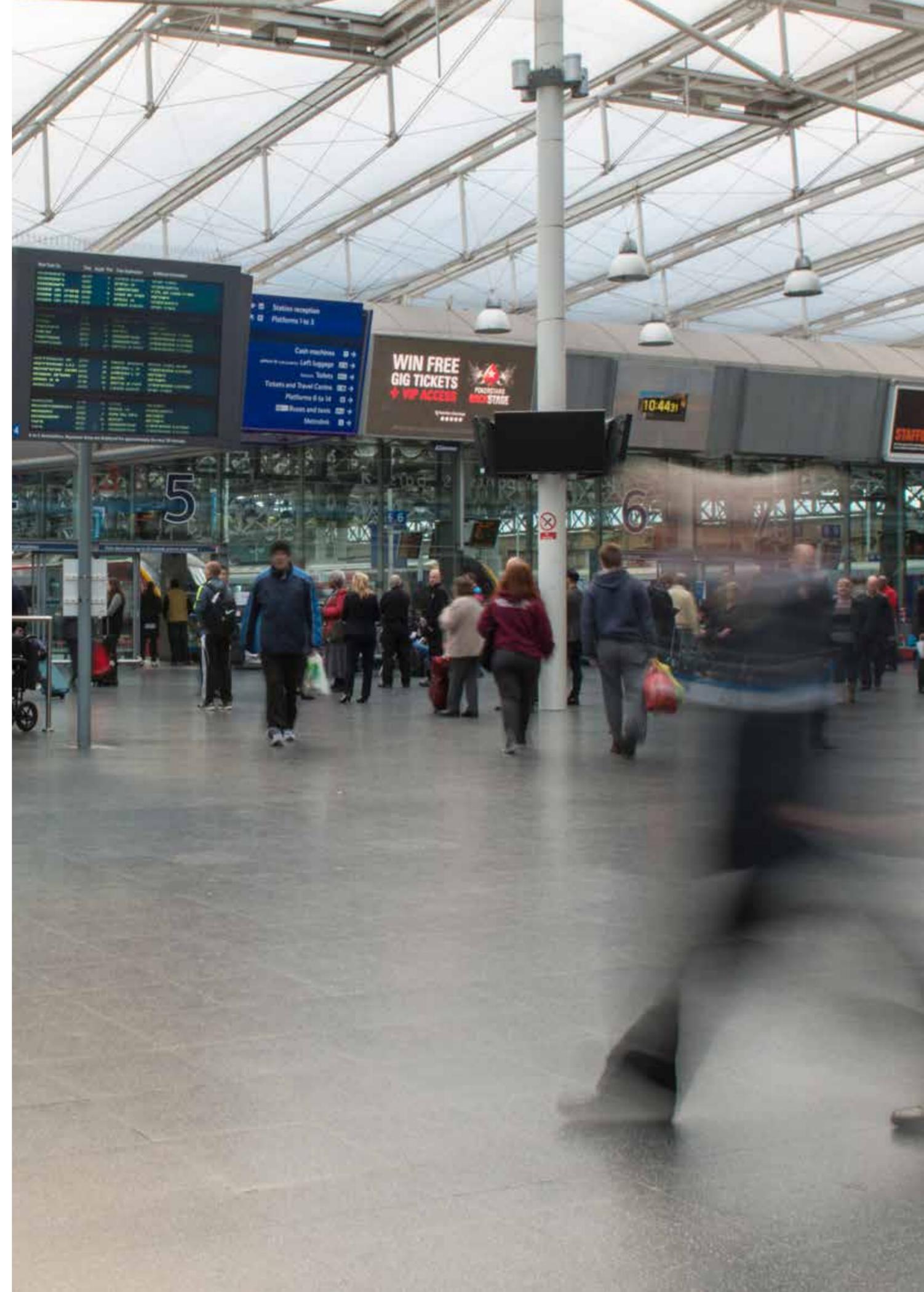


We expect bidders to consider how the costs of running the railway can be reduced to secure a sustainable and efficient railway for the future.

Bidders may be asked in the ITT to propose how they would reduce the unit costs of the existing operations to improve efficiency and how they plan to reduce the unit costs that they can control during the life of the franchise, whilst delivering a quality service.

Transparency

Rail Executive is committed to openness and transparency and may require a franchisee to publish data about its operations. In the ITT we will outline the data we would require to be published, which may include operational performance data, such as Right Time operations, as well as cost reduction data.





