



Department  
for Transport | Rail Executive

# Transformation in Partnership



Northern Prospectus

June 2014



Department  
for Transport | Rail Executive

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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 Northern franchise is crucial to our strategy. This Prospectus sets out our objectives for the franchise, and the opportunity for the next franchisee to play a key role in transforming the way this railway contributes to communities and businesses across the region.

We want to see a railway which understands and provides for the diverse and changing needs of the different communities and travel markets across the region. One which engages still more closely with local government, people and businesses so that, in partnership, the railway becomes more fully a part of the communities it serves. 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 railway infrastructure, and we are looking to bidders to bring forward innovative plans, including investment of their own or in collaboration with others, to maximise the benefits this will deliver.

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 together deliver a top class railway 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



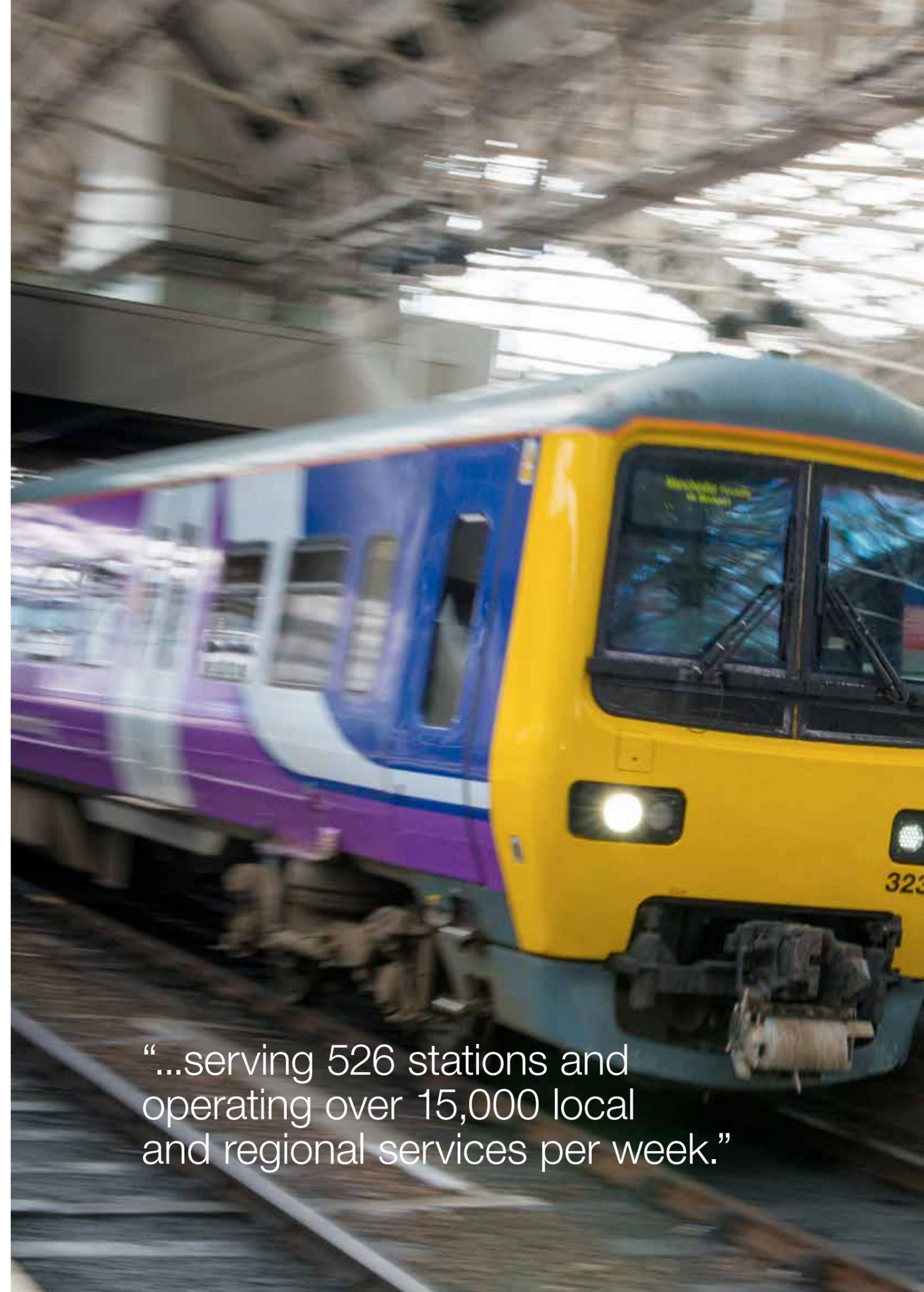
## 1. Introduction

### 1.1 Welcome to the Northern franchise

The Northern service network is one of the most extensive British franchises, serving 526 stations and operating over 15,000 local and regional services per week. Northern is one of two main rail franchises serving the north of England. It provides inter-urban, commuter and local services across the whole of northern England while the TransPennine Express (TPE) franchise primarily provides inter-urban services between the major cities. Several other franchised and open access operators also provide services which enter or cross the region.

Contrary to expectations when the franchise was last tendered, passenger demand has grown continuously since the start of the franchise in 2004. In the eight years up to 2012/13, passenger journeys increased at an average rate of 3.6% p.a. and passenger revenue at an average of 6.2% p.a. Despite this growth, the franchise remains heavily dependent on subsidy. In 2012/13 net franchise support (after repayments under revenue sharing arrangements) was £1.44 for every £1 of passenger revenue.

Passenger satisfaction with Northern Rail services, as measured by Passenger Focus research, is for many reasons lower than satisfaction with other comparable operators and this is something we want to address.



“...serving 526 stations and operating over 15,000 local and regional services per week.”

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

Our vision and objectives for Northern



**1. Help the economy of the north of England thrive** by offering good quality rail services for travellers across the region, with service levels that are appropriate to demand and provide sufficient passenger capacity, all while working within the affordability constraints on public funding



**2. 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



**3. 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



**4. Secure efficiencies in operation of the franchise** through innovative and transformational approaches to operations, retailing and customer service, and at a whole-industry level by working in partnership across the rail industry



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



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

We are looking to the next Northern franchise to deliver a transformation in the way this railway serves its markets and communities in the north of England. The new franchise will create an opportunity to rejuvenate this important part of Britain's railway and there will be ample scope for innovation and modernisation. We are seeking a franchisee who will focus on growth and passenger interests and who will deliver benefits to passengers through increased efficiency and improved effectiveness. We also expect the franchisee to collaborate in partnership with a wide range of local and regional stakeholders. This should lead to the franchise making a greater contribution to the region's economy and delivering significantly higher levels of passenger satisfaction.

**"...it will be essential that the new franchisee does more with less."**

Government is committed to promoting a railway which makes a greater contribution to the prosperity of the north of England. This underpins the investment in new infrastructure and commitments to increased capacity in the Rail Investment Strategy. However for this to be affordable, it will be essential that the new franchisee does more with less. The Department for Transport's Rail Executive (hereafter referred to as "Rail Executive" or "the Department") sees improved efficiency as a key element in transforming the franchise; bids which do not offer significant change in support of this objective are unlikely to succeed.



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.

**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 and passenger information, and cooperating with the development of relevant smart ticketing schemes.

**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.

The Invitation To Tender (ITT) will describe our aims of reducing subsidy, further supporting growth in demand through investment and adding value for passengers in the design and delivery of services to meet their needs. We will seek in the ITT to provide flexibility for bidders to determine how to achieve these aims.

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.

#### **Devolution**

We are working together with Rail North, a consortium of the 30 local transport authorities covering 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 it has been let.

## 1.2 The purpose of this document

Following the recommendations of the Brown Review of the Rail Franchising Programme<sup>1</sup>, 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 OJEU<sup>2</sup> 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 ITT for the Northern 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 TransPennine Express franchise is taking place in parallel with the Northern competition, and is the subject of a separate Prospectus. Together, we are seeking to deliver an approach for these franchises which delivers improvements for passengers across the north of England.

In line with UK Government procurement principles, the competition for the Northern 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 our current intent with regard to this franchise and to provide relevant information to the market. We are transparent about the fact that 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, are subject to public consultation. As such, the information in this document should not be relied upon as an indication of our final requirements for the Northern franchise; indeed we will continue to welcome feedback on our proposed approach where this is still under review.

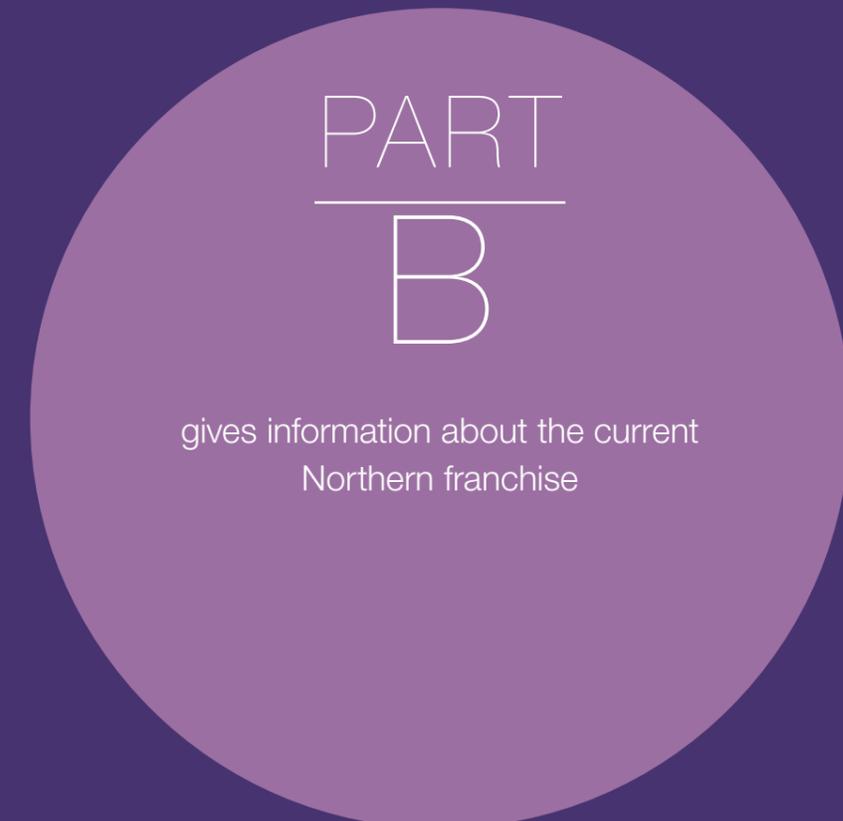
This Prospectus is being issued as part of a suite of documents including the OJEU Notice<sup>3</sup>, the Pre-Qualification Questionnaire (PQQ) and the Pre-Qualification Process Document (PPD), and is divided into four sections:

