Northern

Invitation to Tender

27 February 2015
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ATTACHMENT I – GUIDANCE ON HOW TO MARK UP TSR SHEETS – TO FOLLOW
1. Section 1: Introduction

1.1 Introduction
1.1.1 This Invitation to Tender, its appendices, all documents issued with and in connection with it and all clarification questions and responses relevant thereto (together the “ITT”) are issued by the Department for Transport (the “Department”) pursuant to the functions of the Secretary of State for Transport (the “Secretary of State”) under the Railways Act 1993 and the Railways Act 2005, as amended. All references in this document to the Department, Network Rail or the Office of Rail Regulation (“ORR”) include, where appropriate and unless the context otherwise requires, references to those bodies' predecessors and successors. References in this document to a “Bidder” means those entities who pre-qualified to bid for the Northern Franchise following the process set out in the Northern Pre-Qualification Questionnaire and Pre-Qualification Process Document published on 6 June 2014.

1.2 Form of contract
1.2.1 This ITT invites Bids from Bidders in respect of a service concession contract (as that term is defined in the Public Contracts Regulations 2006 (as amended)). This ITT forms part of a competitive procurement conducted in accordance with relevant legal requirements including 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 (“Regulation (EC) 1370/2007”). This procurement will be conducted in line with the applicable general principles of EU law and the requirements of English law. It will be awarded on the basis of the most economically advantageous tender, determined in accordance with the evaluation criteria and methodology specified in Section 7 (Evaluation criteria and methodology).

1.3 Exceeding the Department’s requirements
1.3.1 The Department is seeking ambitious and innovative Bids which are also deliverable. The competition evaluates and values quality in two ways:
i. By offering Bidders the opportunity to meet (and, where appropriate, exceed) the Department's minimum requirements for the Northern Franchise ("Northern" or "Franchise") set out in this ITT; and

ii. By assessing the deliverability of the proposals put forward by Bidders based on the evidence they have provided.

1.3.2 More information on how Bids will be evaluated is set out in subsection 7.3.6.

1.4 Communications

1.4.1 Save to the extent permitted by this ITT or agreed in advance with the Department and without prejudice to the provisions of subsection 3.9 (Bidder clarification questions), Bidders will ensure that communications from or on behalf of Bidders and their Associated Entities with the Secretary of State and/or the Department in respect of this ITT and the Northern Franchise are made through AWARD (as described further in subsection 3.9 (Bidder clarification questions)) or by email to northern@dft.gsi.gov.uk. No other methods of communication are permitted unless agreed with the Department in advance. For the purpose of this ITT, “Associated Entity” shall have the meaning given in the FLPA between the Bidder and the Secretary of State in respect of the Northern competition.

1.5 Structure of this ITT

1.5.1 This ITT provides:

i. The scope and objectives of the Northern Franchise (Section 2 (Scope and objectives));

ii. Information and instructions to Bidders (including instructions on how to access the detailed information available regarding the Northern Franchise and the processes for enquiries, communications, amendments and clarifications to the ITT during the Bid period) (Section 3 (Information and instructions to Bidders));

iii. An explanation of the requirements for Bid submission (including the format, content and procedure and timetable for submission of Bids) and of the expected process following Bid submission (Section 4 (Explanation of requirements for Bid submission and overview of process following Bid submission)):
iv. Detailed Bid submission requirements – Delivery Plans (Section 5 (Detailed Bid submission requirements – Delivery Plans));

v. Detailed Bid submission requirements – Financial (Section 6 (Detailed Bid submission requirements – Financial)); and

vi. The evaluation criteria and methodology to be applied to the Bids that are received (Section 7 (Evaluation criteria and methodology)).

1.6 Other documents

1.6.1 For the purpose of the Northern competition, this ITT replaces and supersedes in their entirety both the Department’s documents “The Franchise Competition Process Guide” published on 25 June 2013 and Northern Prospectus published on 9 June 2014. Accordingly, in the event of any inconsistency between either of those documents and this ITT, the terms of this ITT will prevail.

1.7 Franchise Letting Process Agreement

1.7.1 This ITT should be read in conjunction with the Franchise Letting Process Agreement (“FLPA”) which, without limiting any aspect of this ITT, shall continue in full force and effect. Bidders are expected to ensure compliance with the FLPA.

1.8 Commencement of the Northern Franchise

1.8.1 The Department’s aim is for the new Northern Franchise to commence operations with effect from 02:00 hrs on 1 April 2016.

1.9 Liability for costs, updates and termination

1.9.1 The Department is not and shall not be liable for any costs incurred by those expressing an interest or negotiating or tendering for this contract, their Associated Entities or any other person. The Department reserves the right not to award a contract, to make whatever changes it sees fit to the structure and timing of the procurement process (including issuing updates and amendments to this ITT), to cancel the process in its entirety at any stage and, where it considers it appropriate to do so, make a direct contract award pursuant to Articles 5(5) or 5(6) of Regulation (EC) 1370/2007.
1.10 Defined terms

1.10.1 Unless the context otherwise requires and save as provided in the glossary at Appendix 1 (Glossary of Terms), capitalised terms used in this ITT shall have the same meanings given to them in the draft Franchise Agreement provided with this ITT.
2. Section 2: Scope and objectives

2.1 Scope of the Northern Franchise

2.1.1 The Northern Franchise comprises the Franchise Services set out in Schedule 1.6 of the Franchise Agreement.

2.2 Franchise Objectives

2.2.1 Table 2.1 shows the franchise objectives as described in the Northern Prospectus.

Table 2.1. Northern Objectives

- **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.

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

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

- **Secure 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

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

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

2.2.2 Bidders will fulfil the franchise objectives by meeting the requirements that the Department has articulated in Section 5 (Detailed Bid submission requirements – Delivery Plans) of this ITT.
3. **Section 3: Information and instructions to Bidders**

3.1 **Applicability of this document**

3.1.1 This ITT invites Bids only from those Bidders who have successfully pre-qualified to submit a Bid under this ITT.

3.2 **Accuracy of information and liability of the Department and its representatives**

3.2.1 This ITT is not a recommendation by the Department, or any other person, to enter into any agreement or to make any investment decision. In considering any investment in a franchise, Bidders should make their own independent assessment and seek their own professional financial and legal advice.

3.2.2 Neither this ITT nor AWARD purports to contain all of the information that a prospective Franchisee or shareholder may require. Neither the Department, nor any of its employees, agents or advisers, makes any representation or warranty (express or implied), and no such representatives have any authority to make such representations and warranties, as to the accuracy, reasonableness or completeness of the information contained either in this ITT or on AWARD.

3.2.3 The Department expressly disclaims 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 in, or omissions from, this ITT or the information contained in AWARD, or based on or relating to the recipient’s use of it, or the use of it 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 any other decision. In the absence of express written warranties or representations as referred to below, the information in this ITT and the information on AWARD shall not form the basis of any franchise agreement or any other agreement entered into in connection with the replacement or acquisition of a passenger rail franchise.

3.2.4 TRL Halcrow, Eversheds LLP and Ernst and Young LLP are acting for the Department in relation to the award of the TransPennine Express franchise. TRL Halcrow, Eversheds LLP, Bevan Brittan LLP and
PricewaterhouseCoopers LLP are acting for the Department in relation to the award of the Northern Franchise. Because of the interlinked nature of the TransPennine Express and Northern Franchises the advisors do not and will not regard any other person as their client in relation to the award of the Northern Franchise. They are not, and will not be, responsible to anyone other than the Department for providing the protections afforded to their clients or for advising on the contents of this document or any matter referred to in it.

3.2.5 Without prejudice to the provisions of the FLPA and the confirmations given in the Form of Tender, no contract or legal obligation shall result from any disclosure of information or other communication by the Department in connection with this Franchise letting process, including the issue of this 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 Department in connection with this Franchise letting process will constitute an offer or an acceptance by or on behalf of anyone.

3.2.6 Without prejudice to the provisions of the FLPA and the confirmations given in the Form of Tender, the only information provided by the Department which will have any legal effect and/or 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 a successful Bidder 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 ITT is intended to create a contract between the Secretary of State and any Bidder.

3.3 Intellectual property

3.3.1 This document is subject to copyright. The information in this document may be published, transmitted, copied or distributed only in accordance with the terms of the Open Government Licence, including the conditions and exemptions therein. Failure to comply with the conditions of the Open Government Licence shall result in the rights granted to you thereunder ending automatically.

3.4 Industry consultation and disclosure of information in Bids

3.4.1 Bidders should be aware that, following the submission of Bids, the Department may consult Rail North, HM Treasury, ORR, Passenger Focus,
Rail Safety and Standards Board and Network Rail (including without limitation to the extent set out in Section 7 (Evaluation criteria and methodology)). The Department may also consult such other persons as it considers necessary or appropriate for the purposes of evaluating Bids (the entities in this subsection 3.4.1 being collectively referred to as “Consultees” and each separately referred to as a “Consultee”).

3.4.2 Accordingly, the submission of a Bid will constitute permission by the Bidder and its Associated Entities for the Department to disclose to any Consultee all or any of the information contained in, or supplied in connection with, its Bid (including in any response to any clarification query issued by the Department).

3.4.3 In addition, Bidders are reminded that in order to develop and agree Track Access Agreements and Station Access Conditions, Network Rail may need to consult Consultees and that this process may involve disclosure or discussion of relevant aspects of the Bids. Bidders and their Associated Entities are required to cooperate with these consultations.

3.5 Non-compliant Bids

3.5.1 A Bid may be non-compliant if it is submitted late, is incorrect or incomplete, or otherwise fails to follow the Department’s instructions set out in this ITT, or if one of the elimination events in subsection 3.6 occurs, whether or not the ITT expressly states that failure to meet a particular requirement will lead to a Bid being deemed non-compliant.

3.5.2 If the Department considers that a Bid may be non-compliant, it may (but it is not obliged to) seek additional information or clarification from the relevant Bidder in accordance with subsection 4.13.2 (Engagement with Bidders and evaluation clarification process).

3.5.3 Where a Bid is found to be non-compliant (if applicable further to the process described in subsection 3.5.2), subject to subsection 3.6 (Automatic elimination), the Department may at its sole discretion reject the Bid and disqualify the Bidder who has submitted that Bid from the competition.

3.5.4 Where the Department decides not to reject the Bid, it may evaluate the Bid and:

i. Take into account the effect of the non-compliance in all relevant elements of the evaluation (including, without limitation, in the allocation of evaluation scores and in the Financial Robustness Test); and
ii. May also, where appropriate, adjust the value of P used in the calculation of the Final Score in accordance with subsection 7.2 (Definition of MEAT for the competition) as necessary to take into account its reasonable view of the most likely financial impact of the non-compliance on the Department;

except that the scoring of the Bid (including both P and Q as defined in subsection 7.2) may not be improved as a result of the process set out in this subsection 3.5.4.

3.5.5 Where the Department determines that it is not appropriate to reject the Bid, or to evaluate the Bid and address the non-compliance through the process set out in subsection 3.5.4, the Department will at its sole discretion take any other action it considers necessary and appropriate in the circumstances, including:

i. Disregarding the non-compliance;

ii. Adjusting the requirements of this ITT, and giving all Bidders the opportunity to adjust or update their Bids to reflect the revised requirements; or

iii. Requiring any or all Bidders to adjust or update their Bids so that they are compliant.

3.5.6 Bidders are required, when submitting their Bids, to list in the format set out in the following Table 3.1 (Format of Non-Compliance Statement), all requirements of this ITT with which they are not able to confirm compliance in full at the time of Bid submission. Full details of the reasons for the non-compliance should be given.

**Table 3.1. Format of Non-Compliance Statement**

<table>
<thead>
<tr>
<th>Requirement of the ITT with which the Bid is non-compliant</th>
<th>Full details</th>
</tr>
</thead>
</table>

3.5.7 Where the Bid is found to be non-compliant in accordance with subsection 7.5 (Modelling Change tests) or subsection 7.10 (Delivery Sub-Plan non-compliance) (and, for the avoidance of doubt, this includes circumstances in which a Bid is found to be non-compliant in accordance with subsection 7.5 or subsection 7.10 as a result of the application of the process set out in subsection 3.5.4), the Department will at its sole discretion take any other action it considers necessary and appropriate in the circumstances, including:
i. Eliminating the Bidder from the competition;

ii. Disregarding the non-compliance;

iii. Adjusting the requirements of this ITT, and giving all Bidders the opportunity to adjust or update their Bids to reflect the revised requirements; or

iv. Requiring any or all Bidders to adjust or update their Bids so that they are compliant.

3.5.8 The disqualification or elimination of a Bidder in accordance with this subsection 3.5 (Non-compliant Bids), subsection 3.6 (Automatic elimination) or subsection 3.7 (Right to disqualify Bidders) will not prejudice any other civil remedy available to the Department and will not prejudice any criminal liability that such conduct by a Bidder may attract.

3.5.9 Bidders should note that, where their Bid is not compliant with the terms of the Franchise Signature Documents as issued by the Department from time to time throughout the competition, they will nevertheless (if successful) be required to execute and comply with the terms of the Franchise Signature Documents as required by the Department.

3.6 **Automatic elimination**

3.6.1 Table 3.2 lists the events which will trigger the automatic elimination of a Bidder from the bidding process (and for the avoidance of doubt subsection 3.5.8 will apply).

**Table 3.2. Elimination events**

<table>
<thead>
<tr>
<th>Elimination event</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Bidder uses MOIRA 2, its component parts or intermediate outputs for modelling revenue impacts, timetable changes, crowding or any other purpose – see subsection 3.14 (MOIRA 2).</td>
</tr>
<tr>
<td>A Bidder submits Financial Templates which do not conform with the structure as set out in the latest iteration of the templates provided or specified by the Department – see subsection 6.3.6.2.</td>
</tr>
<tr>
<td>A Bidder is projected in its Risk Adjusted Financial Model to breach the 1.05:1 Financial Ratios (after taking into account any Materiality Threshold) at any point during the Minimum Financial Robustness Period – see subsection 7.6 (Evaluation of Financial Robustness).</td>
</tr>
<tr>
<td>A Bidder’s rolling stock plans include the use of vehicles without bogies after 31 December 2019.</td>
</tr>
</tbody>
</table>
3.7 **Right to disqualify Bidders**

3.7.1 The Department also has the right to disqualify a Bidder (and for the avoidance of doubt subsection 3.5.8 will apply) where:

i. It has the right to do so under the terms of the FLPA; or

ii. At any time prior to the completion of the Franchise Agreement the Bidder is unable to satisfy the requirements for pre-qualification carried out as part of the Northern pre-qualification process.

3.8 **Data Site and AWARD**

3.8.1 The Department has established a web based data site for each of the TransPennine Express and Northern Franchises (together the “**Data Site**”) and a portal, all of which are operated by QinetiQ Commerce Decisions and are known as “**AWARD**”. The Data Site contains, in electronic form, documents and information specifically relating to the respective franchise, including incumbent operator information. Additionally, AWARD will be used for BCQs and Bid submission, evaluation and clarification. Short-listed Bidders have been granted access to AWARD.

3.9 **Bidder clarification questions**

3.9.1 All clarification questions and requests for additional information relating to this ITT, the Northern Franchise and the Franchise letting process (“**BCQ**”) must be submitted by Bidders via the AWARD website. BCQs should be accompanied by an explanation of why the relevant question has been raised so that the Department understands the context of the question. BCQs should clearly identify the Data Site folder, document and text for which clarification is being sought.

3.9.2 The status of all BCQs raised by each Bidder, including responses when available, will only be provided to Bidders through the AWARD website. Once Bidders have submitted BCQs on the AWARD website a unique clarification question identification number will be generated. Bidders will be able to track the progress of each BCQ that is not designated confidential through the AWARD website, including BCQs raised by other Bidders.

3.9.3 The Department will transmit to all other Bidders and to bidders for the TransPennine Express franchise (without reference to the identity of the Bidder which submitted the question) BCQs raised and responses made, with the exception of those deemed confidential as provided in subsection
3.9.4. In addition, Bidders will be able to access BCQs raised and answered in the TransPennine Express franchise competition.

3.9.4 A Bidder may request that the Department treat a BCQ and its response as confidential. Confidential BCQs are BCQs where the questions are not made available to other Bidders and the responses will only be shared with the Bidder raising the BCQ. Any such requests must be made clear at the time of submission of the BCQ. The Department will advise the Bidder in advance of providing the answer if it considers that all or any part of the BCQ cannot be treated as confidential, and close that question. The Bidder may either submit an amended question to be treated as confidential, which would be considered by the Department in the same manner as the original question, or raise a new question to be treated as a non-confidential BCQ.

3.9.5 Bidders must ensure clarity as to the expected source, scope and format of the material requested pursuant to a BCQ (e.g. passenger count details by period, by service group for the last year).

3.9.6 The Department will aim to respond to BCQs expeditiously having regard to the nature, extent and availability of the information requested. The Department will endeavour to respond to BCQs within 15 working days from receipt.

3.9.7 Bidders should be aware that BCQs may not be accepted from 20 working days prior to the closing date for Bid submission, save in respect of new information provided after this point. Therefore the last date for the submission of BCQs for the Northern competition will, in the absence of any extension, be 29 May 2015. Any BCQs received after this point will only be accepted at the sole discretion of the Department.

3.9.8 Since Bidders pre-qualified to bid for the Franchise, they have been able to meet with the Department to discuss matters relating to the competition. If Bidders were seeking to rely on any of the information or indication or view imparted during a meeting, they were required to submit a BCQ and may rely only on the response provided to that BCQ and not on any of the information or indication or view imparted during a meeting. In the event that any answers given in that process, or any information or instructions given in any draft documents conflict with information or instructions given in this ITT, then this ITT will prevail.

3.9.9 Before submission of Bids, Bidders will have the further opportunity to meet with the Department and discuss any points of clarification that are appropriate and necessary in order for Bidders to prepare their Bids. If,
however, Bidders are seeking to rely on any of the information or indication or view imparted during a meeting, they must subsequently submit a BCQ and may rely only on the response provided to that BCQ and not on any of the information or indication or view imparted during a meeting. No other notes and/or records of such meetings form part of this ITT and unless confirmed in this way, information or views given by the Department at the meetings shall not be relied upon in the preparation of any Bid.

3.9.10 Where a Bidder believes that there is any inconsistency between any documents or information (or ambiguities in those documents) provided by the Department to Bidders or their Associated Entities as part of the bidding process it should seek to clarify the point through the BCQ process rather than make an assumption in its Bid in relation to such matter.

3.10 Transparency and Freedom of Information

3.10.1 Bidders should refer to section 3.14 of the Pre-qualification Process Document for information relating to transparency and Freedom of Information, and should note that the Department will place a copy of the ITT in the public domain at the same time as it is supplied to Bidders, with redactions where appropriate.

3.10.2 In submitting their Bids in response to this ITT, Bidders are invited to identify which parts, if any, of their Bid are provided to the Department in confidence or are commercially sensitive or which may be subject to any other provision of the Freedom of Information Act 2000 ("FOIA") or the Environmental Information Regulations 2004 ("EIR"), such that they may be exempt from disclosure under FOIA and/or EIR. Bidders should provide reasons why such information should not be disclosed in response to any request and an estimate of the period of time during which the Bidders believe that such information will remain exempt from disclosure.

3.11 Competition Matters

3.11.1 Depending on the identity of the Bidder, the award of the Franchise may constitute a “relevant merger situation” under the Enterprise Act 2002 (“EA02”) as amended by the Enterprise and Regulatory Reform Act 2013 (i.e. one over which the Competition and Markets Authority (“CMA”) would have jurisdiction), or a concentration with a European Community dimension under the EU Merger Regulation (Council Regulation (EC) No.139/2004)
3.11.2 If the award of the Franchise to a particular Bidder would give rise to a realistic prospect of a substantial lessening of competition (under EA02, as amended), or where EUMR is applicable, raises serious doubts as to its compatibility with the common market, such as would give the CMA, or EC (as appropriate) cause to subject the award of the Franchise to a substantive (second phase) investigation, this might prejudice the timing of the franchise process and/or the ability of the Bidder to operate the Franchise as Bid. The CMA and EC also have the power during a first phase investigation to accept remedies in order to address concerns that would otherwise require a second phase investigation.

3.11.3 Generally, a transaction with a Community dimension may not be completed until clearance has been obtained under EUMR. In the context of a relevant merger situation under EA02, the CMA may impose an interim order preventing any action that might prejudice its second phase investigation and/or impede the taking of any remedial action that may be required in respect of the award of the Franchise. It is therefore important for the Department to be able to understand the impact of any potential intervention (especially if such intervention may involve a second phase investigation) by the CMA or EC in scrutinising the Bids of each Bidder.

3.11.4 Each Bidder is therefore required to confirm in its Bid:

i. Whether the award of the Franchise to it would require notification to the EC under EUMR, and, if so, (i) whether the Bidder proposes to request pursuant to Article 4(4) EUMR that the transaction is referred back to the CMA for consideration and how it views the prospects of such a request being accepted or (ii) in the alternative, the likelihood of the CMA requesting referral back of the case to the UK;

ii. The Bidder’s reasoned analysis of the likely competition assessment of the transaction, including its assessment of the prospect of clearance in the first phase of any investigation by the CMA and/or the EC (as applicable) together with a description of the analysis undertaken and evidence reviewed by the Bidder in carrying out such assessment;

iii. To the extent that the Bidder or an Affiliate also intends to bid for the TransPennine Express franchise (whether on its own account or as a shareholder or partner (directly or indirectly) in a special purpose vehicle), the likely impact of that transaction (were the Bidder or its
Affiliate to be awarded the TransPennine Express franchise) on the competition assessment of the Bid;

iv. The strategy which the Bidder will adopt to minimise any delay which the need to obtain clearance from the CMA or EC will cause and which may affect the Bidder’s ability to operate, or commence the operation of, the Franchise, in accordance with the requirements of the Franchise Agreement assuming that an award is made to the Bidder. In particular, the Bidder must:

- Explain how it proposes to approach pre-notification discussions with the CMA or, as the case may be, the EC, to ensure the notification is complete and that all necessary supporting evidence is included;
- Confirm that it will co-operate fully with the EC and/or the CMA during their investigations, in particular by responding promptly to any requests for information;
- Confirm the Bidder’s, and any of its Affiliates’, willingness to offer undertakings or commitments to the CMA or the EC in order to avoid a second phase investigation, a description of the nature and extent of any such undertakings the Bidder would be willing to offer, and its reasoned analysis as to why such undertakings or commitments are likely to be accepted by the CMA or the EC. If the Bidder considers that it would not be required to offer such undertakings or commitments, then the bidder must provide its reasoning supporting such conclusion;
- To the extent that the Bidder or an Affiliate also intends to bid for the TransPennine Express franchise (whether on its own account or as a shareholder or partner (directly or indirectly) in a special purpose vehicle), the Bidder’s, and any of its Affiliates’, willingness to offer additional undertakings or commitments to the CMA or the EC in order to avoid a second phase investigation and/or to secure clearance for both transactions, including a description of the nature and extent of any such undertakings the Bidder would be willing to offer, and its reasoned analysis as to why such undertakings or commitments would likely to be accepted by the CMA or the EC;
- Confirm that any such undertakings or commitments given would not impact on the ability of the Bidder and/or any of its Affiliates to operate
any other UK rail franchise of which it is the franchisee, or to the extent they would, a detailed assessment of such impact;

- Provide an indication of the likely timetable for securing any required competition clearance, including the preparation of notifications, timing of pre-notification discussions, formal notification and clearance; and

- Provide a reasoned assessment of the likelihood of the CMA imposing an interim order on the Bidder in relation to the Franchise, specify the form of any derogations the Bidder would seek from the CMA’s standard form interim order in the event that any such order is issued and the Bidder’s reasoned assessment of the likelihood of such derogations being granted.

3.11.5 The Department reserves the right to engage with the CMA and it is possible that as part of this ongoing dialogue the Department may wish to disclose to the CMA some of the merger control strategy submitted by the Bidder. In addition, the Department notes that a paper prepared by a Bidder setting out merger analysis and strategy may potentially be disclosable to the CMA as part of the information to be provided by the parties during the CMA’s merger review process.

3.11.6 However, the Department acknowledges that early disclosure of certain elements of a Bidder’s merger control strategy may be prejudicial to the commercial interests of that Bidder. To deal with this issue, the Department suggests that Bidders consider preparing all or part of their strategy in the form of privileged legal advice. This advice could be provided to the Department on the basis that the Department will treat it as confidential and privileged and will not forward it to a third party without the prior approval of the Bidder. If the Department wishes to discuss with the CMA an element of a confidential and privileged merger control strategy it will first discuss this with the Bidder, with a view to seeking the Bidder’s consent to the disclosure in a form that minimises any potential prejudice to the commercial interests of the Bidder.

3.11.7 If a Bidder wishes to follow this approach, the Department requests that the Bidder:

i. Restricts the information which is included in the confidential and privileged legal advice to that which is most sensitive. Information which
is likely to be provided to the competition authorities with the merger notification should not fall into this category; and

ii. Marks the confidential and privileged advice as follows: "Confidential and privileged legal advice - not to be circulated or disclosed"; and

iii. Submits a shorter standalone high-level note marked as "disclosable" which may be disclosed to the CMA. The "disclosable" high-level note should set out the Bidder's own assessment of the competition law issues which arise from their proposed operation of the Franchise and how the Bidder intends to resolve these issues.

3.11.8 All of a Bidder’s competition strategy will be considered, regardless of whether disclosures are made to the CMA.

3.11.9 The Bidder must keep the Department informed of the progress of its notifications to the EC and/or the CMA, including notifying the Department as soon as possible if it becomes aware of the possibility that remedies or a second phase investigation may be required.

3.11.10 Bidders must advise the Department as soon as possible if there is any change in the circumstances from the position as outlined in their Bid which may affect the competition clearance process (for example, if the Bidder acquires or divests another transport operation which is relevant to the competition assessment of the Franchise award). If Bidders fail to do so, their Bid will be deemed to be non-compliant.

3.11.11 If a Bidder does not provide to the Department sufficient evidence to satisfy the Department that a CMA or EC intervention (including a "phase two" intervention) will not prejudice the ability of:

i. The Bidder to commence operation of the Franchise on the Department’s proposed Start Date;

ii. The Bidder otherwise to operate the Franchise in accordance with its Bid; or

iii. Any Affiliate of the Bidder to commence operation of or continue to operate any other UK rail franchise of which it is the franchisee, the Department, acting reasonably, reserves the right to disqualify that Bidder.

3.11.12 Without prejudice to subsection 3.11.11, the fact that a Bidder’s Bid is subject to EUMR clearance or that this may result in a longer competition clearance
process will not of itself be regarded as a negative factor in evaluating the Bid.

3.11.13 Bidders are required to include in their Bids in the format set out in the following Table 3.3 (Format of Statement of Competition Matters), details of any competition matters that affect their bidding position as described in this subsection 3.11.

Table 3.3. Format of Statement of Competition Matters

<table>
<thead>
<tr>
<th>Change</th>
<th>Reporting Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competition matters</td>
<td>Bidders should include details in response to the instructions contained in subsection 3.11 (Competition matters)</td>
</tr>
</tbody>
</table>


3.12.1 Pursuant to Regulation (EC) 1370/2007 the Department must ensure that the Franchise Agreement to be entered into with the winning Bidder does not result in the overcompensation of the Franchisee for the purpose of the Regulation.

3.12.2 The Department will review the leading Bid(s) to ensure that such Bid(s) will not result in overcompensation for the purposes of Regulation (EC) 1370/2007. It is anticipated that this review may include, without limitation the following:

i. Confirming that the relevant Financial Templates have been populated correctly;

ii. Assessing whether the Bid suggests that the Franchisee will be engaging in commercial arrangements which are inconsistent with normal market practice or market rates (including as a result of trading with affiliates); and/or

iii. Identifying whether there is any information that is contained within the Bid which indicates either that the operation of the profit share mechanism in the Franchise Agreement will be distorted, or that the Franchisee will be otherwise overcompensated.

3.12.3 As part of the review described in subsection 3.12.2 the Department will also consider whether it is appropriate to make any amendment(s) to the profit share thresholds in the Franchise Agreement, or take any other steps which,
in its discretion, will remove the element(s) of overcompensation identified in the leading Bid.

3.12.4 Bidders must provide the Department with such information as the Department may request in relation to the review described in subsection 3.12.2.

3.12.5 The Department will not award a Franchise which, in its view, will involve overcompensation of the Franchisee, in breach of the Department’s obligations under Regulation (EC) 1370/2007.

3.13 **Change to information or in Circumstances**

3.13.1 Bidders should note that the subsections of the FLPA and the Pre-qualification Process Document dealing with changes to information and in circumstances, including changes in ownership or conflicts of interest, continue to apply.

3.13.2 The Department will carry out the Tests described in subsection 6.10 on receipt of Bids for all Bidders, and immediately prior to the award of the Franchise for the leading Bidder, on the basis of the most recent financial information.

3.14 **MOIRA 2**

3.14.1 Bids submitted using MOIRA 2, its component parts or intermediate outputs for modelling revenue impacts, timetable changes, crowding or any other purpose will be eliminated from the competition.

3.15 **Variations to the Franchise Agreement**

3.15.1 Bidders’ attention is drawn to the variation provisions in paragraph 1 of Schedule 9.5 (Variations to the Franchise Agreement and Incentivising Beneficial Changes) of the Franchise Agreement and the ability of the Secretary of State to amend the contracted Train Service Requirement. The Secretary of State reserves the right to require variations to the Franchise Services and/or the manner in which Franchise Services are required to be delivered, and any consequential changes to the Franchise Agreement, acting in compliance with law. The Secretary of State may also require variations to other contracted provisions or outputs, acting in compliance with law.
3.15.2 In particular, variations may result from changes to the specification or timing of committed projects affecting the Northern Franchise. Variations will not necessarily be restricted to the effects of committed projects. However, any changes required will be such as a reasonably competent and professional operator of the Northern Franchise could, in all relevant circumstances, reasonably be expected to be able to deliver and will be generally consistent with the overall scope of the Northern Franchise proposition taking into account the need to be able to vary the nature, quantity and manner of delivery of Northern services in response to circumstances relating to the development of railway infrastructure and services and other relevant financial, economic and technical developments and the implementation of developing rail policy.

3.15.3 Given the length of the Northern Franchise, and the strong likelihood of economic, social, budgetary and operational circumstances changing over a period of up to 10 years, the Department believes it is likely to make variations to the Franchise Agreement during the Franchise Term. In order to provide an incentive for the Franchisee to develop and implement such changes, it may be appropriate for the Franchisee to receive a reasonable level of financial benefit, if any financial benefit arises from such changes. It may also be appropriate for the Department, or other parties such as Network Rail, to share such benefits with the Franchisee.

3.16 **Rail North**

3.16.1 In January 2014 the Department and Leaders of the Rail North group of around 30 local transport authorities in the North of England agreed and published the principles of a partnership for the procurement and management of the next TransPennine Express and Northern Franchises. In accordance with those principles the Department has developed the specification of this Franchise in collaboration with Rail North. In addition, Rail North has formalised its governance arrangements through the formation of a local authority Association called the Association of Rail North Partner Authorities, governed by a Leaders’ Committee, and a company limited by guarantee called Rail North Limited. The formal processes for local authorities to become members of the Association and company and to appoint directors to that company are well advanced. In October 2014 the Department entered into a Memorandum of Understanding with Rail North Limited (“Memorandum of Understanding”) setting out the principles behind the joint working arrangements for management and development of
the two franchises. A copy is in the Data Site. It is intended that this is followed by a legally binding agreement setting out the detailed terms on which Rail North and the Department will work together to manage and develop the franchise when it is let, a copy of which will be made available to Bidders when it is concluded. The proposed arrangements include a joint Strategic Board and Management Team subject to a single line management structure to ensure a clear single client interface for the Franchisee. For the avoidance of doubt the Franchise Agreement will be between the Franchisee and the Secretary of State.

3.17 **Form of Tender**

3.17.1 Bidders are required to include in their Bids a Form of Tender in the form set out in Attachment G (Form of Tender). For the avoidance of doubt, any amendments to the Form of Tender will mean that the Bid is deemed non-compliant, and the provisions of subsection 3.5 (Non-compliant Bids) of this ITT shall apply.
4. **Section 4: Explanation of requirements for Bid submission and overview of process following Bid submission**

4.1 **Preparation of Bids**

4.1.1 Bidders are reminded that they are expected to stand behind all aspects of their Bids. In particular Bidders are referred to subsection 4.13.3 (Contractualisation).

4.1.2 The Department expects to receive Bids that contain no qualifications. Bidders shall not propose amendments to the Franchise Signature Documents (other than to fill gaps denoted by the drafting note ‘Bidders to populate’), including by proposing their own Secretary of State Risk Assumptions (“SoSRAs”) or any other contractual amendments which seek to transfer risk from the Franchisee to the Secretary of State. For the avoidance of doubt, any failure by a Bidder to comply with the requirements of this subsection 4.1.2 shall mean that the Bid is deemed non-compliant, and the provisions of subsection 3.5 (Non-compliant Bids) of this ITT shall apply.

4.2 **Franchising timetable and process**

4.2.1 The remaining stages of the process for appointing the Franchisee together with their indicative timings, are set out in Table 4.1 (Franchising timetable) below.

<table>
<thead>
<tr>
<th>Description</th>
<th>Party Responsible</th>
<th>Planned Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Submission of Bids</td>
<td>Bidders</td>
<td>26 June 2015</td>
</tr>
<tr>
<td>Evaluation of Bids, clarification, drafting of</td>
<td>The Department and Bidder(s)</td>
<td>From June 2015</td>
</tr>
<tr>
<td>Committed Obligations</td>
<td></td>
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<tr>
<td>Secretary of State consent and HMT approval to</td>
<td></td>
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<tr>
<td>the Northern award</td>
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</tr>
<tr>
<td>Preparation for commencement of Franchise</td>
<td>Franchisee</td>
<td>December 2015 – March 2016</td>
</tr>
<tr>
<td>Start of Franchise</td>
<td>Franchisee</td>
<td>1 April 2016</td>
</tr>
</tbody>
</table>
4.3 **Structure and format of Bids**

4.3.1 Bidders are required to provide the material set out in Table 4.2 (Structure and format of Bids) below when submitting their Bids.

**Table 4.2. Structure and format of Bids**

<table>
<thead>
<tr>
<th>Part</th>
<th>Areas</th>
<th>Submission Requirements</th>
<th>Size limit</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Main text</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Delivery Plan 0 (Bid Summary)</td>
<td>One electronic copy submitted through AWARD</td>
<td>20 pages maximum</td>
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<td>One un-priced electronic copy submitted through AWARD</td>
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<td>One electronic copy submitted in CD format</td>
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<td>One un-priced electronic copy in CD format</td>
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<td>Delivery Plans 1-4 as required by Section 5 (Detailed Bid submission requirements – Delivery Plans)</td>
<td>One electronic copy submitted through AWARD</td>
<td>1,000 pages maximum including annexes and appendices</td>
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<td>2</td>
<td>Financial</td>
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<tr>
<td></td>
<td>Operational Models and Financial Model as required by Section 6 (Detailed Bid submission requirements – Financial)</td>
<td>One electronic copy submitted through AWARD</td>
<td>75MB maximum size per Microsoft Excel workbook</td>
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<td>PDF of worksheets of Tier 1 Operational</td>
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<td>Part</td>
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<td>Models that directly interface with the Financial Model or other Tier 1 Operational Models (note: it is only the interface worksheet of each Tier 1 Operational Model that is required); one electronic copy of these PDF files through AWARD and one in CD format.</td>
<td>submission requirements – Financial)</td>
</tr>
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<td></td>
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<td>PDFs of the populated financial templates; Record of Assumptions, required by subsection 6.5 (Record of Assumptions); Operating Manual, required by subsection 6.6 (Operating Manual); Modelling Best Practice Confirmation, required by subsection 6.8.2 (Modelling Best Practice Confirmation); Update of Financial Information to update Financial tests, required by subsection 6.10 (Updating of PQQ financial and economic standing tests (the “Tests”) and submission of updated bond provider letter(s)); Financial Structure and Funding Plan, Financial Adviser’s letter, PCS and Bonding, required by subsection 6.9.2 (Financial Structure and Funding Plan); Any other term sheets or financing arrangements for projects; Confirmation of Bond availability, required by subsection 6.9.1 (Bid requirements); and ROSCO term sheets required by subsection 5.4.2(B) (DP 2.2 Rolling stock - Evidence that Bidders should provide).</td>
<td>One electronic copy submitted through AWARD One electronic copy submitted in CD format</td>
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<td>Part</td>
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<td><strong>Technical Data</strong></td>
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<td>subsection 5.4.1(D)</td>
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<td>to AWARD) of each of</td>
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<td>the Franchise Agreement,</td>
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<td>the Funding Deed, the</td>
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<td>Conditions Precedent</td>
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<td></td>
<td>Agreement, Escrow Agreement and any other agreements signed as part of the award of the Franchise (together the “Franchise Signature Documents”) with those parts marked 'Bidders to populate' completed.</td>
<td></td>
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<td></td>
<td>Non-compliance statements as required by subsection 3.5 (Non-compliant Bids)</td>
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<td>Competition matters as</td>
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<td>required by subsection 3.11 (Competition matters)</td>
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<td>submitted in accordance</td>
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<td>with subsection 3.10 (Transparency and Freedom of Information)</td>
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<tr>
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<td>A Completed Form of Tender as required by subsection 3.17 (Form of Tender)</td>
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<td>Those Agreed Form</td>
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<td>which are produced by a</td>
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<td>Bidder, where these are</td>
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<td>not required to be</td>
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<td>submitted as technical</td>
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<td>data, or as appendices to Sub-Plans.</td>
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<tr>
<td>5</td>
<td><strong>Schedule of Initiatives (as required by subsection 4.13.3 (Contractualisation))</strong></td>
<td>One electronic copy submitted through the AWARD</td>
<td>None</td>
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<td></td>
<td>One electronic copy</td>
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<td>submitted in CD format</td>
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</tbody>
</table>
4.3.2 Table 4.3 lists the Agreed Form Documents required as part of the Delivery Plans, and states whether these documents count towards the page limit of the main text.

4.3.3 For the avoidance of doubt, Agreed Form Documents which form part of a Sub-Plan should be submitted as an appendix to that Sub-Plan and referenced where relevant.

<table>
<thead>
<tr>
<th>Agreed Form Documents</th>
<th>ITT Section (where applicable)</th>
<th>Included within page limit?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer &amp; Stakeholder Engagement Strategy</td>
<td>Delivery Plan 4.1 (Customer Experience)</td>
<td>Yes</td>
</tr>
<tr>
<td>Sustainable Development Strategy</td>
<td>Delivery Plan 1.4 (Sustainability and Environment)</td>
<td>Yes</td>
</tr>
<tr>
<td>Financial Model</td>
<td>Section 6</td>
<td>No</td>
</tr>
<tr>
<td>Initial Sustainable Development Plan</td>
<td>Delivery Plan 1.4 (Sustainability and Environment)</td>
<td>Yes</td>
</tr>
<tr>
<td>Innovation Strategy</td>
<td>Delivery Plan 1.5 (Innovation)</td>
<td>Yes</td>
</tr>
<tr>
<td>Passengers Charter</td>
<td>Delivery Plan 4.1 (Customer Experience)</td>
<td>No</td>
</tr>
<tr>
<td>Record of Assumptions</td>
<td>Section 6</td>
<td>No</td>
</tr>
<tr>
<td>Social and Commercial development plan</td>
<td>Delivery Plan 4.2 (Stations)</td>
<td>Yes</td>
</tr>
<tr>
<td>Sustainable development strategy</td>
<td>Delivery Plan 1.4 (Sustainability and Environment)</td>
<td>Yes</td>
</tr>
</tbody>
</table>

4.4 Page limits, size of text, other formatting

4.4.1 The size of the main text of the Sub-Plans, including annexes and appendices in accordance with subsection 4.5 (Annexes and Appendices) below, will be limited to 1,000 pages.

4.4.2 One page constitutes one printed side of A4 with 2cm clear margins all round. For main text the minimum font size to be used will be 11pt Arial and the font type will be standard (i.e. not ‘narrow’) with minimum line spacing of 13pt. Bidders are encouraged to use a simple presentation style, avoiding colour photographs and other high cost elements of production as this will not add value to the substance of the Bid. Minimum font size for any text in
tables will be 11pt Arial (standard, not ‘narrow’). There will be no minimum font size set for graphs.

4.4.3 Any pages which do not comply with the criteria in subsection 4.4.2 above, will be reformatted to comply.

4.4.4 For each 20 pages (or part thereof) used by a Bidder in excess of the permitted page limit, having taken into account any reformatting, 0.5 Quality Score points will be deducted from Q for the purpose of the calculation of the Final Score in accordance with subsection 7.2 (Definition of MEAT for the Competition). For example, a Bidder using 1,024 pages will have its Q score reduced by 1.0, and a Bidder using 1,056 pages will have its Q score reduced by 1.5. Bidders cannot score Q lower than 0.