5.9 Sustainability

Rail Executive strongly supports the Rail Industry Sustainable Development Principles and wishes to see them embedded in the TransPennine Express franchise. Within the ITT we are likely to ask for consideration of:

Environmental impacts

- A focus on waste avoidance, reduction and continuing to increase the proportion of waste sent for recycling
- Improved energy and carbon management performance, with respect to both traction energy and non-traction energy
- Increased focus on reducing water and resource consumption
- Adoption of sustainable procurement policies and practices

Socio-economic impact

- Demonstrable support for economic growth
- Engagement and empowerment of local communities and Community Rail and Stations partnerships, involving them in decisions which affect their lives

End-to-end journey

- Investment in information and infrastructure to enable passengers to make sustainable end to end journeys
- Working in partnership with transport providers across all modes of transport and local authorities

Workforce development

- Supporting equality, diversity, health and wellbeing of the workforce
- Developing skills so that rail has the right people with the right skills for the long term, including apprenticeship schemes

Freight

- Building a closer relationship between passenger services and freight/logistics businesses to promote carriage on the railway

5.10 Innovation

We intend that the franchisee will support and embed innovation throughout its business in order to improve customer service and operational performance, deliver efficiency, and reduce industry costs.

We are working with the Technology Strategy Board, Rail Safety and Standards Board, FutureRailway and the Transport Systems Catapult to build a comprehensive support framework for innovation in the rail sector.

Innovation Fund



We are committed to facilitating the delivery of innovation through the rail franchising process and are trialling a three year pilot of an innovation fund for in-franchise schemes.

The fund would be used to support the research and development of innovations aligned to the Rail Technical Strategy (within the areas of carbon, customer, cost and capacity) where these are demonstrably to the benefit of the wider railway and society or would not normally be commercially viable for franchisees to deliver within the franchise term.

The trial will cover the TPE franchise as well as the Inter City East Coast and Northern franchises. For the purposes of this trial a ring-fenced fund for innovation will be established, equivalent to 1% of annual franchise revenue per year, for the trial period. It is proposed that Rail Executive will sponsor the fund and would maintain an oversight role on innovation fund performance.

Innovation strategy

We are considering asking bidders to provide an innovation strategy, which sets out how they will encourage the development of innovative products, services and processes that promote better customer service and operational performance, the efficient operation of the franchise and industry cost reduction.

Bidders may be asked to consider the following as part of their innovation strategy:

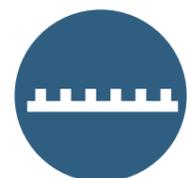
- Techniques for capturing creative ideas from employees, passengers and other stakeholders
- Details of how innovation projects are to be selected and managed and how their success will be measured
- Details of their proposed approach to working with the industry in developing innovation proposals
- How the themes of the Rail Technical Strategy (RTS) will be supported
- How they will collaborate with the supply chain and third parties, where appropriate, to assist in bringing new technologies, processes, business models and products to the market
- Sharing of innovation concepts within their business and across the wider industry

6. Commercial structure

Rail Executive intends to put in place a commercial structure for the franchise that balances taxpayers' and Government interests against providing incentives for private sector innovation, efficiency and delivery of change.

6.1 Franchise Length

In determining the length of rail franchises, Rail Executive balances a number of factors, including the wider franchising programme and franchisees' ability to bear financial risk over time. A key consideration for the TPE franchise is the need for the new franchisee to maximise the opportunities afforded by the planned infrastructure investments in the north of England through changes to service patterns to improve the end-to-end customer journey experience and through the introduction of electric rolling stock.



Balancing these factors, we intend to let the TPE franchise for a period of around seven to nine years, to incentivise the operator to exploit these opportunities.

This may include an extension period of up to one year, callable at the Secretary of State's discretion.

6.2 Capital requirements



The TransPennine Express franchise is expected to incorporate key principles proposed by Brown.

Rail Executive currently expects that the franchisee will have to procure:

- A season ticket bond calculated in accordance with the Franchise Agreement formula
- A performance bond in the region of £15 million, sized to reflect re-letting costs and bonded by a third party

- Parent company support (PCS), of which up to 50% must be bonded by a suitable bond provider with a financial rating of A-/A3 or higher, providing that the parent passes the financial tests set out in the PQQ; if the parent fails this test, then 100% of the support must be bonded. Such bond(s) will only be called where the provider of the PCS does not fulfil its obligations. PCS will be calculated as a percentage of the excess of franchise payments bid over a defined profile of payments. However there will be a minimum amount of £40 million PCS required

6.3 Maintenance of liquidity ratios

Rail Executive currently anticipates that the liquidity ratio tests to be applied to the new franchise will be the same as those set out in Schedule 12 of the Franchise Agreement used for recent franchises⁹ and will define trigger points for lock-up (where the operator will be prevented from making distributions) and for an event of default.