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

<sup>2</sup> Official Journal of the European Union

<sup>3</sup> Rail Executive has submitted for publication a Contract Notice in the Official Journal

## Structure of this document



PART  
C

sets out Rail Executive's intentions for the specifications of the franchise and gives detail 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 Northern franchise opportunity to allow prospective bidders to decide whether they wish to seek prequalification, 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

### 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 the Government to protect the interests of Britain's rail, bus and tram passengers, to provide its assessment of those needs:

#### Promoting passenger perspectives in the Northern franchise competition



Passenger Focus is pleased to contribute to this Prospectus for the next Northern 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 report highlighting the views of Northern Rail and First TransPennine Express 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 Rail Executive 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 Northern relate to overcrowding and the quality of the trains currently in operation. More carriages - of a higher standard of cleanliness and presentation - are required to meet the demand for travel, especially at peak times. The timetable should also meet the needs of passengers' modern lifestyles.

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.

Northern 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.

## 2. At a glance

### 2.1 The Northern franchise - the existing business



PART

A



**463**  
Stations managed

**14**  
Designated lines or stations in  
Community Rail Partnerships

**15 million**  
Population of area  
served by franchise

The Gross Value Added (GVA)  
of the regional economy is put  
at £311 billion, 25% of the GB  
total



**£2.40**  
Average fare

**Over 15,000**  
Local and regional services  
per week

#### Basic ticket types

Full, reduced and season  
(covering 95% of farebox revenue)



#### Type of journey

Local, inter-urban and regional



**4,900**  
= Number of employees

#### Journey numbers

Almost 90 million in 2012/13,  
with an annual compound  
growth rate of 3.6% since  
2004/5



**313 train sets**  
(of 13 different types)

#### Performance

Public Performance Measure  
arrivals within 5 minutes of  
schedule: 91% in 2013/2014



**£592 million**  
Total revenue (including  
subsidy of £324 million)

**£559 million**  
Operating base cost

*(Source: annual statutory financial statements year ended 05 January 2013 )*

Subject to consultation, we expect to specify some remapping of individual services, mainly between Northern and TransPennine Express in order to improve the market focus and operational efficiency of the businesses; this will not fundamentally change the nature of either franchise.

## 2.2 The franchise specification

Rail Executive, working with Rail North, representing all 30 local transport authorities in the north of England, is now developing the franchise proposition in detail. We aim to present a proposition in the ITT which properly reflects the dependence of these services on subsidy and the corresponding need to underpin both quantity and quality of service in the contract, whilst leaving maximum scope for the franchise operator to add value in the design and delivery of services to meet the franchise objectives. We will seek to encourage investment which delivers excellent long-term value even where this does not achieve a financial return within the term of the franchise itself.

The franchise specification will be set out in detail in the ITT, following consideration of responses to the public consultation. At present Rail Executive is considering the following:

	<b>Franchise length</b>	Around 8 – 10 years (may include an extension of up to 1 year callable at our discretion)
	<b>Geographical area</b>	Unchanged, some transfer of services principally between TPE and Northern
	<b>Key events impacting franchise</b>	Northern Hub improvements North West electrification Trans-Pennine electrification
	<b>Capital requirements</b>	Season ticket bond – c£7 million Performance bond – c£15 million Parent Company Support – minimum amount currently anticipated to be in the region of £40 million with further funding to be calculated based on proposed franchise payments, some or all of which will be required to be bonded
	<b>Risk and reward</b>	It is currently anticipated that bidders will be required to take full revenue risk A profit sharing arrangement will be put in place including a profit cap



## 3. Background and context

### 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)<sup>4</sup> 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%<sup>5</sup> 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 years<sup>6</sup>.

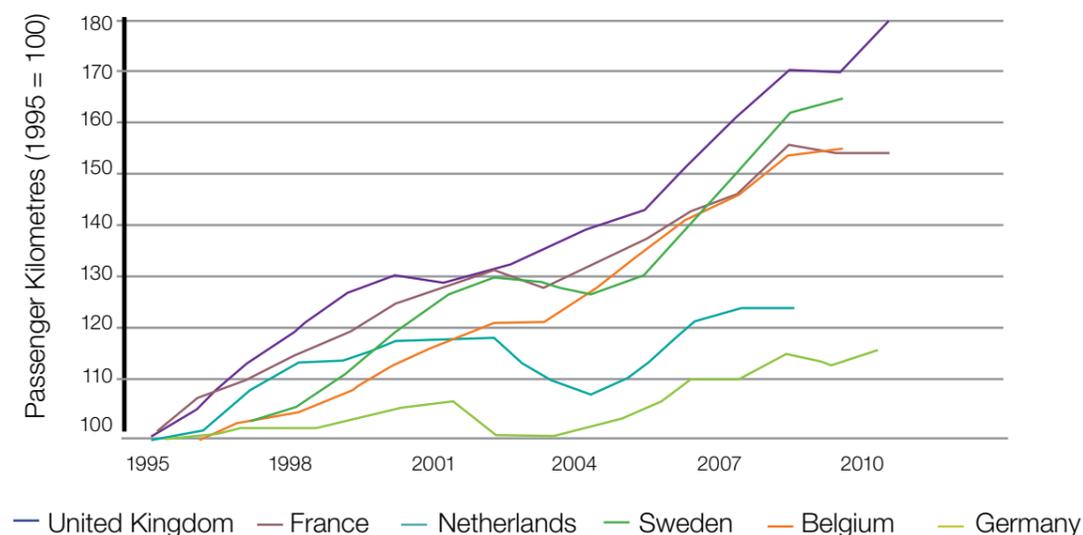


Figure 1: Passenger kilometres: EU comparison

The Northern franchise is currently the largest train franchise in Britain in terms of the size of the network and the number of services run. Northern's passenger demand has grown in most years between 2004 and the present day, with forecasts predicting that growth will continue.

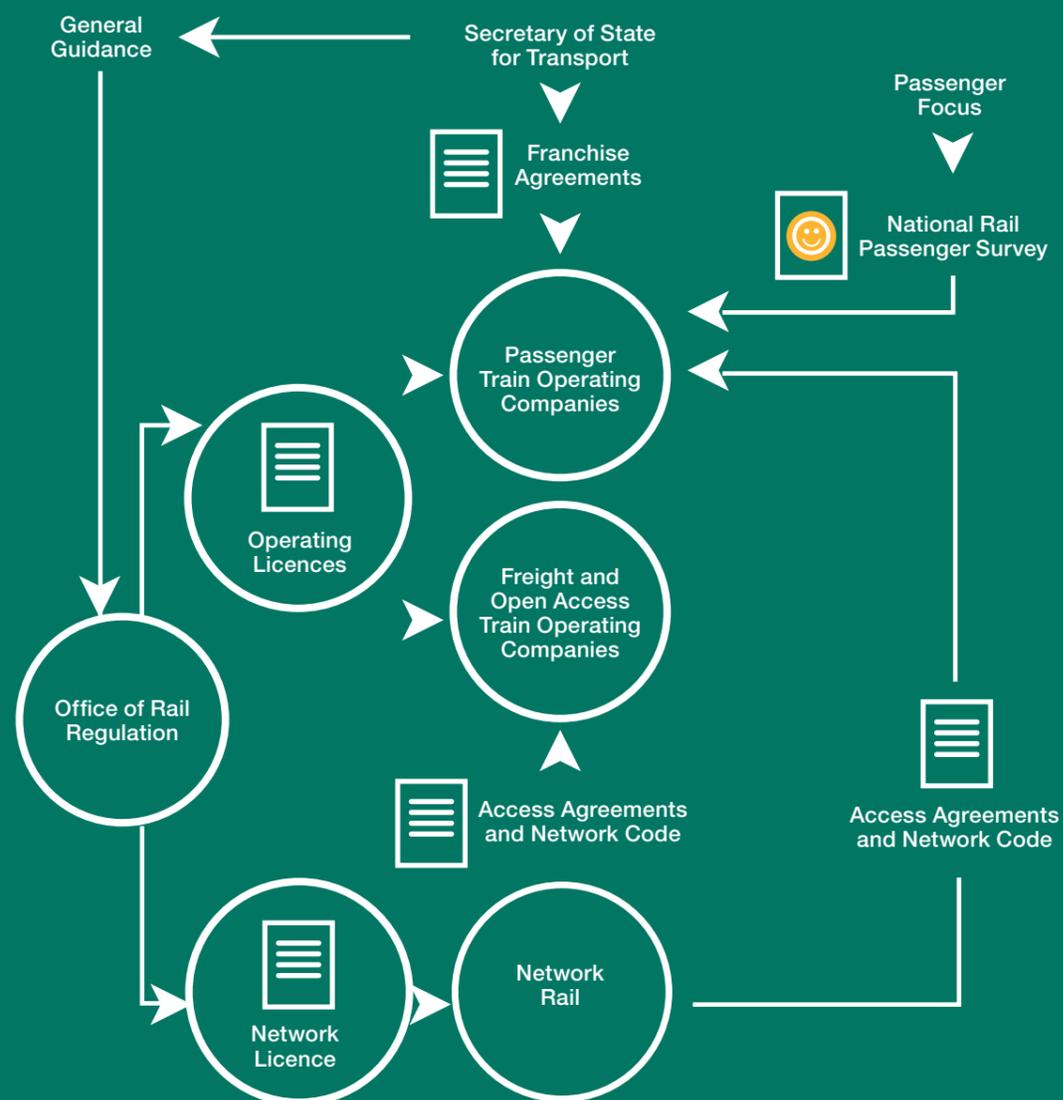
<sup>4</sup> Association of Train Operating Companies (ATOC) growth and prosperity report from July 2013

<sup>5</sup> DfT figures from Reforming our Railways: Putting the Customer First, March 2012

<sup>6</sup> Figures from Office of Rail Regulation. Additional 1% relates to "other franchised ordinary fares"

### 3.2 Structure of the British rail industry

Figure 2 below 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).