4.4.5 The following elements of the Bid will be outside the page limit:

i. The contents of the financial part as required by Section 6 (Detailed Bid submission requirements – Financial) and described in Table 4.2 (Structure and Format of Bids);

ii. The contents of the technical data part as described in Table 4.2 (Structure and format of Bids);

iii. The contents of the legal and compliance part as described in Table 4.2 (Structure and format of Bids); and

iv. Covers, section dividers and indices where these do not contain substantive parts of the Bid.

4.4.6 Delivery Plan 0 shall not fall within the page limit, but shall be limited to 20 pages. If Delivery Plan 0 exceeds 20 pages, it will not be passed to evaluators.

4.5 **Annexes and appendices**

4.5.1 Bidders may include attachments, annexes and appendices to their response that should be clearly referenced in the main text. Any attachments, annexes or appendices are subject to the size limits described in subsection 4.3 (Structure and format of Bids) and 4.4 (Page limits, size of text, other formatting).

4.5.2 Agreed Form Documents which form appendices to Sub-Plans, as described in Table 4.3 (List of Agreed Form Documents that form part of the Delivery Plans), will be included within the page limit where specified in Table 4.3. These Agreed Form Documents will be evaluated as part of the relevant
Sub-Plan and therefore Bidders do not need to repeat or summarise the content of these Agreed Form Documents elsewhere within the relevant Sub-Plan.

4.6 **Cross referencing**

4.6.1 The Department's evaluators will follow cross references to specifically identified components of other Sub-Plans. The Department’s evaluators are not required to follow unspecific general references (for example, “further evidence on this issue is provided in our rolling stock Delivery Plan”) or cross references to elements of the Bid which are not included in the page limit provided in subsection 4.4 (Page limits, size of text, other formatting), and Bidders should therefore endeavour to make cross references as specific as possible.

4.7 **Bid consistency**

4.7.1 The Department requires Bids that are presented in a way that its evaluators are able to easily identify Initiatives across the entirety of the Bid, including between Sub-Plans and the Modelling Suite. Bidders should include within their Bids an adequate labelling or identification protocol that enables this.

4.8 **Language**

4.8.1 All responses must be in English. This requirement does not apply to any requested information which has not been created for the Bid (e.g. company financial reports), but a translation into English must be provided for any requested information submitted in a language other than English.

4.9 **Monetary amounts**

4.9.1 All financial information supplied as part of the Bid must be clearly denominated in Pounds Sterling. This requirement does not apply to any requested information which has not been created for the Bid (e.g. company financial reports), which should use the original currency. Where financial information is supplied as part of the Bid in a currency other than Pounds Sterling, and the Department wishes to convert the relevant information into Pounds Sterling, it will use the closing mid exchange rate published in the Financial Times on the day this ITT is published.
4.10 **Submission of Bids**

4.10.1 Bidders are required to submit their Bid to the Department, prepared in accordance with the requirements listed in Table 4.2 (Structure and format of Bids), and in accordance with the following requirements:

i. Each CD shall be labelled clearly with the Bidder’s name. The Department requires that an index is provided for the electronic information. Electronic information is required to be saved using the Open XML Standard format supported by Microsoft Office 2010 or later (but fully compatible with Microsoft Office 2010). Specifically, spreadsheets must be saved using the Microsoft Excel ‘xlsx’, ‘xlsb’ or ‘xlsm’ file extension and documents as Microsoft Word ‘docx’ files;

ii. All material which forms part of the Main text in Table 4.2 (Structure and format of Bids) must be provided using Microsoft Word ‘docx’ files;

iii. Unless specifically stated otherwise, documents should only be submitted in PDF if they are not available in their original format. PDF versions should be searchable electronically;

iv. The un-priced electronic copies shall be submitted through AWARD and in CD format clearly labelled with the Bidder’s name and an index of the contents of each CD. The un-priced CD should be distinguishable from the priced electronic copy referenced above. Information is required to be saved using the Open XML Standard format supported by Microsoft Office 2010 onwards; and

v. Each Bid must contain the technical data described in table 5.2.

4.10.2 The priced copy of the Bid submitted through AWARD is the master version of the Bid. Accordingly, in the event of any inconsistency between any copies of a Bid, the priced copy submitted through AWARD shall take precedence.

4.10.3 Bids (both the CD copies to be provided and electronic copies to be submitted through AWARD) must be received by the Department by 12.00 noon on 26 June 2015. A Bid is submitted late for the purposes of this ITT if any part of the Bid or copy in any format required by this ITT is submitted after the above deadline. For the avoidance of doubt, Bids submitted late will be treated as being non-compliant, and the provisions of subsection 3.5 (Non-compliant Bids) of this ITT shall apply.

4.10.4 Uploaded documents will need to follow the file name format shown below: Northern [Bidder name] Delivery Plan [2: Train Services] – File X of Y
4.10.5 CD copies of Bids are to be submitted to:

Dale Ward
Document Manager
Rail Executive - Passenger Services
Department for Transport
4th floor - Great Minster House
33 Horseferry Road
London
SW1P 4DR.

4.10.6 No other documents or information shall be submitted with the Bid. CD copies of the Bid must be marked ‘CONFIDENTIAL – Northern Bid submission in response to ITT June 2015. The boxes should not be marked in any way that would indicate the identity of the Bidder. Bidders will be issued with a formal receipt for the submissions from the Department at the time of the submission of their Bid. It will be the Bidder’s responsibility to ensure the safe transfer of Bid submissions to the Department.

4.11 Presentations

4.11.1 Bidders are required to meet with the Department to discuss their Modelling Suite on a working day specified by the Department within 10 working days following Bid submission. Meetings will not be scored and are for information only. This is designed to assist the evaluation teams in understanding the Modelling Suite. In the event that there is any difference between what is discussed at the meeting and the Bid, then the copy of the Bid submitted through AWARD shall take precedence.

4.12 Validity of Bids

4.12.1 All Bids including the terms, Bid price, and any subsequent changes agreed shall be held valid for a period of 275 calendar days from the date of Bid submission. Bidders are required to confirm this in their Form of Tender.
4.13  Process following bid submission

4.13.1  Bid evaluation

4.13.1.1  Bids will be evaluated in accordance with the criteria and methodology contained within Section 7 (Evaluation criteria and methodology). The Department will apply established governance and assurance processes.

4.13.2  Engagement with Bidders and evaluation clarification process

4.13.2.1  The Department is subject to obligations under EU and English law, including the obligations of equal treatment and non-discrimination. Subject to this, the Department reserves its rights to seek clarification in any form from, and/or to engage in any other way with, any or all of the Bidders at any time during the process, including in order to assist in its consideration of a Bid.

4.13.2.2  The Department reserves the right not to take any further information received into account in the evaluation where to do so would be contrary to the Department’s obligations under EU and English law, including the obligations of equal treatment and non-discrimination.

4.13.2.3  When replying to questions from the Department, Bidders may only respond to the question posed, and may not provide information additional to that requested in the question. Where:

i.  A Bidder’s response includes information in addition to that specifically requested in the question; or

ii.  A Bidder’s response purports to correct or would have the effect of correcting an error in its Bid;

the Department is entitled not to consider or take into account in the evaluation any such additional information or purported correction provided in the Bidder’s response as appropriate.

4.13.3  Contractualisation

4.13.3.1  Subject to the principles set out in subsection 4.13.3.3, the Department will wish to contractualise Initiatives that have been taken into account in scoring Sub-Plans, to ensure that the Franchise Agreement covers the factors that have been taken into account in awarding the Franchise.

4.13.3.2  The Department expects the winning Bidder to deliver everything set out in its Bid. Subject to the principles set out in subsection 4.13.3.3, the scope of
these commitments will cover at least the Initiatives and level of detail that have contributed to selection of the winning Bidder.

4.13.3.3 Bidders must be prepared to contract all Initiatives that have contributed to the score awarded to a Sub-Plan during the evaluation process. Should an Initiative be contracted, and where the Residual Value Mechanism does not attach to an asset, the Department reserves the right to designate an asset as a Primary Franchise Asset to transfer at nil value at the end of the franchise to the successor operator. The Department will look to contract outputs, but reserves the right to contract expenditure or inputs.

4.13.3.4 If elements of the Bid are dependent on factors outside of the Bidder’s control for which the Bidder is unwilling to be contractually responsible (“Contingent Initiatives”) this should be clearly expressed within the Sub-Plan. Contingent Initiatives should be avoided to the maximum extent possible. If no comment is made about whether an Initiative is a Contingent Initiative the Department will assume that it is not, and will expect the Initiative to be contracted on an unconditional basis (i.e. absolutely and without qualification).

4.13.3.5 The Department is not likely to require Initiatives to be included as Committed Obligations where they are not aligned with the requirements set out in part (A) of the relevant Sub-Plan.

4.13.3.6 Bidders may not propose the text of Committed Obligations as part of their Bids. For the avoidance of doubt, any Committed Obligations proposed by the Bidders will not be taken into consideration in evaluation or when the Department is determining the level of contractualisation required.

4.13.3.7 Bidders may offer commitments to invest a nominated sum of money to deliver the required outcome for a Sub-Plan, supported by a specimen scheme, rather than an absolute commitment to a particular scheme. When scoring Sub-Plans containing such Initiatives, the Department will review and allocate scores for the extent to which the specimen scheme will fulfil the Department’s requirements in the relevant Sub-Plan. In the Franchise Agreement the Franchisee will be obliged to spend the nominated sum to deliver either the specimen scheme or another scheme of equal or better value than the specimen scheme. If the Department and the Franchisee are unable to agree such a scheme, the Department retains the right to require delivery of the specimen scheme. Any such schemes should be clearly identified as such in the Bid including the Modelling Suite.
4.13.3.8 For the avoidance of doubt, where a Bidder proposes a specimen scheme as part of an Initiative, the Bidder must state clearly if the scheme is a Contingent Initiative or not.

4.13.3.9 For each Initiative proposed, Bidders should, in their Sub-Plans:

i. Specify the date by which the relevant Initiative will be completed and, where applicable, commenced;

ii. Specify how long the relevant Initiative will be maintained for. In the absence of any dates being specified, the relevant Initiative will be required to be maintained from the Start Date to the end of the Franchise Period;

iii. Where it contains a commitment to spend a specified amount (an ‘expenditure commitment’), clearly set out that amount and what types of expenditure may be counted towards such expenditure commitment (such as capital expenditure, operating expenditure, project management costs etc.), whether the amount is inclusive or exclusive of VAT and the date(s) by which the expenditure will be spent;

iv. Include details of any matters which require that the Initiative is a Contingent Initiative, together with details of the impact of the occurrence of such matters and the identity of any person the Initiative is dependent on;

v. Cross-refer (where applicable) to the relevant provision of the Franchise Agreement which specifically obliges the Bidder to comply with or perform the relevant Initiative; and

vi. Cross-refer to the Record of Assumptions and Funding Plan.

4.13.3.10 Bidders should also submit a Schedule of Initiatives, following the example set out in Table 4.4. Bidders must note that the Schedule of Initiatives must not contain anything which is not also set out in the relevant Sub-Plan. As set out in subsection 4.3 (Structure and format of Bids), the Schedule of Initiatives shall fall outside the page limit.
Table 4.4. Schedule of Initiatives

<table>
<thead>
<tr>
<th>Detail required for each Initiative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
</tr>
<tr>
<td>Sub-Plan and section of Bid where detailed</td>
</tr>
<tr>
<td>Record of Assumptions reference</td>
</tr>
<tr>
<td>Components of the Initiative, including a description of the quality, nature or standard achieved by the Initiative</td>
</tr>
<tr>
<td>Cost of each component of the Initiative, both capital and operating costs, in totality and by year</td>
</tr>
<tr>
<td>Start date and/or completion date for each component of the Initiative</td>
</tr>
<tr>
<td>Whether the Initiative is a specimen scheme as per subsection 4.13.3.8</td>
</tr>
<tr>
<td>Whether the Initiative is a Contingent Initiative and a description of the dependencies</td>
</tr>
<tr>
<td>Whether the RV Mechanism is applied and the value of the relevant asset at the end of the Core Franchise Term</td>
</tr>
</tbody>
</table>

4.13.4 **Intention to award**

4.13.4.1 Without prejudice to the Department’s rights pursuant to subsection 1.9 (Liability for costs, updates and termination), following completion of evaluation, the Department will inform the Bidder with the most economically advantageous tender (as determined in accordance with Section 7 (Evaluation criteria and methodology)) that the Department intends to award the Franchise to it.

4.13.5 **Signature of the Franchise Signature Documents**

4.13.5.1 Following notification by the Department that it intends to award the Franchise to it, the preferred Bidder will be required to sign (but not date) the Franchise Signature Documents on the basis of such escrow arrangements as the Department may require, including the Escrow Agreement. There will be no award of the Franchise at this point, and award of the Franchise will not take place until confirmed by the Department to the preferred Bidder.
4.13.6 **Announcement to the London Stock Exchange and information to unsuccessful Bidders**

4.13.6.1 Following the notification to and delivery of signed documents by the preferred Bidder, it is anticipated that an announcement will be made to the London Stock Exchange at 0700 hours on the next morning on which it opens, setting out the Department’s intention to award the Franchise following the voluntary standstill period.

4.13.6.2 On the same date that the announcement is made to the London Stock Exchange, the Department will send to each unsuccessful Bidder a letter confirming that they have been unsuccessful, and providing that Bidder’s scores from the evaluation process, relative to the preferred Bidder’s scores. The sending of these letters will commence the voluntary standstill period of at least 10 calendar days. The closing date of that period will be identified to the preferred and the unsuccessful Bidders. The Department will invite each Bidder to a meeting to be held on the same day as the announcement is made to the London Stock Exchange, at which the Department will provide feedback on the Bidder’s Bid.

4.13.7 **Voluntary standstill period**

4.13.7.1 The Department intends to run a voluntary standstill period of at least 10 calendar days in respect of this procurement (although it concludes that it is not presently obliged to do so by law) and accordingly the basis of such a standstill process shall be as set out in this ITT or as otherwise advised by the Department to Bidders.
5. Section 5: Detailed Bid submission requirements - Delivery Plans

5.1 Introduction

5.1.1 Bidders are required to submit five Delivery Plans (the "Delivery Plans") as part of their Bids.

5.1.2 Each of the Delivery Plans (other than DP0 (Bid Summary)) is split into a number of Sub-Plans. A list of the Delivery Plans and their associated Sub-Plans is set out below.

Table 5.1. Delivery Plans and Sub-Plans

<table>
<thead>
<tr>
<th>Delivery Plan</th>
<th>Sub-Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>0. Bid Summary</td>
<td>Not applicable</td>
</tr>
<tr>
<td>1. Franchise Management</td>
<td>1.1 Leadership and management</td>
</tr>
<tr>
<td></td>
<td>1.2 Mobilisation</td>
</tr>
<tr>
<td></td>
<td>1.3 Stakeholder partnering</td>
</tr>
<tr>
<td></td>
<td>1.4 Sustainability and environment</td>
</tr>
<tr>
<td></td>
<td>1.5 Innovation</td>
</tr>
<tr>
<td></td>
<td>1.6 Community engagement</td>
</tr>
<tr>
<td>2. Train service and performance</td>
<td>2.1 Train Services</td>
</tr>
<tr>
<td></td>
<td>2.2 Rolling stock</td>
</tr>
<tr>
<td></td>
<td>2.3 Performance</td>
</tr>
<tr>
<td></td>
<td>2.4 Supporting infrastructure change</td>
</tr>
<tr>
<td>3. Revenue</td>
<td>3.1 Marketing and branding</td>
</tr>
<tr>
<td></td>
<td>3.2 Fares, ticketing and revenue protection</td>
</tr>
<tr>
<td>4. Customer Experience and Stations</td>
<td>4.1 Customer experience</td>
</tr>
<tr>
<td></td>
<td>4.2 Stations</td>
</tr>
</tbody>
</table>

5.1.3 Details of the Department’s requirements for each Sub-Plan are set out in part (A) under each Sub-Plan in this Section 5 (Detailed Bid submission requirements – Delivery Plans).
5.1.4 In order for the Department to assess the extent to which each Bid meets, or, where appropriate, exceeds each of the requirements set out in part (A) under each Sub-Plan, Bidders shall provide relevant and credible evidence that supports their proposals, and the delivery of those proposals, for each Sub-Plan. Such evidence must include, as a minimum (the “Minimum Evidential Requirements”):

i. The Initiatives that the Bidder proposes to undertake in order to deliver each of the requirements set out in part (A) under each Sub-Plan. Bidders should note subsection 4.13.3 (Contractualisation);

ii. Information which demonstrates the relevance of each Initiative in delivering, or where appropriate, exceeding the requirements set out in part (A) under each Sub-Plan;

iii. A statement of the Present Values and annual values of revenues and operating and capital costs associated with each Initiative in respect of which any of these elements exceeds £1,000,000 in 2015/16 prices unindexed in any Franchise Year, along with cross references to the relevant sections of the RoA;

iv. Full supporting evidence of how those Initiatives will be resourced, delivered, and quality assured, including a project plan, as appropriate;

v. Details of the risks pertaining to the delivery of those Initiatives, and how these risks will be mitigated; and

vi. A statement or letter setting out the commitment (and, if relevant, any qualifications on that commitment), views or comments of any third party that the Bidder is relying on in delivering or exceeding these requirements.

5.1.5 The Department cannot and does not wish to be prescriptive in all areas about how Bidders may seek to exceed the Department’s requirements by generating additional benefits for passengers, reducing whole-industry costs, and/or increasing the long term value of the Franchise to the Department beyond the franchise term. A tightly prescribed approach could have the twin effects of inhibiting innovation and conditioning Bidder responses. However, without seeking to constrain innovation in any way, the Department has set out in part (C) under most Sub-Plans, examples of what it considers may generate additional benefits for passengers, reduce whole-industry costs, or increase the long term value of the Franchise to the Department. However, these examples are illustrative only and therefore not
exhaustive. Where no examples are given, Bidders may still provide additional Initiatives (but note subsection 5.1.6 below). Bidders should note, where additional Initiatives are proposed, that each one of them must align with the relevant requirements for the Sub-Plan and be supported by credible implementation plans.

5.1.6 Bidders should note that certain specific Sub-Plans may score an 8 only on the basis of being a particularly robust response that provides excellent confidence overall that the specific requirements of the Sub-Plan will be met. For the avoidance of doubt, such Sub-Plans may not score an 8 on the basis that they provide good confidence overall that the requirements of the specification will be exceeded. The basis on which such sub-plans may score between a 6 and an 8 (in accordance with subsections 7.3.6.11 - 7.3.6.12 (Intermediate scores)) should be construed accordingly. Such Sub-Plans may not score an evaluation score higher than 8. Such Sub-Plans are identified in their respective part (C).

5.1.7 Details of how each Sub-Plan will be evaluated (including Table 7.3 (Northern marking framework and guidance)) are set out in subsection 7.3.6 (Scoring methodology).

5.1.8 Bidders must also read the contents of the Franchise Signature Documents provided with this ITT which contain provisions relevant to meeting the requirements specified in this section 5 (Detailed Bid submission requirements – Delivery Plans). As part of this procurement, Bidders are not permitted to mark up the Franchise Signature Documents other than to fill gaps denoted by the drafting note ‘Bidders to populate’. It is an overarching requirement that Bidders’ proposals set out in each Delivery Plan and Sub-Plan are compliant with the Franchise Signature Documents. For the avoidance of doubt, any Initiative contained within a Bidder’s response to this Section 5 (Detailed Bid submission requirements – Delivery Plans) which is non-compliant with the Franchise Signature Documents will not meet the Department’s requirements, and will result in a Bid being treated as non-compliant. In addition such Initiatives, and any other Initiatives which are contingent on them, will not attract evaluation credit.

5.1.9 Bidders’ attention is drawn to subsection 4.6 (Cross Referencing) of this ITT.

**Residual Value Mechanism**

5.1.10 The Department has developed a residual value mechanism (the “Residual Value Mechanism” or “RV Mechanism”) to promote investment in assets where there is a return over a period greater than the Franchise Term. Where
permitted in the relevant Sub-Plan in this section 5 (Detailed Bid submission requirements – Delivery Plans) Bidders may propose that assets benefit from the RV Mechanism. In order for any asset proposed by a Bidder to be covered by the RV Mechanism and designated as a Primary Franchise Asset, the Bidder must conform to all, without exception, of the following requirements:

i. Any asset or collection of related assets (referred to as a “Scheme”) proposed, must contribute towards meeting the requirements of the relevant Sub-Plan set out in Part (A) of that plan;

ii. Any asset or Scheme proposed must not exceed a capital cost of £25 million. The residual value of the asset payable at the end of the Franchise Term may only take account of the capital costs of the asset (which shall only include the cost of the asset and installation). On-going operating costs and project management costs must be borne by the Franchisee and may not be passed on to a Successor Operator;

iii. The useful economic life of the asset or each asset comprised in a Scheme must be greater than the Franchise Term remaining at the time the asset is brought into use;

iv. Bidders may propose up to five assets or Schemes within its Bid, where the RV Mechanism is to be used. The total value of all of the assets or Schemes subject to the RV Mechanism must not exceed £75 million;

v. Any asset or Scheme proposed shall be delivered and brought into use by the end of the fourth Franchisee Year, and either generate revenue or reduce costs previously incurred from that time;

vi. The transfer value of the asset at the end of the Franchise Term will be calculated based on an assumption that the asset will be fully depreciated on a ‘straight line’ basis over a maximum of 15 years from the point at which the asset or Scheme is brought into use, or such shorter time period equivalent to the useful economic life of the asset should that period be lower than 15 years;

vii. The asset or Scheme must be financially positive (i.e. generate revenue or cost savings in excess of the cost of the asset or Scheme) over the maximum of 15 years or such other shorter period as is equivalent to its useful economic life. In addition, the remaining return following the asset transfer to the Successor Operator must exceed the transfer value
calculated in accordance with these instructions and provided in the Bidder's mark-up of the Franchise Agreement referred to below;

viii. Bidders may propose the use of third party funding to purchase such assets or Schemes, but such funding may not bind a Successor Operator. This means that the Successor Operator will not be required to assume any liabilities associated with any third party funding and such funding arrangements will not transfer to the Successor Operator or have a value attributed to them for the purposes of the Franchise Agreement. Such funding must clearly be defined in the Bid;

ix. With the exception of Network Rail Fixture Assets (the requirements for which are described in the Franchise Agreement), the relevant asset or Scheme (which for this purpose and without limitation includes all related software licences and intellectual property relating thereto) must remain the unencumbered property of the Franchisee throughout the Franchise Period and be capable of unencumbered transfer to the Successor Operator at the end of the Franchise Period (and this principle will apply even where the asset is funded in whole or in part by one or more third parties). This means that, with the exception of Network Rail Fixture Assets, assets which are fixed to property and become the property of the landlord, or any items on rolling stock which become the property of the owner are not capable of inclusion in the RV Mechanism;

x. The relevant asset or Scheme shall be designated as Primary Franchise Asset(s) in accordance with and subject to the terms of the mechanism contained in the Franchise Agreement; and

xi. Bidders must submit the evidence set out in subsection 5.1.13.

5.1.11 If a Bidder fails to comply with these requirements with respect to any asset or Scheme the Department:

i. Reserves the right to amend the marked up version of the Franchise Agreement submitted by the Bidder to remove any references to the residual value of the relevant asset(s) and not to designate any such asset as a Primary Franchise Asset;

ii. Will otherwise evaluate the Bid on the basis that the Initiative(s) associated with the introduction of the asset or Scheme are included in the Bid and will be committed to by the Bidder (subject to Section 4.13.3 (Contractualisation); and
iii. May take into account the fact that the RV Mechanism will not apply to the asset or Scheme in all relevant elements of the evaluation (including, without limitation in the allocation of evaluation scores and in the Financial Robustness Test).

5.1.12 Bidders must populate the relevant parts of the Appendix to Schedule 14.4 of the Franchise Agreement and the Supplemental Agreement forming part of the Franchise Agreement, detailing the asset and the value for transfer under the Transfer Scheme expected (in accordance with the requirements in subsection 5.1.10) upon the Expiry Date of the Franchise Agreement. For this purpose, the Bidder should assume the Expiry Date will be the date derived from limb (a) of the definition of “Expiry Date” (as the Franchise Agreement provides for the effect on the transfer value of an extension under Schedule 18 of the Franchise Agreement).

5.1.13 Bidders must submit the following evidence in respect of any asset or Scheme under the RV Mechanism in the Sub-Plan response where the asset or Scheme is being proposed:

i. Commercial justification of the asset or Scheme using its forecast revenues and costs, and any non-financial information in line with webTAG guidance (though Bidders should note the requirement that the asset or Scheme must be financially positive over a maximum of 15 years from the point at which the asset or Scheme is brought into use, or such shorter period equivalent to the useful economic life of the asset should that period be lower than 15 years);

ii. Detailed description and capital cost of each asset or Scheme, operating costs and project management costs;

iii. Demonstration (with supporting evidence) of the useful economic life of the asset or Scheme, which must be greater than the Franchise Term remaining at the point when the asset is brought into use but will not be taken into account to the extent that it is longer than 15 years when calculating the residual value of the asset;

iv. The terms of any third party funding for the asset or Scheme; and

v. Evidence that the asset (or in the case of a Scheme each asset within it) will be and remain the unencumbered property of the Franchisee for the Franchise Period and will transfer to the Successor Operator unencumbered at the end of the Franchise Period or that the asset will qualify as a Network Rail Fixture Asset.
5.1.14 If the Department considers that the evidence supplied by the Bidder is insufficient to justify the inclusion of the asset or Scheme within the RV Mechanism or the transfer value attributed by the Bidder to an asset, the Department may (but it is not obliged to) seek additional information or clarification from the relevant Bidder in accordance with subsection 4.13.2 (Engagement with Bidders and evaluation clarification process).
5.2 Delivery Plan 0 – Bid Summary

5.2.1 The Department requires Bidders to summarise their Bids. This summary shall include:

i. The Bidder's overarching strategy and objectives for the Franchise;

ii. The Bidder's view of the market, its opportunities and challenges;

iii. A programme summarising key business activities, including a delivery schedule which shows the dates of:
   - Key actions which the Franchisee needs to take in order to deliver the principal Initiatives included in the Delivery Plans;
   - Any significant events that will affect the operations, costs or revenues of the Franchise; and
   - Key risks and how they will be mitigated.

iv. A waterfall chart summarising the changes in revenue and cost (and consequently Franchise premium or subsidy) between 2016/17 and 2024/25, such that the impact of any significant Initiatives is highlighted. The chart shall only disaggregate factors greater than £5,000,000, and shall be in 2015/16 prices unindexed. An example waterfall chart is shown below:

![Example waterfall chart](image)

**Figure 5.1. Example waterfall chart**

5.2.2 Bidders should be aware that the Bid Summary will not be scored, but, subject to subsection 4.4.6, that all evaluators will be provided with a copy of it to aid their understanding of the Sub-Plans that they will evaluate.
5.3 Delivery Plan 1 – Franchise management

5.3.1 DP1.1 Leadership and Management

(A) REQUIREMENT

5.3.1.1 The Department requires a Franchisee who will lead, structure, manage and invest in its organisation and workforce to deliver the obligations and objectives of the business during all stages of the Franchise Term. Meeting these requirements includes:

i. Managing the organisation through effective corporate management systems and an efficient organisational structure;

ii. Managing the organisation to optimise the efficiency of the business;

iii. Managing staff transfers, including complying with its obligations under TUPE, and staff consultation and communication activities, while minimising disruption to staff and services; and

iv. Managing the existing pension scheme from the Start Date. Bidders are reminded that contracting out of the second state pension ends in April 2016 and shall make appropriate financial provision for this.

5.3.1.2 The Department requires a Franchisee who has the overall capability to deliver all aspects of the business throughout the Franchise Term, including by:

i. Employing people in fulfilling, worthwhile and contractually secure roles and creating (where it adds value to the Franchise Services) new opportunities for employment and careers;

ii. Developing management and leadership skills throughout the organisation;

iii. Understanding and improving the skills and competence of its own staff and the staff of organisations in its supply chain, where it relies on such organisations to deliver or support key aspects of the business;

iv. Recruiting and training staff to continue through to the end of the Franchise Term as if they were to continue as the Franchisee after the expiry of the Franchise Term;

v. Monitoring, managing and improving the level of staff engagement and morale;

vi. Managing contractors and sub-contractors proactively, where it relies on such organisations to deliver or support key aspects of the business;
vii. Promoting diversity and equality across the workforce and attracting and recruiting people who are new to the rail industry, particularly from historically under-represented groups, including through apprenticeships, traineeships and graduate schemes;

viii. Operating effective systems to identify, monitor and manage occupational health risks and supporting the general wellbeing of the whole workforce; and

ix. Creating healthy, positive working environments that optimise the attractiveness of roles and increase the wellbeing of staff.

5.3.1.3 The Department requires a Franchisee who will safeguard the security of staff working across the Franchise and, applying the principles of community safety (set out in *Delivering Safer Communities: a guide to effective partnership working*), who will reduce the incidence and fear of crime and anti-social behaviour against staff at stations and on trains, including by:

i. Implementing systems, including staff training, to control and minimise crime and security incidents;

ii. Assessing and reviewing regularly the security and crime risk to staff across the Franchise; and

iii. Working effectively with British Transport Police, community groups, local authorities and other agencies.

5.3.1.4 The Department requires a Franchisee who will create a management structure that enables effective engagement with the DfT/Rail North partnership and, throughout the Franchise Term, maintain a responsive, constructive and collaborative working arrangement with the DfT/Rail North partnership in respect of the management of the Franchise, which will be undertaken in accordance with the Memorandum of Understanding and subsequent arrangements described in subsection 3.16 of this ITT.

5.3.1.5 The Department requires a Franchisee who will structure its organisation and develop the Franchise Services in a way that appropriately reflects the diverse geographic regions and passenger markets that it serves. The organisation structure will be responsive to local stakeholder requirements.

5.3.1.6 In particular the Department requires a Franchisee who will develop a management unit for the north east of England that will provide a local focus that includes customer information, branding & marketing and train service development in conjunction with the Local Transport Authorities, which for this purpose are: the North East Combined Authority, Darlington Borough
Council, Stockton Borough Council, Middlesbrough Council, Redcar and Cleveland Borough Council, Hartlepool Borough Council and Cumbria and North Yorkshire County Councils so far as the current service group extends into their geography (the "North East Authorities").

(B) EVIDENCE BIDDERS SHALL PROVIDE

5.3.1.7 In addition to the Minimum Evidential Requirements, Bidders’ responses shall cover as a minimum:

i. Full-time equivalent staff numbers (split between employees and agency staff) with broad grade, role and location at the Start Date together with an explanation of how the numbers were derived;

ii. Where the Bidder is suggesting any material change in staff headcount during the Franchise Term, the reasons for that change and the way in which it will be managed, highlighting any impacts on operations and customer contact;

iii. Proposed usage of different employment contract types, including explanations for any use of zero hours contracts; and

iv. A statement of their assumptions in respect to management of the pension scheme.

5.3.1.8 How they will structure the organisation in a way that reflects the diverse geography and markets of the area and why they are appropriate, including for the north east of England. Note that specific details of their approach to what the management unit will deliver in the north east (and elsewhere should such be proposed) should be included in the relevant Delivery Plan or Sub-Plan.

(C) SCORING

5.3.1.9 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (Northern marking framework and guidance). Without prejudice to the generality of subsection 7.3.6 (Scoring methodology), specific examples of how the above requirements may be exceeded are set out below:

i. Proposals that will deliver sustainable improvements in the skills and competence of the workforce, the effects of which will continue for the long term, in the supply chain and/or wider UK rail industry in relation to the Franchise; and
ii. Proposals that will encourage more young people to join the workforce and that support wider industry efforts in this area.

5.3.2 **DP1.2 Mobilisation**

(A) REQUIREMENT

5.3.2.1 The Department requires an operator who will ensure a smooth and safe mobilisation of the business on time and with no disruption to passenger services. This requirement includes but is not limited to managing the process for complying with the Conditions Precedent Agreement and:

i. Obtaining all necessary licences and Statements of National Regulatory Provisions required pursuant to the Railways Act 1993 and the Railway (Licensing of Railway Undertakings) Regulations 2005 to operate the Franchise;

ii. Obtaining all other necessary consents (including all necessary safety approvals), licences (other than licences required under the Railways Act 1993 and/or the Railway (Licensing of Railway Undertakings) Regulations 2005) and contractual rights (including under access agreements, station leases, depot leases and rolling stock leases) before the Start Date; and

iii. Working with the incumbent operators of the Northern and TransPennine Express franchises to ensure that the re-mapping of Blackpool, Windermere and Barrow services from the TPE franchise is implemented successfully at the Start Date, ensuring continuity of operation and maintaining standards of reliability of these services throughout the transition.

(B) EVIDENCE BIDDERS SHOULD PROVIDE

5.3.2.2 The Minimum Evidential Requirements apply.

(C) SCORING

5.3.2.3 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (Northern marking framework and guidance In determining whether to allocate an evaluation score higher than 6 in accordance with subsection 7.3.6 (Scoring methodology), the evaluators will assess only the extent to which the Sub-Plan is supported by particularly robust evidence that is in line with the evidential requirements in part (B) and
that provides excellent confidence that the requirements of the specification will be met. No additional credit will be given for Initiatives that will generate improved outcomes so that the requirements of the specification will be exceeded. Bidders may therefore score an evaluation score of up to 8 for this Sub-Plan.

5.3.2.4 A bidder that scores below 4 will result in the bid being treated as non-compliant.

(D) FURTHER INFORMATION

5.3.2.5 Bidders should note that this Sub-Plan will be passed to the Office of Rail Regulation (ORR) who will provide a report on Bidders’ responses to this Sub-Plan to evaluators in accordance with subsection 7.3 (Quality and deliverability evaluation).

5.3.3 **DP1.3 Stakeholder Partnering**

**Note:** For the purposes of this Sub-Plan ‘stakeholders’ include, without limitation: Network Rail, ORR, Transport Scotland, Welsh Government, Rail Standards and Safety Board (RSSB), National Skills Academy for Railway Engineering, other train operators, freight operators, rolling stock leasing companies, Association of Train Operating Companies/Rail Settlement Plan, BTP, Rail Delivery Group, trade unions, National Rail Enquiries, cross-industry bodies, Community Rail Partnerships, tourism authorities, Local Enterprise Partnerships, Local Authorities, Local Transport Authorities, Passenger Transport Executives, Combined Authorities and the Franchisee’s wider supply chain including Small and Medium Enterprises (SMEs).

(A) REQUIREMENT

5.3.3.1 The Department requires a Franchisee who will work proactively in partnership with stakeholders to develop and deliver Initiatives to improve whole-industry efficiency in relation to the Franchise, and to support wider industry strategies, including better strategic planning at industry level and with local authorities and between passenger service and freight operators.

5.3.3.2 The Department requires a Franchisee who will use reasonable endeavours to develop and enter into as soon as reasonably practicable, but in any event within two years, an alliance agreement with Network Rail that does not require the consent of the Secretary of State under Schedule 13 of the Franchise Agreement to improve safety, performance, service quality and industry value for money and support and develop joint projects.
(B) EVIDENCE BIDDERS SHALL PROVIDE

5.3.3.3 In addition to the Minimum Evidential Requirements, Bidders’ responses shall cover as a minimum:

i. Their strategy for engagement with stakeholders (making reference where necessary to the Customer and Stakeholder Engagement Strategy) including how the Bidder has understood stakeholder priorities for future improvements in whole industry cost-efficiency and strategic planning and how feedback will be acted upon; and

ii. Evidence of engagement with Network Rail, setting out clear objectives for an alliance that does not require the consent of the Secretary of State under Schedule 13 of the Franchise Agreement, proposed areas for joint working, the agreed behaviours and how costs and benefits are to be shared. In addition, Bidders shall include a letter from Network Rail setting out their support for this approach.

(C) SCORING

5.3.3.4 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (Northern marking framework and guidance). Without prejudice to the generality of subsection 7.3.6 (Scoring methodology), specific examples of how the above requirements may be exceeded are set out below:

i. In relation to the requirements described in subsections 5.3.3.1 and 5.3.3.2 stakeholder engagement strategy that will deliver significant, wider rail network benefits within the context of the Franchise;

ii. Proposals for collaborative working including achieving accreditation to BS 11000 ‘Collaborative Business Relationships’ with industry stakeholders; and

iii. Proposals for the ongoing assessment and review of the delivery of collaborative behaviours, including those as agreed as part of the alliance with Network Rail.

5.3.4 DP1.4 Sustainability and Environment

5.3.4.1 Bidders may propose assets to be funded by the Residual Value Mechanism under this Sub-Plan.
(A) REQUIREMENT

5.3.4.2 The Department requires a Franchisee who will:

i. Implement a Sustainable Development Strategy and Sustainable Development Plan;

ii. Meet the targets specified in paragraph 17 (Environmental impact monitoring, data collection and contractual targets) of Schedule 13 (Information and Industry Initiatives) of the Franchise Agreement and delivering environmental outcomes connected with delivering Franchise Services;

iii. Invest, develop and co-operate in the use of existing and new Franchise Assets (and in particular Station Assets) so as to improve the socio-economic impact in the region of the Franchise in delivering community and local business benefits;

iv. Implement a sustainable procurement strategy that has been independently evaluated by an appropriate third party as being in accordance with BS8903; and

v. Involve stakeholders (including public bodies, customers and those with an involvement in rail) in developing strategies and being open and accountable in decision making, measuring, monitoring and reporting publicly on progress towards achieving long-term sustainability and environmental outcomes connected with delivering Franchise Services.

(B) EVIDENCE BIDDERS SHALL PROVIDE

5.3.4.3 In addition to the Minimum Evidential Requirements, Bidders’ responses shall cover as a minimum:

i. Their Sustainable Development Strategy. This shall include as a minimum:

- The key aims, targets, priority outcomes and risks with respect to delivering environmental outcomes connected with delivering the Franchise Services;

- A plan and annual trajectory towards meeting the traction carbon target specified in paragraph 17 of Schedule 13 (Information and Industry Initiatives) of the Franchise Agreement;

- The key aims, targets, priority outcomes and risks with respect to delivering community and local business benefits by investment,
development and co-operation in the use of existing and new Franchise Assets (and in particular Station Assets);

• How the Franchisee will ensure that delivery of environmental outcomes and community and local business benefits, connected with delivering Franchise Services, will be incorporated in developing the governance and leadership of the organisation and be considered in its key decisions, including on operations, asset management, procurement and investment;

• How the Franchisee will keep abreast of sustainability best practice in the rail industry and other sectors and reflect this in their plans and programmes connected with delivering Franchise Services;

• How the Franchisee will ensure robust, authoritative and independent review and challenge of how it is implementing its Sustainable Development Strategy throughout the life of the Franchise and how it will ensure that results are acted upon;

• The Franchisee's approach to ensuring that staff have the skills and knowledge required to deliver environmentally sustainable Franchise Services; and

• How the Franchisee will ensure community and business expectations and opportunities with respect to socio-economic and environmental benefits connected with delivering Franchise Services are understood, taken into account and communicated to stakeholders;

ii. Their Initial Sustainable Development Plan to support the implementation of the Sustainable Development Strategy (in line with the terms of the Franchise Agreement), which shall include:

• Proposals for using the rail industry's Sustainable Development Self-Assessment Framework (or equivalent alternative framework) to benchmark current sustainability performance and identify areas for improvement;

• Details of priority Initiatives in support of the Sustainable Development Strategy, with details of the investment and outcomes of each Initiative;
• Proposals for engagement with RSSB and other relevant stakeholders identified by the Bidder, and how independent review and challenge by stakeholders will be taken into account; and

• How activities implementing the Sustainable Development Strategy will be resourced, including details of project costs and investment, to ensure effective delivery of plans and Initiatives.

(C) SCORING

5.3.4.4 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (Northern marking framework and guidance). Without prejudice to the generality of subsection 7.3.6 (Scoring methodology), specific examples of how the above requirements may be exceeded are set out below:

i. Setting and monitoring specific, relevant, and accredited standards in areas of socio-economic sustainability and environment benefit connected with delivering Franchise Services not covered by the targets and reporting requirements in the Franchise Agreement.

5.3.5 DP1.5 Innovation

(A) REQUIREMENT

5.3.5.1 The Department requires a Franchisee who will:

i. Support and embed innovation throughout the business in order to improve customer service and operational performance, deliver efficient Franchise Services, reduce industry costs and deliver a stronger integrated multi-modal transport system through developing and implementing an Innovation Strategy; and

ii. Support the delivery of the Rail Technical Strategy (RTS).

5.3.5.2 Bidders must comply with Franchise Agreement Schedule 13 paragraph 19, which sets out the requirements regarding the Innovation Account. For the avoidance of doubt, no Initiatives proposed in the Bid shall be financed from the Innovation Account.