6.4 Revenue risk

It is currently proposed that the franchisee will take full revenue and cost risk for the duration of the franchise. This will include all exogenous and endogenous risk on their revenue as bid.

6.5 Profit share

We recognise that profit is the reward for the risks that a franchisee takes in delivering a franchise. However, Article 4 (Mandatory content of public service contracts and general rules) of EC Regulation 1370/2007 (EC 1370 of the European Parliament and of the Council of 23 October 2007 on public passenger transport services by rail and by road) states that, in relation to public service contracts awarded in accordance with EC 1370/2007:

“the parameters on the basis of which the compensation payment, if any, is to be calculated... must be established in advance in an objective and transparent manner... in a way that prevents over compensation.”



The Franchise Agreement is subject to Regulation 1370/2007; accordingly, it will include a profit sharing arrangement and a profit cap. There will be no sharing arrangement where the operator incurs losses.

⁹ Available on the DfT website

7. The bid process



PART D

7.1 Background

The re-franchising process for the TPE franchise began with a soft market sounding in February 2014. It continued with the publication of the Rail Franchising Prior Information Notice (PIN) in April 2014, which set out dates for the publication of the OJEU, ITT, contract award and franchise start.

The Rail Franchising Competition Guide, published in June 2013, describes the generic processes Rail Executive intends to follow for a franchise competition. Rail Executive expects that the competition for the TPE franchise will be run broadly in line with these processes. Any deviations from this process will be communicated with bidders at the earliest possible point and the final process will be set out in the ITT. In the event of any discrepancy between the Rail Franchising Competition Guide, the Prospectus and the ITT, the ITT shall prevail.

We intend that the successful bidder will become a party to a Franchise Agreement agreed between the successful bidder and the Secretary of State.

Rail Executive reserves the right to change its process at any time. The process set out in this Prospectus is an indication of Rail Executive's current intention only. The final process will be set out in the ITT.

7.2 Procurement approach

The two overarching concepts presented in the Rail Franchising Competition Guide are:

Buying “the right thing”

- deciding what to buy and on what commercial terms to give the best outcome, and demonstrating that the proposition for the purchase is fully sound.