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

Figure 2: Structure of GB rail industry

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 and must ensure safe and effective management and development of that infrastructure. It is run as a commercial company limited by guarantee, although with members rather than shareholders and must comply with governance codes and reporting requirements. Changes in European accounting guidelines have led to Network Rail being reclassified as a central Government body, with effect from 1st September 2014, however this does not affect the structure of the company, nor the way it operates.

Network Rail is accountable to the public through regulation and must comply with the conditions of the licence from the ORR under which it operates.

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.



### 3.3 Devolution

There are Combined Authorities in place covering Tyne and Wear, Liverpool City Region, Greater Manchester, South Yorkshire and West Yorkshire. These authorities, or their associated Passenger Transport Executives (PTEs), are co-signatories to the current Northern franchise.

**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<sup>7</sup>.

**In July 2013** Rail North, a new and currently informal grouping of transport authorities covering the whole of the north of England issued a draft Long Term Rail 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 TransPennine Express 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 help 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 TransPennine franchises.

<sup>7</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/15328/consultation-responses.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/15328/consultation-responses.pdf)

### 3.4 Key events

During the tenure of the new franchise a number of significant events will take place which are expected to help the new franchisee to achieve the Department's objectives in delivering improvements to passengers. An anticipated timeline of these events also showing the commencement dates of neighbouring franchises is shown in Figure 3 below and more information on each can be found in this chapter.

We will require bidders to demonstrate how they would plan for these events and optimise the benefits that they can bring, whilst taking into account both the substantial passenger growth that is expected to continue and the need to minimise subsidy.



Figure 3: Northern timeline of events



### Investment Projects

Network Rail is investing heavily in the region with major projects underway to improve the infrastructure. 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, greater capacity and quicker journeys.

In appointing a new Northern franchisee, Rail Executive is seeking to secure these benefits in the most advantageous way possible.

### Northern Hub

The Northern Hub is a programme of targeted upgrades to the railway in the north of England which, on completion, will 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
- A new facility at Rochdale to enable more local trains to terminate at the 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 Northern franchise route to be electrified are:

- Manchester-Liverpool via Chat Moss
- Liverpool-Wigan
- 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.

## Other potential routes for electrification

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 of England 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 Northern 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 Northern 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

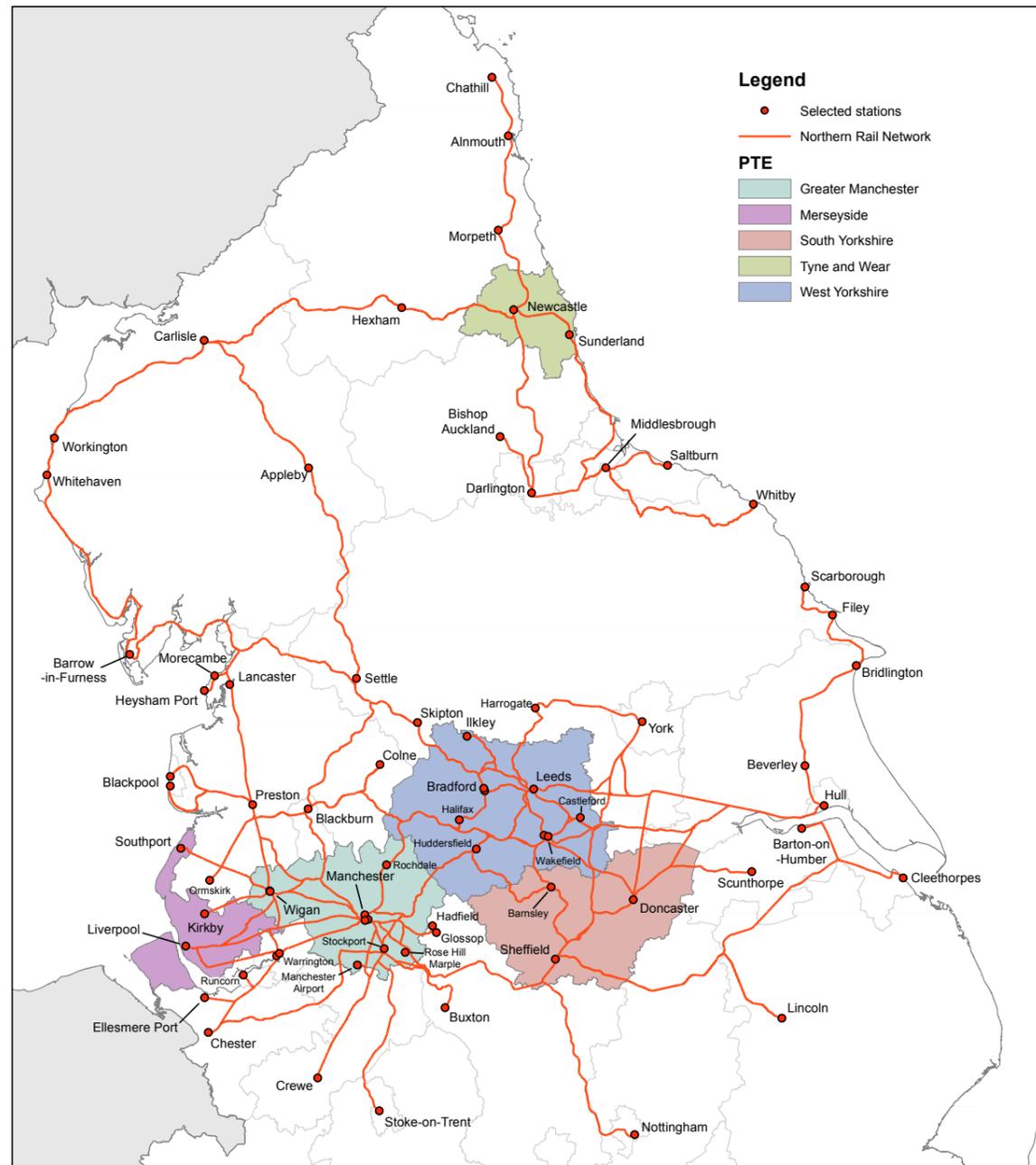
The existing Northern franchise started in 2004, having been awarded to a joint venture between Serco and Abellio (the overseas operating arm of Nederlandse Spoorwegen). The Northern and TransPennine Express franchises, which both operate across northern England, were created from the previous North West and North East regional franchises.

The Northern franchise was originally let on the assumption that there would be no significant demand growth. In fact, percentage growth has outstripped many other franchises. As a result, additional capacity and services have been provided with a combination of central and local government sponsorship and funding.

Serco and Abellio's primary term ended in September 2011, when it was extended - as envisaged in the franchise agreement - for meeting pre-determined performance targets. A new franchise was then intended to begin in April 2014. The suspension of the franchising programme in October 2012 however, delayed the franchise competition and the new franchise is now due to start in February 2016. In order to provide continuity of service until this date a short interim franchise agreement has been put in place with Serco and Abellio.

### 4.2 Routes and services

Northern services operate over most rail routes in northern England, from Chathill in the north to Stoke and Nottingham in the south of the region, and from Liverpool in the west to Hull in the east. The map below shows the extent of the routes provided by Northern.



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Figure 4: Northern Route Map

### Services fall into 3 broad categories:

**Longer-distance regional** comprising services which connect major urban centres, where the markets share some of the characteristics of those served by TPE, for example:

- APPROX **75 miles** Nottingham - Leeds
- APPROX **80 miles** York - Blackpool
- APPROX **65 miles** Sheffield - Doncaster - Hull



#### Urban

for example:

Commuter services around the principal northern cities such as Leeds, Liverpool, Newcastle, Sheffield and Manchester.



#### Rural

for example:

The routes along the Cumbrian Coast from Carlisle to Barrow in Furness and the route from Hull to Scarborough in the East.

### 4.3 Financial information

The following financial information has been extracted from Northern Rail Ltd (Northern) annual statutory financial statements; represented in nominal terms and approximately relates to calendar years, unless otherwise stated.

Since 2007 Northern has continuously demonstrated an improving financial position with revenues from passenger services increasing by 48% between 2007 and 2012. For the year 2012 (financial year ended 05 January 2013), Northern generated passenger revenues of £216 million, making up 36% of annual turnover of £592 million. The breakdown of revenue for 2012 can be seen in Figure 5 below.