5.3.5.3 Bidders may not include in their Financial Models any revenue attributed to or derived from schemes that may emerge from their Innovation Strategy or funded by the Innovation Fund.
(B) EVIDENCE BIDDERS SHALL PROVIDE

5.3.5.4 In addition to the Minimum Evidential Requirements, Bidders’ responses shall provide, as a minimum, their Innovation Strategy, which sets out how the Franchisee 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. This shall include, without limitation:

i. How the Franchisee will develop its innovation capability, including employees, systems and processes, with details as to how innovation projects will be selected and managed (including, but not limited to, the proposed approach to schemes utilising the Innovation Account in Franchise life);

ii. How effective techniques will be used for capturing ideas from customers, partners, supply chain and other stakeholders; and

iii. How the Franchisee will partner and collaborate with other organisations to develop innovation proposals that fully exploit the potential benefit of the Innovation Account and other sources of funding, to assist in bringing new technologies, processes, business models and products to the market.

(C) SCORING

5.3.5.5 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (Northern marking framework and guidance). In determining whether to allocate an evaluation score higher than 6 in accordance with subsection 7.3.6 (Scoring methodology), the evaluators will assess only the extent to which the Sub-Plan is supported by particularly robust evidence that is in line with the evidential requirements in part (B) and that provides excellent confidence that the requirements of the specification will be met. No additional credit will be given for Initiatives that will generate improved outcomes so that the requirements of the specification will be exceeded. Bidders may therefore score an evaluation score of up to 8 for this Sub-Plan.
5.3.6  **DP1.6 Community Engagement**

(A) REQUIREMENT

5.3.6.1 The Department requires a Franchisee who will adopt a joint approach with and support Community Rail Partnerships or organisations looking to form Community Rail Partnerships along Routes operated by the Franchisee by:

i. Maintaining regular and purposeful dialogue and co-operation between the Franchisee and each Community Rail Partnership;

ii. Marketing, including the development of a distinct marketing plan and generating additional travel on relevant services including, where relevant, exploiting tourist potential;

iii. Providing technical support for timetable specification for Community Rail Partnerships, including providing appropriate journey and revenue data;

iv. Securing, supporting and managing station adopters through a revised Northern station adoption scheme aimed at community groups rather than individuals; and

v. Encouraging innovative local third party funding approaches to develop community rail schemes.

(B) EVIDENCE BIDDERS SHALL PROVIDE

5.3.6.2 In addition to the Minimum Evidential Requirements, Bidders’ responses shall cover, as a minimum:

i. Their strategy for engaging with and supporting Community Rail Partnerships or organisations looking to form Community Rail Partnerships along Routes operated by the Franchisee as described in Section A. This should include how their understanding of the routes’ potential, and the priorities for each, will be reflected during the Franchise Term. They should supply a draft version of the first year’s Community Rail Report (as defined in section 6.2 of the Franchise Agreement); and

ii. Proposals to support local community-based businesses should be included in their response to DP 1.4.

(C) SCORING

5.3.6.3 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (Northern marking framework and guidance). Without prejudice to the generality of subsection 7.3.6 (Scoring
methodology), specific examples of how the above requirements may be exceeded are set out below:

i. Proposals that demonstrate a commitment to review and update the approach to maximise the value of CRPs during the Franchise Term;

ii. Focussed proposals to increase ridership from non-users of the Railway, including Community Rail initiatives;

iii. Proposals which demonstrate particularly strong commitment to the Secretary of State's Community Rail objectives, for example the provision of additional funding; and

iv. Proposals that demonstrate that the commitment to community engagement is fully embedded within the organisation, and therefore will not depend on the individuals involved nor decay in the course of the Franchise Term.
5.4  Delivery Plan 2 – Train Services and performance

5.4.1  DP2.1 Train Services

(A) REQUIREMENTS

5.4.1.1 The Department requires a Franchisee who will plan and operate attractive, customer-focused rail services tailored to the markets they serve, and in particular, whose train services will:

i. Meet the minimum train service and capacity requirements described in the Train Service Requirement ("TSR") contained in Attachment (A) (Train Service Requirement) to this ITT;  

ii. Operate at broadly regular intervals, except where variations in frequency are needed in order to match the profile of demand (for example: peak additional services; ramping up and down the service frequency at the beginning and end of the operating day);

iii. Avoid increasing journey times on any particular route compared to the December 2014 timetable, except where such increases are demonstrably necessary in order to meet the TSR or other requirements of this ITT or to deliver other features of their train service proposals that are beneficial to passengers;

iv. Keep engineering, performance and pathing allowances in the timetable to the minimum necessary in order to comply with the Timetable Planning Rules and meet other relevant requirements of this ITT, thereby maximising opportunities to improve journey times; and

v. Allow paths for other operators’ train services in accordance with the instructions set out in subsection 5.4.1(E) below.

5.4.1.2 The Department requires a Franchisee who, in accordance with the Franchise Agreement, will work with other train operators to plan overall service patterns and connecting services in a way that maximises passenger benefits to the greatest extent reasonably practicable.

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1 For the purposes of assessing compliance with the TSR in the Bid evaluation process, the Department will disregard any non-compliances that would be resolved if the timing of a particular train service were to be adjusted by no more than five minutes. For example, a service that is scheduled to arrive at a particular station at 0955 may be counted towards meeting the specified requirement for the 1000-1559 interval, provided that the service is not also counted towards meeting the specified requirement for the 0600-0959 interval. Bidders must identify any instances where they are reliant on this flexibility to demonstrate compliance with the TSR. This flexibility does not apply in respect of the capacity requirements or the requirements about first and last train times.

2 If Bidders identify any manifest errors or inconsistencies within the TSR tables, they may raise a BCQ no later than 5:00pm on Friday 13 March 2015. If the Department agrees that an error has been made, it will issue an amended version of the TSR to all Bidders.
5.4.1.3 The Department requires a Franchisee who, from the timetable change date in December 2019 to the end of the core Franchise Term, will (to the greatest extent practicable within the constraints of this ITT and of the railway infrastructure, taking account of committed enhancement schemes detailed in the “Base Infrastructure Assumptions Document”, provide sufficient capacity on all train services to accommodate the level of demand they have forecast in their Bid. For these purposes, “sufficient capacity” means that:

i. The rolling stock allocated to each service provides standard-class capacity measured in accordance with subsection 0(D) (which may include standing capacity during the Peaks only) that equals or exceeds the forecast standard class passenger loading\(^3\) at the critical load point; and

ii. Where standing is forecast in the Peaks, there is likely to be sufficient ‘churn’ that passengers should not be required to stand for more than 20 minutes.

Forecast loadings or Peak standing in excess of these requirements of up to a maximum of 10 passengers per carriage will nevertheless be regarded as meeting the requirement if, and only if, the Bidder demonstrates to the Department’s satisfaction that it will, in practice, be possible to avoid those excess loadings or Peak standing by appropriate yield management techniques whose effects have not been modelled in the Bidder’s loading forecasts (i.e. reducing availability of advance purchase fares on the overcrowded train and increasing availability on other services which have spare capacity and which operate between the same two points within an hour of the overcrowded service in question).

5.4.1.4 The Department requires a Franchisee who will identify a subset of services within the Franchise, being the longer-distance, fast or semi-fast service groups, which will receive a differentiated service offer (as may be described in other Sub-Plans) that offers a higher quality passenger experience compared to that which is typically provided in respect of other Franchise services. These must include the services that are identified for this purpose in the definition of “Northern Regional Passenger Services” in the Franchise Agreement and may also include other services that serve markets with similar characteristics. These services are described as “Northern Regional Services” in this ITT, but for the avoidance of doubt this label is used purely

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\(^3\) Forecast loading for a typical Wednesday in autumn with no disruption to services, no special events generating abnormal demand and no Challenging Circumstances.
for ease of reference within this ITT and is not intended to convey any requirement or suggestion that this phrase should be used as a brand name.

5.4.1.5 The Department requires a Franchisee who will implement Initiatives that can reasonably be expected to increase rail’s modal share for surface access to and from the principal airports within the Franchise area (including, in particular, Manchester, Newcastle, Liverpool John Lennon, Leeds-Bradford and Robin Hood) compared to a scenario in which the characteristics of rail services and all other relevant factors prevailing at the time of issuing this ITT are maintained.

5.4.1.6 The Department requires a Franchisee who, during each Reporting Period from the first such period that commences on or after 1 January 2020 until the end of the Franchise Term, will operate a minimum of 50 per cent of all passenger train mileage under the driver’s full operational control. For the avoidance of doubt this means that the train must be fitted with the necessary equipment, the driver must be suitably trained, and all other necessary steps must have been taken to enable the train to be operated in passenger service without the need for a second member of staff on board. This requirement does not oblige the Franchisee to reduce levels of on-train staffing, and Delivery Plan 4.1 specifies requirements regarding the continued provision of trained customer-facing staff.

5.4.1.7 The Department requires a Franchisee who will employ sufficient crew with relevant training and route knowledge to operate services in accordance with their proposed timetables, taking account of all relevant factors (including the need for train crew training to support the introduction of any rolling stock classes that are newly-introduced into the franchise, route learning, transfer of operational responsibilities to drivers and operation under ERTMS).

5.4.1.8 The Department requires a Franchisee who will:

i. Take the lead in identifying proposals to reduce journey times through timetabling innovations or infrastructure enhancements in addition to those already planned by Network Rail (supported if necessary by deployment of rolling stock with the technical capability to take advantage of those enhancements), particularly on routes where current timetabled journey times are slow by comparison with the passenger rail network as whole;

ii. Identify ways to overcome the obstacles to successful delivery of worthwhile enhancements, including by working with Network Rail, other
passenger and freight operators, and other stakeholders (including potential funders); and

iii. Drive forward progress within the industry to deliver them.

5.4.1.9 The Department requires a Franchisee who will identify where there is likely to be demand for services to operate earlier in the morning and/or later in the evening than is permitted by Network Rail’s engineering access rules and who will work with, and where necessary challenge, Network Rail to overcome the obstacles to meeting that demand.

5.4.1.10 The Department requires a Franchisee who will be proactive in supporting and driving forward the development and implementation of the new station and line re-opening projects that are mentioned in paragraph 15.2 of Schedule 6.2 of the Franchise Agreement.

5.4.1.11 The Department requires a Franchisee who will take a proactive approach to planning for demand for seasonal travel and travel to and from special events and, so far as reasonably practicable, provide the capacity needed to meet that demand.

(B) EVIDENCE THAT BIDDERS SHOULD PROVIDE

5.4.1.12 In addition to the Minimum Evidential Requirements, Bidders’ responses shall cover as a minimum:

i. An overview of the principal proposed changes to service patterns and rolling stock at any time during the Franchise Term, compared to the December 2014 timetable, to include:

- A description of proposed train service frequency enhancements over and above the requirements of the TSR;

- A description of any changes to the rolling stock types that are deployed on each route served by the Franchise;

- A description of any infrastructure changes that the Bidder is assuming (over and above those described in the Base Infrastructure Assumptions Document);

- A description of how the Bidder’s timetables and operational plans (including its approach to management, diagramming and deployment of rolling stock and train crew) will support better train service performance;

- A technical annex (which is excluded from the page count) setting out:
• Any new Timetable Planning Rules, or changes to the existing rules\(^4\), that have been assumed (with supporting evidence, including the views of Network Rail);

• Any proposed flexing of other passenger and freight operators’ services that has been assumed (with an explanation of why this flexing is considered to be achievable);

• Any changes to the Engineering Access Statement (section 4) and signal box opening hours that have been assumed (again with supporting evidence, including the views of Network Rail); and

• Any instances in which compliance with the TSR is dependent on the “five minute flex” described in footnote 1 above.

ii. A marked-up version of TSR1, TSR2 and TSR3 (including the capacity requirements contained therein), indicating journey time commitments and enhancements to the specified requirements that the Bidder proposes to include in the contract version of the TSR in accordance with the further information provided in section (D) below, and guidance on how to mark up the TSR sheets provided in Attachment (I);

iii. A list of any additions to the geographic scope of the Franchise (as stated in Schedule 1.6 of the Franchise Agreement) that would be needed to operate the Bidder’s proposed train service. Such additions are permissible only if they have been approved by the Department in response to a confidential BCQ raised by the Bidder during the Bid Phase\(^5\). A bid that includes additions to the geographic scope that have not been approved will be treated as non-compliant;

iv. Identifying (with supporting rationale) which services the Bidder proposes to treat as Northern Regional Services, and how they will differentiate these services from other services operated by the Franchisee. This should include cross-references to relevant Initiatives in other Sub-Plans;

\(^4\) i.e. the latest values published by Network Rail as at the date of issuing this ITT, subject to the amendments outlined in the Base Infrastructure Assumptions Document.

\(^5\) In considering such BCQs, the Department will consider the extent to which the proposal addresses a clear priority for passengers and/or other stakeholders; the likelihood of generating additional passenger demand (as opposed to transferring demand and revenue from one operator’s service to another’s); the extent to which the Northern franchisee would be better placed than other franchisees to satisfy that demand; and the likely impact of the proposed services on other operators’ services (for example in relation to train service performance).
v. The Bidder’s proposed all-day Weekday, Saturday and Sunday timetables for December 2017 and December 2019, including (at least for Weekdays between 0700 and 1959 and also on Saturday, in instances when the Bidder proposes to operate a higher service frequency than on weekdays) the proposed timings for other passenger service and freight operators’ services to demonstrate compliance with the requirements in Section 5.4.1(E). Timings for other operators’ services must be included in the working timetables and may (but do not have to) be included in the public timetables. Tabular public and working timetables must be submitted in PDF format, supported by PIF and SPG technical interface files. Bidders must ensure consistency between the different versions submitted, as each format is likely to be used for different purposes during the evaluation process;

vi. A description of any train service changes proposed to take effect at any time other than the timetable changes in December 2017 and December 2019 which are not reflected in the timetables provided. Bidders are not required to provide full timetables or rolling stock diagrams to reflect such changes, but must describe their proposals and their anticipated impacts in sufficient detail and with sufficient evidence to assure the Department that they are deliverable and can be resourced;

vii. The Bidder’s proposed Train Plans for December 2017 and December 2019, identifying the type and quantity of rolling stock allocated to all services that are scheduled to operate at any time (Weekdays, Saturdays and Sundays). Bidders must use the standard template provided for this purpose in the Data Site (or any alternative format that the Department may authorise through the BCQ process\(^6\)) and must:

- Provide loading forecasts for all services on a typical autumn Wednesday, Saturday and Sunday, based on their December 2017 Timetable and Train Plan (assuming autumn 2018 levels of demand) and their December 2019 Timetable and Train Plan (assuming autumn 2020 levels of demand). These loading forecasts shall be derived from the Bidder’s crowding model in accordance with Section 6 of this ITT and shall as a minimum identify the critical load point and the forecast standard-class load at that point;

\(^6\) Any response to such a BCQ would be made available to all Bidders, not treated as a confidential BCQ.
• Demonstrate that their plans for later years of the Franchise will accommodate their forecast demand growth, either by providing loading forecasts based on their December 2019 Timetable and Train Plan (assuming autumn 2024 levels of demand) or by providing loading forecasts based on a 2024 Timetable and Train Plan (assuming autumn 2024 levels of demand) or by providing a narrative explanation of how the Bidder has assessed the quantity of additional rolling stock (over and above the December 2019 train fleet) that will be needed in order to accommodate growth to the end of the core Franchise Term;

• Provide a brief summary of the approach to crowding modelling, and the principal strengths and limitations of that approach, indicating which loading forecasts are based on actual count data and which are based on MOIRA1 inputs. If providing loading forecasts only at the critical load point, Bidders shall also explain how they have satisfied themselves that Peak standing of greater than 20 minutes will be avoided; and

• Highlight any services for which the loading forecast shows loadings in excess of capacity (determined in accordance with section 5.4.2(D)), Off-Peak standing of any duration or Peak standing that is likely to last for more than 20 minutes; and, where such instances arise in December 2019 or later, must explain why it would not be possible to provide additional capacity on those services within the constraints of the railway infrastructure (taking account of the Base Infrastructure Assumptions Document) and the other requirements of this ITT.

viii. The Bidder’s proposed rolling stock diagrams for the December 2017 and December 2019 timetables, covering all train services to be operated on a typical Wednesday, Saturday and Sunday in autumn, and a table showing the percentage fleet availability assumed for each rolling stock type (using the standard template provided on the Data Site). Bidders must also set out any proposals for increasing capacity to meet particular peaks in demand on particular routes (for example on Friday afternoons and evenings, or during the summer months to reflect the changing balance of demand between commuter and leisure/tourist routes), and how suitable rolling stock will be made available to do that. To the extent that such proposals affect the level of capacity to be provided during the
Morning Peak or Evening Peak at any of the locations covered by the capacity requirements in the TSR on particular days of the week or at particular times of year, this must be highlighted in the Bidder’s mark-up of the capacity requirements within the TSR;

ix. An explanation of any increases in journey times compared to the December 2014 timetable, with supporting explanation of why the increase is necessary in order to meet the TSR or other requirements of this ITT, or to deliver other features of their train service proposals that are beneficial to passengers;

x. An explanation of how the Bidder’s planned train crew establishment varies over the Franchise Term, including evidence to demonstrate that the proposed resourcing levels will be sufficient to operate the proposed timetables reliably taking account of training needs, and an explanation of the proposed levels of overtime and rest-day working assumed in the Bid. Supporting evidence may, but does not have to, include train crew diagrams;

xi. A summary of their Initiatives that specifically affect passengers travelling to and from the principal airports served by the Franchise (to include cross-references to relevant Initiatives in other Sub-Plans); and

xii. Evidence to demonstrate that their train planning team will comprise sufficient resource to meet the particular demands arising from Network Rail’s infrastructure enhancement programmes and the requirements regarding train service development and evaluation including the obligations in Schedule 6.2 of the Franchise Agreement.

Further information about the format of these evidential requirements is given in section (D) (Contractualisation of Train Service Proposals)

(C) SCORING

5.4.1.13 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (Northern marking framework and guidance).

5.4.1.14 Where a Bidder proposes initiatives funded by Network Rail Regulatory Asset Base, the Department will evaluate the initiative on the basis that is has low confidence that the initiative will be delivered unless the Bidder guarantees an alternative source of funding.
5.4.1.15 A bidder that scores below 4 will result in the bid being treated as non-compliant.

5.4.1.16 The Department’s evaluation of the deliverability of the Bidders’ train service proposals will include consideration of:

i. The extent to which the Bidder’s proposed timetables comply with the most recent version of the Timetable Planning Rules (including Sectional Running Times) published by Network Rail at the date of issuing this ITT, taking into account changes to those rules identified in the Base Infrastructure Assumptions Document; and

ii. The credibility of evidence provided by the Bidder (including any evidence of Network Rail’s views) to justify any departures from these rules, including any SRTs they have assumed in respect of rolling stock types for which Network Rail has not published SRTs.

5.4.1.17 Without prejudice to the generality of subsection 7.3.6 (Scoring methodology), specific examples of how the above requirements may be exceeded are set out below:

i. Bids that, taking the train service proposition in the round (including taking account of any increases in journey times compared to the December 2014 timetable and any other adverse features of the train service proposals), generate additional passenger benefits by addressing the needs, priorities and aspirations of passengers and other stakeholders that the bidder has identified in any of the following areas:

- Providing additional train services on routes where, and at times when, there is likely to be significant passenger demand for such enhancements (which could include earlier first trains or later last trains than required by the TSR, enhanced frequencies during the week or at weekends, or proposals to develop new markets on routes that currently receive only a sporadic or “Parliamentary” service). The Department is particularly interested to see commitments to operate services on Boxing Day on parts of the network where there is likely to be significant demand and on New Year’s Day in the north east of England where services are not currently provided. Commitments to operate additional services may be made on a time-limited or experimental basis if supported by a commitment to review and report to the Secretary of State on passenger loadings and associated costs and revenues, though time-limited commitments will receive less
weight in the evaluation of this Sub-Plan than equivalent commitments that apply throughout the Franchise Term;

- Providing, in addition to the requirements about Northern Regional Services, a more coherent service offer for passengers, for example through operational plans that result in greater consistency in the types or characteristics of rolling stock operated on particular routes;

- Delivering specified train service enhancements or capacity increases earlier in the Franchise Term than required by the TSR;

- Providing new direct services between origins and destinations (over and above those specified in the TSR) for which the Bidder demonstrates that there is likely to be significant passenger demand;

- Providing faster journey times than are typically provided by the December 2014 timetables (but excluding journey time enhancements that are a consequence of any of the infrastructure enhancement schemes mentioned in the Base Infrastructure Assumptions Document); or

- Demonstrating that, in addition to meeting the TSR, their proposed train services are timed to coincide with time-specific flows (e.g. journeys to and from work or places of education) that have been identified by stakeholders as being particularly important;

ii. Bids that demonstrate that they would allow paths for another operator’s services that exceed the minimum requirements specified in section 5.4.1(E) and that, as a result, can be expected to generate additional benefits for passengers on that other operator’s services. (For example, a Bidder who proposed to deploy higher-performance rolling stock on services that share sections of route with long-distance high-speed services might be able to demonstrate that this would enable beneficial changes to InterCity service patterns and/or facilitate an improvement in other operators’ train service performance);

iii. Bids that include commitments to funding that would enable Network Rail to deliver line speed improvements over and above those included in the Base Infrastructure Assumptions Document or Network Rail’s CP5 business plan;

iv. Bids that include particularly strong commitments to embed, within the Franchisee’s timetable development processes, cooperation and joint planning with the TPE franchisee and other operators to ensure
connecting services are well timed (and adjusted where necessary to reflect changes in other operators' timetables);

v. Bids that contain innovative proposals to make use of spare capacity on trains, for example by facilitating (to the extent permitted by the Franchise Agreement as an ancillary service) the carriage of low-volume / high-value freight or parcels.

5.4.1.18 For the avoidance of doubt, any proposals for new or enhanced services, increased capacity or enhanced journey times may be considered to exceed the above requirements only if, in the Department’s reasonable opinion, the Bidder has demonstrated that:

- The enhancements are deliverable, taking account of all relevant requirements in this ITT (including in particular those described in section 5.4.1(E);
- There is likely to be sufficient passenger demand to justify the enhancements; and
- Their primary impact is likely to be to increase rail passenger volumes rather than to transfer demand away from other train operators.

5.4.1.19 Offering additional services that do not meet the criteria in paragraph 5.4.1.18 can be expected to result in a lower Final Score, as they will have no positive impact on the Bidder’s quality score (Q) but the costs of operating those services will have an adverse impact on their bid price (P). Appendix 3 of this ITT (Risk adjustment) may also be applicable in this context.

(D) CONTRACTUALISATION OF TRAIN SERVICE PROPOSALS

5.4.1.20 Bidders are required to submit a marked-up version of TSR1, TSR2 and TSR3 indicating the train service enhancements to which they propose to commit contractually. (No mark-up need be submitted for elements of the TSR where no enhancements are proposed.) Further guidance is provided in Attachment (I) but Bidders are required to mark up the TSR sheets to indicate the Bidder’s proposed contractual commitments to:

i. Increases in the quantum of train services;

ii. Operating earlier first trains or later last trains than required by the TSR;

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7 Bidders should bear in mind that the Secretary of State may want to ensure that a successor operator would not be committed, explicitly or implicitly, to continue with such an arrangement and reserves the right to ensure that this is reflected in any contractualisation of the relevant Initiative.
iii. New direct journey opportunities that are not required by the TSR; and
iv. Provision of capacity in excess of that required by the TSR.

5.4.1.21 Bidders’ mark-ups of TSR2 and TSR3 must also include journey time commitments that reflect their train service proposals (as a minimum, for the origin-destination pairs indicated in the TSR). Mark-ups must not propose any deletions or reductions in the level of service required by the TSR. The Department is not prepared to contract on the basis of any such deletions or reductions.

5.4.1.22 The Department’s evaluation of whether Bidders’ train service proposals exceed the specified requirements will be based on the description of those proposals in the main text of the Bid, the submitted timetables and any other relevant information in the Bid. The purpose of the Bidder’s marked-up TSR will be to provide a starting-point for developing the version of the TSR for contractualisation in the event that the Bidder is identified as a leading Bidder. If, during the evaluation or contractualisation phases, the Department identifies a discrepancy between the marked-up TSR tables and the Bidder’s timetables or other material submitted within the Bid, the Department may ask a clarification question to clarify whether or not the Bidder intended to be held contractually to the particular feature of train service in question.

5.4.1.23 During evaluation and contractualisation, the Department may amend the Bidder’s mark-up to reflect any proposal described elsewhere in the Bid that the Department regards as a feature which had a positive influence on the Bidder’s evaluation score for this Sub-Plan but that is not captured in the Bidder’s mark-up. This amended version will be prepared by the Department or its technical advisers, who may (at the Department’s discretion) consult or otherwise involve the Bidder during the process. The Department will then issue the amended mark-up to the Bidder, asking them to confirm that they would be prepared to enter into the Franchise Agreement on the basis of that amended mark-up. If the Bidder is not prepared to do so, subsection 7.7 shall apply.
Table 5.2: Operational data required as part of Bids

<table>
<thead>
<tr>
<th>Item</th>
<th>Time period(s)</th>
<th>Notes</th>
<th>Formats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overview of train service proposals</td>
<td></td>
<td>As described in paragraph 5.4.1.11 above the overview itself is to be included within the Delivery Plan.</td>
<td></td>
</tr>
<tr>
<td>Technical Annex</td>
<td></td>
<td>The technical annex is to be contained in a separate document and does not count towards the page count.</td>
<td>Technical Annex: Word and PDF</td>
</tr>
<tr>
<td>Timetables</td>
<td>Dec 17 and Dec 19</td>
<td>All services (Mon-Fri, Sat, Sun). To include paths allowed for other operators’ services as a minimum during the period Mon-Fri 0700-1959 (and Sat in any instance where the Bidder proposes a higher service frequency than Mon-Fri).</td>
<td>PDF (public and working timetables) plus PIF and SPG technical files</td>
</tr>
<tr>
<td>Train Plans and loading forecasts</td>
<td>Dec 17 and Dec 19</td>
<td>All services (Mon-Fri, Sat, Sun). Dec 17 to include loading forecasts based on autumn 2018 demand. Dec 19 to include loading forecasts based on autumn 2020 demand.</td>
<td>Excel (template on Data Site)</td>
</tr>
<tr>
<td>Rolling stock diagrams</td>
<td>Dec 17 and Dec 19</td>
<td>All services (typical autumn Wednesday).</td>
<td>PDF</td>
</tr>
<tr>
<td>Fleet availability table</td>
<td>Dec 17 and Dec 19</td>
<td>Mon-Fri</td>
<td>Excel (template on Data Site)</td>
</tr>
<tr>
<td>Train Fleet table</td>
<td>Throughout franchise term</td>
<td>-</td>
<td>Excel (template on Data Site)</td>
</tr>
<tr>
<td>TSR</td>
<td>TSR1, TSR2, TSR3</td>
<td>To be marked up as required by paragraph 5.4.1.18 above</td>
<td>Word, PDF (TSR1) Excel (TSR2, TSR3)</td>
</tr>
</tbody>
</table>

(E) FURTHER INSTRUCTIONS AS TO OTHER OPERATORS’ SERVICES
5.4.1.24 This section contains further instructions to Bidders which, so far as possible, are aimed at ensuring that Bidders’ train service proposals are compatible with those submitted by bidders for the TPE franchise, and are consistent with the needs of other operators for train paths on sections of route that they share with the Northern franchise.

5.4.1.25 Bidders must comply with these requirements when preparing their bids. However, instructions addressed to TPE bidders about the Northern services that their timetables must accommodate are not intended to be binding on the Northern bidders, and vice versa.

5.4.1.26 Bidders’ train service proposals must not exceed the upper limits described in this document. Bidders must also provide sufficient evidence to satisfy the Department that their proposed timetables for December 2017 to the end of the Franchise Term leave sufficient capacity for:

i. The future TPE franchisee to operate the specification of service described in this document, which in some cases will differ from the December 2014 level of service in each case pathing time in TPE paths must be kept to the minimum necessary;

ii. Other passenger and freight operators to operate the same level of service as in their December 2014 timetables (except where otherwise stated); and

iii. The East Coast franchise operator, from December 2017 onwards, to operate services in accordance with the enhanced specification set out later in this section.

5.4.1.27 This does not necessarily require Bidders to preserve other operators’ services in precisely today’s paths. But if proposing to re-time another operator’s services, they must provide sufficient evidence to demonstrate that the other operator’s services will still be deliverable without affecting the calling patterns of those services, and without material adverse impacts on service intervals, journey times or turnaround times for those services. (In the case of freight paths, Bidders must demonstrate that the paths remain achievable without material adverse impacts on journey times or material changes to the times of day at which they operate.) It is not possible to define what constitutes a “material” adverse impact, as this will depend upon the nature of the service in question. But Bidders should be aware that the scoring of their train service proposals will take account of the extent to which their proposals can be expected to affect (for better or for worse) the quality of the paths available for other operators.
5.4.1.28  The instructions contained in this document are Bid instructions only: they will not be carried forward into the Franchise Agreement.

5.4.1.29  The following instructions apply from the timetable change date in December 2017 to the end of the Franchise Term, during the period 0700-1959 Mondays to Saturdays, and apply in both directions, except where otherwise stated. They are additional to the requirements stated above in respect of operators other than the Northern and TPE franchisees and the TSR.
<table>
<thead>
<tr>
<th>Route</th>
<th>Instructions to TPE Bidders</th>
<th>Instructions to Northern bidders</th>
</tr>
</thead>
</table>
| (1) Liverpool-Manchester via Chat Moss Liverpool-Wigan via St Helens Central | The maximum frequency of service Bidders may plan to operate on this route is:  
• 2tph Liverpool-Manchester;  
• 1tph Liverpool-Preston via St Helens Central or St Helens Junction (being part of a direct service that extends at least to Carlisle).  
Bidders must provide Northern paths for:  
• 1tph Liverpool-Manchester Airport, timed for Class 319, calling at all intermediate stations;  
• an additional train from Liverpool, arriving at Manchester Victoria between 0800 and 0859, timed for Class 319, calling at Rainhill, Lea Green, St Helens Junction and Newton-le-Willows, and a corresponding additional departure from Manchester Victoria to Liverpool between 1700 and 1759 (making the same intermediate calls);  
• 1tph Liverpool-Warrington Bank Quay calling at all intermediate stations, timed for Class 319, with the first arrival at Liverpool Lime Street being between 10:00 and 10:59;  
• 1tph Chester-Manchester Victoria-Calder Valley, timed for Class 158, calling at Warrington Bank Quay and Newton-le-Willows. This service is to be timed to provide an approximately regular half-hourly service when taken together with the Wales | Bidders must provide TPE paths for:  
• 2tph Liverpool-Manchester Victoria (for Leeds and beyond), timed for class 185, which must between them provide an hourly call at each of St Helens Junction and Newton-le-Willows. Westbound departures from, and eastbound arrivals at, Manchester Victoria are to be at approximately regular 30-minute intervals.  
• 1tph Liverpool-Preston, timed for class 350, which shall be assumed to call at either St Helens Central or St Helens Junction, and Wigan North Western, continuing to Carlisle as per row (6) below. |
<table>
<thead>
<tr>
<th>Route</th>
<th>Instructions to TPE Bidders</th>
<th>Instructions to Northern bidders</th>
</tr>
</thead>
<tbody>
<tr>
<td>(2) Liverpool-Manchester via Warrington Central</td>
<td>Bidders must not plan to operate any services on this route during the hours within which these instructions apply. Any scheduled services on this route must be for diversionary route learning and retention only, and must be confined to the hours within which such operations are permitted by the Franchise Agreement.</td>
<td>Bidders need not make provision for any TPE services during the period covered by these instructions.</td>
</tr>
<tr>
<td>(3) Manchester-Bolton-Preston</td>
<td>The maximum frequency of service Bidders may plan to operate on this route is 1tph.</td>
<td>Bidders must provide TPE paths for 1tph between Manchester Airport and Scotland, timed for Class 350, calling at Bolton (except that services arriving at Manchester in the Morning Peak or departing from Manchester in the Evening Peak will not be required to call at Bolton).</td>
</tr>
<tr>
<td>(4) Manchester-Wigan-Preston</td>
<td>Bidders must not plan to operate any services on this route during the hours within which these instructions apply. Any scheduled services on this route must be for diversionary route learning and retention only, and must be confined to the hours within which such operations are permitted by the Franchise Agreement.</td>
<td>Bidders need not make provision for any TPE services during the period covered by these instructions.</td>
</tr>
<tr>
<td>(5) Blackpool North-Preston</td>
<td>The maximum frequency of service Bidders may plan to operate on this route is 1tph, and then only if as part of a direct service to that extends at least to Carlisle.</td>
<td>Bidders must provide TPE paths for 1tph between Blackpool North and Preston, timed for Class 350, calling at Poulton-le Fylde.</td>
</tr>
<tr>
<td>(6) Preston-Oxenholme</td>
<td>The maximum frequency of service Bidders may plan to operate on this route is three trains in any two-hour period.</td>
<td>Bidders must provide TPE paths for 1tph between Manchester Airport and Scotland and one further train per two-hour period between Preston and Scotland, in each case</td>
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</table>
### Route Instructions to TPE Bidders

<table>
<thead>
<tr>
<th>Route</th>
<th>Instructions to Northern bidders</th>
</tr>
</thead>
<tbody>
<tr>
<td>(7) Manchester-Huddersfield-Leeds</td>
<td>Bidders must provide Northern paths for:</td>
</tr>
<tr>
<td></td>
<td>• 1tph Leeds-Brighouse (for the Calder Valley and Manchester Victoria), timed for Class 15x, calling at Cottingley, Morley, Dewsbury and Mirfield;</td>
</tr>
<tr>
<td></td>
<td>• 1tph Huddersfield-Brighouse-Halifax-Leeds, timed for Class 15x, making no calls between Huddersfield and Brighouse;</td>
</tr>
<tr>
<td></td>
<td>• 1tph Huddersfield-Wakefield Kirkgate, timed for Class 15x, calling at Deighton and Mirfield;</td>
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<tr>
<td></td>
<td>• 1tph Huddersfield-Manchester Piccadilly in the Peaks only, each calling at two intermediate stations and Stalybridge, in accordance with the specification set out in the Northern TSR.</td>
</tr>
</tbody>
</table>

The maximum frequency of service Bidders may plan to operate on this route is:

- 1tph Leeds-Brighouse (for the Calder Valley and Manchester Victoria), calling at Cottingley, Morley, Dewsbury and Mirfield;
- 1tph Huddersfield-Brighouse-Halifax-Leeds, making no calls between Huddersfield and Brighouse;
- 1tph Huddersfield-Wakefield Kirkgate, calling at Deighton and Mirfield;
- 1tph Huddersfield-Manchester Piccadilly in the Peaks only, each calling at two intermediate stations and Stalybridge, in accordance with the specification set out in the Northern TSR.

<table>
<thead>
<tr>
<th>Route</th>
<th>Instructions to Northern bidders</th>
</tr>
</thead>
<tbody>
<tr>
<td>(8) Leeds-York and Leeds-Hull</td>
<td>The maximum frequency of service Bidders may plan to operate on these routes are 4tph between Leeds and York and 2tph between Leeds and Hull. Bidders must provide Northern paths for:</td>
</tr>
<tr>
<td></td>
<td>• 1tph Leeds-York, timed for Class 158, calling at all intermediate stations between Cross Gates and Church Fenton (inclusive);</td>
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<tr>
<td></td>
<td>• 1tph Leeds-Selby, timed for Class 15x, calling at all intermediate stations;</td>
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</tbody>
</table>

Bidders must provide TPE paths for:

- 4tph between Leeds and York non-stop, timed for Class 185, at approximately regular 15-minute intervals, being extensions of services from Manchester Victoria;
- 2tph between Leeds and Hull, timed for Class 185, calling at Selby and Brough, being extensions of services...
<table>
<thead>
<tr>
<th>Route</th>
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</tr>
</thead>
</table>
|       | • 1tph Hull-York, timed for Class 15x, calling at Brough, Gilberdyke, Howden and Selby;  
      | • 1tph Hull-Sheffield, timed for Class 15x, calling at Brough.  
      | • 1tph Hull-Doncaster, calling at Hessle, Ferriby, Brough and Gilberdyke, timed for Class 15x, | from Manchester Piccadilly via Guide Bridge. |
| (9)   | York-Newcastle  
      | York-Scarborough  
      | York-Middlesbrough  
      | The maximum frequency of service Bidders may plan to operate on this route is:  
      | • 2tph between York and Newcastle;  
      | • 1tph between York and Middlesbrough.  
      | No upper limit is specified between York and Scarborough, other than the limits imposed by the capability of the infrastructure, the requirement to accommodate other operators’ services and any other relevant requirements in this ITT. | Bidders must provide TPE paths for:  
      | • 2tph between York and Newcastle, timed for Class 185, in each case calling at Northallerton, Darlington and Durham.  
      | • 1tph between York and Middlesbrough, timed for Class 185, calling at Thirsk, Northallerton, Yarm and Thornaby. |
| (10)  | Manchester Piccadilly-Oxford Road-Deansgate and Victoria (via Ordsall Chord)  
      | Manchester Airport-Manchester Piccadilly  
      | The maximum frequency of service Bidders may plan to operate on this route is:  
      | • 1tph Manchester Airport-Manchester Piccadilly (terminating platforms, for Sheffield and Cleethorpes)  
      | • 1tph Manchester Airport-Scotland (via Oxford Road);  
      | • 2tph Manchester Airport-Leeds (via Oxford Road and the Ordsall Chord).  
      | Bidders may assume that only one freight path per hour is required through the Castlefield corridor before 1900, rising to two per hour thereafter. | Bidders must provide TPE paths for:  
      | • 1tph Manchester Airport-Manchester Piccadilly (terminating platforms), timed for Class 185, being an extension of the Manchester Piccadilly-Sheffield-Cleethorpes services referred to in row (11) below;  
      | • 1tph Manchester Airport-Scotland, timed for Class 350, calling at Piccadilly and Oxford Road, being the same service as is mentioned in row (3) above;  
<pre><code>  | • 2tph Manchester Airport-Leeds, timed for Class 185, calling at Piccadilly, Oxford Road and Victoria, being the |
</code></pre>
<table>
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</tr>
</thead>
</table>
|       | same 2tph as are referred to in row (7) above.  
If Bidders do not provide a path for current Wales and Borders franchise services between Chester, Warrington Bank Quay and Manchester to operate through to Oxford Road, they must instead provide a path for the Wales and Borders franchise to operate that service through to Manchester Victoria and on to a suitable turnback facility. Bidders may assume that only one freight path per hour is required through the Castlefield corridor before 1900, rising to two per hour thereafter. |       |
| (11)  | Manchester Piccadilly-Sheffield-Doncaster-Cleethorpes  
The maximum frequency of service Bidders may plan to operate on this route is 1tph. | Bidders must provide TPE paths for 1tph Manchester Piccadilly-Sheffield-Doncaster-Cleethorpes, timed for Class 185, calling at Stockport, Dore (in the Peaks only), Sheffield, Meadowhall, Doncaster, Scunthorpe, Barnetby, Habrough (with flexibility for this call to be omitted in some hours), and Grimsby Town (being an extension of the Manchester Airport-Manchester Piccadilly service referred to in row (10) above. |
| (12)  | Manchester Airport - Crewe  
If proposing to operate services on this route, Bidders must provide Northern paths for 1 tph Manchester Airport - Crewe, calling at all intermediate stations, timed for Class 323. | The maximum frequency Bidders may propose to operate on this route is 1 tph. |
**DRAFT EAST COAST TIMETABLE ASSUMPTIONS**

*InterCity East Coast services to be accommodated by Bidders from December 2017*

The same requirements as described above for other operators’ services generally are to apply in relation to InterCity East Coast services from December 2017, but with the ability to accommodate a two-minute reduction in Class 91 sectional running times (SRTs) between Leeds and Wakefield Westgate compared to current SRTs. This is to cater for the possibility of future line speed improvements on this route.

*InterCity East Coast services to be accommodated by Bidders from May 2019*

Bidders must show that their timetables can accommodate the following service specification for the InterCity East Coast operator. All services are to be timed for Class 800 (with the exception of Leeds-Doncaster, in respect of which separate instructions are given below). Class 800 SRTs for this purpose are available in the Data Site. Pathing time in these services must be kept to the minimum necessary to deliver a workable timetable and the extent of any such pathing time will be taken into account in the evaluation of Bidder’s proposals. All services may be assumed to originate or terminate at London King’s Cross.

Where Bidders are instructed to allow an “approximate” service interval, Bidders should strive to minimise deviation from the specified interval, but a tolerance of up to plus/minus ten minutes will be allowed (for example an approximately 30 minute interval may be between 20-40 minutes). However, the evaluation of Bidders’ train service proposals will take account of the extent to which this flexibility is used.

**From Doncaster to Leeds**

For InterCity East Coast services between Doncaster and Leeds, Bidders are to assume the following SRTs:

- two minutes faster than current Class 91 SRTs between Doncaster and Wakefield Westgate;
- one minute faster than current Class 91 SRTs between Wakefield Westgate and Doncaster.