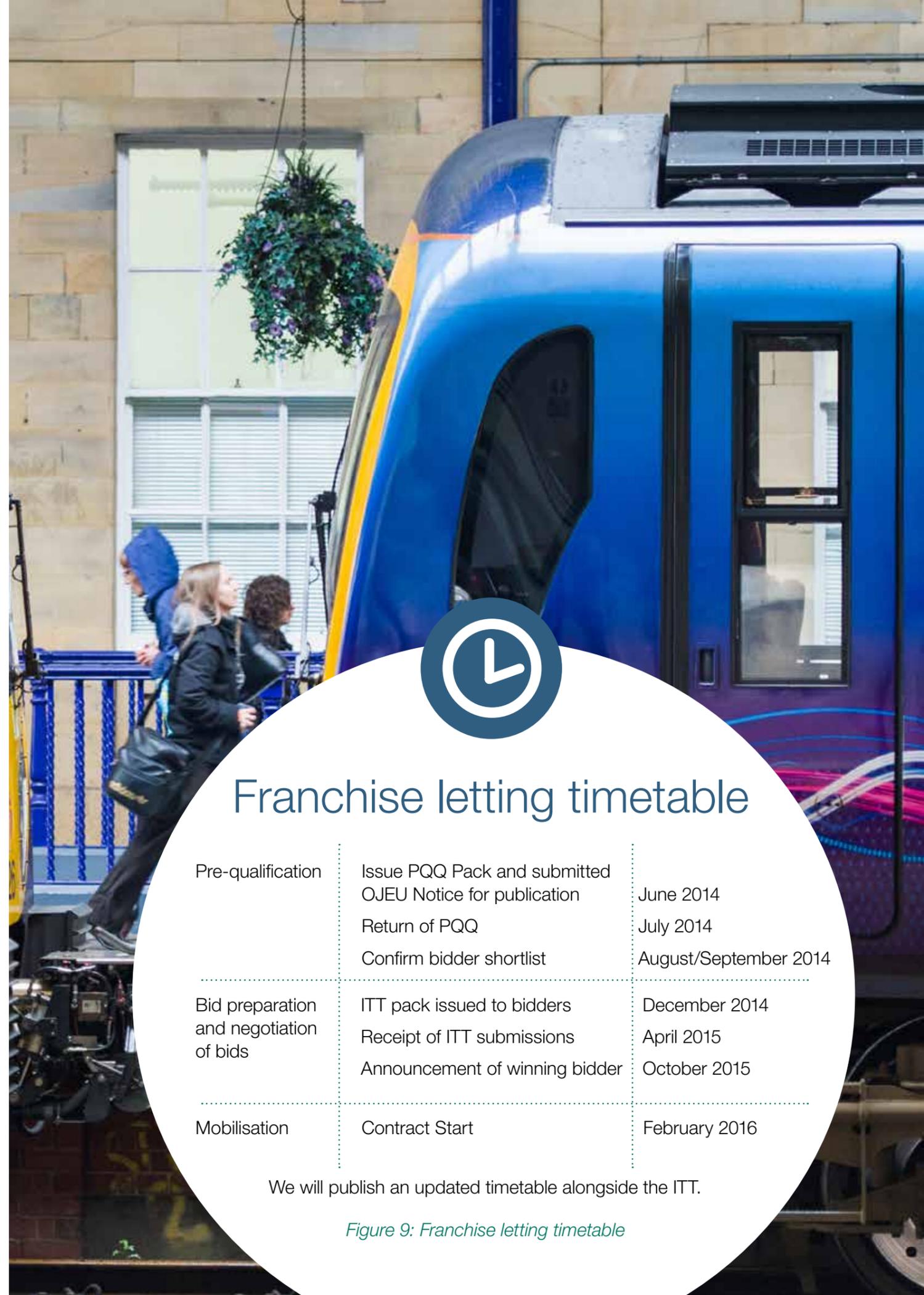
In order to buy “the right thing”, the development of the specification for the TPE franchise involves systematic and detailed analysis and optioneering of the main aspects. In line with other major projects, the Department uses the rigour and discipline of the 5-Case Transport Business Case to justify and test the efficacy of the specification. We consult extensively with stakeholders and have engaged potential suppliers early in the process to test our thinking and to get ideas and feedback.

Buying it in the “right way”

- running a procurement process that provides confidence to all parties. Such a process complies with applicable procurement law, is transparent and predictable to the market and the public and is operated with full integrity. It introduces the commercial tension required to obtain best price and quality response from the market.

7.3 The procurement timeline

An indication of the proposed franchise letting timetable for the TPE franchise is given on the following page. This is intended as a guide and we reserve the right to depart from the timetable, including omitting one or more stages, or adding one or more additional stages, at any time.



Franchise letting timetable

Pre-qualification	Issue PQQ Pack and submitted OJEU Notice for publication	June 2014
	Return of PQQ	July 2014
	Confirm bidder shortlist	August/September 2014
Bid preparation and negotiation of bids	ITT pack issued to bidders	December 2014
	Receipt of ITT submissions	April 2015
	Announcement of winning bidder	October 2015
Mobilisation	Contract Start	February 2016

We will publish an updated timetable alongside the ITT.

Figure 9: Franchise letting timetable

7.4 The procurement process

Rail Executive has submitted for publication a Contract Notice in the Official Journal which provides more information about the procurement process. Northern and TransPennine Express are being tendered as two lots in one procurement. Bidders may seek to prequalify for one or both lots; any bidder shortlisted for both lots must submit separate bids (combined bids will not be considered) but will be eligible to be awarded both franchises. The procedure Rail Executive intends to adopt to evaluate bids will be set out in more detail in the ITT.

The franchise contract to be let is a 'public services contract' (in the form of a services concession contract) within the Regulation. The Government aims to award all public service contracts on the basis of a competitive tendering procedure in accordance with Article 5(3) of the Regulation except where it considers that the use of the exceptions in Articles 5(5) and 5(6) of the Regulation apply.

This contract will be awarded in accordance with the requirements of Article 5(3) which requires that 'the procedure adopted for competitive tendering shall be open to all operators, shall be fair and shall observe the principles of transparency and non-discrimination.'