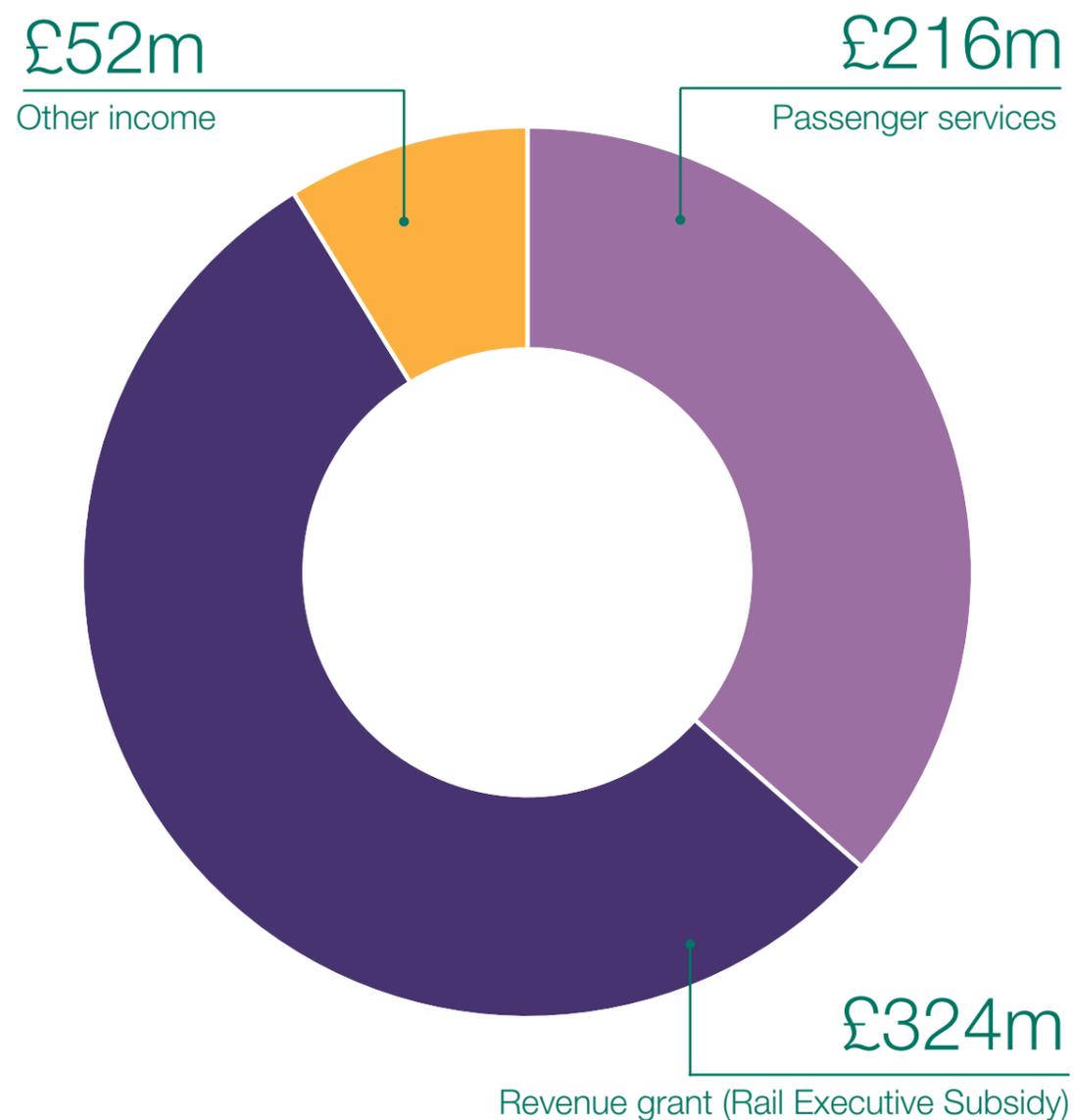


Figure 5: Revenue 2012

Revenue grant income of £324 million in 2012 represents the franchise payments from Rail Executive under the contracted franchise agreement.

Between 2005 and 2013, Northern benefited from positive growth in passenger journey numbers and therefore revenue.



Annual growth, 2005 to 2013 (CAGR):

+3.6% Journeys

+6.2% Revenue (nominal)

+3.5% Revenue (real)

Forecasts of future demand predict that growth will continue (e.g. the Rail North Strategy predicts that rail demand will continue to grow at around 2.5% per annum across the North, equating to a 50% increase by 2029).

Nonetheless Northern is one of the most heavily subsidised operators. During the year 2012 (financial year ended 05 January 2013), Northern reported a cost base of £559 million, up 4% from £535 million in 2011. The breakdown of the 2012 cost base can be seen in Figure 6 on the next page, followed by further information on each of the elements.

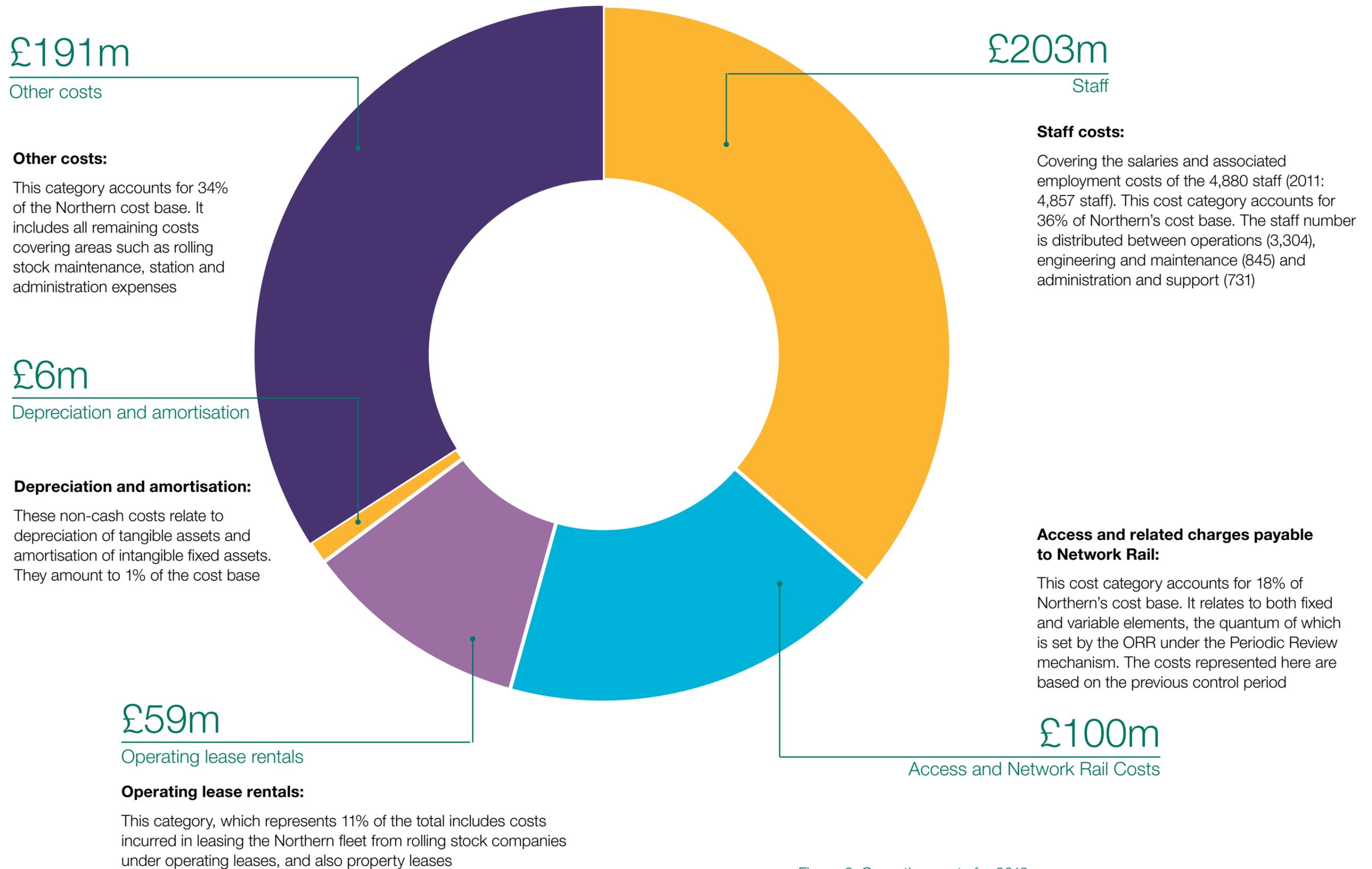


Figure 6: Operating costs for 2012

#### 4.4 The Northern market

The market for Northern’s rail services is dominated by the two cities of Manchester and Leeds. As major centres for employment, education, shopping and leisure, these cities attract passengers from a wide area across the North. 18 of the top 20 passenger flows by volume start or finish in Manchester or Leeds.

##### Key market segments

The primary market sectors for Northern are:

- **Commuter travel**

Commuter travel for work and education is concentrated around the large cities, but also features around the smaller regional towns. This segment has seen significant growth owing to factors such as the increase in ‘white-collar’ employment in city centres, higher motoring costs (including city-centre parking), and an increased tendency for students in tertiary education to study at institutions within daily travelling distance of their homes, rather than studying and living away from home.

Commuter travel is not confined to the urban and regional routes. The principal customers on the Cumbrian Coast line are workers travelling to and from the Sellafield nuclear plant, while the Hull-Scarborough line carries substantial commuter traffic into Hull.

- **Business travel**

This is not the primary focus of Northern’s business but is nonetheless significant, particularly on inter-urban routes e.g. Calder Valley (Leeds-Manchester via Bradford and Halifax, Nottingham-Leeds, York-Blackpool).

- **Leisure travel**

This represents a significant market for Northern; shopping trips to major towns and cities, and to out-of-town centres (Meadowhall, Gateshead Metrocentre), scenic rail routes (e.g. Leeds-Settle-Carlisle) and access to seaside resorts, areas of natural beauty and other leisure attractions (e.g. Blackpool, Yorkshire Coast) are examples of generators of leisure travel demand. Northern seeks to encourage this market with a range of special ticket types; Day Ranger, Round Robin, Rover tickets, and local railcards.

Northern’s services also help to meet important local and regional connectivity needs by linking rural and/or economically deprived communities with employment, education and other services in the urban centres.



“18 of the top 20 passenger flows by volume start or finish in Manchester or Leeds.”