This assumption seeks to capture the combined effect of higher-acceleration IEPs plus potential line speed improvements.

**Northbound**

Bidders must provide paths for:

- 2tph at approximately 30-minute intervals from Doncaster to Leeds, calling at Wakefield Westgate, with the first two services from Doncaster departing between 0800 and 0859. In each hour, one of these services will call at Doncaster and the other will not;
- further services from Doncaster to Leeds, calling at Wakefield Westgate. These shall operate at approximately two-hourly intervals, with the first departure from Doncaster being between 1000 and 1059. Each of these services shall be
assumed to follow, on minimum headway, a Leeds-bound service mentioned in the
previous bullet point that did not call at Doncaster.
• One service, additional to the requirements above, to depart from Doncaster
  between 0700 and 0759 calling at Wakefield Westgate.

Southbound
Bidders must provide paths for:
• 2tph at approximately 30-minute intervals from Leeds to Doncaster calling at
  Wakefield Westgate. In each hour, one of these services shall run fast through
  Doncaster; the other service shall call there;

• further services from Leeds to Doncaster, calling at Wakefield Westgate. These
  shall operate at approximately two-hourly intervals, with the first departure from
  Leeds between 0800 and 0859. Each of these services shall be assumed to follow
  no more than ten minutes behind the service mentioned in the previous bullet that
does not call at Doncaster.

From Leeds to Harrogate, Bradford Forster Square, Skipton and Huddersfield
Bidders must provide paths for the following services, which are to be extensions of
services between Doncaster and Leeds mentioned above. Bidders must include those
paths in their weekday bid timetables (notwithstanding that in some cases they operate
outside of the 0700-1959 time period during which this ITT generally requires bidders to
show other operators’ paths in their timetables):

Northbound
• services from Leeds to Harrogate at approximately two-hourly intervals, calling at
  Horsforth, with the first departure from Leeds being between 1000 and 1059;
• services from Leeds to Bradford Forster Square at approximately two-hourly
  intervals, calling at Shipley, with the first departure from Leeds being between 1000
  and 1059;
• one service from Leeds to Huddersfield, calling at Dewsbury, departing Leeds
  between 1900 and 1959;
• one service from Leeds to Skipton, calling at Shipley and Keighley, departing
  Leeds between 1930 and 2029.

Southbound
• services from Harrogate to Leeds at approximately two-hourly intervals, calling at
  Horsforth, with the first departure from Harrogate being between 0500 and 0659;
• services from Bradford Forster Square to Leeds at approximately two-hourly
  intervals, calling at Shipley, with the first departure from Bradford Forster Square
  being between 0700 and 0759;
• one service from Huddersfield to Leeds, calling at Dewsbury, departing
  Huddersfield between 0630 and 0729;
• one service from Skipton to Leeds, calling at Keighley and Shipley, departing Skipton between 0600 and 0659.

From Doncaster to Hull

Northbound
Bidders must provide a path for a service departing Doncaster between 1830 and 1929, calling at Selby, Brough and Hull.

Southbound
Bidders must provide a path for a service departing Hull between 0700 and 0759, calling at Brough, Selby and Doncaster.

From York to Newcastle and Edinburgh

Northbound
Bidders must provide paths for:
• 2tph from York to Newcastle, arriving at Newcastle at approximately half-hourly intervals. Of these:
  ▪ 1tph shall continue to Edinburgh, calling at Newcastle only;
  ▪ 1tph shall call at Darlington, and terminate at Newcastle
• A further 1tph departing from York approximately midway between the two departures mentioned above, calling at Darlington, Durham, Newcastle, Alnmouth (in alternate hours) Berwick-upon-Tweed and Edinburgh.

Southbound
Bidders must provide paths for:
• 2tph from Edinburgh to Newcastle and York, departing from Edinburgh at approximately half-hourly intervals. Of these:
  ▪ 1tph shall call at Newcastle only;
  ▪ 1tph shall call at Berwick-upon-Tweed, Alnmouth (in alternate hours), Newcastle, Durham and Darlington.
• A further 1tph from Newcastle to York, departing Newcastle approximately five minutes after the fast Edinburgh-York service, calling at Darlington.

From York to Middlesbrough
Paths for the following services are required only from May 2020 onwards.

Northbound
Bidders must provide paths for an alternate-hours service from York to Middlesbrough (via Yarm), calling at Northallerton and Thornaby, the first departure from York being between 0800 and 0859.

Southbound

Bidders must provide paths for an alternate-hours service from Middlesbrough to York (via Yarm), calling at Thornaby and Northallerton, the first departure from Middlesbrough being between 0500 and 0559.

5.4.2 DP 2.2 - ROLLING STOCK

Bidders may propose assets other than rolling stock to be funded by the Residual Value Mechanism under this Sub-Plan.

(A) REQUIREMENTS

5.4.2.1 The Department requires a Franchisee who will deliver the transformation of the Train Fleet that is necessary to meet the NRPS benchmarks for passenger satisfaction with trains specified in Schedule 7.2 of the Franchise Agreement, and who will (as a minimum) ensure that from 1 January 2020 onwards all rolling stock that forms part of the Train Fleet:

i. Has been subject to such refurbishment as is necessary in order that passengers will perceive the overall design, internal ambience, condition and facilities, and the external condition, as being thoroughly modern, comfortable and comparable to that of new or nearly-new rolling stock (so far as possible given the engineering and technical constraints of the fleets in question);

ii. Has been fitted with the equipment and systems needed to deliver the Minimum Wi-Fi Service Requirements, with such equipment being capable of being upgraded cost-efficiently;

iii. Provides a passenger toilet with baby-change facilities, unless the rolling stock is to be deployed exclusively on short-distance services such that passengers would not reasonably expect a toilet to be provided, or the rolling stock is to be deployed only in multiple with other rolling stock that is fitted with a toilet;

iv. Has been modified such that all toilets are Controlled Emission Toilets (CET) that do not discharge effluent onto the tracks, and that have sufficient tank capacity for the services to which the rolling stock is to be deployed (taking account of the intervals between CET emptying); and

v. Is fitted with bogies (and accordingly does not include any vehicles of Class 14x – “Pacers”).
5.4.2.2 The Department requires a Franchisee who will procure and bring into service, no later than 1 January 2020, a minimum of 120 new carriages that are capable of being used to operate Passenger Services on non-electrified routes. They must be designed with future demand and users’ needs in mind, with a clear focus on passenger comfort and with a thoroughly modern passenger environment and exterior look. These must be newly-built (not re-using components from existing rolling stock) and, unless the Bidder intends for them to be hauled by a locomotive, must be capable of operating under their own power for significant distances on non-electrified routes. This means that DMUs or IPEMUs with battery range broadly comparable to or better than the unit currently being trialled in the Anglia Franchise could contribute to meeting this requirement, but conventional EMUs or EMUs with a “last mile diesel” capability would not. They must remain part of the Train Fleet until the end of the Franchise Term. Bidders proposing to meet some or all of this requirement with vehicles other than conventional DMUs, may (but are not obliged to) raise a confidential BCQ and if they do the Department will provide a view on whether the proposal would be acceptable in fulfilment of this requirement.

5.4.2.3 The Department requires a Franchisee who, from as soon as practicable after the Franchise Start Date and in any case by 1 January 2020 (and giving priority first to those services that are identified in the definition of “Northern Regional Passenger Services” in the draft Franchise Agreement, will operate Northern Regional services using rolling stock which, as a minimum, includes the following features:

i. Air conditioning and heating systems that are designed to operate effectively and reliably within the range of ambient temperatures normally experienced across the Franchise geography;

ii. Fixed or folding tables at a minimum of 90% of seats;

iii. Power sockets or USB charging points (a minimum of one socket for every two seats);

iv. Adequate space for luggage (within passengers’ view so far as possible), recognising that Northern Regional services will operate to/from airports and significant tourist centres;

v. In the case of existing rolling stock (whether currently deployed on the Northern Franchise or elsewhere), not increasing the proportion of standard-class

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8 For the avoidance of doubt, neither this requirement nor the reference in DP2.1 to a “differentiated” service offer for Northern Regional Services is intended to prohibit the use of rolling stock meeting this minimum specification from being used to operate services other than Northern Regional Services.
seating that is laid out in airline style compared to the internal configuration of that rolling stock as at the date of issue of this ITT; and

vi. Full compliance with the accessibility requirements in the Railways (Interoperability) Regulations 2011 (notwithstanding that compliance is not required by law until 1 January 2020)\(^9\).

5.4.2.4 The Department requires a Franchisee who will implement rolling stock, depot, maintenance and stabling strategies that:

i. Provide sufficient rolling stock and are otherwise capable of delivering the train services and capacity required by this ITT (including the TSR), and any further train service and capacity enhancements proposed by the Bidder, taking account of reasonable requirements for maintenance spares, hot stand-bys and vehicles out of service for other reasons;

ii. Provide rolling stock that is suitable for the needs of passengers on the particular routes on which it will operate;

iii. Provide sufficient electric trains to enable a minimum of 90% of relevant mileage in the Bidder's December 2019 Train Plan to be operated using electric traction on a typical Wednesday in autumn. For these purposes "relevant mileage" means train mileage in passenger service on routes that are (or will be following the assumptions in the Base Infrastructure Assumptions Document) electrified from origin to destination. For the avoidance of doubt this requirement does not preclude the deployment of diesel powered rolling stock to provide additional capacity at times of heightened demand (e.g. on Friday and Sunday afternoons and evenings);

iv. Are compatible with the technical and operational capability and constraints of the railway infrastructure (taking account of the enhancement schemes mentioned in the Base Infrastructure Assumptions Document);

v. Will ensure that the Train Fleet is maintained in an excellent state of repair, and to a high standard of cleanliness throughout the operating day, in order to meet the NRPS benchmarks for passenger satisfaction with trains, and the Service Quality Regime requirements specified in the Franchise Agreement; and

vi. Can be adapted to accommodate changes that can reasonably be expected to arise when trans-Pennine electrification is completed.

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\(^9\) The Department has been working with fleet owners to define what this means for their fleets and this information is available in *Heavy Rail Fleets: 2020 targeted compliance* on the Department for Transport’s website (www.gov.uk/dft).
5.4.2.5 The Department requires a Franchisee whose rolling stock strategy is consistent with the requirements set out in Section 5.4.2(E).

5.4.2.6 The Department requires a Franchisee who will implement the transition to electric rolling stock on newly-electrified routes and manage the introduction of any other new or cascaded rolling stock fleets into the Franchise in a way that avoids disrupting services for passengers and that maintains standards of punctuality and reliability performance through the transition.

5.4.2.7 The Department requires a Franchisee who, through its own actions and by working in cooperation with Network Rail, rolling stock owners and other relevant partners, will ensure that its trains are fitted with the necessary equipment and its staff suitably trained in good time to enable the successful implementation of the European Rail Traffic Management System ("ERTMS"), in line with Network Rail’s implementation plans as set out in the document entitled “ERTMS on routes to be used by the Franchise” and accompanying spreadsheet in the Data Site.

5.4.2.8 The Department requires a Franchisee who will:

i. Lease the current franchisee’s fleet of 16 4-car Class 333 EMUs from the Start Date until at least 24 July 2020;

ii. Lease the locomotive-hauled coaching stock that is to be leased by the existing operator of the Northern Franchise from the Start Date until at least the expiry date of the lease which the franchisee will inherit from the incumbent operator (currently expected to be in 2017);

iii. Sub-lease rolling stock from the TPE franchisee from the Start Date until the December 2017 timetable change in accordance with the arrangements set out in Schedule 6.2 of the Franchise Agreement; and

iv. Release one Class 153 unit no later than the date on which Barton-on-Humber services are remapped to the East Midlands Franchise, so that it is available for lease by the future operator of that franchise.

5.4.2.9 The Department requires a Franchisee who, if cascading rolling stock out of the Franchise during the Franchise Term, will provide appropriate support to the subsequent operator of that rolling stock, including by sharing technical know-how, maintenance manuals and records and such other documentation as the future lessee of that rolling stock may reasonably require for the efficient operation of the fleet.

5.4.2.10 The Department requires a Franchisee whose rolling stock strategy will contribute to improving whole-industry efficiency (e.g. by reducing wear and tear on the railway infrastructure) and who will cooperate with Network Rail with a view to
introducing GPS systems and train-borne equipment to monitor the condition of the railway infrastructure (and who will share the data derived from such systems with Network Rail).

(B) EVIDENCE THAT BIDDERS SHOULD PROVIDE

5.4.2.11 In addition to the Minimum Evidential Requirements, Bidders’ responses shall cover as a minimum:

i. A populated version of Schedule 1.7 of the draft Franchise Agreement. This must show the composition of the Bidder’s proposed Train Fleet, and must be accompanied by a separate Fleet Plan summarising how the composition of the Train Fleet changes in each Reporting Period or month during the Franchise Term (using the template provided in the Data Site, or in any alternative format that the Department may authorise in response to a BCQ 10);

ii. Details of any proposed modifications to vehicles in the Bidder’s intended Train Fleet (e.g. refurbishment, changes to internal layout, any changes to the balance of provision of first and standard class, fitment of wi-fi and passenger counting equipment in fulfilment of the relevant Franchise Agreement obligations). This must include plans for how and when these modifications will be delivered and, where relevant, details of the anticipated seated and standing capacity of the modified vehicles (with supporting evidence to show how this has been calculated in accordance with section 5.4.2(D)). In relation to wi-fi, Bidders must provide an outline plan for fitment of the necessary on-train equipment and systems, and must explain how the wi-fi equipment will be maintained and operated throughout the Franchise Term, including plans for hardware replacement where required due to failure or obsolescence;

iii. Details of the proposed characteristics of all new-build rolling stock which the Bidder intends to procure;

iv. An explanation of how its choice of rolling stock and proposed allocations to service groups match passenger needs;

v. Depot, stabling and train maintenance plans covering the Franchise Term to deliver their proposals in DP2.1 (Train Services), including:

• Plans for the delivery of maintenance that are, as a minimum, consistent with meeting the performance benchmarks specified in Schedule 7.1 of the Franchise Agreement;

10 Any response to such a BCQ would be made available to all Bidders, not treated as a confidential BCQ.
• Fleet cleaning arrangements;
• Any depot and stabling enhancements that may be required, how they are to be funded\textsuperscript{11}, and how any resulting disruption will be minimised;
• Contingency plans in the event that the anticipated maintenance or stabling capacity cannot be secured at the Bidder’s preferred sites; and
• An explanation of how the Bidder’s rolling stock, depot and stabling strategies are likely to be affected by north Transpennine electrification and what steps the Bidder has taken in developing these strategies to maintain flexibility to adapt to electrification at minimum cost;
i. If the Bidder’s proposed Train Fleet includes vehicles that at the time of issuing this ITT are in operation, or are planned to be brought into operation, on another Franchise (and see also Section 5.4.2(D) below):
• An explanation of their reasons for being confident that the current or successor operator of the ‘donor’ franchise will be able to secure sufficient, suitable alternative rolling stock to continue to operate their train services to current standards;
• Details of how the cascades into the Franchise will be managed; and
• An explanation of what mitigation the Bidder would use should the incoming cascaded stock be delivered later than assumed in the Bid (bearing in mind the provisions relating to Cascaded Rolling Stock in Schedule 2.2 of the Franchise Agreement) or in an unsatisfactory condition. This must include identification of the alternative rolling stock that the Bidder would lease in the event of the Secretary of State requiring the rolling stock to be leased back to the donor franchise under Schedule 2.2;

vii. Term Sheets (i.e. offer letters) for all rolling stock forming part of the Bidder’s proposed Train Fleet, and evidence to support proposals for new rolling stock (including any offer letters from manufacturers, maintainers and financiers).

(C) SCORING

5.4.2.12 Where a Bidder proposes Initiatives funded by Network Rail’s Regulatory Asset Base, the Department will evaluate the Initiative on the basis that it has low confidence that the Initiative will be delivered, unless the Bidder guarantees an alternative source of funding.

\textsuperscript{11} Bidders are to assume that the facilities described in the Base Infrastructure Assumptions Document will be funded by Network Rail and a further contribution of £25m will be available from the Depot and Stabling Fund if additional depot and stabling capability is required to meet the Bidder’s plans.
5.4.2.13 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (Northern marking framework and guidance).

5.4.2.14 A Bidder that scores below 4 will result in the bid being treated as non-compliant.

5.4.2.15 A Bidder that includes the use of vehicles without bogies after 31 December 2019 will be automatically eliminated from the bidding process.

5.4.2.16 Without prejudice to the generality of subsection 7.3.6 (Scoring methodology), specific examples of how the above requirements may be exceeded are set out below:

i. Initiatives to enhance the quality and reliability of the Train Fleet substantially beyond the requirements set out in section (A) above such that, in the Department’s reasonable opinion, the relevant benchmarks in Schedule 7.1 of the Franchise Agreement are likely to be significantly exceeded;

ii. Commitment to deliver the specified enhancements to rolling stock earlier than required by this ITT;

iii. Bids that demonstrate particularly careful attention to the impact of future north TransPennine route electrification on rolling stock, depot and stabling strategies, and that incorporate features that significantly increase future flexibility such that any costs and other adverse impacts arising from future electrification between Stalybridge-York, Leeds-Selby and (if approved) Selby-Hull are minimised;

iv. Proposals to increase capacity for the carriage of cycles while meeting the passenger-carrying capacity and crowding requirements specified in Delivery Plan 2.1 (Train Services);

v. Proposals to develop the markets for tourist, leisure and enthusiast travel on scenic routes through the deployment (either on an occasional or a regular basis) of heritage rolling stock or other rolling stock adapted specifically to suit the needs of this market;

vi. Initiatives to develop, test or implement new and emerging technologies within the Train Fleet, where such technologies have clear potential to benefit the Franchise, its passengers and could be transferable to the wider rail market;

vii. Proposals to reduce cost by developing innovative rolling stock financing mechanisms (but recognising that Bidders must not assume the provision of any new guarantees under section 54 of the Railways Act 1993); and

viii. Particularly wide-ranging Initiatives to increase the efficiency of the Train Fleet and/or reduce its impact on the railway infrastructure.
(D) BACKGROUND INFORMATION

New-build Rolling Stock

5.4.2.17 For any new-build rolling stock that a Bidder proposes to be included within the Train Fleet, the Bidder must indicate clearly within their Bid the date or dates by which they intend that this rolling stock will become part of the Train Fleet ("the Target Date(s)"). Bidders may propose phased entry into service, with different Target Dates for each batch of new vehicles. Their Financial Model must be consistent with the rolling stock becoming part of the Train Fleet on the Target Date(s).

5.4.2.18 When contractualising any proposal for new-build rolling stock, the Department will incorporate in the Franchise Agreement:

i. An obligation on the Franchisee to use all reasonable endeavours to bring the new rolling stock into passenger service by the Target Date(s);

ii. An obligation on the Franchisee to secure that the rolling stock has been brought into passenger service no later than twelve months after the Target Date(s);

iii. Provisions to address the financial consequences of the new rolling stock entering into service sooner than, or later than, the Target Date(s), including in particular:

- That there will be no adjustment to the franchise payments in consequence of the new rolling stock entering into passenger service earlier than the Target Date(s);

- In the event that the new rolling stock does not enter into passenger service until after the Target Date(s), then (without prejudice to any other remedies that may be available to the Secretary of State) the net financial effect of the delay to the Franchisee will be assessed. If the net financial effect of the delay is a saving to the Franchisee, then the Franchise Payments will be adjusted in the Secretary of State’s favour by the amount of the saving. If the net financial effect of the delay is an increase in cost to the Franchisee, then the Franchisee shall bear that cost. The assessment of the net financial effect will take account of:

  - Any liquidated damages that any third party is liable to pay to the Franchisee in relation to the delay;

  - The lease, maintenance and other operating costs avoided or deferred by the Franchisee in consequence of the delay (including
costs relating to the provision of depot facilities in relation to the new rolling stock);

- Any additional lease, maintenance and other operating costs reasonably incurred by the Franchisee as a result of extending the leases on other rolling stock within the Train Fleet beyond the lease expiry dates specified in Schedule 1.7 of the Franchise Agreement, or leasing in other rolling stock to substitute for the new vehicles (the Franchisee having used all reasonable endeavours to minimise such costs);

- Any loss of revenue suffered by the Franchisee as a consequence of the delay (such loss being calculated in accordance with industry-standard revenue forecasting guidance and practices); and

- Any other cost savings enjoyed by the Franchisee as a consequence of the delay. The Benchmarks, the SQS Train Benchmarks and the NRPS Benchmarks will not be amended in consequence of any delay, and the assessment of the net financial effect of the delay will take no account of any changes to the payments arising under Schedules 7.1, 7.2 and 7.3 of the Franchise Agreement that are a consequence of the delay.

**Inward cascades**

Where Bidders are contemplating inward cascades of fleets from other Franchises, they are invited to set out their proposals to the Department, via a BCQ, as early as possible in the bidding process. The Department will consider any such proposals against the impact on the donor franchise, and may provide a view as to whether the Department is likely to have concerns if the Bidder includes this rolling stock in their proposed Train Fleet. Any such view would be provisional and without prejudice to the Department’s evaluation of the Bid once submitted. Such a view would not be communicated to other Bidders, as this may reveal one Bidder’s rolling stock strategy to the other Bidders, but it is open to any Bidder to approach the Department on this issue.

**Rolling stock capacities**

5.4.2.19 The following table sets out the standard class capacities of the unit types in the Train Fleet of the current Northern franchisee, which shall be assumed by Bidders for the purposes of their Bids (except insofar as proposals to modify rolling stock interiors will affect capacity).
5.4.2.20

<table>
<thead>
<tr>
<th>Class</th>
<th>Seats</th>
<th>Standing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>142 (2-car)</td>
<td>106, 114 or 121</td>
<td>16, 23 or 31</td>
<td>137</td>
</tr>
<tr>
<td>144 (2-car)</td>
<td>99</td>
<td>49</td>
<td>148</td>
</tr>
<tr>
<td>144 (3-car)</td>
<td>157</td>
<td>65</td>
<td>222</td>
</tr>
<tr>
<td>150/1</td>
<td>124</td>
<td>80</td>
<td>204</td>
</tr>
<tr>
<td>150/2</td>
<td>131 or 149</td>
<td>49 or 67</td>
<td>198</td>
</tr>
<tr>
<td>153</td>
<td>73 or 75</td>
<td>23 or 25</td>
<td>98</td>
</tr>
<tr>
<td>155</td>
<td>160</td>
<td>60</td>
<td>220</td>
</tr>
<tr>
<td>156</td>
<td>146 or 152</td>
<td>72 or 78</td>
<td>224</td>
</tr>
<tr>
<td>158 (2-car)</td>
<td>138</td>
<td>81</td>
<td>219</td>
</tr>
<tr>
<td>158 (3-car)</td>
<td>207</td>
<td>122</td>
<td>329</td>
</tr>
<tr>
<td>158/9</td>
<td>142</td>
<td>77</td>
<td>219</td>
</tr>
<tr>
<td>319</td>
<td>303</td>
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<tr>
<td>322</td>
<td>309</td>
<td>113</td>
<td>422</td>
</tr>
<tr>
<td>323</td>
<td>259 or 289</td>
<td>68 or 98</td>
<td>357</td>
</tr>
<tr>
<td>333</td>
<td>360</td>
<td>107</td>
<td>467</td>
</tr>
</tbody>
</table>

5.4.2.21 The capacity measure of a standard unit is 0.45m² per passenger, seated or standing. To determine vehicle capacity, the internal waist line of the vehicle as a whole is measured to ascertain the total area. The areas that are inaccessible (toilet, staff area, first class, litter bins, equipment cupboards, draught screens, gangways between vehicles, and spaces between seats (unless there is a sufficiently large area to reasonably stand, which is not used for another purpose such as additional spacing in association with priority seats)) are then measured. The total inaccessible area is deducted from the total vehicle interior area. The remaining area in m² is then divided by 0.45 for a total capacity of the unit (seats and standing). The seats plus required wheelchair provision(s) are deducted from the overall figure to calculate the separate standing only figure. For these purposes, tip-up seats must have a standard size base and have a back rest (lumbar support), if not, the area available when it is stowed will be included as standing capacity. Tip-up seats cannot be counted if they impinge upon the required wheelchair allocation.
5.4.2.22 Bidders may propose the use of “metro-style” rolling stock that allows 0.25m² per standing passenger, rather than the 0.45 m² generally assumed, if the rolling stock in question:

i. Has an interior layout that is thoroughly modern and comfortable, and purpose-designed for high-density standing (e.g. with sufficient grab-rails or poles to allow standing in reasonable comfort so as to encourage passengers to make use of all available standing space rather than clustering by the doors) and to facilitate quick boarding and alighting for increased numbers of passengers (e.g. with draught screens set back to provide a larger open space in the vicinity of the train doors - trains with end doors as opposed to “one-third two-thirds” doors are unlikely to be suitable);

ii. Is to be deployed on services for which such layouts are suitable (i.e. short-distance commuting; deployment outside of the Morning Peak and Evening Peak would only be allowable if there are sufficient seats to accommodate forecast passenger loadings); and

iii. Either is a new-build fleet, or is implemented as part of a transformational refurbishment that means passenger satisfaction with the stock (taking account of reduced seating capacity) should be comparable to that of a new or nearly-new fleet.

5.4.2.23 Bidders who intend to propose “metro-style” rolling stock may share their proposals in confidence with the Department via the BCQ process. As part of any such BCQ, Bidders must submit to the Department an A3 scale drawing for each vehicle type, clearly indicating the vehicle length and width). Subject to the Bidder providing this drawing and such other additional information as the Department may reasonably request, the Department will provide its view as to whether or not the layout would be consistent with a standing allowance of 0.25m² per passenger.

5.4.2.24 To utilise a “metro-style” measure of 0.25m² per standing passenger, the vehicle is measured at the waist line and inaccessible areas deducted as set out above. The seats are counted separately and it is assumed that all seats (including required wheelchair provision) will be occupied, and all are measured at 0.45m² per seat. The remaining area which can be occupied is then measured at 0.25m² per standing passenger. Standing areas include door areas and vestibules, corridors and aisles, provided that they are suitable for high-density standing. For the avoidance of doubt, the “metro-style” classification is applied to the vehicle, therefore all accessible standing areas must comply with the higher-density provisions otherwise capacity will be calculated using the standard 0.45m²
capacity measure. Within a multi-vehicle unit formation there may be a mix of standard and “metro-style” configurations.

5.4.2.25 For both capacity measures, no further adjustment is made to take into account any features (such as protruding handrails and “awkward corners”) that are too small to be measured, as rounding down to the next whole number of standing passengers is assumed to provide a reasonable approximation. Measurement is at waist level as that is the standard measurements supplied and used in the rolling stock internal layout and configuration plans.

(E) FURTHER INSTRUCTIONS AS TO ROLLING STOCK REQUIREMENTS

This section sets out further instructions to Bidders which, so far as possible, are aimed at ensuring that Bidders’ rolling stock strategies are compatible with those submitted by bidders for the TPE Franchise.

5.4.2.26 Only the following rolling stock may be proposed by Bidders for inclusion within the Northern Train Fleet:\(^\text{12}\):

i. The rolling stock that is currently comprised within the Northern Train Fleet (including the Class 156 vehicles that are to be sub-leased to or hired by, the TPE franchisee for a period prior to the Start Date), (save that one Class 153 vehicle must be released with effect from the start of the new East Midlands franchise (currently scheduled for October 2017) to coincide with remapping of Barton-on-Humber services to the East Midlands franchise);

ii. The locomotives and coaching stock that are to be leased by the current Northern Franchisee;

iii. Electric multiple units of any class that are not currently leased by any relevant operator;

iv. Diesel multiple units of Class 15x or class 17x that are currently leased by a relevant operator other than the current TPE and Northern Franchisees but that will be demonstrably surplus to the requirements of that operator, either because new rolling stock is being procured to replace it, or because it is diesel stock that will be displaced by committed electrification schemes, or because other rolling stock is due to be cascaded in to replace it;

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\(^{12}\) “Currently” in this section means “as at the date of issue of this ITT” and “relevant operator” means any person who operates rail passenger services within England, Scotland or Wales under contract to a public authority (or any successor operator to that person).
v. Electric multiple units that are currently leased by a relevant operator other than the current TPE and Northern Franchisees but that are not of Class 442, and that:

- Either will be demonstrably surplus to the requirements of that franchisee because new rolling stock is being procured to replace it; or

- Will not be demonstrably surplus to the requirements of that operator, but the Bidder can demonstrate that it will be feasible for that operator to secure alternative rolling stock in sufficient time to enable that operator to maintain the operation of its train services to at least current standards. Such alternative rolling stock must be capable of delivering comparable or better operational performance characteristics, and of achieving comparable or better levels of passenger satisfaction with the quality of rolling stock. For these purposes the Bidder must demonstrate that it has allowed an appropriate lead time for any modifications that may be needed to the alternative rolling stock to enable it to meet the stated operational and quality requirements, for the training of drivers, and a reasonable contingency margin; and

vi. Any new-build rolling stock that the Bidder commits to procure.

In addition, Bidders may include existing locomotives and/or coaching stock within their Bids, but only if either Condition 1 or Condition 2 or Condition 3 below is met.

**Condition 1** is that the Bidder sets out a fallback strategy to lease alternative rolling stock which will deliver the same or better quality and capacity as their preferred rolling stock, to the same timescales, and which they will implement at no additional cost to the Department.

**Condition 2** is that the Department has indicated in a response to a BCQ that the Bidder may include such rolling stock, and that the Bidder complies with any conditions outlined in that response. Such a BCQ must be raised by the Bidder no later than 5:00pm on Friday 13 March 2015, and must set out the following information:

- The painted numbers of the locomotives and/or carriages in question or identification of the pool of locomotives and/or carriages from which they would be drawn;

- The identity of their owner or owners, and any current lessee, (and if currently on lease, the Bidder’s reasons for considering that they will be surplus to the requirements of the current lessee);

- The period for which the Bidder would wish to lease them;
• Details of any modifications that they would require;
• The route or routes on which the Bidder is proposing to operate them;
• The passenger benefits that the Bidder considers it would be able to deliver by leasing and operating that rolling stock;
• What alternative options the Bidder considers would be available if the rolling stock in question were not available to them; and
• Any other information that the Bidder considers may be relevant to the Department’s consideration.

If no TPE bidder has proposed to lease the same rolling stock during the same period as the Bidder, then the Department will inform the Bidder that they may assume that no TPE bidder will be permitted to do so. Such a determination would serve only to confirm that the Bidder may assume that the rolling stock will not be required by any TPE bidder, and is not to be taken as any endorsement by the Department that it considers the rolling stock to meet the requirements set out in the ITT.

If one or more TPE bidders has proposed to lease the same rolling stock during the same period as the Bidder, then the Department will either:

• Inform the Bidder who raised the BCQ that they may assume that no TPE bidder will be permitted to include the rolling stock within their bid and accordingly the Bidder who raised the BCQ may include that rolling stock within their Bid without the requirement to outline a fallback strategy of the kind envisaged under Condition 1. Such a determination would serve only to confirm that the Bidder may assume that the rolling stock will not be required by any TPE bidder, and is not to be taken as any endorsement by the Department that it considers the rolling stock to meet the requirements set out in the ITT; or

• Inform the Bidder who raised the BCQ that they may not rely on the availability of the rolling stock in question. In this eventuality, the Bidder may still propose to include the rolling stock within their Bid but only if Condition 1 above or Condition 3 below is met.

In reaching a determination, the Department may at its sole discretion consult such persons as it considers appropriate and/or request the Bidder to provide further information in order to inform its determination.

The Department’s determination will take into account the following factors:
- The Department's view of which franchise the rolling stock might be more suitable for, taking account the needs of passengers on the services in question;
- The number of bidders on each competition who have expressed interest in the rolling stock;
- The likely availability of alternative options for bidders on each competition to secure rolling stock to deliver the intended passenger benefits; and
- The views of any persons whom the Department has consulted.

Condition 3 is that the Bidder demonstrates to the Department's satisfaction that it has received an unconditional offer for the rolling stock in question (i.e. the owner of the rolling stock has given a clear and unequivocal written undertaking that it will not offer the rolling stock to any TPE bidder or that, if it does, the offer to the Bidder will take priority over any offer made to any TPE bidder).

5.4.3 **DP2.3 Performance**

(A) REQUIREMENT

5.4.3.1 The Department requires a Franchisee who will improve the performance of the Franchise and, in particular, who will:

i. Deliver the performance benchmarks specified in Schedule 7.1 of the Franchise Agreement;

ii. Design and implement business continuity processes for the operational aspects of the business consistent with the requirements of Schedule 10.4 of the Franchise Agreement, setting out how they will engage with industry partners (including Network Rail, ROSCOs and train maintainers) to minimise delay and disruption for passengers;

iii. Implement and maintain appropriate general competency arrangements for control staff and provide specific training and appropriate competency arrangements for those with a key role in managing disruption, including on call staff;

iv. Work in partnership with Network Rail and other TOCs to ensure that action is taken to identify unexplained delays and to reduce them; and

v. Analyse performance failures to root cause level as part of its core approach and use a structured approach to prioritising Initiatives that improve performance, particularly focusing on poor performing routes.

(B) EVIDENCE BIDDERS SHALL PROVIDE
5.4.3.2 In addition to the Minimum Evidential Requirements, Bidders’ responses shall cover as a minimum:

i. Their overall strategy for operational planning and management, covering issues such as:

   • How they will manage and organise their operational control functions, performance management and business continuity arrangements; and
   
   • How performance against the benchmarks will be maintained while major changes such as the Northern Hub, North West Electrification programme, and ERTMS are being implemented;

ii. For each performance initiative proposed, how the initiative will contribute to the Franchisee delivering the performance benchmarks in Schedule 7.1 of the Franchise Agreement, including:

   • Problem identification;
   
   • The approach to the proposed solution; and
   
   • Evidence of the scale of the impact on performance.

iii. How their rolling stock and train crew strategy and train plan support the delivery of the requirements of part (A);

iv. How the Franchisee will minimise the impact of routine and ad-hoc engineering work and Challenging Circumstances on the provision of Passenger Services, including by:

   • Maintaining the provision of Passenger Services (for example by working with Network Rail to maximise the scope for trains to continue running while engineering work is taking place, and/or by using suitable diversionary routes where available); and
   
   • Developing and implementing appropriate arrangements to ensure the continued safety and welfare of passengers; and

v. How any proposed changes at the major Timetable Change Dates (December 2017 and December 2019) will be managed to avoid adverse effects on performance.

(C) SCORING

5.4.3.3 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (Northern marking framework and guidance).

5.4.3.4 A Bidder that scores below 4 will result in the bid being treated as non-compliant.
5.4.3.5 Without prejudice to the generality of subsection 7.3.6 (Scoring methodology), specific examples of how the above requirements may be exceeded are set out below:

i. Plans to work with Network Rail and other operators in respect of actions which can be taken in the management and operation of the Franchise to contribute to the delivery of national and strategic objectives to improve network performance to a level beyond achieving the requirements in (A).

5.4.3.6 For the avoidance of doubt, a proposal to exceed the Benchmarks defined in Schedule 7.1 of the Franchise Agreement will not be considered sufficient to exceed the above requirements.

5.4.4 **DP2.4 Supporting infrastructure change**

**BACKGROUND INFORMATION**

5.4.4.1 This section contains brief background information that the Bidders may find helpful in understanding the requirements set out in this Sub-Plan.

*Basis of bidding*

**Northern Hub and North West Electrification (Configuration State 5 “CS5”)**

5.4.4.2 Bidders should assume that a number of infrastructure enhancements will be available by December 2017. These will be specified in detail in the Base Infrastructure Assumptions Document.

**North Trans-Pennine electrification and further infrastructure enhancements**

5.4.4.3 During the franchise term, it is envisaged that the electrification of the North Trans-Pennine route will be undertaken along with a number of changes to infrastructure capability, including increases in capacity and line speed, over and above those assumed for December 2017 (“**Future Enhancements**”). However, the nature of planning timescales means that there is currently uncertainty about the timing and outputs of these changes. Therefore, in order to ensure consistency of bid responses, Bidders are required to bid on the basis that the Future Enhancements do not occur during the Core Franchise Term and the Extension Period, with mechanisms in the Franchise Agreement to deal with the implications when the timing and outputs of the Future Enhancements are known.

5.4.4.4 For the Future Enhancements, TPE services are most likely to be changed radically in order to realise the benefits of these enhancements, but the Department recognises that such changes could have an adverse impact on Northern’s services, and/or the cost of providing them. To mitigate this risk, the
Department intends that the TPE franchisee should act as its Delivery Partner to lead and co-ordinate – across the TPE and Northern franchises – the train operator input into the planning of the Future Enhancements taking into account the potential benefits and other impacts of services across both franchises so that changes are planned to optimise the business case across the two franchises, are managed in a way that enables Northern to minimise any extra costs in meeting their obligations and to continue to meet the requirements of their passengers. This approach is not intended to replace Northern’s direct participation in industry processes, nor to limit its recourse to regulatory protection.

Delivery of infrastructure enhancements and electrification

(A) REQUIREMENTS

CS5

5.4.4.5 The Department requires a Franchisee who will manage the impacts of CS5 in the Franchise to support efficient project implementation while minimising impacts on passengers, including:

i. Developing and implementing interim service patterns for use during engineering possessions; and

ii. Communicating effectively with passengers to enable them to understand the measures being taken to minimise disruption, and the longer-term project benefits, working with other industry parties (including Network Rail) to ensure that messages are clear and consistent.

Future Enhancements

5.4.4.6 The Department requires a Franchisee who will participate in normal industry processes for project implementation and train service development, and also to work with the TPE Franchisee as Delivery Partner, ensuring that it understands its requirements, and the implications for Northern of changes to TPE services. To deliver this requirement, the Department requires a Franchisee who will:

i. Support the TPE Franchisee in presenting to Network Rail and the Department an integrated view of the requirements for delivering infrastructure enhancements, rolling stock, and new train service patterns, including:

- Timetable and service design (including TSR definition, timetable planning, performance modelling, and the securing of access rights);
• Planning of electric rolling stock (in respect of defining the performance specification, and location of maintenance and stabling depots);

• Planning the inward and outward cascade of rolling stock;

• Infrastructure (in respect of consulting on the desirable outputs and priorities from the infrastructure programme); and

• Stakeholder relations (in respect of communicating service changes during project implementation);

ii. Develop interim service plans for use during engineering possessions which will minimise disruption to passengers;

iii. Develop marketing and passenger communications in relation to the various enhancements / rolling stock build, and engaging with other industry parties (e.g. Network Rail) to provide clarity and consistency of message; and

iv. Commit to and implement arrangements that will provide the Department with complete assurance that the in-franchise change will be delivered in a way that is transparent and delivers value for money.

(B) EVIDENCE BIDDERS SHALL PROVIDE

5.4.4.7 Bidders shall provide clear evidence on how they would work with industry partners to realise the benefits of the Future Enhancements during the Franchise term, if required to do so. In addition to the Minimum Evidential Requirements, Bidder’s responses shall cover as a minimum:

i. A description of how the franchisee would participate fully in industry processes associated with planning and implementing major infrastructure and service change;

ii. A description of issues likely to prove contentious as between industry parties involved in project delivery, and the bidder’s proposed method of resolution;

iii. A description of how the franchisee would work with Network Rail, the TPE franchisee and other operators to plan engineering possessions, and provide interim services which to the greatest reasonable extent minimise disruption to passengers;

iv. A description of how marketing and communication plans will be developed in order to support the enhancements, and introduction of new rolling stock and train services; and

v. An approach and plan to collaborate in assessing and agreeing the impact of changes in such a way as to provide the Department with clear visibility of the
impact in respect of the areas set out in the draft Franchise Agreement; this may include competitive procurement of externally-provided goods and services, including rolling stock, and disclosure of the basis of cost and income inputs.