Regulation 1370/2007 does not prescribe the procedures which are to be followed when selecting a new franchisee. It is therefore open to Rail Executive to set its own procedure, provided that it meets the principles of transparency and equal treatment.

Rail Executive states in the Contract Notice that it will follow a 'negotiated procedure' but makes it clear that this will not be a 'negotiated procedure' as it is understood under Directive 2004/18/EC of the European Parliament and Council of 31 March 2004 on procedures for the award of public works and other contracts.

The Contract Notice which Rail Executive is publishing is entirely voluntary.

The Secretary of State is required under Section 26(3) of the Railways Act 1993 not to issue an ITT to any person unless he considers that such person has the appropriate financial position and managerial competence, and is otherwise suitable to be the franchisee. Accordingly, Rail Executive will hold a PQQ process from which a shortlist of persons who will receive the ITT will be made.

We have prepared a PQQ which addresses these competencies in the context of TPE. The PQQ questions seek evidence of previous experience to demonstrate a competency required to deliver this contract.

The PPD describes the process for pre-qualification to receipt of an ITT. This includes details of how potential Applicants register; raise clarification questions; prepare their response to the PQQ and submit the application. Applicants are required to sign a Franchise Letting Process Agreement before they can either access the clarification portal or submit their proposal.



Following shortlisting a consultation process will take place with successful bidders so as to refine the ITT before the final version is issued in December 2014.

With simultaneous competitions for the Northern and TransPennine Express franchises, operating over many of the same routes, there is potential for bidders for one franchise to develop business plans which would be incompatible with those for bidders on the other. To minimize the risk that the two winning bidders have relied on conflicting business plans we expect to introduce further restrictions, in franchise specification and/or bidder assumptions, between shortlisting and final ITTs. Rail Executive would wish, as far as possible, to avoid introducing restrictions which prevent bidders from pursuing their preferred strategies. Rail Executive therefore intends to consult shortlisted bidders and to invite them – in confidence – to share their thinking. This will then enable us to minimize the impact on bidders' plans of any further restrictions introduced in the final ITT.

We intend that shortlisted bidders will then have approximately four months in which to prepare and submit their bids.

8. Evaluation process

The franchise will be awarded to the bidder who submits the most economically advantageous tender. The award criteria will take into account the price, quality and deliverability of the bid. More details about the award criteria, including the weighting, will be published in the ITT. Bids for Northern and TransPennine Express will be evaluated independently in separate processes. Following identification of preferred bidders the two franchise teams will together seek to ensure that the contractualisation process does not introduce incompatibility between the two franchise contracts.

8.1 Delivery plans

Rail Executive anticipates that bidders will be required to demonstrate, through submission of a number of Delivery Plans, how they will meet our specification for the franchise. We will use these plans and other supporting evidence submitted by bidders in accordance with the ITT to assess quality and deliverability. The specific requirements for Delivery Plans will be published in the ITT.

8.2 Financial deliverability

The evaluation process will include an assessment of the financial robustness of each bid. Rail Executive is finalising the details of this assessment but we expect it may include an adjustment to the price used in the award decision to take into account our assessment of the financial risk arising from the bid. The details of the financial robustness assessment will be included in the ITT.

8.3 Quality of bids

Rail Executive is seeking ambitious and innovative bids. If appropriate, the evaluation criteria for the competition may offer bidders the opportunity to exceed Rail Executive's minimum requirements in certain areas. The evaluation of bids is likely to take into account quality, (in terms of the credibility of meeting and, if appropriate, exceeding Rail Executive's requirements), the benefits that will be delivered and the robustness and resilience of the plans. The 'quality' requirements and process for evaluating them will be set out in the ITT.

8.4 Contracting committed obligations

Rail Executive will wish to contractualise initiatives taken into account in scoring Delivery Plans, to ensure that the Franchise Agreement includes factors taken into account when awarding the franchise. The process and detail of this will be set out in the ITT.