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

#### 4.5 Customer satisfaction

The overall satisfaction of Northern's passengers, as measured by the National Rail Passenger Survey, was 78% in autumn 2013, 5% below the network average. However, satisfaction with train facilities is lower, significantly so in some areas. Some of the biggest gaps against national benchmarks related to the condition and cleanliness of trains, reliability of the service and provision of information.

Based on its research, Passenger Focus considers that priority areas for improvement include:

- Punctuality and reliability
- Overcrowding
- The perceived quality of rolling stock, and
- Information to passengers in advance of, and during the journey itself, particularly at times of disruption

Northern has introduced new management processes to tackle passenger satisfaction, and has undertaken to improve this measure during the period of the directly awarded interim franchise.



#### 4.6 Fleet and engineering

The following table summarises the composition and ownership of the current fleet:

Class	Type	Units	Vehicles	Build Dates	ROSCO
142	DMU <sup>8</sup>	79	158	1985-87	Angel
144(2)	DMU	13	26	1986-87	Porterbrook
144(3)	DMU	10	30	1986-87	Porterbrook
150	DMU	58	116	1985-87	Angel & Porterbrook
153	DMU	18	18	1987-88	Angel & Porterbrook
155	DMU	7	14	1988-88	Porterbrook
156	DMU	42	84	1987-88	Angel & Porterbrook
158(2)	DMU	27	54	1989-92	Angel
158(2)	DMU	10	20	1989-92	Eversholt
158(3)	DMU	8	24	1989-92	Porterbrook
DMUs		272	544		
321	EMU <sup>9</sup>	3	12	1988-91	Eversholt
322	EMU	5	20	1990	Eversholt
323	EMU	17	51	1992-93	Porterbrook
333	EMU	16	64	2000	Angel
EMUs		41	147	-	-
Total		313	691		

Figure 8: Current Northern rolling stock

#### Electrification

In April 2014 Northern Rail reached agreement with the Department for the introduction of electric rolling stock on routes to be electrified in the North West. For December 2014, when electrification of the route from Manchester to Liverpool via Newton-le-Willows is due to be complete, 3 class 319 EMUs are to be available. This number is due to rise to 14 by the time the new franchise starts, with services being progressively converted to electric operation.

<sup>8</sup> Diesel multiple unit

<sup>9</sup> Electric multiple unit

“In April 2014 Northern Rail reached agreement with the Department for the introduction of electric rolling stock on routes to be electrified in the North West.”

#### Maintenance

Northern undertakes some of its train maintenance in-house, with principal maintenance depots at:

- Allerton (Liverpool)
- Newton Heath (Manchester)
- Neville Hill (Leeds)
- Heaton (Newcastle)

The class 323 electric units operating on routes in south Manchester are maintained under contract at Longsight (Manchester). There are subsidiary servicing depots at Blackpool, Sheffield and Hull.

The reliability of the Northern train fleet, with an average age of c24 years, has improved by around 50% since the start of the franchise. In 2012, Northern achieved their 2013 year-end target of 7,500 miles per casualty (MPC)<sup>10</sup>. In the 4 weeks to 5 January 2014, the fleet achieved over 8,578 MPC.

<sup>10</sup> Train reliability is measured in Miles per Casualty (MPC), which is the average distance between train failures that cause delays of more than five minutes

#### 4.7 Stations

Northern serves 526 stations and manages 463 of these, more than any other operator in the UK. Only two of the stations it manages (Manchester Victoria and Manchester Oxford Road) are among the ten busiest it serves. Of the stations managed, 66 had fewer than 10,000 entries and exits in 2012/13 (less than about 200 per week). Low use of stations can be due to small catchment populations and / or less attractive services.

Several local authorities have supported investment in local stations. For example Lancashire County Council has supported the development/refurbishment activities at a number of stations and has invested in station staffing, providing multi-functional staff for several rural Interchange stations where, in addition to selling rail tickets (on a commission basis) under Retail Agency Agreements with Northern, they provide tourist information, sell bus tickets, and provide a valued human presence.

Nearly all of the stations managed by Northern are ‘adopted’ – i.e. they are supported by volunteers and community groups who carry out a range of services from monitoring issues at the stations (faulty lighting, broken fencing, out of date information), to tending station gardens, installing works of art, and hosting events. Adoption is a way of transforming stations, bringing them into the heart of the community and encouraging greater use of public transport. Around 2,500 people volunteer their time and energy to promote stations and train services across the region, either as station adopters or “friends” of stations and routes.

Potential bidders should be aware of the possibility of transferring Station Facility Owner (SFO) responsibility for a small number of stations to a third party, either Network Rail (as a managed station) or to a PTE or successor body.

Where a business case is demonstrated, new stations may be opened on the network. Most commonly they are promoted by a local transport authority. The Department is aware of proposals for new stations at Kirkstall Forge and Apperley Bridge, west of Leeds, at Ilkeston, and at Warrington West, although there may be others. Where development is sufficiently advanced, the Department may specify calls at these stations in the ITT, and otherwise it will invite bidders to engage direct with the promoter.



“Northern serves 526 stations and manages 463 of these, more than any other operator in the UK.”

### 4.8 Operations

Northern operates 2,550 train services each weekday, more than any other current franchise operator, and covers around 20% of the national network.

Extensive parts of the rail network over which Northern operates retain manual signalling, often with restricted opening hours which limit service expansion; for example, lines to Hull are closed at night, and the Cumbrian Coast line south of Whitehaven is closed on Sundays.

### Performance

Northern's Public Performance Measure (PPM) (defined as trains arriving within five minutes of schedule) has improved during the franchise, rising from 83.8% Moving Annual Average (MAA) in December 2004 to 91.0% MAA in March 2014.



## Moving Annual Average (MAA)

83.3% December 2004

91.0% March 2014

### Timetabling

Most Northern train services interact with other operators, both passenger and freight, along their routes, and/or at stations. They play an important role in providing connectivity between longer distance services and local stations via key nodes, and good connections are important.

Where routes and/or stations are shared with longer-distance operators Northern is rarely able to have the first say in terms of timetable planning. As a consequence, the operator is sometimes unable to deploy its train and crew resources as efficiently as it might choose and can be required to make significant changes to its timetable and resource plans when other operators alter their services.

### 4.9 Local authorities and Passenger Transport Executives

The Northern franchise area includes the 30 local transport authorities making up the Rail North grouping. These include seven Shire Counties, 20 non-metropolitan Unitary Authorities and five Combined Authorities (Greater Manchester, Liverpool City Region, Tyne and Wear, South Yorkshire and West Yorkshire).

The Combined Authorities (or their predecessors) have been co-signatories to the Northern franchise since privatisation. As such they have taken an active role in franchise contract management and over time have developed, and in some cases funded, local aspects of the franchise specification to meet their own transport policy aims. These include the provision of additional services and capacity, marketing and participation in multi-modal ticketing schemes, as well as investment in infrastructure such as new and enhanced stations, car parking etc. A new form of wider local involvement is anticipated for the next franchise; this is explained further in part A of this Prospectus.



#### 4.10 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. They can pursue initiatives such as station enhancements and innovative promotional schemes which can help get better value for money from the rail network. These initiatives can range from people helping to maintain station gardens to major schemes and responsibility for undertaking local marketing activities.

Nationally the Department has formally designated 36 community lines or services. Designation of lines encourages 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 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.

## The Northern franchise currently includes 14 of the 36 designated Community Rail routes in the UK.

In addition, Members of the Association of Community Rail Partnerships (ACoRP) are also active on other routes operated by Northern including:

- Hull – Scarborough (Humber Region Rail Development Company Ltd)
- Leeds – Settle – Carlisle (Settle-Carlisle Railway Development Company)
- Manchester – Sheffield (Hope Valley & High Peak Transport Partnership)
- Newcastle – Carlisle (Tyne Valley Community Rail Partnership)
- Wigan – Southport (West of Lancashire Community Rail Partnership)

We will invite proposals to further strengthen the role of the community in local services including - but not limited to - proposals for social enterprise business partnerships with the franchisee and local involvement in specification and delivery of appropriate local services.

Designated service (Designated Line)	Community Rail Partnership
Barton on Humber to Cleethorpes (Designated Line: Barton on Humber to Ulceby North Junction)	Yorkshire Coast Community Rail Partnership
Leeds to Morecambe	Leeds Lancaster Morecambe Community Rail Partnership
Darlington to Bishop Auckland	Bishop Line Community Rail Partnership
Buxton to Manchester via Whaley Bridge	High Peak & Hope Valley Community Rail Partnership
Manchester to Clitheroe	Clitheroe Line Community Rail Partnership
Carlisle to Barrow-in-Furness	Cumbrian Coast Community Rail Partnership
Preston to Colne (Designated Line: Preston to Colne)	East Lancashire Community Rail Partnership
Middlesbrough to Whitby (Designated Line: Middlesbrough to Whitby)	Esk Valley Railway Development Company
Barrow-in-Furness to Carnforth	Furness Line Community Rail Partnership
Glossop/Hadfield to Manchester	High Peak & Hope Valley Community Rail Partnership
Chester to Manchester via Northwich	Mid-Cheshire Community Rail Partnership
Huddersfield to Barnsley (Designated Line: Huddersfield to Barnsley)	Penistone Line Partnership
Preston to Ormskirk (Designated Line: Preston to Ormskirk)	West of Lancashire Community Rail Partnership
Preston-Blackpool South (Designated Line: Kirkham and Wesham-Blackpool South)	South Fylde Community Rail Partnership

Figure 9: Designated Community Rail Routes operated by Northern

Source: Rail Executive and Network Rail

## 5. Franchise requirements

This section presents in greater detail the services and outcomes that Rail Executive currently wishes to procure, and outlines some of the important decisions that we have made about the franchise requirements. It sets out our vision and objectives for the franchise, and describes some of the key qualities we will look for in a new franchisee. It sets out a framework for a commercially viable proposition that aspires to deliver Government policy and desired outcomes from the rail network, and represents value for money to the fare-paying passenger and the taxpayer.