(C) SCORING

5.4.4.8 For meeting, overall the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (Northern marking framework and guidance). Without prejudice to the generality of subsection 7.3.6 (Scoring methodology), specific examples of how the above requirements may be exceeded are set out below:

i. Particularly strong commitments on how any in-franchise changes will be agreed in a way that provides the Department with a value for money outcome; and

ii. Setting out how the elements affected by the change can be mitigated to reduce any adverse impact.
5.5 **Delivery Plan 3 – Revenue**

5.5.1 **DP3.1 Marketing and Branding**

(A) REQUIREMENT

5.5.1.1 The Department requires a Franchisee who fully understands the value of investment in marketing and the relationship between marketing and promotional strategies with market growth, and who will:

i. Develop and implement effective marketing strategies and plans to promote Passenger Services and generate growth in revenue (farebox and non-farebox) and passenger journeys;

ii. Actively market and promote the improvements in train service patterns, especially the additional late night and Sunday services, rolling stock quality and customer service as they take place through the course of the Franchise to maximise the patronage and revenue arising from the improvements, and to improve public perception and the reputation of the Franchise;

iii. Use branding to maximise the value of the Franchise whilst having regard to the overall costs and benefits of branding including, where practicable, enhancing the Franchise brand so that it could be used in successor franchises, as well as limiting the costs of de-branding at the end of the Franchise;

iv. Use a Franchise brand name that includes the word ‘Northern’ or ‘North’ and continue existing co-branding at stations, including but not limited to, Lancashire County Council, Merseytravel and other local branding schemes, with provision to be made for further local schemes particularly in respect of the north east;

v. Develop appropriate marketing differentiation for the Northern Regional services;

vi. Develop and grow new markets;

vii. Promote and utilise the local transport authorities and local ticketing scheme brands (smart and paper);

viii. Exercise good customer relationship management, particularly aimed at raising the satisfaction of season ticket holders; and

ix. Use marketing initiatives in conjunction with stakeholders to grow the level of journeys undertaken by tourists and leisure users.
(B) EVIDENCE BIDDERS SHALL PROVIDE

5.5.1.2 In addition to the Minimum Evidential Requirements, Bidders’ responses shall cover as a minimum:

i. Their approach to developing new and growing existing market segments of the Franchise, showing returns on investment in marketing activities, including evidence of plans to maximise the benefits of investments and other improvements in the Franchise; and

ii. The Department will be looking for evidence to support the projected return on investment from Bidder’s marketing schemes at a sufficient level of detail to inform the department’s risk adjustment process.

(C) SCORING

5.5.1.3 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (Northern marking framework and guidance). Without prejudice to the generality of subsection 7.3.6 (Scoring methodology), specific examples of how the above requirements may be exceeded are set out below:

i. Particularly strong proposals for innovative marketing schemes whilst robustly demonstrating how each initiative delivers additional revenue;

ii. Marketing Initiatives that stimulate mode shift and travel by rail generally, including through collaboration with stakeholders and other train, light rail, tram and bus operators; and

iii. Particularly well-tailored local marketing and branding developed in conjunction with local stakeholders that helps to promote rail as an integral part of public transport provision.

5.5.2 DP3.2 Fares, Ticketing and Revenue Protection

5.5.2.1 Bidders may propose assets to be funded by the Residual Value Mechanism under this Sub-Plan.

(A) REQUIREMENT

5.5.2.2 The Department requires a Franchisee who will offer rail fares which are easy to understand and fair to customers, including by:

i. Simplifying overall fares structures to improve the consistency and pricing of journeys in a way that protects those who are paying relatively high fares.
Showing how they would engage and communicate with stakeholders and phase in changes, in a way that gains stakeholder support;

ii. Adapting its fares strategy in the event of changes to regulated fares in order to minimise any resulting reduction in revenue and maximise any resulting increase; and

iii. Deploying appropriate revenue management techniques to manage demand and increase revenue.

5.5.2.3 The Department requires a Franchisee who will:

i. Maintain a consistently high standard of ticket retailing service;

ii. Ensure that all passengers are provided with widespread and easy access to the full range of tickets, and a range of ticket retail opportunities that meets their needs, including providing for those without access to technology;

iii. Exploit partnerships and new technology in relation to ticket retailing to benefit passengers, drive efficiencies, and support sustainable revenue growth of the business;

iv. Ensure that information about ticket products and solutions is communicated in a clear and transparent fashion which enables passengers to access the information they need to confidently choose the most appropriate ticket for their journey, and to understand the terms, conditions and any restrictions on the ticket purchased, across all ticket retailing solutions and fulfilment media;

v. Ensure that any proposals to charge peak fares in the evening peak period are simple, appropriate to address crowding issues and are structured and communicated in a way that addresses stakeholder concerns;

vi. Join and participate in all local ticketing schemes for multi-operator and multi-modal products as required by Schedule 2.5 of the Franchise Agreement. Continue to accept paper and smart rail and/or multi-modal products issued by the local transport authorities or local ticketing schemes to at least the same extent as currently;

vii. Be a pro-active partner with the Department and other stakeholders, including Transport for the North, to develop Smart in the North; and

viii. Identify an overall strategy and initiatives to significantly drive down the currently high levels of ticketless travel and travel with incorrect tickets, whilst ensuring such initiatives are applied sensitively.

Note: Bidders are not permitted to propose their own smart ticketing schemes.
(B) EVIDENCE BIDDERS SHALL PROVIDE

5.5.2.4 In addition to the Minimum Evidential Requirements, Bidders’ responses shall cover as a minimum:

i. A clear, quantified description of the planned fares structure, including details of any changes planned to the availability of specific fares, and the approach to determining the level of regulated and unregulated fares (in line with the Department’s fares policy);

ii. Details of how their fares strategy would vary in the event of changes to fares regulation, and the methodology and assumptions that would be used to calculate any resulting Change. This must include the assumptions for:
   - Fares elasticities, which must be consistent with PDFH v4 unless the Bidder has submitted evidence to justify use of alternative assumptions pursuant to subsection 6.3.4.8; and
   - The impact of quasi-regulation (the impact of regulated fares changes on the price of unregulated fares), which must be supported by evidence of how the Bidder has quantified quasi-regulated fares;

iii. A clear description of the overall approach to providing retailing opportunities and the improved customer experience that the Franchisee will deliver;

iv. A robust project plan for the delivery of new and improved ticketing systems. This plan should start from mobilisation and give the Department comfort that revenue will be collected from the Start Date, including how any changes to Avantix and its support will be managed;

v. Describe how the functionality of existing smart ticketing (and infrastructure) would be maintained;

vi. Show evidence of how they will work collaboratively with local ticketing schemes, local transport authorities and stakeholders;

vii. Evidence of how they will work with the Department and other stakeholders, including Transport for the North, to develop Smart in the North;

viii. Their proposals to manage ticketless travel and travel with an incorrect ticket, including their approach to the use of existing automatic ticket gates and their proposed approach to working with other Operators to agree hours of operation for such ticket gates. These proposals should include planned changes at Liverpool Lime Street and the southern entrance to Leeds station and any future schemes;
ix. Their proposals for the training of revenue protection staff and the institution of procedures that will ensure that intelligent discretion can be applied in cases where passengers have made a genuine attempt to acquire a ticket; and

x. Details of their proposed revenue management techniques, including the tools the Franchisee intends to use for this purpose.

(C) SCORING

5.5.2.5 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (Northern marking framework and guidance). Without prejudice to the generality of subsection 7.3.67.3.5 (Scoring methodology), specific examples of how the above requirements may be exceeded are set out below:

i. Particularly strong proposals for fares and ticketing which are consistent with the Department’s aspirations as set out in Rail Fares and Ticketing: Next Steps to create a modern, customer-focused fares and ticketing system. These could include Initiatives that exploit technology to implement, trial or develop innovations that will benefit passengers such as: third party retail, greater use of internet consumer technology, contactless bank cards, near field communication mobile phones, or integration of audio/visual technology;

ii. Particularly strong proposals to simplify fares structures in a way that customers will readily understand way and that offer the Department a mechanism that provides contractual certainty during the Franchise Term that any revised fares structure will be used to meet the requirement;

iii. Proposals to expand opportunities for passengers to buy through tickets that allow travel on another mode of public transport at one or both ends of the rail leg of their journey;

iv. Proposals to enable annual season ticket holders to pay by monthly direct debit;

v. Particularly strong proposals that will support their strategy to reduce the levels of ticketless travel including:
   • proposing their own incentivised targets and planned action to address those targets;
   • addressing issues of staff culture and incentivising staff to increase the collection of fares; and
vi. Proposals which would enable the Department and other stakeholders, including Transport for the North, to accelerate the delivery of Smart in the North.

(D) BACKGROUND INFORMATION

Smart in the North ("STN") Programme

5.5.2.6 The Department is committed to supporting ticketing transformation in the rail industry and recognises that this is best done by working in collaboration with rail industry stakeholders to enable them to achieve longer term aspirations (such as the removal of mag-stripe tickets at some point in the future). A key principle that the Department is keen to maintain is interoperability of rail tickets and products on smart media. The Department has provided significant funding to smart-enable the TOCs in the south east of England (through the SEFT programme) and is keen to maximise the value of the investment.

5.5.2.7 The Smart in the North (STN) programme will explore options to utilise existing (SEFT) designs and contracts, where appropriate, to both expedite the smart-enablement of the northern rail network and maintain interoperability with the rail network in the south-east. This ambition has been described as ‘learning lessons from SEFT’.

5.5.2.8 The lessons from SEFT are both in the form of implicit lessons about how to best deliver smart on rail as well as explicit knowledge, understanding and technical designs.

5.5.2.9 At the highest level the lessons learned from SEFT are that it is essential to (i) deliver the smart scheme in partnership with industry, (ii) put the customer proposition at the centre of the smart scheme, (iii) treat the implementation as a change programme rather than a technical deployment alone and (iv) seek efficiencies of scale by procuring centrally where possible.

5.5.2.10 The design and development work for step 1 of SEFT is moving towards completion and testing will progress through to the c2c migration into the central back office (expected to happen in mid-2015). In the meantime the SEFT team is learning useful lessons from the c2c pilot which are informing decisions about the roll-out to other TOCs. The Department will seek opportunities to maximise the skills and experience built up on SEFT to expedite the roll-out of STN.

5.5.2.11 The Department is establishing the governance for STN and will develop a business case over the coming months. It is expected that funding approval will be sought in the summer of 2015 and if successful roll-out will commence in 2016.
5.5.2.12 The Department recognises that platform validators, as they are currently designed, may not be the optimal solution for all stations (particularly those that have no power and/or communications infrastructure as well as very low footfall). This is why SEFT has been split into two ‘steps’; Step 1 focuses on season ticket products and Step 2 will implement other existing ticket types on smartcards. SEFT is assessing the other options for check in/out and product collection and it is expected that this work will inform decisions on STN.

5.5.2.13 The main focus of STN will be on the roll-out of existing rail products, utilising the Rail Settlement Plan (RSP) product catalogue, and the enablement of city/PTE smart multi-operator tickets on rail. It is expected that this will require an element of standardisation of the ‘rail portion’ of the multi-operator ticket (which is likely to be designed as a separate ITSO product despite the fact that the passenger will buy it as one multi-modal product). It is the intention that STN enables smart travel on the rail network and that the cities/PTEs use this to support their smart aspirations.

5.5.2.14 It is the intention that STN will use the central RSP back-office (Host Operator Processing System, Transaction Management System and Card Bureau Service) that was procured for SEFT and that this will deliver best value for TOCs. This approach means that the SEFT specifications for WebTIS, ticket vending machines and gate upgrades will be suitable for use.

5.5.2.15 ITSO enablement is now widespread on buses, English National Concessionary Travel Scheme passes are ITSO-enabled and SEFT is making use of the ITSO specification. The Department is therefore promoting the use of ITSO on the northern rail network. This approach recognises the need to build upon the successes and investments to date but does not exclude or prevent innovation as the ITSO smartcard is most likely a necessary first step towards more widespread ticketing transformation. Bidders are required to propose ways that they will support the ITSO STN scheme.

5.5.2.16 As with SEFT, STN will deliver a common passenger proposition which seeks to broadly replicate the functionality currently available on mag-stripe tickets but with the advantages of smart. The central Smartcard Bureau Service is set up to permit individual TOC branding on cards and this is the approach being taken as part of SEFT. There will need to be some form of ‘scheme identity’ to support this in order that passengers can understand where their cards can be used.

5.5.2.17 It is expected that the ‘RSP product catalogue’ will be used – as with current arrangements this does not prevent TOCs from developing new and novel products. The RSP central back office system is designed to allow TOCs to retail
through their own webTIS and the SEFT programme has developed a webTIS specification which will be released to the marketplace shortly.
5.6 Delivery Plan 4 – Customer Experience and Stations

5.6.1 DP4.1 Customer Experience

5.6.1.1 Note. Bidders’ proposals in relation to ticket retail should be set out in DP 3.2 (Ticketing and Revenue Protection). Bidders’ proposals in relation to station improvements should be set out in DP 4.2 (Stations).

5.6.1.2 Note. For the purposes of this Sub-Plan “stakeholders” include without limitation: customers, passengers, Passenger Focus, local authorities, community groups, rail user groups and similar organisations.

(A) REQUIREMENT

5.6.1.3 The Department requires a Franchisee who will deliver a high standard of customer services, including:

i. Having a customer service and staffing approach which places a high value on personal face-to-face contact with passengers;

ii. Having a customer-driven culture where dialogue with customers drives decisions and operational activity;

iii. Meeting the customer service NRPS Benchmarks set out in Schedule 7.2 of the Franchise Agreement and Service Quality Benchmarks set out in Schedule 7.3 of the Franchise Agreement;

iv. Engaging with customers and stakeholders to understand their requirements and expectations and deliver an excellent standard of customer service which it measures and tests against those requirements and expectations;

v. Maintaining a high standard of cleanliness, presentation and quality of facilities and services, including in Challenging Circumstances;

vi. Putting in place arrangements for measuring, reporting and auditing performance against the Service Quality Regime indicators defined in the Franchise Agreement;

vii. Working effectively with BTP, community groups, local authorities and other agencies to deliver a safe and secure environment for passengers on board trains, including by reducing anti-social behaviour;

viii. Ongoing training of staff to deliver continuing high standards of customer service;

ix. Planning to deploy a trained and knowledgeable member of staff to provide information and customer assistance in a prompt and civil manner, in both
normal and disrupted operation on-board every train in addition to the driver, except on routes and services where:

- All passengers boarding the train, including young people and others without access to a card that allows them access to funds immediately and electronically, will have had an opportunity to buy their ticket at the station prior to boarding, or will have such an opportunity on board the train;
- The effective collection of revenue, in particular from travel between stations other than the start and finish points of the service, will not be adversely affected;
- The characteristics of the service in question are such that the absence of a second member of staff will have no material impact on passenger perceptions of security, including anti-social behaviour; and
- All passengers on board are able to receive appropriate information about the train service.

x. Providing appropriate and timely information to all customers before, during and after their journeys; this must include working with the Rail North/DfT partnership, local transport authorities and other operators to provide up to date and comprehensive journey information (e.g. maps, timetables and CIS) that include the routes and services of other operators and other public transport modes so as to provide a simple, easy to use journey experience for customers;

xi. Introducing highly visible and accessible means for passengers and the local community to report specific quality issues (e.g. broken seats, inaudible PA, poor customer service) and to get direct feedback on the action taken to resolve the problem;

xii. Demonstrating particular customer care during times of service disruption, delays and cancellations, including empowering front line teams to deal effectively with customers;

xiii. Participating in cross-industry initiatives to enable customers to make informed travel choices, including at times of disruption or when special events cause unusually high demand;

xiv. Ensuring that at every Station passengers are able to speak to a person representing the Franchisee during the hours of train service operation, including via a help point or remotely using a personal mobile device. For Stations where annual entries and exits are estimated to not exceed 3,000 per year in the Franchise Period, this requirement will not apply to the extent that
evidence is provided to the Department’s satisfaction that it will not be cost-effective to deliver at such station; and

xv. Subject to the availability of Train-to-Internet Coverage, providing on-train mobile communications via wi-fi free of charge to passengers on board trains.

5.6.1.4 The Department requires a Franchisee who will actively and consistently promote awareness of passengers’ rights to claim compensation, who will make the claims process swift and simple, including through the introduction of technology, and who will implement a Passenger Charter that will include “Delay/Repay” compensation arrangements (as defined in the Passenger’s Charter Guidelines) for all services from the start of the Franchise.

5.6.1.5 The Department requires a Franchisee who will work with Local Transport Authorities, public transport operators and other relevant stakeholders to significantly enhance connectivity with other modes of transport and improve the door-to-door journey experience for its customers, in line with the Department’s door-to-door strategy.

5.6.1.6 The Department requires a Franchisee who will deal with complaints in a way that satisfies passengers.

(B) EVIDENCE BIDDERS SHALL PROVIDE

5.6.1.7 In addition to the Minimum Evidential Requirements, Bidders’ responses shall cover as a minimum:

i. How the Initiatives and actions will deliver and monitor a high standard of customer service in all areas of the business, and how these will contribute towards achieving the customer service elements of the NRPS Benchmarks;

ii. How frontline staff will provide a visible, helpful and pro-active customer facing presence at stations and, where present, on-board trains, and promote security, including details of the staff training and support that will facilitate this;

iii. Their Customer and Stakeholder Engagement Strategy\(^\text{13}\), including:

- How, and using what resources, the Franchisee will engage with customers, potential customers and other stakeholders (including persons with reduced mobility and persons with other protected characteristics under the Equality Act 2010), including on an ongoing basis, to understand their experiences and perceptions of the Franchise, and their priorities for future improvement;

\(^{13}\) The Customer and Stakeholder Engagement Strategy, to include the initial draft Customer Report, must be supplied as an Agreed Form Document
• How the Franchisee will use the results of customer and stakeholder engagement to inform business decisions and to improve customer services, and how customers and stakeholders will be informed of the progress made;

• How the Franchisee will develop CCIF (Customer and Communities Improvement Fund) Schemes in view of customer and stakeholder aspirations;

• The initial draft Customer Report setting out the key commitments the Franchisee will make to its customers, including commitments that relate to day-to-day services, how it will act to address problems and how it intends to improve services and/or facilities. It should comply with the requirements set out in the Franchise Agreement to provide sufficient information to allow customers to assess and understand all aspects of the performance of the Franchise; and

• How the Franchisee will update, communicate and publish future Customer Reports to the requirements set out in the Franchise Agreement, and improve the transparency of performance and customer satisfaction information;

iv. Details of any proposed improvements to the Passenger Charter and how these will be implemented;

v. Evidence that NRPS and Service Quality Regime data will be used routinely and effectively to:

• Increase the quality of service and the satisfaction of customers; and

• Enable prompt remedial action to be taken where any performance is at risk of falling below any NRPS or Service Quality Regime benchmark;

vi. Evidence of the extent to which the Minimum Wi-Fi Service Requirements will be delivered, including:

• The first availability of wi-fi by route and the results of a signal strength survey in an appropriate format that will not require additional client software to access;

• Evidence that passengers will receive a reliable, non-discriminatory service through currently available Train-to-Internet Connections approaches along the rail corridors by:
  • the efficient sharing of the on-train wi-fi;
- maximising the average data throughput (i.e. Mbps) of the Train-to-Internet Connection, and;
- maximising individual passengers’ speed of internet connections, and minimising the latency of their internet access.

Note: the solution should aim to support per carriage:
- A minimum of 20 simultaneously active customers, with each active user having a minimum equivalent bandwidth of 512kbps with less than 80ms latency; plus
- A minimum of 80 Wireless Access Point-connected and registered, but non-active, customers.

• Details of any limitations or restrictions to the proposed service (e.g. usage caps, blocking adult-only content) must be included; and
• An indication of how the wi-fi service will be communicated and marketed to passengers; and

vii. A listing of those routes and services on which it is planned that there will be:

• A trained and knowledgeable member of staff to provide information and customers assistance in a prompt and civil manner, in both normal and disrupted operation on-board every train in addition to the driver; and
• Any on-board catering services on Northern Regional Services, describing the type of service to be provided, and showing how this will meet the needs of passengers travelling on these services.

(C) SCORING

5.6.1.8 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (Northern marking framework and guidance).

5.6.1.9 A Bidder that scores below 4 will result in the bid being treated as non-compliant.

5.6.1.10 Without prejudice to the generality of subsection 7.3.5 (Scoring methodology), specific examples of how the above requirements may be exceeded are set out below.

i. Innovative Initiatives that will deliver an exceptional customer service experience for passengers;

ii. In addition to the requirements of the Franchise Agreement:

• Provision of information that is tailored to passengers journeys e.g. punctuality at intermediate stations, journey/station specific data; and
• Increased provision of real-time journey information at stations and on-board trains;

iii. Initiatives that significantly improve customer service and engagement for persons with reduced mobility and other persons protected under the Equality Act 2010;

iv. Initiatives that would significantly enhance the degree to which passengers and potential passengers understand the network of travel opportunities offered by the Franchisee and other train and public transport operators, both across the north of England and on a more localised basis;

v. Initiatives that offer season ticket holders entitlement to compensation in addition to “Delay/Repay” if they experience a large number of delays not exceeding 30 minutes;

vi. A commitment to reinvest any saving in the overall cost of claims for Delay Repay, when compared with the amount forecast in a given year, into initiatives that improve customer service for passengers; and

vii. Initiatives that go beyond delivery of the Minimum Wi-Fi Service Requirements, including:

• Improving the Train-to-Internet Connection through the provision of alternate connection means, in for example areas of poor coverage or at certain locations such as stations;

• Enabling Wi-Fi and internet connectivity to be used by on-train operational and retail services, to enable customer and performance benefits for example remote Closed-Circuit Television, On-Train Monitoring Recorder, payments processing etc;

• Working with partners and stakeholders to secure additional funding; and

• In addition to the Minimum Wi-Fi Service Requirements, any plans to offer higher bandwidth or other services, including evidence that these plans will not negatively impact on the delivery of the Minimum Wi-Fi Service Requirements.

5.6.2 DP4.2 Stations

Bidders may propose assets to be funded by the Residual Value Mechanism under this Sub-Plan except for assets funded through the Station Improvement Fund.
(A) REQUIREMENT

5.6.2.1 The Department requires a Franchisee who will enhance the Station environment to deliver high quality services to passengers by:

i. Meeting the NRPS stations’ targets set out in Schedule 7.2 of the Franchise Agreement;

ii. Targeting the provision of services at Stations according to the volume and characteristics of passengers at the Station including, where relevant, reflecting the principles outlined in ATOC and RSSB document “Guidance on the implementation of Station Travel Plans”;

iii. Pro-actively leading work with industry and local stakeholders to improve the quality of car parking provision at Stations and where appropriate expanding the quantity of car parking spaces and changing charging mechanisms;

iv. Embedding the principles of inclusive design in decisions about the renewal and development of Stations;

v. Making the delivery of services at Stations resilient during periods of Challenging Circumstances, and minimising the impact on passengers;

vi. Meeting the obligations in the Franchise Agreement in relation to ensuring (within 12 months of the date of commencement of the Franchise) that the management of assets detailed in the Station Asset Management Plan has been certified by a UKAS-accredited assessor as being consistent with the “whole life” framework provided under ISO 55001:2014 (Asset Management);

vii. From the Start Date, implementing and resourcing a Social and Commercial Development Plan. It must set out how the Franchisee will:

- Identify schemes to develop currently redundant or under-utilised station buildings and facilities for use by the community and for commercial development including schemes which sustain and enhance the viability of ticket office retailing;

- Consult with customers and the community on the concerns, issues, opportunities and risks relating to the Stations and the priorities for investment;

- Effectively evaluate, prioritise and develop such schemes taking account of customer and community views;

- Implement the schemes in accordance with their allocated priority; and

- Be for a period of 10 years and be reviewed on a rolling annual basis.
viii. Maintaining and updating Station Travel Plans existing at the date of this ITT;

ix. Creating a significant improvement in the quality of services provided to passengers at Stations including by investing a minimum of £30 million on improving services at Stations in four key areas:

- How safe and secure customers feel;
- How informed customers are about rail and other services at Stations, particularly during periods of disruption;
- The choices customers have in terms of ticket and other retail purchases; and
- The provisions made for customers’ physical comfort and protection from the elements.

(the “Station Improvement Fund”) allocated on the following basis:

- At least £15 million for Stations with entries and exits of 100,000 or fewer
- At least £10 million for Stations with entries and exits between 100,001 – 250,000
- The remainder for Stations with entries and exits of more than 250,000.

The figures for entries and exits (above) must be based on the estimates of station usage published for 2013/14 by the Office of Rail Regulation. The Station Improvement Fund may be allocated to capital and operational costs but not project management costs and Bidders are encouraged (but are not required) to identify Specimen Schemes for such Initiatives. Capital costs must be incurred in the first 4 years of the Franchise Term. The RV Mechanism may not be used for this.

x. Regularly reviewing and addressing the security, incidents of antisocial behaviour and crime risk at Stations by applying the principles of community safety in partnership with BTP and other stakeholders;

xi. Developing a dashboard of metrics for Stations or a group of Stations which evidence improvements to the Station environment in addition to NRPS surveys by measuring and reporting annually on, for example:

- Cost for the provision of services at Stations;
- Levels of passenger satisfaction with Stations;
- Levels of inclusivity and accessibility;
- Meeting the community’s needs; and
• Retail activity;

xii. Being resourced to develop plans with Greater Manchester Combined Authority, Network Rail and other key stakeholders for the potential transfer of Stations;

xiii. Managing the successful transfer of Stations identified in Schedule 6.2 of the Franchise Agreement to support any programme of Franchise remapping; and

xiv. Ensuring that any station enhancement works undertaken by Network Rail are capitalised on to improve station facilities.

(B) EVIDENCE BIDDERS SHALL PROVIDE

5.6.2.2 In addition to the Minimum Evidential Requirements Bidders’ responses must cover as a minimum:

i. The Social and Commercial Development Plan, how it will identify their initial view of potentially suitable sites at Stations (for example, redundant buildings and facilities) for both commercial development and use by the community;

ii. Details of how they will understand and align the volume and scope of Station services offered to the volume and characteristics of passengers using their Stations;

iii. Details of how they propose to achieve certification of the processes and procedures that support their Asset Management Plan as complying with the framework provided by ISO 55001:2014 (asset management) in accordance with the requirements of the Franchise Agreement;

iv. Details of their plans for the handover of its Station Asset Management Plan at the end of the Franchise Term, including how they will work with Network Rail and any Successor Operator to ensure continuity of the maintenance and renewals programme outlined in the Plan;

v. Details of how they will manage the delivery of investment at Stations (including through the Station Improvement Fund) including through deploying appropriate project management capabilities and resources; and

vi. Details of how they will review and update Station Travel Plans.

(C) SCORING

5.6.2.3 Where a Bidder proposes Initiatives funded by Network Rail’s Regulatory Asset Base, the Department will evaluate the Initiative on the basis that it has low confidence that the Initiative will be delivered, unless the Bidder guarantees an alternative source of funding.
For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (Northern marking framework and guidance). Without prejudice to the generality of subsection 7.3.6 (Scoring methodology), specific examples of how the above requirements may be exceeded are set out below:

i. Proposals that identify, and commit to, specific targets under the dashboard of metrics for Stations or a group of Stations which evidence improvements to the services provided at Stations; and

ii. Proposals that commit to spend more than the amount of the Station Improvement Fund on station improvements.
6. **Section 6: Detailed Bid submission requirements – Financial**

6.1 **Introduction**

6.1.1 This chapter describes the detailed financial information which Bidders must include in their Bids. In summary, this information is:

i. A Financial Model prepared in accordance with the requirements set out in subsections 6.3.1 (General), 6.3.3 (The Financial Model), 6.3.6 (Financial Templates) and 6.3.7 (Generic Model requirements);

ii. Supporting Operational Models prepared in accordance with the requirements described in subsections 6.3.1 (General), 6.3.2 (Structure of the Models), 6.3.4 (Operational Models) and 6.3.7 (Generic Model requirements);

iii. the Financial Model and Operating Models being collectively termed the “Models”;

iv. Supplementary Material prepared in accordance with the requirements set out in subsection 6.3.5 (Supplementary Material);

v. Financial Templates populated in accordance with the requirements described in subsection 6.3.6 (Financial Templates);

vi. General modelling assumptions are set out in subsection 6.4.1 (General assumptions to be made);

vii. A Record of Assumptions prepared in accordance with the requirements set out in subsection 6.5 (Record of Assumptions);

viii. An Operating Manual prepared in accordance with the requirements described in subsection 6.6 (Operating Manual);

ix. the Models, the Record of Assumptions and the Operating Manual being collectively the “Modelling Suite”, which will be Placed into Escrow if the Bidder is successful pursuant to Schedule 9.2 of the Franchise Agreement;

x. Responses to all of the requirements surrounding Change as set out in subsection 6.7 (Change);

xi. Evidence that the Models have been reviewed in accordance with the requirements described in subsection 6.8 (Reviews and audit of Models);
xii. A Financial Structure and Funding Plan describing the Bidder’s financial structure and funding prepared in accordance with the requirements described in subsection 6.9 (Financial Structure and Funding Plan); and

xiii. Updated financial information, to update the financial tests undertaken when Bidders were seeking to pre-qualify to bid for the Franchise as described in subsection 6.10 (Updating of PQQ financial and economic standing tests (the “Tests”) and submission of bond provider letter(s)).

6.1.2 The information submitted pursuant to this Section 6 (Detailed Bid submission requirements – Financial) will be evaluated in accordance with the evaluation criteria and methodology described in Section 7 (Evaluation criteria and methodology).

6.1.3 Any response submitted which does not comply with the requirements of this section may result in the Bid being treated as non-compliant, as per subsection 3.5.

6.2 Errors in Models and/or Record of Assumptions

6.2.1 Bidders are required to satisfy themselves as to the technical accuracy of their Modelling Suite and Supplementary Material prior to submission. Where any element of the Modelling Suite and Supplementary Material is found to contain an error or errors, the Department reserves the right as appropriate to:

i. Evaluate the relevant element of the Modelling Suite and Supplementary Material as received, in which case the Bidder shall bear the risk of the error or errors within that element of the Modelling Suite and Supplementary Material and of any impact that this may have on the evaluation carried out in accordance with Section 7 (Evaluation criteria and methodology);

ii. Correct the error or errors either itself or through clarification from the Bidder in accordance with subsection 4.13 (Process following Bid submission), and then evaluate that element of the Modelling Suite in accordance with Section 7 (Evaluation criteria and methodology); or

iii. Treat the Bid as non-compliant.

6.2.2 In addition, if the Model Audit carried out as part of the evaluation process finds errors in any of the Models which have a financial impact the Department reserves the right to:

i. Capture the benefit of any errors in the Department’s favour in revised Franchise Payments, including recalculation of the variable element of PCS; and/or
ii. Refuse to allow the Bidder to adjust its Franchise Payments as bid for any errors which go against the Bidder (i.e. result in higher costs and/or lower revenues than reflected in the Modelling Suite as submitted); and/or

iii. Treat the Bid as non-compliant.

6.3 Financial and Operational Model requirements

6.3.1 General

6.3.1.1 Each Bidder is required to submit and include as part of their Bid a Financial Model, which is supported by Operational Models and Required Supplementary Material as set out in subsection 6.3.5.1. All Models must meet the requirements described in Section 4 (Explanation of requirements for Bid submission and overview of process following Bid submission) and this Section 6 (Detailed Bid submission requirements – Financial). The Modelling Suite must demonstrate the financial consequences of the Bidder’s business and operational plans over the Core Franchise Term and the Extension Period in order that the Department may evaluate them to the extent provided and in accordance with the evaluation criteria and methodology described in Section 7 (Evaluation criteria and methodology).

6.3.1.2 Any changes to the Models after Bid submission as a result of the clarification process described in subsection 4.13 (Process following Bid submission) or otherwise, must be clearly logged and traceable, including an audit trail in the relevant model itself, using the worksheet ‘Version Control’ in the Financial Model Templates.

6.3.2 Structure of the Models

6.3.2.1 An example of how the Department anticipates that Models will be structured is illustrated below.
6.3.2.2 Whilst the Department believes that this structure provides a logical template for Bidders to adopt, it is not mandatory and Bidders may adopt any structure they choose provided that all information required by this Section 6 (Detailed Bid submission requirements – Financial) is included in the format required by Section 4 (Explanation of requirements for Bid submission and overview of process following Bid submission) and the Department is able to evaluate the Models in accordance with Section 7 (Evaluation criteria and methodology).

6.3.2.3 Bidders are required to include within their Modelling Suite a map illustrating the content and structure of the Models to aid the Department’s understanding.

6.3.3 The Financial Model

6.3.3.1 Each Bidder is required to submit with its Bid a Financial Model which:

General

i. Includes the calculations that are required to produce outputs for inclusion in the Franchise Agreement and Funding Deed (as set out in the Financial Templates provided to Bidders through the Data Site and listed at subsection 6.3.6.4 and for use in accordance with Section 7 (Evaluation criteria and methodology). Outputs from the Financial Templates will be used:
• To populate the Franchise Payments (the Appendix to Schedule 8.2 (Annual Franchise Payments) of the Franchise Agreement). The Franchise Payment table set out in the Appendix to Schedule 8.2 (Figures for Calculation of Franchise Payments) of the Franchise Agreement must be completed in 2015/16 prices;
• To populate the Season Ticket Bond value;
• To populate the profit share thresholds in Appendix 1 to Schedule 8.1 of the Franchise Agreement;
• To populate the AFA and DFR in Appendix 2 to Schedule 8.1 of the Franchise Agreement;
• To identify and track funding made available to the Franchisee as Agreed Funding Commitment or PCS and populate the Funding Deed; and
• To populate the PCS value and the Bonded PCS value in the Funding Deed;

ii. Applies consistently on an annual basis, in accordance with the Franchise Agreement, the methodology required for calculating Franchise Payments;

iii. Includes the calculations required to determine, at the end of each Franchisee Year during the Franchise Term, the Financial Ratio. Bidders are to note that this is to be calculated in the Financial Model as an annualised backwards only view of compliance with the financial ratio described in paragraph 2.1(a) of Schedule 12 of the Franchise Agreement; For the avoidance of doubt, a Financial Ratio of 1.070 must be met in the base case Bid without drawing any PCS. In all cases, Bidders must ensure that Modified Revenue and Actual Operating Costs are calculated consistently with the definitions outlined in the Franchise Agreement;

iv. Shows how the Franchise will be funded over the Core Franchise Term and the Extension Period;

v. Includes all tax computations. Financial forecasts are to include calculations of the tax liabilities of the subject company in accordance with any applicable tax law. Complete integrated tax computations must be included in the Financial Model. To the extent that any group, consortium or other form of relief or sale of losses is anticipated this must be clearly stated within the Financial Model and Bidders must provide a letter from their financial advisers, as set out in subsection 6.9.1.1, confirming that such relief will be supported by the Bidder’s owning group. Capital and revenue expenditure must be clearly identified along with the rate of allowances applying to each item or pool of capital expenditure.
The Bidder must provide a letter from their financial advisers as set out in subsection 6.9.1.1 confirming that they have given consideration to the deductibility of any interest expense in light of thin capitalisation rules particularly where there is significant AFC in the base case or drawing of PCS under sensitivities or financial robustness testing;

vi. Properly reflects the accounting rules under which the Franchisee will report its financial information. Bidders are to adopt either UK GAAP (incorporating any relevant transitional arrangements to FRS100, FRS101 or FRS102 should the Bidder not choose to early adopt) or IFRS but the accounting basis chosen must be disclosed, consistent and once selected cannot be changed;

vii. States default prices in nominal terms and when viewed in real terms, outputs must be deflated to 2015/16 prices and outputs prior to this period must be inflated to 2015/16 prices; and

viii. Provides output schedules in the format of the Financial Templates.

Financial robustness

ix. Includes functionality which allows the Department to undertake the Department’s Financial Robustness Test as described in Section 7. Specifically, the Financial Model must:

• Include a switch or switches, which do the following:

  ▪ Freeze Annual Franchise Payments such that these do not change when undertaking the Financial Robustness Test;

  ▪ Freeze the base case Agreed Funding Commitment (AFC) drawdown and repayment profile per the commitment set out in the Bidder’s Financial Structure & Funding Plan (Note: AFC should only be available in the Financial Model in accordance with the timing and amount of the commitment set out in the Financial Structure and Funding Plan); and

  ▪ Simulate the pay out of all distributable profits, in each year of the Franchise Term subject to the Financial Ratio in that year, not falling below 1.070:1;

• Include the Parent Company Support (PCS), which should automatically be drawn down and/or repaid in order to meet a Financial Ratio of 1.070:1, up to the value of the total PCS committed in the Bid and Funding Deed but should not be drawn in the base case; and
• Includes a separate input that allows notional PCS, over and above the total PCS committed in the Bid, (with no third party bonding or interest costs) to be drawn up to the Materiality Threshold (see subsection 7.6.1). For the avoidance of doubt to the extent that the Financial Ratio is no longer below 1.070:1 the repayment of the notional PCS (being the Materiality Threshold) must take place prior to the PCS being repaid.

**Addressing Franchise Change**

x. Accurately executes the calculations as designed, and provides confidence in its robustness and ability to price Change:

• Provides a sufficient level of usability to allow Change scenarios to be run in a reasonable timescale;

• Provides an appropriate level of granularity for populating template outputs, and is sufficiently transparent to show Changes clearly; and

• Is sufficiently flexible to form the required basis for the pricing of Change.

xi. In addition, Bidders must in relation to their Financial Model:

• Adopt an absolute sign convention in constructing their Financial Model, such that all revenues and assets are positive and all costs and liabilities are negative;

• Provide a switch in their Financial Model to allow the Financial Templates to be presented in real or nominal terms (where real terms means nominal values are deflated (or inflated in the case of historic values) by RPI to 2015/16 prices); and

• Ensure that their Financial Model is self-contained within a single Microsoft Excel workbook. The Financial Model must be presented in annual terms, with year-ends coinciding with the Franchisee Year end on 31 March (as demonstrated within the Financial Templates).

6.3.4 **Operational Models**

6.3.4.1 The Operational Models are all those models that contain calculations generating inputs to the Financial Model either directly or indirectly. Each Operational Model should be coherent, in that the different Models, including the Financial Model, interface and work together effectively. Any interface spreadsheet required for transferring Operational Model outputs into the Financial Model or from one Operational Model to another must be provided as part of the Modelling Suite and its use fully explained in the Operating Manual.
6.3.4.2 Each Operational Model must:

i. Provide an appropriate level of granularity for generating Financial Model inputs, and be sufficiently transparent to show Changes clearly;

ii. Be sufficiently flexible to allow the pricing of Change;

iii. Accurately execute the calculations as designed, and provide confidence in their robustness and ability to price Change; and

iv. Provide a sufficient level of usability to allow Change scenarios to be run in a reasonable timescale.

6.3.4.3 Each Bidder is required as a minimum to submit with its Bid Operational Models the following Tier 1 Operational Models:

i. Revenue model;

ii. Crowding model;

iii. Performance model; and

iv. Capital expenditure model (which may be included in the Financial Model);

as described in subsections 6.3.4.4 to 6.3.4.23. Where a Bidder uses sub-models in Tier 2, these must also be submitted and will be placed in Escrow pursuant to Schedule 9.2 of the Franchise Agreement.

Revenue model

6.3.4.4 This demand and passenger revenue forecasting model must at least disaggregate demand and revenue into the ticket types and Service Groups contained in the Financial Templates.

6.3.4.5 Any further disaggregation of demand and revenue into more detailed flows or segments is at the discretion of the Bidder. The revenue model, its Supplementary Material and its associated sub-models in Tier 2 must also show clearly and apply all demand forecasting input assumptions and parameters and their impact on demand and revenue. This will include, but not be limited to, such factors as:

i. Macro-economic factors (disaggregated into individual factors where appropriate and consistent with PDFH to the extent required by subsection 6.3.4.8);

ii. Competition factors, including competition with bus and coach services and car (disaggregated into individual factors where appropriate and consistent with PDFH to the extent required by subsection 6.3.4.8);

iii. Timetable changes;
iv. Fare proposals and policy that demonstrates compliance with Schedule 5 of the Franchise Agreement;

v. Operating performance;

vi. Service quality;

vii. Marketing;

viii. Revenue protection Initiatives;

ix. Revenue / yield management Initiatives; and

x. Other investments or Initiatives (such as station or rolling stock improvements).

6.3.4.6 The revenue model must take inputs from MOIRA1 for revenue and journeys disaggregated into Mondays-Fridays, Saturdays and Sundays, and must use these appropriately to calculate the impact on total revenue and journeys of timetable changes which have different impacts on Mondays-Fridays, Saturdays and/or Sundays. A version of MOIRA1 will be made available through either the Data Site or provided on a CD with preloaded PDFH 5.1 elasticity sets and value of time sets. Any deviations away from this standard setup must be accompanied by supporting documentation as set out in 6.3.4.8 below.

6.3.4.7 Bidders must also submit:

i. The versions of MOIRA1 that have been used to populate the revenue model populated with the timetables that have been included in the revenue forecast, and the SPG files containing the assumed Franchise Services and open access services, as required by the relevant bullet in subsection 4.10.1; and

ii. The MOIRA1 output files (and any intermediate files which process these output files) which input revenue, journeys and passenger miles to the revenue model.

6.3.4.8 Bidders must use techniques or models used in the rail industry, comprising MOIRA1 and bespoke revenue and crowding models for constructing their Bids. The techniques must be consistent with the approaches adopted by the Passenger Demand Forecasting Handbook (PDFH). For clarity, Bidders are not required to use PDFH recommended demand elasticities, but where PDFH has not been used must provide evidence to justify the use of alternative assumptions and approaches in accordance with subsection 6.3.4.9. If PDFH is used, PDFHv5.1 must be used, with the following exceptions:

i. PDFHv4.0 is used for fares;

ii. PDFHv5.0 is used for car costs; and
iii. PDFHv5.0 is used for journey purpose/ticket type mapping.