Glossary

ATOC	Association of Train Operating Companies
CP	Control Period
CST	Common Safety Target
DfT	Department for Transport
DDO	Driver Door Operation
DOO	Driver Only Operation
ECML	East Coast Main Line
EMT	East Midlands Trains
ERTMS	European Rail Traffic Management System
ETCS	European Train Control System
FTPE	First TransPennine Express
GDP	Gross Domestic Product
HLOS	High Level Output Specification
ITSO	Integrated Transport Smartcard Organisation
ITT	Invitation to Tender
JPIP	Joint Performance Improvement Plan
MAA	Moving Annual Average
NRPS	National Rail Passenger Survey
OJEU	Official Journal of the European Union
ORR	Office of Rail Regulation
PCS	Parent Company Support
PPD	Prequalification Process Document
PPM	Public Performance Measure
PQQ	Prequalification Questionnaire
PRM	Passengers with Reduced Mobility
PTE	Passenger Transport Executive
RoSCO	Rolling Stock Company
RSSB	Rail Safety and Standards Board
RTS	Rail Technical Strategy



Important notice

This document is not a recommendation by the Secretary of State, or any other person, to enter into a Franchise Agreement.

The information contained in this document has been prepared in good faith but neither it nor any other information provided to a prospective franchisee or shareholder or any of its Affiliates at any time in connection with the TransPennine Express franchise purports to contain all of the information that a prospective franchisee or shareholder may require nor has it been independently verified. Neither the Secretary of State, nor any of his employees, agents or advisers (“representatives”), makes any representation or warranty (express or implied) (and no such representatives have any authority to make such representations and warranties) as to the adequacy, accuracy, reasonableness or completeness of the information contained in this document or other information provided.

All such persons or entities expressly disclaim any and all liability (other than in respect of fraudulent misrepresentation) based on or relating to any such information or representations or warranties (express or implied) contained in, or errors or omissions from, this document or other information or based on or relating to the recipient’s use of this document or other information, or the use by any of its Affiliates or the respective representatives of any of them in the course of its or their evaluation of any franchise or the shares of any franchisee or prospective franchisee or any other decision. In the absence of express written warranties or representations as referred to below, the information in this document or other information shall not form the basis of any franchise agreement or any other agreement entered into in connection with the replacement of a passenger rail franchise or acquisition of shares in a franchisee.

The only information which will have any legal effect and the only information upon which any person may rely will be such information (if any) as has been specifically and expressly represented and/or warranted in writing to the franchisee in the relevant Franchise Agreement or in any other relevant agreement entered into at the same time as the Franchise Agreement is entered into or becomes unconditional. Nothing in this document is intended to create a contract between the Secretary of State and any bidder or prospective bidder.

Legal, technical and financial advisers will be acting for the Secretary of State in relation to the letting of this franchise and will not regard any other person as their client or be responsible to anyone other than the Secretary of State for providing the protections afforded to their client or for advising any other person on the contents of this document or any matter referred to in it.

No contract or legal obligation shall result from any disclosure of information or other communication by the Secretary of State in connection with this Prospectus, including the issue of an ITT, or from the reliance of any person on any information so disclosed or any such communication. No disclosure of information or other communication by the Secretary of State in connection with this franchise letting process will constitute an offer or an acceptance by or on behalf of anyone.

The only obligations which are intended to come into existence pursuant to this Prospectus are those intended to arise from a duly executed written agreement on the face of which it is apparent that such an agreement is intended by all parties thereto to be a Franchise Agreement for the purposes of the Railways Act 1993 and the Railways Act 2005 and any contracts ancillary to such an agreement. No legal relations are intended to arise until such a resulting Franchise Agreement is signed. The subject matter of this Prospectus shall have contractual effect only if and to the extent it is contained in the express terms of the Franchise Agreement and any ancillary documents.

The Secretary of State is not and shall not be liable for any expenses, costs or liabilities incurred by those expressing an interest or negotiating or tendering for the Franchise Agreement or any other agreement to be entered into in connection with such agreement or their associated entities or any other person.

The Secretary of State reserves the right not to award a contract, to make whatever changes he sees fit to the structure and timing of the procurement process, to cancel the process in its entirety at any stage and, where he considers it appropriate to do so, make a direct contract award pursuant to Articles 5(5) or 5(6) of Regulation (EC) No 1370/2007 of the European Parliament and of the Council of 23 October 2007 on public passenger transport services by rail and by road and repealing Council Regulations (EEC) Nos. 1191/69 and 1107/70 (the “Regulation”). Rail Executive reserves the right at any time to issue further supplementary instructions and updates and amendments to the instructions and information contained in this document as it thinks fit or to change its requirements for the franchise and franchise competition.

For the avoidance of doubt, this document is not a “Prospectus” to which the Prospectus Rules as enforced by the Financial Conduct Authority apply.

In the event of a discrepancy between this document and the OJEU Notice, the OJEU Notice for the TransPennine Express franchise shall prevail.