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



PART  
C

## 5.1. Franchise objectives

While there have been some important developments, there is much about the Northern franchise which has been unchanged for twenty years or more. Our vision now is for a transformation of the franchise into a modern, forward looking business which supports the economic growth of the North, delivering better service to customers and greater benefits to stakeholders while becoming significantly more efficient in cost terms. We have identified 6 key objectives for the franchise (see section 1.1).



## 5.2 Improving efficiency

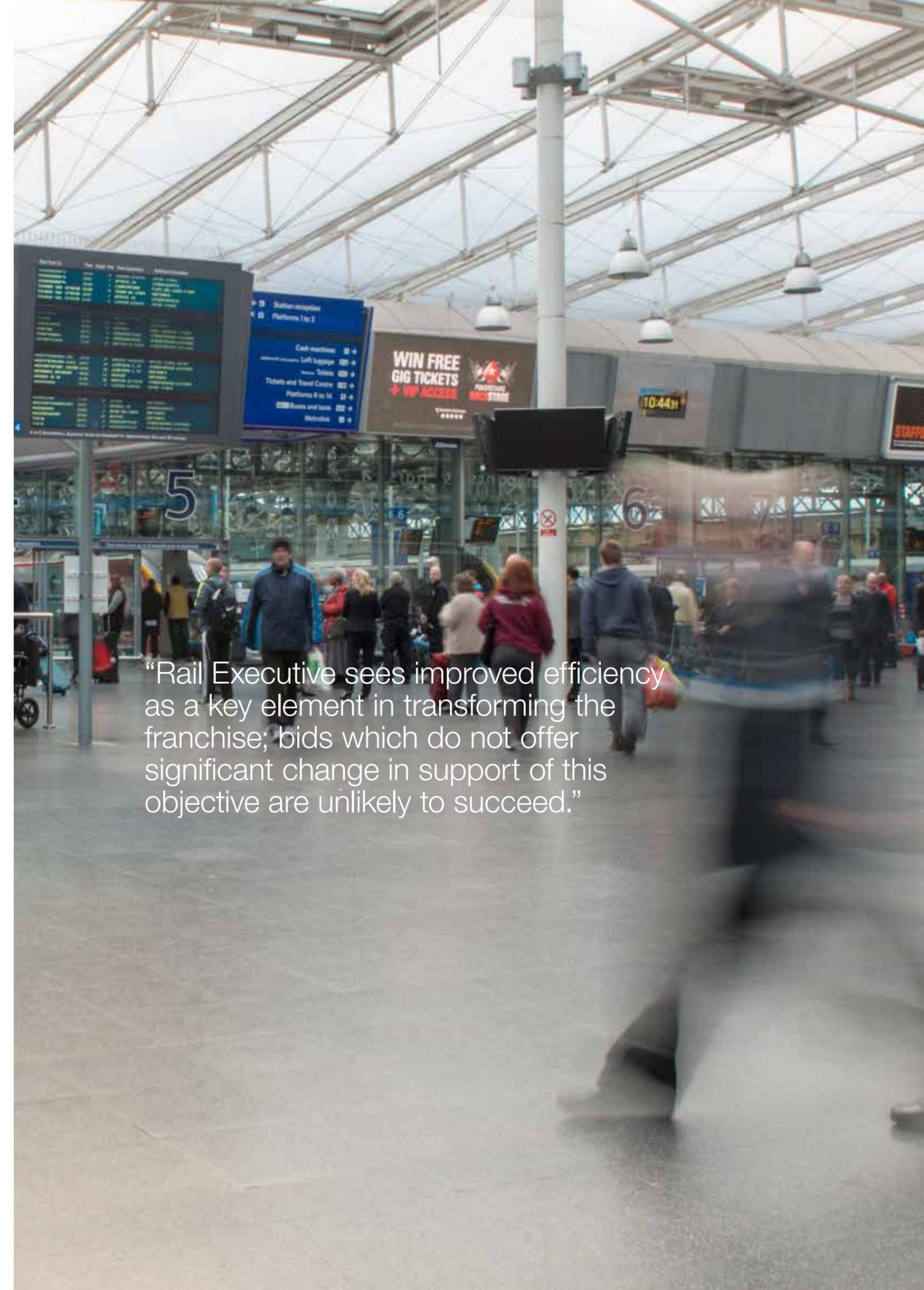
Government is committed to promoting a railway which makes a greater contribution to the prosperity of the North. This underpins the investment in new infrastructure and commitments to increased capacity in the Rail Investment Strategy. However for this to be affordable it will be essential that the new franchise does more with less. Rail Executive sees improved efficiency as a key element in transforming the franchise; bids which do not offer significant change in support of this objective are unlikely to succeed.

While we expect bidders to generate their own ideas and plans, the following areas are likely to offer opportunities:

### Staffing

Passenger Focus research has consistently shown that passengers value the presence and availability of staff, for example to provide reassurance to infrequent travellers, assistance when services are disrupted, and as a deterrent to fare evasion and antisocial behaviour on trains. We will encourage bidders to develop proposals which provide a greater level of effective staff presence while realising significant efficiencies in areas which contribute less to meeting this passenger need, such as:

- All Northern trains are currently operated by a driver and guard. A significant task for the new operator should be to define and introduce a policy whereby the driver has full responsibility for the safety of the train – already the case on 30% of train services in Great Britain including many recently electrified routes. Making such changes, where applicable, could enhance efficiency and improve service to passengers by allowing other on-train staff to be focussed on passenger needs and revenue protection
- More modern approaches to ticket retailing, making greater use of new technology and reviewing the numbers of staff at stations and the duties they perform
- Efficiencies in back-office and support functions



“Rail Executive sees improved efficiency as a key element in transforming the franchise; bids which do not offer significant change in support of this objective are unlikely to succeed.”

### Reducing levels of ticketless travel

Evidence shows that there has been a relatively high level of ticketless travel on Northern in recent years; this both damages the operation's finances and leads to criticism from fare-paying passengers.

### Station management

Extension of partnering approaches with local authorities and other groups.

### Closer collaboration with Network Rail

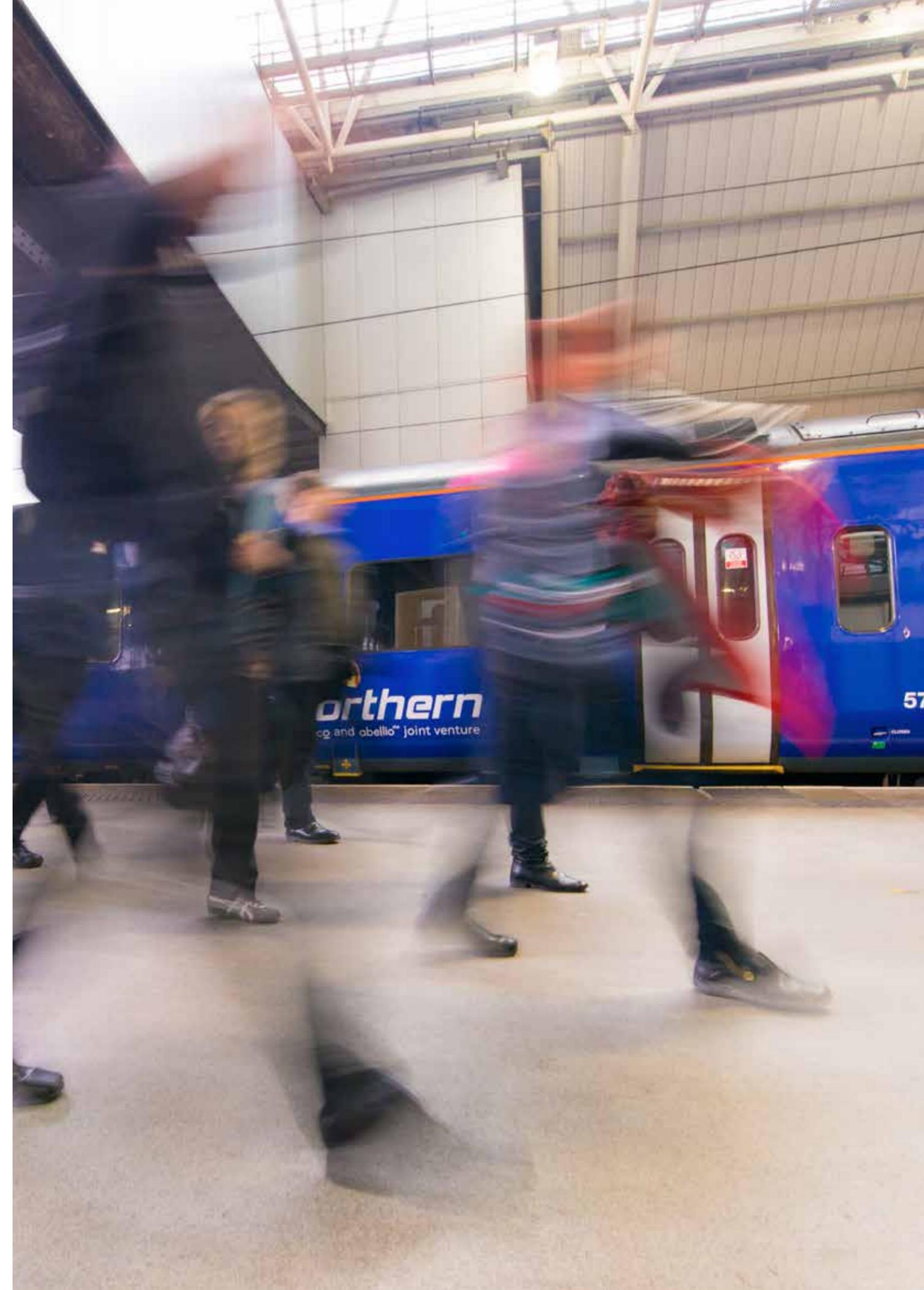


Joint work on:

- Strategic asset management
- Optimal design and delivery of projects
- Practical steps to eliminate duplication of activity

### Devolved approach to management and planning of sections of the network

Opportunities for greater local focus and involvement. We may in particular require the franchisee to establish a distinct 'North-East' business unit within the franchise.