6.3.4.9 Bidders should bid their own views of the exogenous forecasts and other relevant exogenous revenue factors. The Department’s central view of exogenous forecasts of demand drivers is provided on the Data Site in the document “Jan 2015 DD EDGE inputs (v1.5.1.0) PDFH5.1 2(2).zip” (“Exogenous Forecasts”) but with adjusted car costs and alternative data on employment\(^{14}\). These alternative demand drivers are used by the Department as a substitute for the employment data and car cost forecasts provided in the Exogenous Forecasts. The methodology for the construction of Exogenous Forecasts and the alternative demand drivers is described in the document “February 2015_TPE Northern franchise competitions_DFT methodology of exogenous forecast approaches”, available on the Data Site. If PDFH, the Exogenous Forecasts and the alternative demand drivers are not used, evidence to justify the use of alternative assumptions and approaches must be provided in accordance with subsection 6.3.5.1. Any analysis justifying the use of alternative assumptions and approaches must be provided in the form of supporting spreadsheets. Bidders must also provide a copy of supporting research material, e.g. research or analysis papers by the Bidder or a third party, journal articles from a relevant publication or analytical reports, and indicate the reliability of this source, for example by providing information such as the source, date, author, any peer review taken place, any assessment of the confidence in the data, techniques and evidence used. The Record of Assumptions must summarise the assumptions and approaches, making reference to supporting spreadsheets, research material and any other evidence used where applicable.

6.3.4.10 The Models must comply with the requirements of subsection 5.5.2.3 with respect to calculating the impact of changes to fares regulation. Bidders may choose to provide this capability within the revenue model or within a Tier 2 fares model. The Department accepts that the Models cannot have the capability to calculate the impact of all possible changes to fares regulation. The Department will deem the models to meet this requirement if they can:

i. Model a total change in regulated fares levels over the Franchise Term of up to 10 percentage points above or below the base assumption as described in subsection 6.4.1.1; and

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ii. Separate out the impact on (1) regulated fares revenue and quasi regulated fares revenue from (2) unregulated fares revenue. Further details on quasi-regulated fares are provided on the Data Site.

This must be done by the k in the RPI+k policy, and not measured by the individual fare. Quasi regulated revenue represents all of those fares that are not directly regulated but are likely to be constrained by the regulated fare. For instance, where an off-peak return is regulated, it is possible to argue that the off-peak single may be quasi regulated. Bidders must provide evidence to show how they have categorized fares by type of regulation.

Changes to fares regulation pursuant to paragraph 5 of Schedule 5.7 (Changes to Fares Regulation) of the Franchise Agreement are a Change under the Franchise Agreement to which the procedure in Schedule 9 of the Franchise Agreement applies.

6.3.4.11 The Models must have the capability to forecast the Other Revenue section of the Financial Model, to the level of disaggregation required by the Financial Templates. Given that many of the items in this section are secondary to forecasts generated by the revenue and operating cost models, Bidders may choose to provide this capability within the Financial Model, employ an additional Tier 1 Operational Model, or develop an alternative methodology. Bidders are required to detail the approach adopted in their Operating Manual and/or Record of Assumptions and such approach will form part of the evaluation carried out in accordance with Section 7 (Evaluation criteria and methodology).

6.3.4.12 Bidders must leave available a spare driver input slot within the revenue model so that a further variable can be added to the revenue forecast. This slot should allow a model user to input a percentage uplift or index into the model by model segment (e.g. ticket type and/or geographical segment), and apply this differentially to revenue and journeys. This slot may be used for the Financial Robustness Test, for sensitivity tests, and for the purpose of Change.

Crowding model

6.3.4.13 Bidders must submit a crowding model which is clearly linked to the revenue model, including for example, consistent labelling of models so that they are transparent, clearly referenced to the Record of Assumptions and any Initiatives proposed. The crowding model shall include a schedule of in scope services and stops, with the relevant head code, expected rolling stock formation diagram and seat and standing capacity for trains. The crowding model must be used to calculate a suppression factor for each year of the Franchise Term, based on the scope of services within the crowding model, which provides inputs into the
revenue model. To the extent that crowding is on average materially different on
particular days of the week, the model must calculate crowding at these times
separately.

6.3.4.14 The crowding model must identify, for each service in the timetable, the critical
load point and the forecast loading at that point (for a typical Wednesday, Saturday
and Sunday in autumn). The model must be calibrated using count data for at least
the following (unless there is insufficient loading data in either the Northern or TPE
Data Site to provide a suitable baseline for crowding modelling):

i. All 'Northern regional' services;

ii. Services arriving in the Morning Peak at any of the following stations: Chester, Hull, Leeds, Liverpool, Manchester Oxford Road, Manchester Piccadilly, Manchester Victoria, Newcastle, Nottingham and Sheffield; and

iii. Services departing in the Evening Peak from any of those stations, as
mentioned above.

6.3.4.15 Bidders must provide evidence of the data used within the crowding model.

6.3.4.16 For locations and/or times not covered by the available count data, Bidders may
use MOIRA1 estimates of train-by-train loadings as inputs to the crowding model.

6.3.4.17 In order to assist with the modelling of crowding, in terms of both demand
suppression and individual train loadings, DeltaRail has calibrated ‘CMS
Passengers’ for Northern, and Bidders may wish to use this. However, it is not a
requirement to adopt this approach. CMS Passengers covers Greater Manchester,
West Yorkshire and South Yorkshire peak periods in the peak direction only. If
Bidders decide to use CMS Passengers, then Bidders must use additional
approaches to model crowding on other services to meet the requirements set out
in subsection 6.3.4.13. If Bidders deviate from the calibrated version supplied by
DeltaRail or adjust inputs, Bidders must provide evidence to support their
alternative modelling approach. As CMS Passengers is a third party model,
Bidders will need to provide assurance to the Department that any changes to the
model parameters are evidenced. In addition, whether CMS Passengers or
alternative crowding modelling are used, Bidders are required to document their
input assumptions and provide evidence that inputs to the model (for example
exogenous growth factors and timetable inputs) are reasonable and consistent
across the Bidder’s Modelling Suite. If the Bidders decide to use CMS Passengers,
then without limiting any other rights, the Department reserves the right, as part of
the Model Audit in subsection 6.8.3, to require the leading Bidder to update CMS
Passengers for manifest errors.
6.3.4.18 An alternative approach to CMS Passengers can be used as long as consistency is maintained with webTAG guidance and evidence provided for the approach adopted such as the level of calibration and validation.

Operating cost model(s)

6.3.4.19 Information on operating costs may be provided in a standalone model or incorporated in the Financial Model. The operating cost model(s) must produce inputs to the Financial Model to the level of disaggregation required by the Financial Templates. Any further disaggregation is at the discretion of the Bidder.

Performance model

6.3.4.20 The performance model must produce the following inputs to the Financial Model:

i. Annual payments to and from Network Rail in relation to Schedule 8 of the Track Access Agreement; and

ii. Annual payments in relation to TOC-on-Self performance relative to the benchmarks defined in Schedule 7.1 of the Franchise Agreement.

6.3.4.21 The performance model must be capable of calculating the following:

i. Forecast average minutes lateness by Service Group;

ii. Attribution of average rail minutes lateness between the Franchisee and Network Rail;

iii. Forecast TOC-on-Self delays;

iv. Forecast TOC-on-Self cancellations;

v. Forecast cancellations and significant lateness (CaSL);

vi. Forecast short formations (if applicable);

vii. The impact on the Public Performance Measure Moving Annual Average; and

viii. The basis upon which any performance receipts and payments are calculated. Performance receipts and payments between the Franchisee and Network Rail should be shown separately.

6.3.4.22 Bidders must show all Initiatives which contribute to performance improvements within the performance model and provide references between such Initiatives and associated calculations.

Capital expenditure model

6.3.4.23 Information on capital expenditure may be provided in a standalone model or incorporated in another model e.g. the cost model or Financial Model. However
presented, the relevant model or part of a model must list each item of capital expenditure including those covered by the RV Mechanism (i.e. expenditure on assets with a life which is in excess of one year in accordance with the relevant accounting standards in UK GAAP or IFRS) with the facility to sort and group the items by:

i. Sub-Plan;

ii. Specific initiative as identified within the Bid;

iii. Asset category such as Rolling stock, Stations, IT systems, ticketing, depots, other infrastructure;

iv. Source of funding including self-funded, ROSCO funded and third party funded; and

v. Treatment for tax purposes i.e. whether expensed in a year or attracting capital allowances, in which case how such allowances are calculated for the relevant item.

The list must set out all items with a value in excess of £250,000 (2015/16 prices) in any forecast year or £500,000 in total (2015/16 prices) for a project which continues across more than one year. The information provided should be clearly linked to the funding provisions (timings, sources, uses, repayments), be fully documented in the Financial Structure and Funding Plan and Record of Assumptions and be reconciled to any totals reported in DP0.

6.3.5 Supplementary Material

6.3.5.1 In situations where this ITT requires the Bidder to provide additional evidence or other material (including subsections 6.3.4.8, 6.3.4.9, and 6.3.4.13 to 6.3.4.18 (inclusive)) (“Required Supplementary Material”), Bidders must submit those items in a separate file labelled “Required Supplementary Material” in which each item submitted must be clearly labelled and cross-refer to the subsection in this ITT and the items of the Modelling Suite to which the evidence or other material relates. This may include, for example, a research report or a spreadsheet which shows the calculations that lead to bespoke elasticity values inputting to the revenue model.

6.3.5.2 Separately and in addition to the requirements of subsection 6.3.5.1, If any element of the Modelling Suite which the Bidder is required to provide in accordance with this ITT contains a reference to an additional item of further information and/or tools other than the Required Supplementary Material or material already otherwise provided with the Bid, then:
i. The Bidder may provide that other information or tool ("Other Supplementary Material") with its Bid, in a separate file labelled “Other Supplementary Material”, and with each item of Other Supplementary Material clearly labelled and cross-referenced to the specific place in the Modelling Suite where it is referred to;

ii. The Department will be entitled, but not obliged, to take account of any or all of the Other Supplementary Material supplied in its evaluation of the Bidder’s Bid. The purpose of enabling the Bidder to provide with its Bid items of Other Supplementary Material is to allow the Department to be able to use that information for clarification of the Bid if and to the extent that the Department considers that to be necessary for the purposes of its evaluation. Bidders should therefore not rely on the Department considering all or any part of the Other Supplementary Material or use it as a mechanism to avoid the size limits referred to in subsection 4.4; and

iii. Where any item required to be included in the Modelling Suite, Required Supplementary Material or other part of the Bid is not so included, even if it is included in the Other Supplementary Material, the Department fully reserves its rights in respect of that non-compliance.

6.3.5.3 Supplementary Material is not required to be included as part of the Modelling Best Practice Confirmation and final Model Audit as per section 6.8. Bidders should note that the Department reserves the right to include some or all of the Supplementary Material as part of the Modelling Suite Placed in Escrow, either incorporated into Record of Assumptions or as additional Tier 2 models, and if so the relevant items (or such of them as the Department requires) will be subject to the Model Audit calculation review.

6.3.6 Financial Templates

6.3.6.1 The Department requires that the output from the Models follow the Financial Templates that will be made available in the Data Site and Bidders must incorporate these Financial Templates into their Financial Model and ensure they are fully populated. The Financial Templates have been developed to be consistent, where possible, with the information detailed in the Long Form Report. This is to assist Bidders in using that information and to ensure comparability of responses. The Bidders must therefore use the relevant revenue and cost captions within the Financial Templates. Where items of costs and revenues are already defined in the Financial Templates, Bidders must populate their Financial Model assumptions using these lines rather than allocating to alternative categories (for example, the financial cost line items on the P&L1 sheet, rows 364-374 must be
used for presenting financing cost line items rather than the Bidder defining and using an alternative “Other Operating Cost” line). If Bidders require additional revenue and/or cost captions they must use the spare rows provided within each of the templates, clearly label the costs and revenues and provide adequate descriptions of these items in the Record of Assumptions.

6.3.6.2 Bids incorporating Financial Templates which do not conform with the structure as set out in the latest iteration of the Financial Templates provided or specified by the Department will be eliminated from the competition.

6.3.6.3 The populated Financial Templates must also be submitted in PDF format. Bidders are required to integrate the Financial Templates into their Financial Model as the template outputs will form the basis for financial evaluation. No hard copies of Models are required. However Bidders should ensure that all sheets can print in a readable manner without any additional formatting being required and with consistent page breaks being applied across each sheet.

6.3.6.4 Each Bidder is required to submit with its Bid completed copies of the Financial Templates. A list of these Financial Templates together with a brief summary of each worksheet’s content and status is set out below:

**Table 6.1. Financial Template summary**

<table>
<thead>
<tr>
<th>Sheet</th>
<th>Content</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Template Cover</td>
<td>Properties, legend</td>
<td>Bidder free to use/update</td>
</tr>
<tr>
<td>Template Control</td>
<td>Contains real/nominal switch for template calculations, option flag</td>
<td>Bidder to link cells F15 and F24 to model control sheet. Use functionality but do not alter structure.</td>
</tr>
<tr>
<td>Version Control</td>
<td>Version control record</td>
<td>Populate but do not alter structure</td>
</tr>
<tr>
<td><strong>Template Inputs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Timeline</td>
<td>Define Franchise timeline and part year adjustments</td>
<td>Populate but do not alter structure</td>
</tr>
<tr>
<td>Indices &amp; Rates</td>
<td>Repository of indices and rates</td>
<td>Populate but do not alter structure</td>
</tr>
<tr>
<td>Line Items</td>
<td>Master definition of line items</td>
<td>Bidder may populate spare line items denoted by square brackets</td>
</tr>
<tr>
<td><strong>Template Outputs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pax Revenue</td>
<td>Template for forecasts of selected option</td>
<td>Populate but do not alter structure</td>
</tr>
<tr>
<td>Sheet</td>
<td>Content</td>
<td>Status</td>
</tr>
<tr>
<td>---------------</td>
<td>-------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>Template for forecasts of selected option</td>
<td>Populate but do not alter structure</td>
</tr>
<tr>
<td>Staff</td>
<td>Template for forecasts of selected option</td>
<td>Populate but do not alter structure</td>
</tr>
<tr>
<td>Other Opex</td>
<td>Template for forecasts of selected option</td>
<td>Populate but do not alter structure</td>
</tr>
<tr>
<td>RS Charges</td>
<td>Template for forecasts of selected option</td>
<td>Populate but do not alter structure</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Template for forecasts of selected option</td>
<td>Populate but do not alter structure</td>
</tr>
<tr>
<td>Performance</td>
<td>Template for forecasts of selected option</td>
<td>Populate but do not alter structure</td>
</tr>
<tr>
<td>TOC Capex</td>
<td>Template for forecasts of selected option</td>
<td>Populate but do not alter structure</td>
</tr>
</tbody>
</table>

**Financial Statements**

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>P&amp;L1</td>
<td>Template for forecasts of selected option</td>
<td>Populate highlighted cells but do not alter structure</td>
</tr>
<tr>
<td>P&amp;L2</td>
<td>Template for forecasts of selected option</td>
<td>Contains formulae, do not alter</td>
</tr>
<tr>
<td>P&amp;L3</td>
<td>Template for forecasts of selected option</td>
<td>Contains formulae, do not alter</td>
</tr>
<tr>
<td>CF</td>
<td>Template for forecasts of selected option</td>
<td>Populate highlighted cells but do not alter structure</td>
</tr>
<tr>
<td>BS</td>
<td>Template for forecasts of selected option</td>
<td>Populate including Opening Balance in column AD, but do not alter structure</td>
</tr>
</tbody>
</table>

**Output Calculations**

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>FAA</td>
<td>Production of tables and values to populate the Franchise Agreement including the Appendix to Schedule 8.2, Profit Share Thresholds (feed from Financial Statements and Bidder model)</td>
<td>Populate (highlighted cells only) but do not alter structure</td>
</tr>
<tr>
<td>NPV</td>
<td>NPV of Franchise Payments calculation (feed from Financial Statements)</td>
<td>Contains formulae, do not alter</td>
</tr>
<tr>
<td>FO&amp;C</td>
<td>Schedule 12 Franchise Agreement financial ratios, Season Ticket Bond calculations (feed from Financial Statements)</td>
<td>Populate (highlighted cells only) but do not alter structure</td>
</tr>
</tbody>
</table>
6.3.6.5 The Financial Templates shall be populated in full (which includes columns I, J and K in the Financial Templates labelled ‘Actual’ and ‘Forecast’ for the years 2013/14, 2014/15 and 2015/16), with outputs from the Models specified in Franchisee Years ending 31 March of each year.

6.3.6.6 The first Franchise Year of the Northern Franchise is expected to run for a full year from 1st April 2016.

6.3.6.7 The Financial Ratio calculations are incorporated in the Financial Templates and are based on outputs contained in the Financial Formats. For Modified Revenue and Actual Operating Costs Bidders must be consistent with the drafting of Schedule 12 (Financial Obligations and Covenants) of the Franchise Agreement in completing the Financial Templates.

6.3.6.8 Bidders are permitted to expand the level of detail provided within the Models beyond the minimum requirements of the Financial Templates. In populating the Financial Templates, Bidders:

i. Must ensure that the addition of any further information is done in such a way as to remain consistent with the format of the Financial Templates and that the level of detail provided is sufficient to give full transparency of all components of costs and revenues;

ii. Should note that the spare rows provided in the Financial Templates can be used to accommodate additional detail but deleting or inserting rows or columns to the Financial Templates is not permitted and, for the avoidance of doubt, will result in the Bid being eliminated, in accordance with subsection 6.3.6.2;

iii. May use the two blank columns inserted between the flag / labelling columns and the first modelled year as they see fit. The intention is that these columns will assist in the transfer of historic data to the Financial Model; and

iv. Must ensure that the outputs in the Financial Templates are linked to the input / calculation cells within the Financial Model where appropriate and in such a manner as to facilitate both the understanding of the Financial Model and tracing of core assumptions used in the Financial Model.
6.3.6.9 May either add worksheets to the Financial Templates or copy the Financial Templates into their own Models. In either case, Bidders are required to ensure that:

i. The named ranges defined in the Financial Templates are preserved;

ii. The new worksheets are inserted in tabs to the left of the Financial Templates ‘Templated Outputs’ tab;

iii. Must ensure that the format of the profit and loss account, cash flow statement and balance sheet are set out in the manner stipulated by the Financial Templates;

iv. Must use the units of measure as set out in the Financial Templates provided; and

v. Should note that any types of revenues or costs that it wishes to include under a catch all heading of ‘Other’ must not exceed £250,000 (2015/16 prices) in any given year. Where a Bidder anticipates that such revenues or costs will exceed this amount, they must each be separately identified in a separate spare row and not listed under the heading ‘Other’.

6.3.7 **Generic Model requirements**

6.3.7.1 Bidders must ensure that their Models comply with the following principles:

i. The Models must be presented in Microsoft Excel 2010 or later (but fully compatible with Microsoft Excel 2010) and ‘xlsx’, ‘xlsb’ or ‘xlsm’ format as shown in subsection 4.10 (Submission of Bids), with workings and formulae intact (i.e. non input cells must not be ‘hard-coded’ with values);

ii. The Models must conform with the terms of the Franchise Agreement and Funding Deed unless otherwise instructed in this ITT or through CQ responses;

iii. No rows, columns, cells or worksheets of the Models must be hidden or password protected. Protecting worksheets without passwords to avoid accidental changes to inputs or calculations is allowed, provided it does not reduce the transparency or usability of the Models. Grouping rows or columns is permissible, but hiding rows, columns or worksheets is not permissible;

iv. The Department wishes to receive models that are efficient in their operation and use of memory. A maximum file size of 75MB for each model is permitted, and smaller Microsoft Excel workbooks are encouraged. For the avoidance of doubt, any workbook taking up more than 75MB of disk space will result in the Bid being treated as non-compliant unless a derogation is granted in accordance with the process set out in subsection 6.3.8 (Derogations);
v. In order to aid model transparency Bidders should avoid the use of macros. Any use of macros must be limited to areas where their use adds to the user friendliness of the Models (e.g. print macro) or aids the achievement of other requirements of the Models (e.g. to avoid circularity or to transfer data between Models). Calculations must not be performed by a macro. Where macros are used, they must be listed and their function clearly explained within the Operating Manual;

vi. In order to aid transparency, use of the INDIRECT and OFFSET functions is prohibited, except where derogation has been granted in accordance with the process described in subsection 6.3.8 (Derogations) below;

vii. In order to aid traceability of inputs and assumptions through the Models, Bidders must avoid using MS Excel “array” formulae over excessively large ranges of cells. Array formulae are identified by the use of braces around the formula, i.e. “[...].” Bidders must not use such formulae over ranges greater than 20x20, except where a derogation has been granted in accordance with the process described in subsection 6.3.8 (Derogations) below;

viii. The Models submitted by Bidders must be in line with best practice in accordance with the requirements set out in subsection 6.8 (Reviews and audit of Models) and employ the accepted principles of “separation”, “consistency”, “integrity” and “linearity” (as described in subsection 6.8.2.4), except where a derogation has been granted in accordance with the process described in subsection 6.3.8 (Derogations);

ix. Although best practice would dictate that a consistent formula is used across columns in each row, there are a number of circumstances where a model can be made more transparent by changing the formulae across a row. Provided it is made clear (even when printed out and the formulae cannot be seen) that the calculation method is different, Bidders may use different formulae in respect of the following:

• To allow a different approach to the treatment of forecasts before the Franchise commences;
• To allow units, indices, totals, NPVs and other useful modelling ‘flags’ to be included in the columns to the left of the first modelled year;
• On sheets that do not contain a timeline, where consistency down rows may be applied instead of across columns. On sheets that contain a timeline and where vertical presentation is also desired, it should be transparent and clearly identifiable; and
x. Bidders do not need to seek derogation from the Department should the Models deviate from best practice in the three cases described above.

6.3.7.2 Cross-links between the Models must not be formed using direct references. Rather, outputs from one Model should be copied to a dedicated paste area in the other, with the origins and destinations of transferred data clearly identified within the Models and described in the Operating Manual. All Operational Models that support the inputs to and calculations within the Financial Model are required to be submitted, and it is anticipated that the full Modelling Suite will be maintained and supplemented together, and submitted simultaneously as required to support any Change arising during the Core Franchise Term and Extension Period.

6.3.8 Derogations

6.3.8.1 The Department may grant derogations from the modelling requirements including in the following four areas:

i. Model size;

ii. Use of OFFSET and INDIRECT functions;

iii. Modelling Best Practice Confirmation; and

iv. Array formulae across ranges of cells greater than 20x20.

6.3.8.2 Applications must be made in writing to the Department within 40 working days of publication of the ITT. Applications must be made via the AWARD website as outlined in section 3.9. Responses will be provided via AWARD. Applications should set out clearly why the derogation is required and the benefit to the Department and the evaluation process of granting such a derogation. It is not expected that derogations will be necessary.

Model size

6.3.8.3 The Department will consider applications to exceed the 75MB workbook size limit where it is demonstrated that adherence to this limit generates significant inefficiencies, or materially reduces the level of confidence in the resulting forecasts.

Use of prohibited functions

6.3.8.4 The Department will consider applications for use of the OFFSET and INDIRECT functions where Bidders can demonstrate:
i. The use of these functions generates significant savings in model run times and use of disk space or otherwise significantly assists the efficient pricing of Change; and

ii. The use of these functions is clearly explained and documented in the Operating Manual and Record of Assumptions.

**Modelling Best Practice**

6.3.8.5 The Department will consider applications to relax the requirements of the Modelling Best Practice Confirmation on an individual model basis, and considers that derogations may be more appropriate for elements of Tier 2 Operational Models, at the underlying input/ assumption interface.

**Array Formulae**

6.3.8.6 The Department will consider applications for the use of array formulae greater than 20x20 for checking purposes only, i.e. where it is not part of the main model calculations.

**6.4 Assumptions**

6.4.1 **General assumptions to be made**

6.4.1.1 Bidders are to use the following assumptions in preparing their Bids:

i. The Franchise will commence on 1st April 2016;

ii. The Northern Franchisee Year commences on 1 April of each year. For the avoidance of doubt the Franchisee will be required to prepare audited accounts for the Franchisee Year ending 31 March for the duration of the Franchise;

iii. Annual RPI and AWE indices assumptions will be made available to Bidders in the Data Site and shall apply from the year commencing 1 April 2016 and annually thereafter. Bidders should adopt their own RPI and AWE assumptions up to the year commencing 1 April 2016, and such assumptions should be clearly stated;

iv. The real discount rate to be applied in present value calculations is 3.5 per cent per annum;

v. The net present values of Bid revenues, costs and Franchise Payments will be discounted to the Franchise Start Date (1 April 2016);

vi. For the purposes of calculating net present values, the template calculation assumes the following timings for cashflows:
• Mid-year cashflows for full Franchise financial years from 1 April to 31 March inclusive (30 September);

vii. Bidders must use CP5 values for regulated charges and performance regimes, as determined by the ORR Periodic Review 2013, throughout the Core Franchise Term and Extension Period. To note that Schedule 8 Track Access Agreement benchmarks for the final year of CP5 must be used for the remainder of the Core Franchise Term as well as any Extension Period;

viii. Bidders shall assume no change to FTAC as a result of the transfer of services in or out of the franchise between the issue of the ITT and the Start Date;

ix. Bidders must assume maximum annual regulated fares increases of RPI+0% in 2015 and RPI+1% from 2016 until the end of the Franchise Term for each fares basket for the life of the Franchise, with individual fares within the basket not being increased by more than RPI+0%(k)+0%(flex) in 2015 and RPI+1%(k)+2%(flex) from 2016;

x. Bidders should make their own assumptions in respect of payments under any Route Efficiency Benefit Share mechanism;

xi. The Innovation Fund: the Franchisee is required to deposit an amount of money for each Innovation Year (i.e. Franchisee Years 1, 2 & 3) to the Innovation Account. The amount deposited each year is the Annual Innovation Account Contribution per paragraph 19 of Schedule 13 of the Franchise Agreement. For modelling purposes, and when calculating the Financial Ratios, the Bidders must expense the Annual Innovation Account Contribution as a charge to the Profit and Loss i.e. in the year it is deposited treat the amount as a cash expense (Debit P&L & Credit Cash). No further treatment is required for modelling purposes. Bidders must not include in the Financial Model any revenue benefit from schemes which utilise the Innovation Fund. For the avoidance of doubt this does not override the Bidder’s responsibility under the Franchise Agreement, once it has been entered into, relating to the treatment of the Innovation Fund, Innovation Account, or Annual Innovation Account Contribution as set out in the Franchise Agreement;

xii. With respect to any non-capital costs (and all operating (including maintenance) and project implementation costs are to be treated as non-capital costs for this purpose) arising from any scheme utilising the Residual Value Mechanism, costs arising from such scheme shall be expensed in the year in which they arise; and

xiii. Bidders should expense pension cash contributions but should not model actuarial gains or losses on pension assets or liabilities.
6.5 **Record of Assumptions**

6.5.1 Each Bidder is required to submit with its Bid a Record of Assumptions which:

i. Is written in Microsoft Word ‘docx’ format in accordance with subsection 4.10 (Submission of Bids);

ii. Clearly sets out the rationale underlying the assumptions and the methodologies adopted;

iii. Provides detail and transparency on the costs, revenues and assumptions associated with each major timetable change, as required in subsection 5.4.1 (DP2.1);

iv. Includes a description of the accounting principles adopted and the specific accounting policies applied, especially in relation to:
   - The purchase of assets with a useful life in excess of one year;
   - Pensions – service costs or cash contributions and balance sheet treatment;
   - Bad debts – if provisions are made, are they specific or general;
   - ROSCO leases – how each lease has been accounted for and the rationale for the treatment adopted; and
   - Rolling Stock Maintenance Reserve – how each reserve has been accounted for;

v. Includes a description of the tax treatment adopted, especially in relation to:
   - Categorisation of operating and capital expenditure, including the capital allowance treatment of each capital asset;
   - Pensions;
   - ROSCO leases – whether or not each lease is a Long Funding Lease and the rationale for the treatment;
   - Interest costs, with specific consideration given to thin capitalisation rules where there is significant lending through AFC or PCS; and
   - The Record of Assumptions must contain a level of detail and a granularity of data such that each input assumption and changes to it over time, as reflected in the Models, are properly explained;

vi. Provides a level of usability such that linkages to the Models are clear and the narrative provides the user with sufficient information to assess the financial impact of price or volume changes within a reasonable timeframe;
vii. Uses tables to enhance the narrative, such tables being directly traceable to the Models; and

viii. Arrives at an estimate of the financial impact of a change in prices or volumes which is aided by the quality of the narrative.

6.5.2 The Record of Assumptions must:

i. Contain all financial and operational assumptions used in the Models and explain and discuss the inputs of each Model, including the base unit cost for each input. Where contracted variable unit costs have the potential to change as a result of Change (e.g. maintenance contract charges which vary between mileage bands), Bidders are required to include the full range of potential unit costs of their anticipated contracted agreements within the Record of Assumptions;

ii. Include a table setting out the percentage of total other revenues, other operating costs and rolling stock costs (totals in real terms over the Franchise Term) that are earned from or paid to HQ, group or other Affiliates (as defined in the Franchise Agreement) including details of (a) the services to which such revenues or costs relate; and (b) the basis for determining the charges;

iii. Provide details of all costs and revenues (excluding passenger revenue) associated with the operations of each of Manchester Oxford Road station and Manchester Victoria station;

iv. Provide details of any financial benefits (which includes changes to both revenues and costs that impact the Bid level of Franchise Payments) included within the Bid arising from any alliance with Network Rail. Bidders must not include any financial benefits from any deep alliance i.e. an alliance requiring a change to the industry regulatory framework and hence third party approval that may generate savings from possessions (Schedule 4 Track Access Agreement) or performance (Schedule 8 Track Access Agreement) amounts within their Bid. The consequences of any proposals for alliancing with Network Rail may be subject to risk adjustment in accordance with the principles of Section 7 (Evaluation criteria and methodology) and Appendix 3 (Risk Adjustment Process);

v. Include separately the costs involved and assumptions made in relation to pension contribution rates, both employer and employee;

vi. If the Bidder proposes investment with a useful economic life or period of financial return that exceeds the Franchise Term, any costs and revenues that
accrue in relation to that investment must be explicitly set out in the Record of Assumptions setting out:

- The period from investment until the end of the Franchise Term;
- The period from end of the Franchise Term until end of asset life, including the basis for determining that asset’s life;
- The initial cost of the investment;
- The amount of cost recovered/ paid off during the life of the Franchise together with the trajectory of that recovery / payment off during the Franchise Term;
- The non-depreciated value (i.e. residual value) at the end of the Franchise Term:
  - Assets to which the provisions of subsection 5.1.10 to 5.1.14 (Residual Value Mechanism) do not apply. With regard to such assets the Franchisee is on risk as to whether they are designated as Primary Franchise Assets or if a Successor Operator purchases such assets. If they are designated the standard valuation provisions of the Supplemental Agreement apply; and
  - Assets which the Bid proposes are acquired by a Successor Operator in accordance with the provisions contained in subsection 5.1.10 to 5.1.14 (Residual Value Mechanism), along with other information requirements as stipulated in that subsection;

vii. If a Bidder provides for investments in assets to be identified in the future, or a general investment fund, the Record of Assumptions must make clear the nature of the proposed investments and the process for agreeing how such funds are to be spent and must provide a cross reference to the relevant Initiative in the Bid; and

viii. Where changes in the Financial Model are attributable to Initiatives, set out the reasons for such in the Record of Assumptions for each affected input to the Financial Model. An example of how such movements could be presented is shown in respect of headcount in Table 6.2 (Example of presentation of movements in Record of Assumptions) below. Bidders should note that words and values contained within Table 6.2 are indicative only.
Table 6.2. Example of presentation of movements in Record of Assumptions *

<table>
<thead>
<tr>
<th>Franchise Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base year/ Opening FTE</td>
<td>432.5</td>
<td>392.5</td>
<td>376.5</td>
<td>374.5</td>
<td>389.5</td>
<td>419.5</td>
<td>424.5</td>
<td>421.5</td>
</tr>
<tr>
<td>LFR data – baseline adjustment</td>
<td>(20.0)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initiative DP 3.4.5 (Train maintenance in house)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>15.0</td>
<td>30.0</td>
<td>5.0</td>
<td>(3.0)</td>
</tr>
<tr>
<td>Initiative DP 3.4.6 (Depot staff restructuring)</td>
<td>(15.0)</td>
<td>(15.0)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initiative DP 6.2.3 (Management/ HQ structure efficiencies)</td>
<td>(5.0)</td>
<td>(5.0)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initiative DP 5.2.1 (Sales channel review)</td>
<td>(5.0)</td>
<td>(3.0)</td>
<td>(2.0)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initiative DP 4.1.1 (Station welcome hosts)</td>
<td>5.0</td>
<td>2.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total FTE at year end</td>
<td>392.5</td>
<td>371.5</td>
<td>374.5</td>
<td>389.5</td>
<td>419.5</td>
<td>424.5</td>
<td>421.5</td>
<td>421.5</td>
</tr>
</tbody>
</table>

*the DP numbers and descriptors provided are for illustrative purposes only, and are not intended to relate to this Franchise competition.

6.5.3 Bidders are required to fully evidence the details behind their Initiatives in their response to Section 5 (Detailed Bid Submission Requirements - Delivery Plans). Using the above table as guidance, Bidders shall, in their Record of Assumptions, provide detail of the impact that Initiatives have on each cost, revenue or other input to the submitted Financial and Operational Models. A brief narrative explaining why the cost or revenue is so impacted by the relevant Initiatives must accompany each table. The wording of the narrative or cross-references used and the values shown must make it reasonably determinable that the Initiative is the same as its correspondingly numbered Initiative in the Bidder’s response to Section 5 (Detailed Bid Submission Requirements - Delivery Plans).

6.5.4 In addition, each Bidder is required to submit with its Bid:

i. A copy of its modelled timetable (which has been developed within MOIRA1 as per the instruction set out in subsection 6.3.4.8) and any other revenue or timetable development software) to calculate the likely passenger revenues that will be earned from the timetable submitted with its Bid and that have been utilised in the population of the Bidder’s revenue model. This information must
be provided electronically in raw format as an appendix to a Bidder’s Record of Assumptions.

6.6 **Operating Manual**

6.6.1 Each Bidder is required to submit with its Bid an Operating Manual which:

i. Is in Microsoft Word ‘docx’ format in accordance with subsection 4.10 (Submission of Bids);

ii. Is an accurate and plain English document that facilitates a reasonable level of understanding of the functionality of the Bidder’s “Models”, including how they interface and interact with other Models;

iii. Includes an explanation of the flow of data through the Financial Model and the interfaces with the Operational Models submitted. This may be presented diagrammatically with supporting narrative as appropriate. This must also describe how any interface spreadsheets are used in the flow of data between models, if applicable;

iv. Includes a description of each Model, its structure and capability;

v. Includes a description of the purpose and operational characteristics of each worksheet and how it interacts with the Models;

vi. Includes instructions on how to input data, select scenarios/options and calculate the financial outputs;

vii. Clearly explains the method by which the Bidder’s Models are able to carry out the tests described in subsection 6.3.4.2; and

viii. Where macros (or other visual basic functions) have been used, includes a description of the macros used in the operation of the Models, the reason for their use and how they are used to generate model outputs.

6.6.2 Screen shots and narrative may be used to provide the user with sufficient information to assess the content, purpose and functionality of the Models.

6.7 **Change**

6.7.1 **Matters to be addressed in the Operating Manual**

6.7.1.1 In addition to the requirements and content set out in subsection 6.6 (Operating Manual), the Operating Manual shall also include the worked examples of Change (“Worked Examples”) set out below. The Worked Examples will be evaluated in accordance with subsection 7.4.57.4 (Modelling Change tests) and section 7
(Evaluation criteria and methodology). The Financial Model is not required to include a switch to allow these examples to be selected. The Worked Examples to be included are:

i. Worked Example (A) – the maximum regulated fare basket increase for 2017 reduces from RPI+1% to RPI+0%, for the industry as a whole. All other policies remain the same including caps on individual prices within baskets and fare rises for other years. (Bidders should include the impact of the price change on levels of demand);

ii. Worked Example (B) – The completion of the infrastructure works enabling the December 2017 timetable change is delayed until the subsequent May timetable change; and

iii. Worked Example (C) – Track Access Charges set by the ORR are assumed to be equal in real terms to the charges as per the last year of CP4 for the CP6 period.

6.7.1.2 The Bidder must ensure that the Worked Examples:

i. Provide a clear and detailed account of the assumptions and processes employed in pricing the Change, including:

   • Details of the individual steps to be followed to make the Change (this should be in sufficient detail to enable evaluators to follow the flow of calculations through the Modelling Suite rather than rely on “switching on” pre-populated inputs);

   • Identification of the Models impacted by the Change (i.e. financial, revenue, crowding, fares etc.), including a process flow diagram; and

   • The net output results of the change in franchise payments;

ii. Trace the effect of a revised input through the Models, providing an audit trail from output Franchise Payments back to input changes;

iii. Include a commentary on the rationale for the inclusion/exclusion of each variable within the scope of the Change, demonstrating the reasonableness of the revisions; and

iv. Demonstrate that the level of change in the Financial Model outputs, including but not limited to Franchise Payments, is commensurate with the level of input changes e.g. by reconciling the movement in Franchise Payments and/or other key variables impacted by the Worked Example.
6.7.1.3 The Bidder’s approach to Change must demonstrate to the Department that the Modelling Suite will result in a transparent and efficient contracting of future Changes.

6.7.2 **Modelling Change**

6.7.2.1 In order for the Department to satisfy itself as to the suitability of the entire Bid to price Change, the Department requires the Bidder to submit with its Bid the items described in **Table 6.3** below (Modelling Change submission requirements) and will as part of its evaluation, as described in subsection 7.5 (Modelling Change tests), assess whether the Bidder has complied with the requirements specified in the column headed “Requirements” for each of the four items listed in that Table.

**Table 6.3. Modelling Change submission requirements**

<table>
<thead>
<tr>
<th>No.</th>
<th>Item</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Worked Examples and approach to Change</td>
<td>Each Bidder will include within the Operating Manual submitted with its Bid, the Worked Examples and details of its approach to Change prepared in accordance with the requirements described in subsection 6.7 (Change) of this ITT.</td>
</tr>
<tr>
<td>2.</td>
<td>Record of Assumptions and Operating Manual</td>
<td>Each Bidder will include within its Bid a Record of Assumptions prepared in accordance with the requirements described in subsection 6.5 (Record of Assumptions) of this ITT and an Operating Manual prepared in accordance with the requirements described in subsection 6.6 (Operating Manual) of this ITT.</td>
</tr>
<tr>
<td>3.</td>
<td>Suitability of Financial Model for implementing Changes</td>
<td>Each Bidder will include within its Bid a Financial Model prepared in accordance with the requirements described in subsections 6.3 (Financial and Operational Model requirements) and 6.4 (Assumptions) of this ITT.</td>
</tr>
<tr>
<td>4.</td>
<td>Suitability of Operational Models (including integrity of the Modelling Suite) for implementing Changes</td>
<td>Each Bidder will include within its Bid Operational Models prepared in accordance with the requirements described subsections 6.3 (Financial and Operational Model requirements) and 6.4 (Assumptions) of this ITT.</td>
</tr>
</tbody>
</table>

6.7.2.2 The Department recognises that there are considerable time, cost and resources often deployed by the Department and Franchisees in the contracting and management of Change throughout the Franchise Term. The contracting of a suitable Modelling Suite will support endeavours to improve the efficiencies around contracting Change.

6.7.2.3 The Department reserves the right to engage with one or more Bidders, prior to signing of the Franchise Agreement, to improve the transparency, granularity and
usability of the Modelling Suite in areas which it believes would be beneficial to the management of the Franchise as outlined above. This will not impact on the ranking of the Bids.

6.8 **Reviews and audit of Models**

6.8.1 **Introduction**

6.8.1.1 Bidders must note that the Models submitted with their Bids will have been, or during evaluation will be, reviewed or audited in accordance with the following requirements:

**Table 6.4. Model review and audit requirements**

<table>
<thead>
<tr>
<th></th>
<th>Independent Modelling Best Practice Confirmation</th>
<th>Model Audit</th>
<th>Calculation Review</th>
<th>Review by DfT’s Technical and Financial Advisers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Model</strong></td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td><strong>Tier 1 Operational Models</strong></td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Tier 2 Operational Models</strong></td>
<td></td>
<td>✓</td>
<td>✓*</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Supplementary Material</strong></td>
<td></td>
<td>✓*</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td><strong>Timescales and Requirements</strong></td>
<td>Confirmation provided at Bid Submission</td>
<td>Model Audit Report following Department instruction</td>
<td>Completed in parallel with Financial Model Audit following Department instruction</td>
<td>Completed by the Department as part of its evaluation process</td>
</tr>
</tbody>
</table>

*The Department reserves the right to include some or all of the Tier 2 Models and/or Supplementary Material as part of the Calculation Review.*

6.8.1.2 The Financial Model and Operational Models of all Bidders will be subject to Independent Modelling Best Practice Confirmation. Details of the process are set out in subsection 6.8.2 (Modelling Best Practice Confirmation). The Financial Model of one or more Bidders will be subject to a full Model Audit. Details of which Bidders and the process are described in subsection 6.8.3 (Model Audit).
6.8.1.3 Bidders are required to satisfy themselves as to the technical accuracy of all Models prior to submission, noting the allocation of risk with respect to errors within the Models described in subsection 6.2 (Errors in Models and/or Record of Assumptions).

6.8.2 **Modelling Best Practice Confirmation**

6.8.2.1 Each Bidder must provide with its Bid an independent Modelling Best Practice Confirmation report on all sections of the Models. The report and any engagement letter between the Bidder and the report-writer, must:

i. Be co-addressed to the Department and that Bidder (prior to bid submission the Department is prepared to co-sign the engagement letter, if required);

ii. Permit the Department to review and rely on the report;

iii. Acknowledge that the Department gives no warranty or representation with regards to the sufficiency of services provided by the report writer, the report itself or the scope of any terms of engagement relating to the report; and

iv. Exclude all liability however arising on the part of the Department connected in any way with the report.

6.8.2.2 The report must take account of any derogations obtained in accordance with the process described in subsection 6.3.8 (Derogations) above. The Modelling Best Practice Confirmation is not considered to be an audit of the Models.

6.8.2.3 All costs associated with the preparation of the Modelling Best Practice Confirmation are for the Bidder’s account only.

6.8.2.4 The Modelling Best Practice Confirmation must provide confirmation that the Models have or provide for:

i. **Separation** of inputs, calculations and outputs:

   • Inputs: should include data and assumptions but no calculations;
   
   • Calculations: should include individual calculations that support each line of all outputs and reports. There should be no duplication of calculations nor should input cells be hard-coded in the calculation sheets;
   
   • Outputs: should not include any hard-coded input cells or calculations except for sums and check totals; and
   
   • Data inputs, calculations and output areas should be completely separate and clearly labelled. The Modelling Best Practice Confirmation must
document the high level patterns of data flow within the Models and include a flow chart of the main data flows between worksheets and workbooks;

ii. **Consistency** of formulae across rows and down columns and across worksheets. The Models should have time periods across the columns and calculations down the rows. This should be consistent in all worksheets. There are two areas where consistency is most important:

- Columns: the same column should be used for the same period in each worksheet (although it should be noted that the time periods across columns in the Bidder’s Model may be different from the columns in the Financial Templates); and
- Rows: a row will contain only one formula, copied across all columns;

iii. **Integrity** of financial statements (e.g. that there are no balancing figures). The Modelling Best Practice Confirmation must provide an assessment of the extent and effectiveness of internal and/or error checks contained within the Models and detail any internal control checks that indicate errors;

iv. **Linearity** of calculation flow (e.g. that there are no circular references);

v. **Macros**, where required, their function should be clearly explained; and

vi. Bidders may use the following hard coded values in formulae if required: 1,-1, 0, TRUE, FALSE.

6.8.2.5 The Modelling Best Practice Confirmation must provide a review of the Models’ structures by means of spreadsheet maps, which give a visual representation of the worksheet structure and layout, highlighting elements of the worksheet layout that warrant further investigation (however, as this is not as detailed as a Model Audit, each individual formula is not checked).

6.8.2.6 The Modelling Best Practice Confirmation must also provide confirmation that the 75MB size limit has been adhered to, that array formulae have not been used across ranges of cells greater than 20x20 and that the INDIRECT and OFFSET functions are not used except where derogations have been obtained in accordance with the process described in subsection 6.3.8 (Derogations).

6.8.3 **Model Audit**

6.8.3.1 Following Bid submission and prior to contract award the Department will request one or more Bidders to obtain an independent audit of all sections of the Financial Model (the “Model Audit”). The Model Audit shall be prepared for the benefit of the Department and the Bidder; shall be co-addressed to them, and the level of liability must be agreed by the Department, and will be a minimum of £1m. All costs
associated with the preparation of the Model Audit are for the Bidders’ account only. Bidders must obtain the Department’s acceptance (not to be unreasonably withheld) of their choice of independent model auditor, the scope of the Model Audit and the Department’s agreement to what constitutes the Financial Model for determining the scope of the audit. The Department will expect to receive the audit report within fifteen working days of it being requested of the Bidder.

6.8.3.2 The Department requires the Model Audit to confirm:

i. Whether the Financial Model has been constructed appropriately so as to materially achieve the objective that it was designed to meet, insofar as its logical integrity under the Bid assumptions and input data is concerned, including the conversion of nominal values to real values;

ii. Whether the tax charge, liabilities and payments calculated by the Financial Model, on the basis of the assumptions made in the Operating Manual and Record of Assumptions appear materially consistent with current understanding of existing UK tax legislation, identifying any risks associated with the underlying tax assumptions;

iii. Whether the Bidder has applied UK GAAP (incorporating any relevant transitional arrangements to FRS100, FRS101 or FRS102 should the Bidder not choose to early adopt) or IFRS (full IFRS) accounting policies and whether the key accounting assumptions in the Financial Model and the Operating Manual and Record of Assumptions appear materially consistent with current understanding of UK GAAP/IFRS (whichever is relevant);

iv. Whether the calculation of the Annual Franchise Payments is in accordance with the terms of the Franchise Agreement;

v. Whether the calculation of the Financial Ratio complies with the requirements in section 6.3.3.1 and is consistent with the definition of Modified Revenue and Actual Operating Costs in accordance with Schedule 12 (Financial Obligations and Covenants) of the Franchise Agreement;

vi. Whether the Financial Model has been developed in a well-structured manner to best practice standards;

vii. Whether assumptions and input data in the Operating Manual and Record of Assumptions have in all material respects been consistently reflected in the Financial Model; and

viii. Whether the modelling requirements for the financial robustness testing are met such that the Financial Model accurately performs the calculations as required in subsection 6.3.3.1, section 7.6 and to ensure compliance with the
Funding Deed. The Department will define with the model auditor the inputs and parameters, as appropriate, to meet this requirement in the Model Audit.

6.8.3.3 For the Model Audit, the Department may provide one or more Bidders with no more than five tests for the purposes of understanding robustness of the Financial Model. The Model Audit will test the logical integrity of the arithmetical operations in the Financial Model formulae and calculations under the assumptions and input data for the specified test(s). A robustness test is defined as a change in one or more input variables through the models with the Bid Franchise Payments and Agreed Funding Commitment held constant i.e. “frozen”.

6.8.3.4 The Department recognises that the finance, accounting and taxation elements of the Model Audit are not relevant to the Tier 1 and 2 Operational Models, and therefore requires a review of the calculations only, to be conducted by the same party that undertakes the Model Audit, in accordance with the process described in subsection 6.8.4 (Calculation Review).

6.8.4 Calculation Review

6.8.4.1 As part of the Model Audit the independent party conducting the Model Audit must also conduct a review of the calculations employed in the Tier 1 Operational Models (a “Calculation Review”). To note the Department reserves the right to include some or all of the Tier 2 and/or Supplementary Material in the Calculation Review and reference below to Tier 1 Operational Models shall be interpreted accordingly. The Calculation Review will be conducted to the same standard as the Model Audit, but will exclude the technical elements of this process relating to taxation and accounting practices. The Department requires the review to confirm:

i. Whether the Tier 1 Operational Models have been constructed appropriately so as to materially achieve the objectives that each of them were designed to meet, insofar as its logical integrity under the Bid assumptions and input data is concerned;

ii. Whether the Tier 1 Operational Models have been developed in a well-structured manner to best practice standards; and

iii. Whether assumptions and input data in the Operating Manual and Record of Assumptions have in all material respects been consistently reflected in the Tier 1 Operational Models.
6.9 Financial Structure and Funding Plan

6.9.1 Bid requirements

6.9.1.1 Each Bidder is required to submit with its Bid a Financial Structure and Funding Plan which:

i. Details the total investment plan for all funding of infrastructure, other works and schemes that support its proposals, including explaining its linkage with the Financial Model. The capital expenditure covered by this plan must be clearly reconciled to amounts contained in the Capital Expenditure Model or sheet(s) contained in the Financial Model or cost model and any capital expenditure or investment amounts presented in DP0;

ii. Shows that the PCS has been calculated and provided in accordance with the requirements set out in subsections 6.9.2.4 to 6.9.2.9 (Parent Company Support);

iii. Provides precise details of its funding arrangements, the exact nature of relationships with any funding partner(s) or underlying financial securities provided by third parties, including the extent of dialogue and nature of any commitment, risks to its ability to meet its funding commitments and how risks will be mitigated;

iv. Provides a schedule, reconciled to the worksheet “Funding” rows 47 to 50 in the Financial Templates, which details, for each element of AFC funding, amounts of equity and debt provided and repayment profiles where relevant. This schedule should be supported by sufficient narrative for the Department to understand the Bidders’ plans and rationale;

v. Provides details of the providers of the Performance Bond, Season Ticket Bond, PCS Bond or other security including term sheets from the bond provider(s) in order to demonstrate that the requirements of the Franchise Agreement and Funding Deed have been or will be met;

vi. Includes a statement from the relevant bond provider confirming the amount of this bond and accepting the form of the Performance Bond as set out in the Franchise Agreement (as an Annex if appropriate);

vii. Includes a statement from the relevant bond provider confirming the amount of this bond and accepting the form of the Season Ticket Bond as set out in the Franchise Agreement (as an Annex if appropriate);

viii. Includes a statement from the relevant bond provider(s), confirming the amount of the bond being provided under the Funding Deed, accepting the form of the
PCS Bond as set out in the Funding Deed (as an Annex if appropriate) and addressing all other matters associated with the Department updating its tests of financial and economic standing as set out in section 6.10;

ix. Includes a statement from the Guarantor(s) confirming the amount of AFC and PCS it is guaranteeing and accepting the form of the Funding Deed and its terms, and that they will be prepared to enter into the Funding Deed in that form on the date of execution of the Franchise Agreement;

x. Demonstrates how ongoing working capital requirements, as forecast in the Financial Model, will be funded;

xi. Includes for each Initiative which has a funding source outside of working capital (or groups of commitments if appropriate), a funding plan with full details of its linkage with the Financial Model, details of each source of funding (each source of third party funding must be separately identified), including rights and obligations of each type of funding and details of agreements with the underwriting organisation(s) (including any Affiliate(s)) providing funding. For each source, a letter of support and term sheet must be provided from the underwriting financial institution, Affiliate and/or organisation setting out the terms and conditions (including all condition precedents, fees, repayment profile, basis of interest rate calculation) of the finance;

xii. If relevant, includes an explanation of the basis under which the Bidder proposes to procure additional rolling stock from the ROSCOs or extend existing leases;

xiii. Sets out the detailed basis of the accounting treatment of leasing and associated charges for all rolling stock (explaining in particular whether charges for the use of rolling stock are treated as operating, finance leases or otherwise and why) and the detailed tax treatment of these charges (explaining in particular the application if relevant of the long funding lease rules contained in Chapters 6 and 6A of Part 2 of the Capital Allowances Act 2001);

xiv. Provides details and assumptions for interest earned on cash deposits;

xv. Includes a statement of funding available to the Franchisee from the Start Date including any assumptions around cash held by Northern Rail Ltd relating to season ticket or advance ticket purchases at the Start Date; and

xvi. Includes a letter from its financial adviser(s) (as an Annex if appropriate):

• Confirming that the funding plans for all aspects of the Bid have been developed to a stage that will allow funding to be made available to the Franchisee on execution of the Franchise Agreement;
• Confirming that financial adviser support of the funding proposition has been provided in the knowledge of the terms and conditions set out in the term sheets of the finance providers;

• Confirming that the funding plans, including term sheets and financing assumptions, are accurately reflected in the Financial Model;

• Confirming that the Financial Model has been prepared following the accounting standards adopted (UK GAAP or IFRS);

• Confirming that risks to the Bidder’s ability to meet its funding commitments have been identified and mitigated;

• Confirming that relief or sale of losses is clearly stated within the Financial Model and confirming that such relief will be supported by the Bidder’s owning group, as per subsection 6.3.3.1;

• Confirming that they have given consideration to the deductibility of any interest expense in light of thin capitalisation rules, as per subsection 6.3.3.1;

• Setting out the calculated ratios in respect of the Guarantor(s) as set out in subsection 6.10 (Updating of PQQ financial and economic standing tests and submission of updated bond provider letter(s)), together with details of the data used and its source, and details of the calculations undertaken and confirming, to the best of its knowledge, that the ratios have been calculated in accordance with the parameters defined in the PQQ documents; and

• Confirming the interest rates and contractual terms of any inter-company or third party debt funding, subordinated loans or other funding arrangements between, or to be between, the Franchisee and any Affiliate (as defined in the Franchise Agreement) or third party.

6.9.2 Funding

6.9.2.1 Bids will need to be supported by two sources of funding which will be contractualised in the Funding Deed:

i. Agreed Funding Commitment; and

ii. Parent Company Support.

Agreed Funding Commitment

6.9.2.2 This is the amount and timing of funding incorporated in a Bid Financial Model to support the working capital and investment requirements of the Franchisee. It
includes funding provided by group companies and third parties and may include
debt, equity or a combination of both. Such funding must be incorporated in the
Bidder’s Financial Model to enable the Bidder to demonstrate that its Bid complies
with the Financial Ratio (1.070:1) tests in subsection 6.3.3.1.

6.9.2.3 Bidders should note that the Funding Deed requires that the Guarantor will procure
the provision of any third party funding included within the Funding Plan. For the
avoidance of doubt if the third party funding is not guaranteed at bid submission,
this will be taken into account by the Department as described in subsection 7.9.2.

Parent Company Support

6.9.2.4 Bids for the Northern Franchise must be supported by a level of parent company
support ("Parent Company Support"). Such support must come from the
Guarantor (as defined in the Pre-Qualification documentation).

6.9.2.5 Parent Company Support consists of Required PCS and Additional Parent
Company Support as explained below. The amount of Parent Company Support
is defined in the Funding Deed as ‘PCS Facility’.

6.9.2.6 The Guarantor(s) of the successful Bidder as provider(s) of Parent Company
Support will be required to enter into the Funding Deed with the Secretary of State.
The Funding Deed will set out the Guarantor(s)’ obligation to make the Parent
Company Support available. The Guarantor(s) entering into the Funding Deed with
the Secretary of State will be subject to the updated tests of financial and economic
standing described in subsection 6.10 (Updating of PQQ financial and economic
standing tests and submission of updated bond provider letter(s)).

Required Parent Company Support

6.9.2.7 The amount of Parent Company Support which the Department requires Bidders
to provide under the Funding Deed will be calculable by Bidders by reference to
their Financial Model (“Required Parent Company Support”). The method of
calculation is set out in the Financial Templates and is as follows:

\[
\text{Required PCS} = £40,000,000 + 7\% \times \sum_{y=1}^{10} (BFP_y - FP_y)
\]
Where:

\[ \text{BFP}_y \] equals the Department’s Baseline Franchise Payments\textsuperscript{15} provided to the Bidders, stated in the Financial Templates sheet ‘Funding’ row 20 for each year “y” of the Franchise Term, including the Extension Period.

\[ \text{FP}_y \] equals the Franchise Payments as calculated by the Bidder’s Financial Model and output in the Financial Templates sheet ‘Funding’ row 21 for each year “y” of the Franchise Term, including the Extension Period, and which are expressed in nominal terms. For the avoidance of doubt, these Franchise Payments are without any regard for payments by way of profit share payments due to the Department pursuant to paragraph 3 of Schedule 8.1 of the Franchise Agreement.

Where \((\text{BFP}_y - \text{FP}_y)\) for any given year “y” is negative, \((\text{BFP}_y - \text{FP}_y)\) shall be deemed to be equal to zero for that given year “y”. For the avoidance of doubt, the minimum Required Parent Company Support amount is £40,000,000.

Franchise Payments can be expressed as positive or negative. Negative Franchise Payments are payments from the Franchisee to the Department. Positive Franchise Payments are payments from the Department to the Franchisee.

Additional Parent Company Support

6.9.2.8 Bidders may propose Parent Company Support in excess of Required Parent Company Support (“\textit{Additional Parent Company Support}” or “\textit{Additional PCS}”) for the purpose of providing additional financial robustness in the Bid. Additional Parent Company Support must be advanced by the Guarantor(s) in accordance with the terms of the Funding Deed i.e. it must be provided under terms identical to the Required Parent Company Support, including meeting the Bonding Requirements.

6.9.2.9 “\textit{Actual Parent Company Support}” is the sum of Required Parent Company Support and Additional Parent Company Support.

Bonding of Parent Company Support

6.9.2.10 Bidders will be required to procure, in accordance with the Funding Deed, a bond(s) from third party financial institution(s) with a relevant credit rating in an amount equal to the Bonding Requirement for the aggregate of the Required PCS

\textsuperscript{15} Please note that the Base Line Franchise Payments for the Parent Company Support calculation will be provided to Bidders after the ITT has been issued.
and any Additional PCS ("Bonded PCS"). For the purpose of this subsection 6.9.2.10, "relevant credit rating" means either a credit rating of:

i. A- (or better) by Standard and Poor's Corporation or Fitch Ratings Limited in respect of long term senior debt; or

ii. A3 (or better) by Moody's Investors Service Inc. in respect of long term senior debt.

6.10 **Updating of PQQ financial and economic standing tests (the “Tests”) and submission of updated bond provider letter(s)**

6.10.1 Bidders should refer to the PQQ and PPD for information relating to how the Tests will be updated.

6.10.2 As set out in the passage of Section 5.3 of the PPD entitled “Re-calculation upon receipt of tenders”, the Department will re-calculate the results of the Tests once the Bid has been submitted, both in light of the Actual Parent Company Support (as determined by the requirements set out in subsection 6.9.2 (Funding)), and to take account of any audited annual accounts or credit rating updates issued during the letting process, or any material event disclosed or which ought to have been disclosed under Section E1.3 of the PQQ.

6.10.3 As explained above, the Bidder should note that the Bonded PCS will need to reflect the Actual Parent Company Support. The PPD sets out the Department’s requirements in relation to Bonded PCS in excess of £20 million (referred to in the PPD as the Additional Bonding Requirement). Bidders must return with their Bid an updated letter from their bond provider(s), which reflects both the requirements of the PQQ and PPD and the level of Bonded PCS.

6.10.4 Bidders should be aware that the Funding Deed, along with the PCS bond and Performance Bond will be signed when the Franchise is awarded and on the same date as the Franchise Agreement, albeit that the obligation to provide Parent Company Support (or call on the bond(s)) arises only on the date that the winning Bidder commences the operation of the Franchise Services.
7. **Section 7: Evaluation criteria and methodology**

7.1 **Introduction**

7.1.1 Subject to the terms of the ITT including without limitation:

i. The Department’s rights set out in subsections 3.5 to 3.7;

ii. The Department’s rights to terminate or amend the terms of the procurement as set out at subsection 1.9 (Liability for costs, updates and termination); and

iii. Subsection 3.12 (Regulation (EC) 1370/2007);

the Northern Franchise will be awarded to the Bidder who submits the most economically advantageous tender (“**MEAT**”).

7.2 **Definition of MEAT for the Competition**

7.2.1 **General rules**

7.2.1.1 The Bidder submitting the most economically advantageous tender shall be determined by reference to the criteria and principles set out in this Section 7.

7.2.1.2 Subject to subsection 7.1 (Introduction), the most economically advantageous tender will be the Bid which achieves the highest Final Score (which, for the avoidance of doubt, would be the highest positive Final Score or where there are no positive Final Scores would be the negative Final Score closest to zero), as described below, except where the difference between such Final Score and the Final Score of any other Bid(s) is less than 25 points. In such a case, the principles set out in subsection 7.2.2 (Supplementary rules) will apply for the purposes of determining the most economically advantageous tender.

7.2.1.3 The Final Score for each Bid shall be calculated as follows:

\[
\text{Final Score} = P + (n \times Q)
\]

Where

- **P** is a score equivalent to the Bidder’s Risk Adjusted NPV calculated in accordance with subsection 7.6 (Evaluation of Financial Robustness), adjusted, if applicable, in accordance with subsection 7.2.1.7. **P** will be measured in millions rounded to two decimal places, with the midpoint always rounded up (for example, 225,524,999 will be rounded to 225.52, and 225,525,000 will be rounded to 225.53). **P** will be a positive number in the...
event of an overall premium and a negative number in the event of an overall subsidy;

Q equals the Quality Score described in subsection 7.11 (Conversion of evaluation scores into quality scores), expressed as a score out of 13. This will be rounded to two decimal places using the standard mathematical rules (for example, 10.1234 will be rounded down to 10.12 and 10.3850 will be rounded up to 10.39); and

n equals 28.

7.2.1.4 The Risk Adjusted NPV will be for the Core Franchise Term plus the Extension Period. In calculating the Risk Adjusted NPV, Franchise Payments for the Extension Period will be subject to a weighting of 50%.

7.2.1.5 For the avoidance of doubt, no adjustment will be made to the Risk Adjusted NPV used in the determination of P to reflect:

i. Any payments to the Department that may be made under the profit share/cap arrangements in the Franchise Agreement; or

ii. To the extent included by Bidders in their calculation of Annual Franchise Payments, any payments to/from the Department that may be made under any of the performance or incentive regimes in the Franchise Agreement.

7.2.1.6 The maximum Quality Score is 12.90 (this is less than 13 because the evaluation score for certain Sub-Plans is capped at 8) and therefore the maximum value of \((n*Q)\) is 361.20. This is the maximum score that a Bid can obtain in relation to quality, whatever the NPV of that Bid or the winning Bid. Since the size of P is not known until Bids are received, it is not possible to specify in the ITT a fixed weighting in percentage terms between price and quality.

**Table 7.1.** Illustrative example of calculating the Final Score using the General Rules

<table>
<thead>
<tr>
<th>Bidder</th>
<th>P</th>
<th>Q</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bidder 1</td>
<td>subsidy of 1,750</td>
<td>10</td>
</tr>
<tr>
<td>Bidder 2</td>
<td>subsidy of 1,675</td>
<td>5</td>
</tr>
</tbody>
</table>

The Final Score for each Bidder will be:

Bidder 1: \(-1,750 + (28 \times 10) = -1,470\)

Bidder 2: \(-1,675 + (28 \times 5) = -1,535\)

The winning Bidder would be Bidder 1 as there are no positive Final Scores and Bidder 1 is the negative Final Score closest to zero.
7.2.1.7 If:

i. A Bid is found to be non-compliant in accordance with subsection 3.5 (Non-compliant Bids); and

ii. The Department decides not to exercise its right to reject the Bid and disqualify the Bidder who has submitted that Bid from the competition; and

iii. The effects of the non-compliance include a likely financial impact on the Department (in the Department’s reasonable view);

the Department may reduce the value of P used in the calculation of the Final Score for that Bid to take into account its reasonable view of the most likely financial impact of the non-compliance on the Department.

7.2.2 Supplementary rules

7.2.2.1 In the event that the difference between the highest Final Score and the total Final Score of any other Bid is less than 25 points, the following rules shall apply for the purposes of identifying the winning Bid:

- **Stage 1**: Any Bid with a Final Score that is 25 points or away from the leading Final Score will be excluded from this part of the process. The remaining Bids will be deemed “**Stage 2 Bids**”;

- **Stage 2**: If the difference between the highest quality component of the Final Score, which for the avoidance of doubt is n*Q, and the second-highest quality component of the Final Score amongst the Stage 2 Bids:
  - Is at least 10 points, the winning Bid will be the Stage 2 Bid that achieved the highest quality component of the Final Score; or
  - Is less than 10 points, any Stage 2 Bid(s) with a quality component of the Final Score of 6 or more below the highest Stage 2 Bid quality component score will be excluded. The remaining Bids will be deemed “**Stage 3 Bids**”.

- **Stage 3**: The winning Bid will be the Stage 3 Bid that achieved the highest value for P (without reference to n*Q), which for the avoidance of doubt, would be the highest positive P in the event of a premium or where there is no positive P would be the negative P closest to zero.
7.3 Quality and deliverability evaluation

7.3.1 Sub-Plan weightings

7.3.1.1 The Department will evaluate the Sub-Plans against the evaluation criteria set out in subsection 7.3.6 (Scoring methodology) and assign each Sub-Plan an evaluation score in accordance with subsection 7.3.6 (Scoring methodology). The Sub-Plan evaluation scores will be converted into Sub-Plan quality scores in accordance with subsection 7.11 (Conversion of evaluation scores into quality scores).

7.3.1.2 The Department will use the weightings shown in column (C) of Table 7.2 (Sub-Plan weightings) to determine each Bid’s overall score for quality and deliverability (the “Quality Score”), and to determine each Bid’s overall Evaluation Score for the purpose described in subsection 7.10 (Delivery Sub-Plan non-compliance).

Table 7.2. Sub-Plan weightings

<table>
<thead>
<tr>
<th>(A) Delivery Plan</th>
<th>(B) Sub-Plan</th>
<th>(C) Sub-Plan Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivery Plan 0:</td>
<td>Bid Summary N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Delivery Plan 1:</td>
<td>DP1.1: Leadership and management 3.50%</td>
<td></td>
</tr>
<tr>
<td>Franchise Management</td>
<td>DP1.2: Mobilisation 0.50%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>DP1.3: Stakeholder partnering 3.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>DP1.4: Sustainability and environment 3.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>DP1.5: Innovation 2.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>DP1.6: Community engagement 2.0%</td>
<td></td>
</tr>
<tr>
<td>Delivery Plan 2:</td>
<td>DP2.1: Train service 20.0%</td>
<td></td>
</tr>
<tr>
<td>Train service and performance</td>
<td>DP2.2: Rolling stock 17.5%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>DP2.3: Performance 7.5%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>DP2.4: Supporting infrastructure change 5.0%</td>
<td></td>
</tr>
<tr>
<td>Delivery Plan 3:</td>
<td>DP3.1: Marketing and branding 5.0%</td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>DP3.2: Fares, ticketing and revenue protection 11.0%</td>
<td></td>
</tr>
<tr>
<td>Delivery Plan 4:</td>
<td>DP4.1: Customer experience 12.0%</td>
<td></td>
</tr>
<tr>
<td>Customer experience and stations</td>
<td>DP4.2: Stations 8.0%</td>
<td></td>
</tr>
</tbody>
</table>

7.3.1.3 For the avoidance of doubt, Delivery Plan 0 (Bid Summary) will not be scored.
7.3.2 Specialist reports

7.3.2.1 The Department may commission specialist reports from within the Department and, if appropriate, from its technical, legal and financial advisors. In addition it may commission external specialist reports from Consultees on Sub-Plans or other aspects of Bidder submissions.

7.3.2.2 In each case, the relevant organisation will be asked to look at the appropriate Sub-Plan, supporting technical data and/or Modelling Suite where appropriate and comment on their strengths and weaknesses in the context of the requirements of the ITT. These reports will be shared with evaluators before they have completed their evaluation of the relevant Sub-Plan. If any one or more of the specialist reports are not ready in time for the evaluation, the Department reserves the right to proceed with the evaluation without taking them into account.

7.3.2.3 Where Sub-Plans are being supplied to the providers of specialist reports, they will be circulated as the entire Sub-Plan. However, where Bidders’ responses to the Department’s requirements are included in other Sub-Plans, through the use of cross-referencing (as described in subsection 4.6 (Cross Referencing)), these relevant Sub-Plans may also be provided to the relevant organisation to enable their report to be completed.

7.3.3 External evaluator organisations

7.3.3.1 The Department reserves the right to select Sub-Plan evaluators from within the Department and externally. External evaluators may include, without limitation, the Department’s technical, financial and legal advisors, and Rail North.

7.3.4 Evidence

7.3.4.1 In evaluating Sub-Plans, the Department may take into account any relevant information submitted with the Bid including, without limitation, the Operational Models, the Record of Assumptions, and technical data such as the working timetable.

7.3.4.2 The Department’s evaluation will take into account the credibility of the Initiatives in the Sub-Plans as a whole. This may include, without limitation:
   i. The quality of research and analysis supporting the Initiatives;
   ii. The commitment (and, if relevant, any qualifications on that commitment), views or comments of any third party that the Bidder is relying on in delivering the Initiatives;
iii. Evidence and relevant examples of Initiatives within the Sub-Plans being successfully introduced elsewhere;

iv. Any cross references to other Sub-Plans made in accordance with subsection 4.6 (Cross Referencing);

v. The outcomes that the Bidder will deliver, which could include without limitation additional benefits for passengers, reduction in whole-industry costs, or an increase in the long-term value of the Franchise to the Department;

vi. The robustness and resilience of its plans for delivery, including an assessment of the risk to its ability to deliver in Challenging Circumstances;

vii. The quality or appropriateness of any Initiative or the proposed outcomes;

viii. The description of the resources to be employed and delivery timescales;

ix. The extent of the availability of funding or financing assessed in accordance with subsection 7.9 (Impact of review of financing and funding proposals);

x. The extent to which the Bidder is willing to enter into an absolute obligation to deliver the Initiatives in accordance with subsection 4.13.3 (Contractualisation);

xi. The extent and nature of any relevant Franchise Agreement obligation; and

xii. The timing of Initiatives and the period over which the benefits they generate are realised.

7.3.5 **Impact of Financial Robustness Test on Sub-Plan evaluation scores**

7.3.5.1 In accordance with subsection 7.6 (Evaluation of Financial Robustness), a Financial Robustness Test will be carried out on some or all of a Bidder’s Models as part of the evaluation process. Where, in accordance with subsection 7.6.1 (Financial Robustness Test), a Bidder’s Risk Adjusted Financial Model projects that the Financial Ratios will breach the 1.050:1 requirement (having taken into account the Materiality Threshold in subsection 7.6.1.6) at any point during the Core Franchise Term or the Extension Period but after the end of the Minimum Financial Robustness Period defined in subsection 7.6.2 (Consequences of high financial risk):

i. The evaluation score for any Sub-Plans which include a Relevant Initiative will, subject to the principles set out in subsection 7.3.5.2, be reviewed and may be revised so that the evaluation score takes no account of the impact of such Relevant Initiative, provided that no revision will be made to any such evaluation score pursuant to this subsection 7.3.5 (Impact of Financial...
Robustness Test on Sub-Plan evaluation scores) where such revision would result in an increase in such evaluation score.

For the avoidance of doubt revision to the evaluation score for any Sub-Plan pursuant to this subsection 7.3.5 (Impact of Financial Robustness Test on Sub-Plan evaluation scores) shall not cause any Sub-Plan to be deemed non-compliant.

7.3.5.2 Where an Initiative includes multiple specified milestones for committed deliverables, and some of these milestones would occur after the Year of Breach:

i. the evaluation score for any Sub-Plans which include such a Relevant Initiative will be reviewed and may be revised so that the evaluation score takes no account of the impact of those deliverables relating to milestones which fall after the projected Year of Breach, provided that no revision will be made to any such evaluation score pursuant to this subsection 7.3.5 (Impact of Financial Robustness Test on Sub-Plan evaluation scores) where such revision would result in an increase in such evaluation score.

For the avoidance of doubt revision to the evaluation score for any Sub-Plan pursuant to this subsection 7.3.5 (Impact of Financial Robustness Test on Sub-Plan evaluation scores) shall not cause any Sub-Plan to be deemed non-compliant.

7.3.5.3 The following principles shall apply for the purpose of this subsection 7.3.5 (Impact of Financial Robustness Test on Sub-Plan evaluation scores):

i. No further adjustment will be made to the Bidder’s Risk Adjusted NPV pursuant to this subsection 7.3.5 (Impact of Financial Robustness Test on Sub-Plan evaluation scores); and

ii. In accordance with this Section 7 (Evaluation criteria and methodology), and notwithstanding the adjustments described here, Bidders will be expected to contract the Initiatives proposed in their Bids.

7.3.5.4 For the purpose of this subsection 7.3.5 (Impact of Financial Robustness Test on Sub-Plan evaluation scores):

- A “Relevant Initiative” means an Initiative for which the Completion Date falls at any time after the Year of Breach (as defined in subsection 7.6 (Evaluation of Financial Robustness)); and

- “Completion Date” means the earlier of (i) the date specified for the Relevant Initiative in the relevant Sub-Plan pursuant to subsection 5.1 (Introduction); and (ii) any date specified for the Relevant Initiative in the Franchise Agreement, in each case as the date by which the Relevant Initiative will be completed.
7.3.5.5 Bidders should note, therefore, that the outcome of the process described in this subsection 7.3.5 (Impact of Financial Robustness Test on Sub-Plan evaluation scores) may result in adjustment to a Bid’s evaluation score on the application of the scoring methodology in subsection 7.3.6 (Scoring methodology) and the evaluation of financial robustness in accordance with subsection 7.6 and may therefore affect the ranking of Bids and ultimately the selection of the winning Bid.

7.3.6 **Scoring methodology**

7.3.6.1 Delivery Plans will be assessed at a Sub-Plan level in accordance with subsection 7.3.4 (Evidence), and awarded an evaluation score by taking into account:

i. The extent to which the Initiatives are relevant, appropriate and sufficient means of meeting, or where appropriate exceeding, the requirements defined in part (A) of the relevant Sub-Plan; and

ii. The credibility of the plan to deliver the Initiatives, including the appropriateness of the resources to be employed and the delivery timescales.

Where the RV Mechanism has been used in line with the provisions of subsection 5.1.10 to 5.1.14 (Residual Value Mechanism), evaluation scores will take into account the Initiatives which the assets or Schemes support, and not the value of those assets or Schemes to a Successor Operator.

7.3.6.2 For the avoidance of any doubt, the Department’s assessment of the Initiatives and the credibility of the plans for their delivery may be affected by the extent to which Bidders support their responses with relevant and credible evidence as required by part (B) of the relevant Sub-Plan.

7.3.6.3 Evaluation scores will be awarded, in the judgement of the evaluators, by reference to the marking framework in Table 7.3 (Northern marking framework and guidance) below and should be read in conjunction with the explanatory text which follows.

**Table 7.3. Northern marking framework and guidance**

<table>
<thead>
<tr>
<th>Score</th>
<th>Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>No response or fundamentally unacceptable response.</td>
</tr>
<tr>
<td>2</td>
<td>Unacceptable response with material concerns overall about whether the requirements of the specification will be met.</td>
</tr>
<tr>
<td>4</td>
<td>Mostly acceptable response with minor concerns overall about whether the requirements of the specification will be met.</td>
</tr>
<tr>
<td>Score</td>
<td>Evaluation</td>
</tr>
<tr>
<td>-------</td>
<td>------------</td>
</tr>
<tr>
<td>6</td>
<td>Acceptable response that provides good confidence overall that the requirements of the specification will be met.</td>
</tr>
<tr>
<td>8</td>
<td>Particularly robust response that provides excellent confidence overall that the requirements of the specification will be met, or good confidence overall that the requirements of the specification will be exceeded.</td>
</tr>
<tr>
<td>10</td>
<td>Outstanding response that provides excellent confidence overall that the requirements of the specification will be met, and good confidence overall that the requirements of the specification will be greatly exceeded.</td>
</tr>
</tbody>
</table>

7.3.6.4 An evaluation score of 8 will be awarded (subject to subsection 5.1.6) where the criteria for the award of an evaluation score of 6 are met, and, in addition:

i. The Sub-Plan is supported by particularly robust evidence which is in line with the evidential requirements in part (B) of the relevant Sub-Plan and which provides excellent confidence overall that the requirements of the specification will be met; or

ii. The Sub-Plan proposes additional Initiatives (aligned with the relevant requirements for the Sub-Plan) which are supported by implementation plans, where both the Initiatives and the supporting implementation plans provide good confidence overall that the Initiatives will generate improved outcomes (which could without limitation include additional benefits for passengers, reduction in whole-industry costs, or an increase in the long-term value of the Franchise to the Department) so that the requirements of the specification will be exceeded.

7.3.6.5 An evaluation score of 10 will be awarded (subject to subsection 5.1.6) where:

i. The Sub-Plan is supported by particularly robust evidence which is in line with the evidential requirements in part (B) of the relevant Sub-Plan and which provides excellent confidence overall that the requirements of the specification will be met; and

ii. The Sub-Plan proposes additional Initiatives (aligned with the relevant requirements for the Sub-Plan) which are supported by implementation plans, where both the Initiatives and the supporting implementation plans provide good confidence overall that the Initiatives will generate greatly improved outcomes (which could without limitation include significant additional benefits to passengers, reductions in whole-industry costs or greatly increase the long-term value of the Franchise to the Department), so that the requirements of the specification will be greatly exceeded.
Scoring in the round

7.3.6.6 The Department will evaluate each of the Sub-Plans in the round. So, for example, although there will be a single overall score for each Sub-Plan, each Sub-Plan involves a number of elements and the evaluation score for each Sub-Plan will reflect the overall score for those elements taken together, in each case in the judgement of the evaluators.

7.3.6.7 Table 7.3 (Northern marking framework and guidance) sets out guidelines on the basis of which the evaluators will determine whether a particular Sub-Plan merits a score of 0, 2, 4, 6, 8 or 10.

7.3.6.8 Where the evaluators conclude that there are elements of a Sub-Plan that meet the conditions for a particular score described in Table 7.3 (Northern marking framework and guidance) above, but that there are also other elements of the same Sub-Plan that meet the conditions for a lower or higher score, the overall score for that Sub-Plan would reflect that assessment.

7.3.6.9 For example, where the evaluators have minor concerns in relation to certain aspects of a Sub-Plan so that those aspects of the Sub-Plan, if scored in isolation, would be scored as 4, but at the same time the evaluators conclude that other aspects of the same Sub-Plan exceed the Department’s requirements and therefore, if scored in isolation, would be scored as 8, they will take into account both the areas of concerns and the areas where requirements have been exceeded so as to arrive at an overall score for that Sub-Plan. In those circumstances, this might mean that the overall score for that Sub-Plan could be higher than it would have been had the evaluators only taken into account the minor concerns raised by certain aspects of the Sub-Plan in isolation (that is to say, without also taking into account aspects of the same Sub-Plan where the Department’s requirements have been exceeded). It follows that, on the same basis, the overall score of a Sub-Plan might be lower than it would have been had the evaluators only taken into account the aspects of the Sub-Plan where the Department’s requirements have been exceeded.

7.3.6.10 Accordingly, the award of a particular score to a Sub-Plan may reflect the fact that:

i. All elements in that Sub-Plan, each individually, would merit the same score so that when taken together, that Sub-Plan as a whole merits that score; or

ii. Certain elements in that Sub-Plan would merit individually a higher and/or a lower score than the score which the Sub-Plan, taking all its elements together, merits as a whole.
Intermediate scores

7.3.6.11 In addition to the scores set out in Table 7.3 (Northern marking framework and guidance) and in accordance with the subsection above (“Scoring in the round”), an intermediate score of 1, 3, 5, 7 or 9 (the “full intermediate scores”) may be awarded where the Sub-Plan exceeds the guidance for the award of a particular score set out in Table 7.3 (Northern marking framework and guidance) but at the same time fails to meet fully the guidelines for the award of the next higher score set out in Table 7.3 (Northern marking framework and guidance). For example, where the Sub-Plan exceeds the guidance for a score of 6 but falls short of meeting fully the guidance for a score of 8, a score of 7 might be awarded.

7.3.6.12 In addition to the possibility of awarding one of the scores set out in Table 7.3 (Northern marking framework and guidance) or one of the full intermediate scores, the evaluators may also award half scores (e.g. 6.5, 7.5 etc. but not any other intermediate scores such as 6.4 or 7.6) where they consider this necessary and appropriate in order to reflect the extent to which the Sub-Plan exceeds or falls short of a particular score. For example, where the Sub-Plan exceeds substantially the guidance for the score of 6 but still falls short of meeting fully the guidance for a score of 8, a score of 7.5 would be awarded. Equally, where the Sub-Plan exceeds only to a limited extent guidance for a score of 6, a score of 6.5 would be awarded.

7.3.7 Process for moderation of, and reaching consensus on, Sub-Plan evaluation scores

7.3.7.1 The Department will carry out a process for the purposes of moderating and reaching consensus on evaluation scores.

7.3.7.2 Each evaluator will undertake an evaluation of the relevant Sub-Plans, and allocate evaluation scores by reference to the scoring methodology described in subsection 7.3.6 (Scoring methodology). These individual scores and a narrative explaining each one of these scores will be entered into AWARD.

7.3.7.3 These evaluators will then agree a consensus evaluation score for each of the Sub-Plans they have scored which will then be moderated.

7.3.7.4 Where consensus is not possible, the evaluation score to be awarded to a Sub-Plan will be the score which in the reasonable view of the Northern project director or their nominee is appropriate by reference to the scoring methodology described in subsection 7.3.6 (Scoring methodology).

7.3.7.5 The Northern project director will appoint a facilitator and a record keeper to manage this process.
7.3.7.6 The outcomes of this process, and the rationale for the evaluation scores, will be recorded and uploaded onto AWARD.