At this stage we anticipate that the specification of the Northern franchise will include:

### 5.3 Service quality

Delivering excellence in service quality is a key element in achieving our objectives for the Northern franchise.

We expect that improved quality will be offered to customers as a result of:

- The commercial incentives incumbent on the franchisee
- The bid evaluation process which will give additional credit for commitments to improve quality
- Requirements which will be defined as part of the specification and set out in the ITT

### A Customer Experience and Communities Strategy

We are likely to request 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 and improving links between the community, businesses and the railway. This could build on and develop the community rail approach already active in many parts of the franchise.



### A Customer and Communities Fund

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

### Passenger satisfaction targets

Rail Executive is likely to specify one or more targets for passenger satisfaction with the facilities and services provided by the franchise, drawing on measures from the regular National Rail Passenger Survey conducted by Passenger Focus. This may be supplemented, if necessary, by quality specifications for some service attributes supported by an inspection based regime.



## 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.

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 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. We are also considering requiring bidders to offer improved ways for passengers to report quality problems and receive specific feedback on how they have been tackled.

## Facilitating change and investment

Rail Executive wishes to see continued long-term development of the railway in the north of England and to Northern 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



### Communities, businesses and local government

The Northern franchise provides a wide range of socially and economically important services to communities across the region. In some places, notably on Community Rail Routes, 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 not otherwise 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 further partnerships so that those who depend on and benefit from the railway can play a greater part in supporting and improving it.

### Network Rail

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

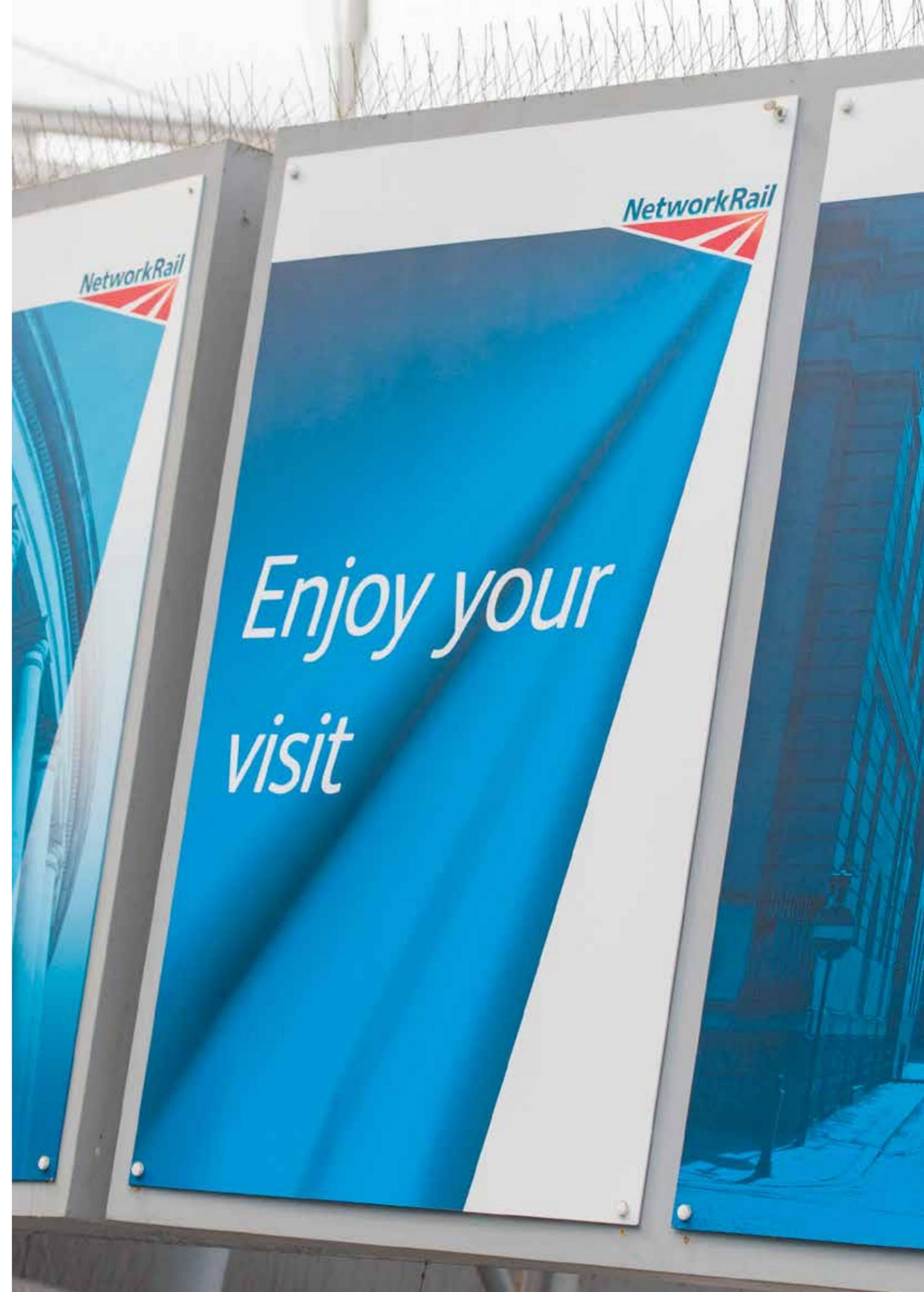
We would encourage those seeking to prequalify to engage with Network Rail on a number of topics, including alliancing. Following PQQ submission and prior to shortlisting, Network Rail would only expect to engage with applicants through one high level meeting per applicant. Once bidders have been shortlisted,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

We would expect bidders to engage with Network Rail to investigate a number of joint tasks which span the range of Network Rail and the franchisee's business such as:

- Reducing operational costs, including at stations
- Reducing strategic asset management costs, including at stations
- Reducing whole-industry project costs and increasing project value
- Improving train service performance
- ERTMS deployment



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



## 5.5 Operations



### Health and Safety

The PQQ will assess applicants' performance and policies on health and safety. Rail Executive intends that the new franchisee should have a proactive, positive, open and inclusive health and safety culture, with each staff member feeling that he/she has an important part to play in achieving the highest levels of health and safety for customers, staff and suppliers.

### 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 Northern'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 we plan 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.

## Remapping

Subject to this summer's consultation Rail Executive is considering transferring some services between franchises – a process known as "remapping". Remapping aims to facilitate efficiencies enabled by current infrastructure projects (e.g. North West electrification) and to align services more closely with the business characteristics of the individual franchises. The final allocations of the remapping process which may affect the Northern franchise are expected to be finalised (subject to consultation) in time for the requirements to be set out in the ITT. Options under consideration are currently:

### Potential transfer from TPE to Northern:

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

### Potential transfer from Northern to East Midlands Trains:

- Cleethorpes to Barton-on-Humber



### Performance

The punctuality and reliability of trains matters a great deal to passengers and is a key driver of demand. The performance of Northern trains not only impacts on its own customers, but also on those of the many other operators with which they interact on the rail network. Rail Executive currently expects that bidders will be incentivised to achieve and exceed the target for the PPM of reliability of train service, reflecting the proportion of services arriving within 5 minutes of timetabled time, set by the Office of Rail Regulation.

### Capacity and crowding



Providing sufficient capacity is a key driver of passenger satisfaction and passenger demand, and using capacity by filling empty seats improves the efficiency of the railway.

Rail Executive is likely to require bidders to plan to meet its capacity standards, having regard to their own forecasts of demand. These stipulate that, generally, passengers should expect to secure a seat during the off-peak, should not have to stand for more than 20 minutes in the peak period, and the numbers standing should not exceed defined train capacities.

### Rolling stock issues



Northern's passengers report considerable dissatisfaction with the trains on which they travel. The autumn 2013 NRPS survey shows satisfaction of only 72%. This is 13% below the average for other comparable (regional) operators. We will be seeking a franchisee who can enhance the passenger experience through the provision and deployment of suitable rolling stock.

Northern's fleet consists of many types of rolling stock owned by different leasing companies. The fleet is predominantly Diesel Multiple Units (87% of the units) and almost one-third of the units are 'Pacers' (Classes 142 and 144).

The average age of the fleet is just over 24 years - only the Class 333 Electric Multiple Units are less than 20 years old.



**87% Diesel Multiple Units**

**33% are 'Pacers' (classes 142 and 144)**

**24 years old - Average age of fleet**



The European Technical Specification for Interoperability for Persons with Reduced Mobility (PRM TSI) came into force on 1 July 2008. This sets standards for accessible trains, stations and other facilities, and applies to all trains used on the interoperable rail system. Unless granted a derogation, all rail vehicles must be accessible by no later than 1 January 2020. Proposals on how these requirements should be met by the future Northern fleet will form an essential element of bids. Most of the existing Northern fleet is non-compliant with the new standard, and Northern has started releasing some stock for modification by its owners. Bidders will wish to engage with the rolling stock industry to explore options for meeting the new standards, taking into account the remaining whole-life costs of any necessary capital investments. This requirement may lead bidders to propose phasing out certain existing types of rolling stock before 2020.

Bidders will particularly need to consider the future of the four-wheeled 'Pacers' built between 1985 and 1987. From a design perspective, they are difficult to make compliant but we understand that the rolling stock industry has developed practical plans for suitable modifications which achieve this. These vehicles are the least costly to lease but are unpopular with many passengers. We are likely to require bidders to include plans, either in their core proposition or as an option, which would enable the withdrawal of all Pacer units from Northern services.

Other vehicle classes, which may also currently have a range of non-compliances, generally have modification programmes for achieving compliance, subject to appropriate derogations.

### **Rolling Stock opportunities**



The new franchise provides the opportunity for extensive change to rolling stock. Electrification will enable bidders to offer benefits through improved rolling stock such as:

- Greater capacity
- Better passenger environment
- Lower operating costs
- Faster journeys

Rail North is currently examining options to complement the existing rolling stock market through alternative methods of procurement which may cover refurbished and/or new rolling stock, taking a whole asset life cycle perspective. Bidders are encouraged to consider innovative approaches to providing, in the most cost-effective manner, the increases in capacity and quality of rolling stock which the franchise will require.

**We expect to specify that, where electric operation of services is enabled by the North West electrification programme, these services should primarily be operated by electric units.**

A change in the mix of diesel and electric traction in the Northern fleet will also make possible a fundamental review of train maintenance arrangements. As with train services, Network Rail is leading an industry process to identify possible approaches. This is an area where we expect bidders to determine their own strategy in consultation with Network Rail.

### European Rail Traffic Management System (ERTMS)

ERTMS is expected to be the standard technology for re-signalling schemes, and under current plans will be introduced on a small part of the Northern route network within the expected franchise term. The franchisee will be responsible for ensuring that its rolling stock is ready to operate under ERTMS control and fitted with ETCS (European Train Control System) 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 retro-fit 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.



### 5.6 Stations

Stations are an important part of the rail travel offer, and effective management of an estate of Northern's scale (it currently manages 463 stations) is very demanding; proposals in this area will be a crucial element of any franchise bid.

Many of Northern's stations have relatively low footfall and it can be hard to justify significant expenditure on them when considering the railway in isolation. However where local partnerships, with local government and/or voluntary groups, have taken an active role, station condition has improved and the station has sometimes come to play a wider role in the community it serves. Rail Executive will expect the new operator to find ways of extending community involvement in stations, and introducing more third-party trading activity, so that stations provide a better experience for passengers.

We do not expect to require the franchisee to take long (e.g. 99 year) leases on Northern stations. However we do expect the franchisee to work closely with Network Rail to manage these assets efficiently and effectively.

Our 'service quality' specification will embrace station quality as it is perceived by passengers. We may also specify requirements supported by an inspection-based regime to ensure that these assets are managed economically and sustainably.





“Rail Executive will expect the new operator to find ways of extending community involvement in stations, and introducing more third-party trading activity, so that stations provide a better experience for passengers.”



## 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 the Department 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 (smartphone, 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 Review<sup>11</sup>. 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.

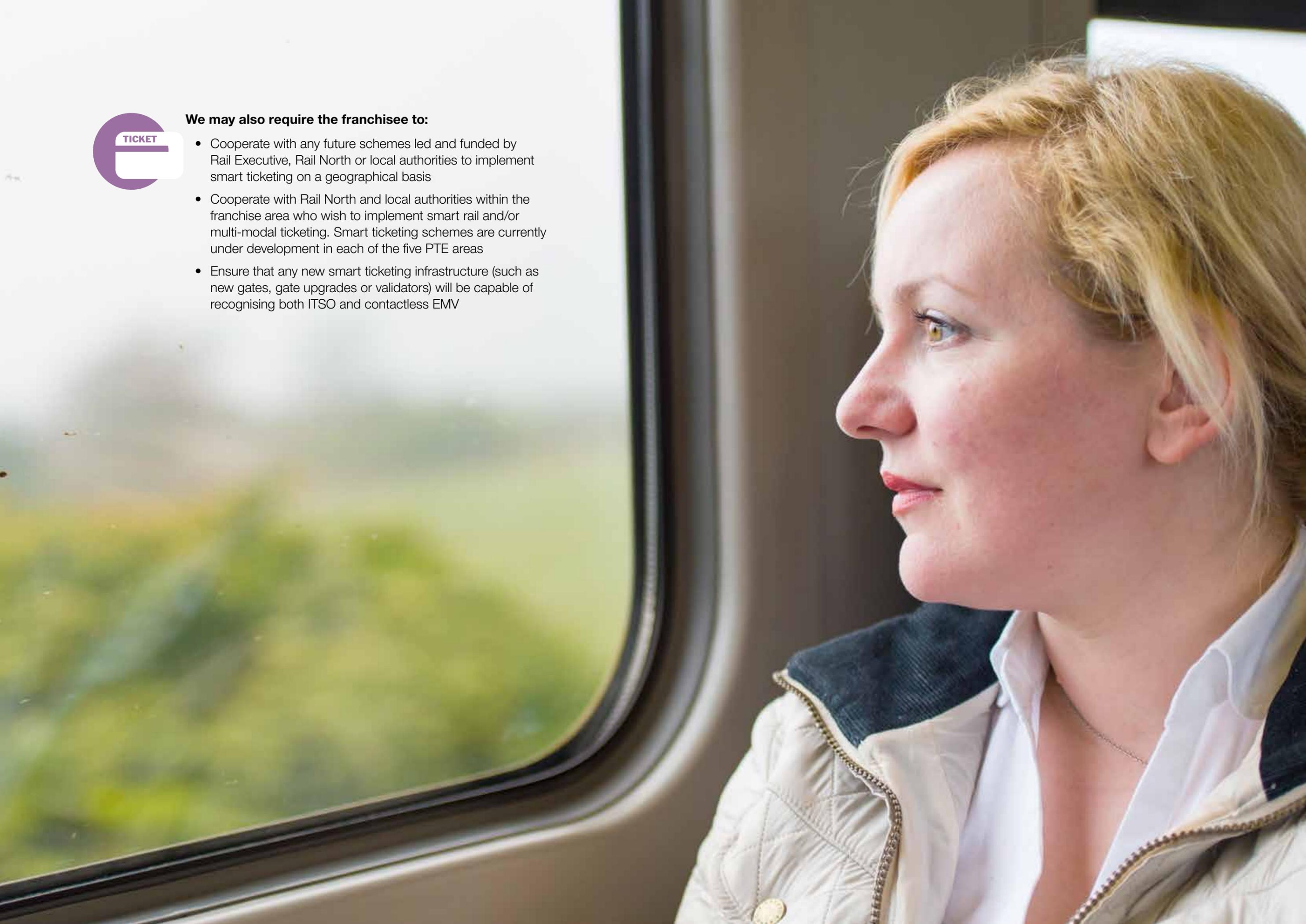
Innovation is central to meeting the objectives of the franchise. We welcome bids, which demonstrate convincingly how passenger satisfaction in relation to ticketing/retail will improve and how they will deliver efficiency savings. In doing so, we will expect bidders to provide passengers with widespread 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.

<sup>11</sup> <https://www.gov.uk/government/consultations/rail-fares-and-ticketing-review>



**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 both ITSO and contactless EMV





## 5.8 Sustainability

The sustainable development of rail is a key focus for Rail Executive. We strongly support the Rail Industry Sustainable Development Principles and wish to see them embedded in the Northern franchise. Within the ITT we are likely to ask for consideration of some or all of:

### Environmental impacts

- A focus on waste avoidance, reduction and increasing 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, 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 other transport operators and Local authorities to achieve better integration between rail services and other modes of transport

### Workforce development

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

### Freight

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

## 5.9 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 Northern franchise as well as the TPE and Inter City East Coast 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

## 5.10 Transparency

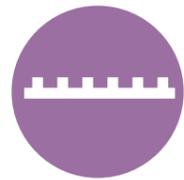
Rail Executive is committed to openness and transparency and would require a franchisee to publish data about its operations. In the ITT we will outline the data we would require to be published, which may include operational performance data, such as Right Time operations, as well as cost reduction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

## 6. Commercial structure

We intend 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 Northern 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.



Balancing these factors, we intend to let the Northern franchise for a period of around eight to ten years, to incentivise the operator to exploit these opportunities to the maximum extent once the work is completed.

There may also be an extension period of up to one year, callable at the Secretary of State's discretion.

### 6.2 Capital requirements



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

We currently expect that the franchisee will have to procure:

- A season ticket bond calculated in accordance with the Franchise Agreement formula and bonded by a third party
- 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

We currently anticipate 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 franchises 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 envisaged that the franchisee will take full revenue 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.

## 7. The bid process



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### 7.1 Background

The re-franchising process for the Northern 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. We expect that the competition for the Northern 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 Northern franchise involves systematic and detailed analysis and optioneering of the main aspects. In line with other major projects, Rail Executive 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 Northern 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 of PQQ Pack and submit OJEU Notice for publication	May/June 2014
	Return of PQQ	July 2014
	Confirm bidder shortlist	August/September 2014
Public consultation		Summer 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

Figure 10: Franchise letting timetable

#### 7.4 The procurement process

Rail Executive has submitted for publication a Contract Notice in the Official Journal of the European Union 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 it 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 Northern. 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 responses 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 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 minimise 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. We therefore intend to consult shortlisted bidders to invite them, in confidence, to share their thinking. This will then enable us to minimise 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 our 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 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

ACoRP	Association of Community Rail Partnerships
ATOC	Association of Train Operating Companies
CAGR	Compound Annual Growth Rate
CP	Control Period
CST	Common Safety Target
DfT	Department for Transport
DMU	Diesel Multiple Unit
EMU	Electric Multiple Unit
ERA	European Railway Agency
ERTMS	European Rail Traffic Management System
ETCS	European Train Control System
GVA	Gross Value Added
ITT	Invitation to Tender
MAA	Moving Annual Average
MPC	Miles per Casualty
NRPS	National Rail Passenger Survey
OJEU	Official Journal of the European Union
ORR	Office of Rail Regulation
PCS	Parent Company Support
PIN	Prior Information Notice
PPD	Prequalification Process Document
PPM	Public Performance Measure
PQQ	Prequalification Questionnaire
PRM	Persons with Reduced Mobility
PTE	Passenger Transport Executive
ROSCO	Rolling Stock Company
RSP	Rail Settlement Plan
SFO	Station Facility Owner
TOC	Train Operating Company
TPE	TransPennine Express



**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 Northern 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 Northern and TransPennine Express franchises shall prevail.