7.4 Evaluation impact of Inconsistent Initiatives

7.4.1 Where the Department considers that a Bidder proposes in the same Sub-Plan or in different Sub-Plans Initiatives which may be inconsistent with each other in that the proposed delivery of one Initiative may conflict with the proposed delivery of another Initiative so that if the inconsistency were confirmed it would not be possible for the Bidder to deliver both of the Initiatives which conflict (together the “Inconsistent Initiatives” and each an “Inconsistent Initiative”) during the life of the Franchise in the manner set out in the Inconsistent Initiatives the Department may (but is not obliged to) seek additional information or clarification from the relevant Bidder in accordance with subsection 4.13.2 (Engagement with Bidders and evaluation clarification process).

7.4.2 Where the inconsistency of two Initiatives each of which is set out in a different Sub-Plan is confirmed the Department will:

i. Treat the Inconsistent Initiative which is set out in the Sub-Plan with the highest weighting in accordance with Table 7.2 as having been submitted;

ii. Treat the Inconsistent Initiative which is set out in the Sub-Plan with the lowest weighting in accordance with Table 7.2 as not having been submitted; and

iii. Decide which Inconsistent Initiative it will treat as having been submitted and which inconsistent Initiative it will treat as not having been submitted where both inconsistent Initiatives are set out in Sub-Plans which carry the same weighting by reference to which Inconsistent Initiative in the Department’s reasonable view will be more beneficial to the delivery of efficient Franchise Services.

7.4.3 Where the inconsistency of two Initiatives both of which are set out in the same Sub-Plan is confirmed the Department will decide which Inconsistent Initiative it will treat as having been submitted and which inconsistent Initiative it will treat as not having been submitted by reference to which Inconsistent Initiative in the Department’s reasonable view will be more beneficial to the delivery of efficient Franchise Services.

7.4.4 Where the Department treats an Inconsistent Initiative as not having been submitted it will revise any previous evaluation so as to:

i. Take into account the effect of the non-submission of that Initiative in all relevant elements of the evaluation (including, without limitation, in the allocation of evaluation scores and in the Financial Robustness Test); and
ii. Where appropriate, adjust the value of P used in the calculation of the Final Score in accordance with subsection 7.2 (Definition of MEAT for the Competition) as necessary to take into account its reasonable view of the most likely financial impact of the non-submission of that Initiative on the Department;

except that the scoring of the Bid (including both P and Q as defined in subsection 7.2) may not be improved as a result of the process set out in this subsection 7.4.4.

7.4.5 Where the Department treats an Inconsistent Initiative as not having been submitted in line with subsections 7.4.2 to 7.4.4 it may also at its own discretion require the Bidder to submit a revised Initiative which is consistent with all other Initiatives in all other Sub-Plans that the Bidder has submitted.

7.4.6 Where the Department exercises the option described in subsection 7.4.5 the revised Initiative will not be taken into account in the evaluation in any way so that for the purposes of the evaluation the Department will continue to evaluate the Bid as if the Bidder has not submitted the Inconsistent Initiative in line with subsection 7.4.4.

7.4.7 If the Bidder refuses to submit a revised Initiative or if it submits a revised Initiative which is inconsistent with another Initiative in the same or any other Sub-Plan the Department will treat the Bid as non-compliant in line with subsection 3.5 (Non-compliant Bids) and the Department will at its own discretion take any action it considers necessary and appropriate in the circumstances, including eliminating the Bidder from the bidding process.

7.5 **Modelling Change tests**

7.5.1 As described in subsection 6.7.2 (Modelling Change), Bidders must submit the items in the column headed ‘Item’ in Table 6.3 (Modelling Change submission requirements) in accordance with the requirements in the column headed ‘Requirements’ in Table 6.3 (Modelling Change submission requirements) in order to be compliant with this ITT.

7.5.2 For the avoidance of doubt:

i. Assessment of item 2 in Table 6.3 (Modelling Change submission requirements), relating to the suitability of a Bidder’s Record of Assumptions and Operating Manual, will not be limited to consideration of the suitability of these documents when applied to Worked Examples but, rather, will consider the suitability of these documents across the entirety of the Bid; and
ii. Assessment of items 3 and 4 in Table 6.3 (Modelling Change submission requirements), relating to the suitability of the Models, will not be limited to consideration of the suitability of the Financial and Operational Models when applied to Worked Examples but, rather, will consider the suitability of the Models across the entirety of the Bid.

7.6 Evaluation of Financial Robustness

7.6.1 Financial Robustness Test

7.6.1.1 The Department will undertake a financial robustness test (“Financial Robustness Test”) in accordance with this subsection 7.6.1 (Financial Robustness Test) on each Bidder’s Models, except as described in subsection 7.6.1.8. Following and as a result of the completion of this test, the Department will calculate the “Risk Adjusted NPV”, which is component “P” in the formula at subsection 7.2 (Definition of MEAT for the Competition).

7.6.1.2 Further to the evaluation of the Bids and the development of risk adjustments, the Department will produce a “Risk Adjusted Financial Model” in respect of Bidders whose Bids have been risk adjusted, based on its reasonable view of the most credible financial outcome. The Department will not risk adjust a Bid and will deem the Bid to have low financial risk if, by taking into account all relevant information available to it, it concludes that the evidence that is presented in the Bid is sufficiently credible so that there is not a material risk of a materially different financial outcome.

7.6.1.3 If, at any point during the Core Franchise Term or the Extension Period, Financial Ratio in the Risk Adjusted Financial Model is projected to breach 1.050, the Bid will be deemed to have high financial risk and subsection 7.6.2 (Consequences of high financial risk) will apply, except as described in subsection 7.6.1.6. If a Bid is projected in its Risk Adjusted Financial Model not to breach the Financial Ratios it will be deemed to have low financial risk.

7.6.1.4 For the purpose of making this assessment, the Department will:

i. In accordance with the functionality described in subsection 6.3.3 (The Financial Model), assume that the Bidder will pay out all available funds as dividends in each Franchisee Year, provided that such amounts are restricted
to distributable profits and do not cause the Financial Ratios to be reduced below 1.070 in the relevant Franchisee Year; and

ii. Take into account the total Parent Company Support committed in the Bid which the Bidder would be able to draw on in order to avoid breaching the Financial Ratios (1.050:1).

7.6.1.5 There will be no opportunity for the Bidder to amend its Bid, including by making available additional finance.

7.6.1.6 A Bid will nonetheless be deemed to have low financial risk if the total amount of additional PCS, over and above the PCS committed in the Bid, that the Department estimates would be required during the Core Franchise Term and the Extension Period in order to avoid breaching the Financial Ratios (1.050:1) is less than a 

"Materiality Threshold". The Materiality Threshold will be £20 million (nominal).

7.6.1.7 If a Bid is deemed to have low financial risk, the Risk Adjusted Financial Model will be the Financial Model as bid, and the Risk Adjusted NPV will be the As Bid NPV, as calculated in sheet NPV cell F59 of the Financial Templates.

7.6.1.8 The Department reserves the right to undertake aspects of the Financial Robustness Test only on one or more leading Bid(s), as described in Appendix 3 (Risk Adjustment Process), if it determines that undertaking those aspects of the Financial Robustness Test on one or more other Bid(s) will have no impact on the selection of the winning Bid.

7.6.2 Consequences of high financial risk

7.6.2.1 If a Bidder is projected in the Risk Adjusted Financial Model to breach the Financial Ratios at any point during the Minimum Financial Robustness Period, the Bidder will be eliminated from the competition. The Minimum Financial Robustness Period will be the period from the Start Date to 31 March 2021 (inclusive).

7.6.2.2 If a Bidder is projected not to breach the Financial Ratios during the Minimum Financial Robustness Period, but is projected to breach the Financial Ratios (1.050:1) at any other point during the Core Franchise Term, or during the Extension Period, the Bidder’s Risk Adjusted NPV will be equal to the sum of the following:

i. The NPV of the As Bid Franchise Payments, calculated in Sheet NPV row 43 of the Financial Templates, in respect of each Franchisee Year from the Start Date to the end of the Franchisee Year immediately prior to the first Franchisee
Year in which the Bidder is projected to breach the Financial Ratios (1.050:1) (the Franchisee Year of projected breach being the \textit{``Year of Breach''}); plus

ii. X\% of the NPV of the As Bid Franchise Payments in respect of the Year of Breach where X is the proportion of the Year of Breach before the Financial Ratios (1.050:1) are projected to be breached; plus

iii. (100-X)\% of whichever is the lower (which for the avoidance of doubt would be the negative number furthest from zero) of:
   
   - The NPV of the As Bid Franchise Payments in respect of the Year of Breach; and
   
   - The Department’s Base Line in respect of the Year of Breach; plus

iv. The aggregate of the relevant amounts in respect of any Franchisee Year from and including the Franchisee Year immediately following the Year of Breach until the end of the Core Franchise Term plus the Extension Period. For the purpose of this bullet only, the “relevant amount” in respect of any Franchisee Year shall be the lower (which for the avoidance of doubt would be the negative number furthest from zero) of:
   
   - The NPV of the As Bid Franchise Payments in respect of that Franchisee Year; and
   
   - The Department’s Base Line in respect of that Franchisee Year.

7.6.2.3 The calculation of the Risk Adjusted NPV will also be subject to the weighting for the Extension Period defined in subsection 7.2 (Definition of MEAT for the Competition).

\textit{Table 7.4. Department’s Base Line Subsidy}\textsuperscript{16}

<table>
<thead>
<tr>
<th>Franchisee Year</th>
<th>Department’s Base Line Subsidy (expressed as £’000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Franchisee Year to March 2022</td>
<td>[ ]</td>
</tr>
<tr>
<td>Franchisee Year to March 2023</td>
<td>[ ]</td>
</tr>
<tr>
<td>Franchisee Year to March 2024</td>
<td>[ ]</td>
</tr>
<tr>
<td>Franchisee Year to March 2025</td>
<td>[ ]</td>
</tr>
<tr>
<td>Franchisee Year to March 2026 (extension)</td>
<td>[ ]</td>
</tr>
</tbody>
</table>

7.6.2.4 For the avoidance of doubt:

\textsuperscript{16} Please note that the Base Line Subsidy for the calculation of the Risk Adjusted NPV will be provided to Bidders post issuing of the ITT.
i. Franchise Payments and other relevant financial amounts shown in the Franchise Agreement will be based upon the winning Bidder’s Modelling Suite;

ii. The Risk Adjusted Financial Model and Risk Adjusted NPV will only be used for the purpose of the Financial Robustness Test and accordingly calculating the Final Score as defined in subsection 7.2 (Definition of MEAT for the Competition);

iii. The evaluation scores may be adjusted as described in subsection 7.3.5 (Impact of Financial Robustness Test on Sub-Plan evaluation scores); and

iv. The provisions of this subsection 7.6.2 (Consequences of high financial risk) will not apply where a Bidder is projected in its Risk Adjusted Financial Model to breach the Financial Ratios but the amount of additional PCS required to avoid the breach is less than the Materiality Threshold described in subsection 7.6.1.6.

7.7 Evaluation impact of contractual treatment of Bidders’ Initiatives

7.7.1 The following will apply in relation to the contracting of Initiatives included in a Bidder’s Sub-Plans:

i. As set out in subsection 4.13 (Process following Bid submission), the Department may require any Initiative to be included as a Committed Obligation in the Franchise Agreement. The Department may exercise this right in relation to some or all of the Initiatives included in a Bid;

ii. Where a Bidder has stated that an Initiative is a Contingent Initiative it may impact on the Department's evaluation of the credibility of the plan to deliver the Initiative, and the Financial Robustness Test;

iii. The Department will provide some or all of the Bidders with its contractual drafting of the Committed Obligations the Department requires in relation to some or all of the Initiatives contained in the relevant Bidder’s Bid. The Department will provide Bidders with an opportunity to comment on whether this drafting accurately reflects the Initiatives contained in their Bid. Bidders will have five working days (or such longer period as the Department may specify) to respond. Bidders’ comments must be restricted to confirming that the drafting reflects the Initiatives within their Bid, or indicating where the drafting does not reflect the Initiatives contained within their Bid, giving the reasons why. Bidders must not submit alternative drafting of Committed Obligations unless requested to do so by the Department. If, by a date specified by the Department, the Bidder is not prepared to enter into the contractual terms
prepared by the Department (if appropriate, as clarified with the Bidder), in its sole discretion the Department may revise:

- The evaluation score attributed to the relevant Sub-Plan; and
- Any other element of the evaluation (including without limitation the Financial Robustness Test);

such that such evaluation score or element does not take the relevant Initiative into account, provided that no revision will be made pursuant to this subsection:

- To any evaluation score, where such revision would result in an increase in such evaluation score; and
- To the Financial Robustness Test, where such revision would result in the Bid being deemed to have low financial risk, or where it would improve the Risk Adjusted NPV.

7.7.2 For the avoidance of doubt, this contractualisation process may result in a reduction in a Bidder’s evaluation score, quality score and/or Risk Adjusted NPV and therefore the Bidder’s Final Score and may therefore affect the ranking of Bidders and ultimately the selection of the winning Bidder.

7.8 **Interaction between evaluation scores and the Financial Robustness Tests**

7.8.1 The assessment of financial robustness described in subsection 7.6 (Evaluation of Financial Robustness) will be informed by the review of Bidders’ Sub-Plans, and any other information available to the Department, in accordance with the guidance provided in Appendix 3 (Risk Adjustment Process).

7.8.2 There is no automatic link between the scoring of Sub-Plans and the financial risk adjustments except as described in subsection 7.3.5 (Impact of Financial Robustness Test on Sub-Plan evaluation scores). However, if further to the review of the Sub-Plans, the Department has concerns about the quality or deliverability of an aspect of one or more of that Bidder’s Initiatives, and believes that as a result there is a material risk of a materially different financial outcome from the Bidder’s financial projections, the Department may both:

i. Take into account any risk to the delivery of the Bidder’s Initiatives in the scoring of the Sub-Plans as described in subsection 7.3 (Quality and deliverability evaluation); and
ii. Make a financial risk adjustment as described in subsection 7.6 (Evaluation of Financial Robustness) to reflect any risk to the achievement of the Bidder’s financial projections.

7.9 Impact of review of financing and funding proposals

7.9.1 Bidders’ financing and funding proposals, as described in their Financial Structure and Funding plan (described at subsection 6.9 (Financial Structure and Funding Plan)), and their financial implications as reflected in the Bidders’ Modelling Suites, will be reviewed in order to assess their robustness, deliverability and credibility.

7.9.2 Where the available evidence fails to provide the Department with adequate confidence that the funding or financing will be available:

i. In sufficient quantum (for example, letters of support and term sheets from third party financiers do not provide reasonable confidence that the funding will be made available to the Franchisee to the extent reasonably required to substantially deliver an Initiative and/or are inconsistent with the values contained in the Bidder’s Modelling Suite or other Bid documentation); or

ii. At the right time (for example, letters of support and term sheets from third party financiers do not provide reasonable confidence that the funding will be made available to the Franchisee at the time proposed by the Bidder in its Modelling Suite or other Bid documentation to enable the Initiative to be delivered on or by a certain date and in the manner described);

The Department may:

iii. Take this into account in determining the evaluation score for any Sub-Plan which includes any such Initiative, to reflect the risk to delivery of that Initiative; and

iv. Make a financial risk adjustment (in accordance with Appendix 3 (Risk Adjustment Process)) to reflect any resulting risk to the financial robustness of the Bid.

7.10 Delivery Sub-Plan non-compliance

7.10.1 A Bid will be treated as non-compliant, if it receives an evaluation score of less than 4 in respect of any of the following Sub-Plans:

- 1.2 Mobilisation;
- 2.1 Train service;
• 2.2 Rolling stock;
• 2.3 Performance; and
• 4.1 Customer experience;

 together the “Key Sub-Plans”.

7.10.2 In addition, the Department will calculate an overall “Evaluation Score” for each Bid, which will be the aggregate of the evaluation scores for each Sub-Plan, weighted in accordance with Table 7.2 (Sub-Plan weightings), being the multiple of column (A) and column (C). A Bid will be treated as non-compliant if it receives an overall Evaluation Score of less than 4. For the avoidance of doubt, the overall Evaluation Score will be used only for the purpose described in this subsection 7.10, and it will not be used in the calculation of the overall Quality Score, which will be determined in accordance with subsection 7.11 (Conversion of evaluation scores into quality scores).

7.11 Conversion of evaluation scores into quality scores

7.11.1 The Department will convert Sub-Plan evaluation scores into Sub-Plan quality scores on the basis of Table 7.4 (Conversion of evaluation scores into quality scores).

Table 7.4. Conversion of evaluation scores into quality scores

<table>
<thead>
<tr>
<th>Evaluation score</th>
<th>Quality score</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 3.5</td>
<td>0</td>
</tr>
<tr>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>4.5</td>
<td>2</td>
</tr>
<tr>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>5.5</td>
<td>4</td>
</tr>
<tr>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>6.5</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>7.5</td>
<td>8</td>
</tr>
<tr>
<td>Evaluation score</td>
<td>Quality score</td>
</tr>
<tr>
<td>------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>8.5</td>
<td>10</td>
</tr>
<tr>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>9.5</td>
<td>12</td>
</tr>
<tr>
<td>10</td>
<td>13</td>
</tr>
</tbody>
</table>

7.11.2 The allocation of a quality score of 0 to a Sub-Plan will not prejudice any right that the Department has under subsection 7.10 (Delivery Sub-Plan non-compliance) to deem the Bid non-compliant.

7.11.3 The overall Quality Score will be the aggregate of the quality scores for each Sub-Plan, weighted in accordance with column (C) of Table 7.2 (Sub-Plan weightings). This Quality Score is component Q in the formula set out at subsection 7.2 (Definition of MEAT for the Competition).

7.12 **Process for dealing with conflicts between Northern and TPE leading Bids**

**Introduction**

7.12.1 The Department acknowledges that the parallel procurement of the Northern and TPE franchises raises the potential for operational and commercial conflicts between the leading Bids on each competition.

7.12.2 The Department has sought to address these potential conflicts in the key areas of train service and rolling stock through the requirements set out in sub-section 5.4.1(E) and 5.4.2(E) respectively.

7.12.3 Paragraphs 7.12.1.6 to 7.12.1.11 of the TPE ITT set out the process that shall apply if minor or major conflicts are identified between Northern and TPE leading bids.

**Impact of conflicts between Northern and TPE leading Bids on Northern Competition**

7.12.4 Where major conflicts (as defined in the TPE ITT) are identified between Northern and TPE leading Bidders the Department may suspend, revise and recommence
the TPE competition but expects the Northern franchise competition to proceed to award.

7.12.5 In applying the contractualisation process set out in subsection 4.13.3 (Contractualisation) the Department may, in addition to the process set out in that paragraph, require the Northern leading Bid to be contractualised in a way that avoids conflicts with the TPE leading Bid.

7.12.6 For the avoidance of doubt no adaptation and adjustments in contractualising the Northern leading Bid for the purposes of dealing with conflicts between the TPE leading Bid and Northern leading Bid shall be undertaken to the Northern leading Bid that would alter the ranking of Northern Bids.

7.12.7 The Department may provide relevant details of the Northern leading Bidder's plans (e.g. train service proposals, rolling stock commitments and depot arrangements) to one or more TPE Bidders to the extent necessary to enable them to comply with any revised ITT instructions or where necessary to resolve conflicts between the TPE and Northern leading Bids and the Northern leading bidder will be bound by this.
## A1. Appendix 1. Glossary of Terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual Parent Company Support</td>
<td>has the meaning given to it in subsection 6.9.2.9;</td>
</tr>
<tr>
<td>Additional Parent Company Support or Additional PCS</td>
<td>has the meaning given to it in subsection 6.9.2.8;</td>
</tr>
<tr>
<td>Agreed Form Documents</td>
<td>means documents in the agreed terms, referred to in clause 1.1(f) of the Franchise Agreement;</td>
</tr>
<tr>
<td>Agreed Funding Commitment</td>
<td>has the meaning given to it in the Funding Deed;</td>
</tr>
<tr>
<td>Associated Entity</td>
<td>has the meaning given to it in subsection 1.4 (Communications);</td>
</tr>
<tr>
<td>As Bid Franchise Payments</td>
<td>in respect of any Franchisee Year the value of Franchise Payments (excluding any amounts excluded in accordance with subsection 7.2.1.5) for that Franchisee Year as shown in the Bidder’s Financial Model;</td>
</tr>
<tr>
<td>As Bid NPV</td>
<td>the NPV of the Bid as submitted and adjusted accordingly for Errors as per section 6.2.1.</td>
</tr>
<tr>
<td>ATOC</td>
<td>Association of Train Operating Companies;</td>
</tr>
<tr>
<td>AWARD</td>
<td>has the meaning given to it in subsection 3.8 (Data Site and AWARD);</td>
</tr>
<tr>
<td>Base Infrastructure Assumptions Document</td>
<td>has the meaning given to it in 5.4.1.3;</td>
</tr>
<tr>
<td>BCQ</td>
<td>has the meaning given to it in subsection 3.9 (Bidder clarification questions);</td>
</tr>
<tr>
<td>Bid</td>
<td>a tender submitted by a Bidder in response to this ITT;</td>
</tr>
<tr>
<td>Bidder</td>
<td>has the meaning given to it in subsection 1.1 (Introduction);</td>
</tr>
<tr>
<td>Bonded PCS</td>
<td>has the meaning given to it in subsection 6.9.2.10;</td>
</tr>
<tr>
<td>Bonding Requirements</td>
<td>where the Guarantor(s) of an amount of PCS pass the economic and financial standing tests referred to in subsection 6.10, this is 50% of the relevant PCS amount. Where the Guarantor(s) of an amount of PCS do not pass the economic and financial standing tests referred to in subsection 6.10, this is 100% of the relevant PCS amount;</td>
</tr>
<tr>
<td>BTP</td>
<td>British Transport Police;</td>
</tr>
<tr>
<td>Calculation Review</td>
<td>the review conducted in accordance with subsection 6.8.4 (Calculation Review);</td>
</tr>
<tr>
<td>CAPEX</td>
<td>capital expenditure;</td>
</tr>
<tr>
<td>CaSL</td>
<td>Cancellations and Significant Lateness;</td>
</tr>
<tr>
<td>Term</td>
<td>Meaning</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Challenging Circumstances</strong></td>
<td>circumstances such as extreme weather, industrial action or line closures;</td>
</tr>
<tr>
<td><strong>CMA</strong></td>
<td>means the Competition and Markets Authority;</td>
</tr>
<tr>
<td><strong>Conditions Precedent Agreement</strong></td>
<td>means the version of the Northern Conditions Precedent Agreement which the Department supplies to Bidders as the “final bid version” for the purposes of this ITT;</td>
</tr>
<tr>
<td><strong>Consultee</strong></td>
<td>has the meaning given to it in subsection 3.4 (Industry consultation and disclosure of information in Bids);</td>
</tr>
<tr>
<td><strong>Contingent Initiative</strong></td>
<td>has the meaning given to it in subsection 4.13.3 (Contractualisation);</td>
</tr>
<tr>
<td><strong>Core Franchise Term</strong></td>
<td>the core term of the Franchise Agreement (excluding any extension that may be called under Schedule 18 of the Franchise Agreement);</td>
</tr>
<tr>
<td><strong>CP4</strong></td>
<td>Network Rail’s Control Period 4;</td>
</tr>
<tr>
<td><strong>CP5</strong></td>
<td>Network Rail’s Control Period 5;</td>
</tr>
<tr>
<td><strong>DAA</strong></td>
<td>means Depot Access Agreement;</td>
</tr>
<tr>
<td><strong>Data Site</strong></td>
<td>has the meaning given to it in subsection 3.8 (Data Site and AWARD);</td>
</tr>
<tr>
<td><strong>Delivery Partner</strong></td>
<td>means the party appointed by the Department to lead and coordinate the train operator input in respect of the Northern and TPE franchises to the planning of the Future Enhancements;</td>
</tr>
<tr>
<td><strong>Delivery Plan</strong></td>
<td>means a Delivery Plan described in Section 5 (Detailed Bid requirements – Delivery Plans), being:</td>
</tr>
<tr>
<td></td>
<td>(a) Delivery Plan 0 – Bid Summary;</td>
</tr>
<tr>
<td></td>
<td>(b) Delivery Plan 1 – Franchise Management;</td>
</tr>
<tr>
<td></td>
<td>(c) Delivery Plan 2 – Train Service and Performance;</td>
</tr>
<tr>
<td></td>
<td>(d) Delivery Plan 3 – Revenue;</td>
</tr>
<tr>
<td></td>
<td>(e) Delivery Plan 4 – Customer Experience and Stations;</td>
</tr>
<tr>
<td></td>
<td>and ‘Delivery Plans’ shall mean more than one of them;</td>
</tr>
<tr>
<td><strong>Department</strong></td>
<td>has the meaning given to it in subsection 1.1 (Introduction);</td>
</tr>
<tr>
<td><strong>EA02</strong></td>
<td>Enterprise Act 2002;</td>
</tr>
<tr>
<td><strong>EC</strong></td>
<td>European Commission;</td>
</tr>
<tr>
<td><strong>EEC</strong></td>
<td>European Economic Community;</td>
</tr>
<tr>
<td><strong>ERTMS</strong></td>
<td>European Rail Traffic Management System;</td>
</tr>
<tr>
<td><strong>Escrow Agreement</strong></td>
<td>means the version of the Northern Escrow Agreement which the Department supplies to Bidders as the “final bid version” for the purposes of this ITT;</td>
</tr>
<tr>
<td><strong>ETCS</strong></td>
<td>European Train Control System;</td>
</tr>
<tr>
<td><strong>EU</strong></td>
<td>European Union;</td>
</tr>
<tr>
<td><strong>EUMR</strong></td>
<td>Council Regulation (EC) No. 139/2004;</td>
</tr>
<tr>
<td><strong>Evaluation Score</strong></td>
<td>has the meaning given to it in subsection 7.10.2 (Delivery Sub-Plan non-compliance);</td>
</tr>
<tr>
<td>Term</td>
<td>Meaning</td>
</tr>
<tr>
<td>------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Exogenous Forecasts</strong></td>
<td>means Department’s central view of exogenous forecasts of demand drivers as provided on the Data Site in the document “Jan 2015 DD EDGE inputs (v1.5.1.0) PDFH5.1 2(2).zip”;</td>
</tr>
<tr>
<td><strong>Extension Period</strong></td>
<td>any extension which is called under schedule 18 of the Franchise Agreement. Where Bidders are asked to provide information in respect of the Extension Period, this should be provided for the maximum Extension Period provided for in Schedule 18 of the Franchise Agreement;</td>
</tr>
<tr>
<td><strong>Final Risk Adjustments</strong></td>
<td>has the meaning given to it in subsection A3.2 (Overview of Process) of Appendix 3 (Risk Adjustment Process);</td>
</tr>
<tr>
<td><strong>Final Score</strong></td>
<td>has the meaning given to it in subsection 7.2.1.3;</td>
</tr>
<tr>
<td><strong>Financial Model</strong></td>
<td>a financial model prepared in accordance with subsection 6.3 (Financial and Operational Model requirements);</td>
</tr>
<tr>
<td><strong>Financial Ratio(s)</strong></td>
<td>means the ratio of Modified Revenue to Actual Operating Costs for that Franchisee Year in accordance with row 78 of worksheet “FO&amp;C” of the Financial Templates;</td>
</tr>
<tr>
<td><strong>Financial Robustness Test</strong></td>
<td>has the meaning given to it in subsection 7.5.1 (Evaluation of Financial Robustness);</td>
</tr>
<tr>
<td><strong>Financial Structure and Funding Plan</strong></td>
<td>has the meaning given to it in subsection 6.9 (Financial Structure and Funding Plan);</td>
</tr>
<tr>
<td><strong>Financial Templates</strong></td>
<td>has the meaning given to it in subsection 6.3.6 (Financial Templates);</td>
</tr>
<tr>
<td><strong>FOIA</strong></td>
<td>Freedom of Information Act 2000;</td>
</tr>
<tr>
<td><strong>Form of Tender</strong></td>
<td>means the version of the Northern Form of Tender which the Department supplies to Bidders as the “final bid version” for the purposes of this ITT;</td>
</tr>
<tr>
<td><strong>Franchise Agreement</strong></td>
<td>means the version of Northern Franchise Agreement which the Department supplies to Bidders as the “final bid version” for the purposes of this ITT;</td>
</tr>
<tr>
<td><strong>Franchise Signature Documents</strong></td>
<td>has the meaning given to it in Table 4.2 (Structure and Format of Bids);</td>
</tr>
<tr>
<td><strong>Franchise Term</strong></td>
<td>Is the Core Franchise Term plus the Extension Period;</td>
</tr>
<tr>
<td><strong>Funding Deed</strong></td>
<td>means the version of the Northern Funding Deed which the Department supplies to Bidders as the “final bid version” for the purposes of this ITT;</td>
</tr>
<tr>
<td><strong>Future Enhancements</strong></td>
<td>has the meaning given to it in subsection 5.4.4 (Supporting infrastructure change);</td>
</tr>
<tr>
<td><strong>HMT</strong></td>
<td>HM Treasury;</td>
</tr>
<tr>
<td><strong>IFRS</strong></td>
<td>International Financial Reporting Standards;</td>
</tr>
<tr>
<td><strong>Inconsistent Initiatives</strong></td>
<td>has the meaning given to it in subsection 7.4.1 (Evaluation of Inconsistent Initiatives);</td>
</tr>
<tr>
<td><strong>Initiatives</strong></td>
<td>proposals and commitments included in a Bidder’s Sub-Plans;</td>
</tr>
<tr>
<td>Term</td>
<td>Meaning</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>ITPS</td>
<td>Network Rail’s Integrated Train Planning System;</td>
</tr>
<tr>
<td>ITT</td>
<td>has the meaning given to it in subsection 1.1 (Introduction);</td>
</tr>
<tr>
<td>Key Sub-Plans</td>
<td>has the meaning given to it in subsection 7.9.1;</td>
</tr>
<tr>
<td>MAA</td>
<td>moving annual average;</td>
</tr>
<tr>
<td>Materiality Threshold</td>
<td>has the meaning given to it in subsection 7.6.1.6;</td>
</tr>
<tr>
<td>MEAT</td>
<td>most economically advantageous tender;</td>
</tr>
<tr>
<td>Memorandum of Understanding</td>
<td>has the meaning given to it in subsection 3.16.1</td>
</tr>
<tr>
<td>Minimum Evidential Requirements</td>
<td>evidential requirements for Sub-Plans specified in subsection 5.1.4;</td>
</tr>
<tr>
<td>Minimum Financial Robustness Period</td>
<td>has the meaning given to it in subsection 7.6.2(Consequences of high financial risk);</td>
</tr>
<tr>
<td>Model Audit</td>
<td>has the meaning given to it in subsection 6.8.3 (Model Audit);</td>
</tr>
<tr>
<td>Modelling Best Practice Confirmation</td>
<td>the confirmation that the Models have been prepared in accordance with best practice as required by subsection 6.8.2 (Modelling Best Practice Confirmation), subject to any derogations granted pursuant to subsection 6.3.8 (Derogations);</td>
</tr>
<tr>
<td>Modelling Suite</td>
<td>has the meaning given to it in subsection 6.1.1;</td>
</tr>
<tr>
<td>Models</td>
<td>has the meaning given to it in subsection 6.1.1;</td>
</tr>
<tr>
<td>Northern</td>
<td>The Northern Rail franchise;</td>
</tr>
<tr>
<td>NPV</td>
<td>net present value, calculated in accordance with subsection 6.4.1.1;</td>
</tr>
<tr>
<td>NRPS</td>
<td>National Rail Passenger Survey (previously National Passenger Survey (NPS));</td>
</tr>
<tr>
<td>Open Access</td>
<td>a passenger rail operator that does not have a franchise agreement with the Secretary of State or an equivalent agreement with another authority;</td>
</tr>
<tr>
<td>Operating Manual</td>
<td>a manual prepared in accordance with subsection 6.6 (Operating Manual);</td>
</tr>
<tr>
<td>Operational Model(s)</td>
<td>models prepared in accordance with subsection 6.3.4 (Operational Models);</td>
</tr>
<tr>
<td>ORR</td>
<td>the UK Office of Rail Regulation;</td>
</tr>
<tr>
<td>Other Supplementary Material</td>
<td>has the meaning given to it in subsection 6.3.5 (Supplementary Material);</td>
</tr>
<tr>
<td>Parent Company Support or PCS</td>
<td>has the meaning given to it in subsections 6.9.2.3 to 6.9.2.9;</td>
</tr>
<tr>
<td>Passenger Focus</td>
<td>the independent public body known as both ‘Passenger Focus’ and the ‘Rail Passenger Council’ created by Government to safeguard the interests of passengers;</td>
</tr>
<tr>
<td>PDFH</td>
<td>Passenger Demand Forecasting Handbook;</td>
</tr>
<tr>
<td>Term</td>
<td>Meaning</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>PQQ</td>
<td>pre-qualification questionnaire for the Northern Franchise published on 6 June 2014;</td>
</tr>
<tr>
<td>PPD</td>
<td>the pre-qualification process document that accompanied the PQQ;</td>
</tr>
<tr>
<td>Proposed Risk Adjustments</td>
<td>has the meaning given to it in subsection A3.2 of Appendix 3 (Risk Adjustment Process);</td>
</tr>
<tr>
<td>Public Performance Measure or PPM</td>
<td>Network Rail's measure showing the percentage of trains which arrive at the destination on time;</td>
</tr>
<tr>
<td>Present Value or PV</td>
<td>Present Value, calculated in accordance with subsection 6.4.1.1;</td>
</tr>
<tr>
<td>Quality Score</td>
<td>the score awarded to a Bidder in accordance with subsection 7.10 (Conversion of evaluation scores into quality scores);</td>
</tr>
<tr>
<td>Rail North</td>
<td>Rail North Limited;</td>
</tr>
<tr>
<td>Record of Assumptions or RoA</td>
<td>a record of assumptions prepared in accordance with subsection 6.5 (Record of Assumptions);</td>
</tr>
<tr>
<td>Regulation (EC) 1370/2007</td>
<td>has the meaning given to it in subsection 1.2.1;</td>
</tr>
<tr>
<td>Relevant Initiative</td>
<td>has the meaning given to it in subsection 7.3.5 (Impact of Financial Robustness Test on Sub-Plan evaluation scores);</td>
</tr>
<tr>
<td>Required Parent Company Support or Required PCS</td>
<td>has the meaning given to it in subsection 6.9.2.7;</td>
</tr>
<tr>
<td>Required Supplementary Material</td>
<td>has the meaning given to it in subsection 6.3.5.1;</td>
</tr>
<tr>
<td>Residual Value Mechanism or RV Mechanism</td>
<td>has the meaning given to it in subsection 5.1.10;</td>
</tr>
<tr>
<td>Risk Adjusted Financial Model</td>
<td>has the meaning given to it in subsection 7.5.1.3;</td>
</tr>
<tr>
<td>Risk Adjusted NPV</td>
<td>has the meaning given to it in subsection 7.5 (Evaluation of Financial Robustness);</td>
</tr>
<tr>
<td>ROSCO</td>
<td>Rolling Stock Company;</td>
</tr>
<tr>
<td>RSSB</td>
<td>Rail Safety and Standards Board Ltd;</td>
</tr>
<tr>
<td>Scheme</td>
<td>has the meaning given to it in subsection 5.1.10 (Residual Value Mechanism);</td>
</tr>
<tr>
<td>Secretary of State</td>
<td>has the meaning given to it in subsection 1.1 (Introduction);</td>
</tr>
<tr>
<td>Secretary of State Risk Assumptions</td>
<td>the assumptions specified in Schedule 9.3 (Secretary of State Risk Assumptions) of the Franchise Agreement;</td>
</tr>
<tr>
<td>SMEs</td>
<td>small and medium-sized enterprises;</td>
</tr>
<tr>
<td>Specification</td>
<td>the requirements of the Delivery Plans and Sub-Plans as set out in Section 5 (Detailed Bid submission requirements - Delivery Plans) (as applicable), or the relevant parts thereof (as the context may require);</td>
</tr>
<tr>
<td>Sub-Plan</td>
<td>those plans as set out in the column headed ‘Sub-Plan’ in Table 5.1 (Delivery Plans and Sub-Plans);</td>
</tr>
<tr>
<td>Term</td>
<td>Meaning</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Supplementary Material</strong></td>
<td>means any and all items of Required Supplementary Material or Other Supplementary Material provided with the Bid;</td>
</tr>
<tr>
<td><strong>Target Date(s)</strong></td>
<td>has the meaning given to it in subsection 5.4.2.15;</td>
</tr>
<tr>
<td><strong>Tests</strong></td>
<td>has the meaning given to it in subsection 6.10 (Updating of PQQ financial and economic standing tests (the “Tests”) and submission of updated bond provider letter(s));</td>
</tr>
<tr>
<td><strong>TOC</strong></td>
<td>Train Operating Company;</td>
</tr>
<tr>
<td><strong>Train Service Requirements or TSR</strong></td>
<td>the requirements set out in Attachment A;</td>
</tr>
<tr>
<td><strong>Train-to-Internet Connection</strong></td>
<td>means the IP data connection between the train installed equipment and the internet, typically provided through aggregating commercially operated mobile network operators’ data services, and potentially supplemented by alternate private network solutions such as Wi-Fi or unlicensed wireless networks at key locations;</td>
</tr>
<tr>
<td><strong>TransPennine Express or TPE</strong></td>
<td>The TransPennine Express rail franchise;</td>
</tr>
<tr>
<td><strong>Transport for the North</strong></td>
<td>is currently an informal consortium of the six City Regions of West Yorkshire, Liverpool, Manchester, North East, Sheffield and Hull &amp; Humber, with Network Rail, Highways Agency, HS2 Ltd. and the Department;</td>
</tr>
<tr>
<td><strong>TUPE</strong></td>
<td>the Transfer of Undertakings (Protection of Employment) Regulations 2006;</td>
</tr>
<tr>
<td><strong>VfM</strong></td>
<td>Value for Money;</td>
</tr>
<tr>
<td><strong>Worked Examples</strong></td>
<td>has the meaning given to it in 6.7.1.1;</td>
</tr>
<tr>
<td><strong>Year of Breach</strong></td>
<td>has the meaning given to it in subsection 7.6.2.2.</td>
</tr>
</tbody>
</table>
A2. Appendix 2: (not used)
A3. Appendix 3: Risk Adjustment Process

A3.1 Introduction

A3.1.1 This Appendix 3 summarises the approach that the Department will adopt in Bid risk adjustment.

A3.1.2 All Department risk adjustments will be made on the basis of the Department's reasonable view of the most credible financial outcome, taking into account all relevant information available to it, including existing industry/Department guidance and research, new research and other evidence put forward by Bidders in associated Delivery Plans or Sub-Plans, the Record of Assumptions, or any other relevant information submitted with Bids.

A3.1.3 The Department will not risk adjust a Bid if, by taking into account all relevant information available to it, it concludes that the evidence that is presented in the Bid is sufficiently credible to convince it that there is not a material risk of a materially different financial outcome.

A3.1.4 The information set out in this Appendix is intended to provide Bidders with as much guidance as possible in relation to how risk adjustments will be made. However, it should be recognised that such guidance can never be complete or apply to all possible situations, as it is not possible to predict in advance of Bid submission how Bidders will construct their Bids and so what issues and risks may be identified with each Bid. Ultimately, the key factor in making risk adjustments will be the Department's reasonable view of what constitutes the most credible financial outcome, taking into account all relevant information available to it.

A3.2 Overview of process

A3.2.1 Subject to subsections A3.1.2-A3.1.4, A3.2.2 and A3.2.3, the approach that will be followed is:

A3.2.1.1 The Bidders’ Modelling Suites will be reviewed (including by reference to the Department’s comparator model), to identify any issues in the methodology or assumptions used for the cost, revenue or other modelling which in the Department's reasonable view might generate a material risk of a materially different financial outcome from that projected in the Bidder's Modelling Suites (upside or downside).

A3.2.1.2 In addition to reviewing the Delivery Plans and Modelling Suite to assess the overall deliverability and quality of the Bid, the Department will identify
whether it has concerns that any of the plans generate a material risk of a materially different financial outcome. Circumstances where these could arise include, without limitation, where:

- There are concerns about the operational, commercial or management arrangements set out, and therefore concerns as to whether the Franchise will require additional costs in order to deliver the Initiative, or whether it will generate the revenue that has been forecast;
- There are concerns about the implementation strategy for a particular Initiative, and therefore there is a risk that higher costs or lower revenue will arise than forecast; or
- There are concerns about whether the revenue or cost attributed to an Initiative is achievable, even if the Initiative is implemented successfully, because of concerns about the methodology or assumptions used in the modelling of the impact of the Initiative.

A3.2.1.3 If necessary and appropriate the Department may seek clarification under the clarification process described in subsection 4.13.2 (Engagement with Bidders and evaluation clarification process).

A3.2.1.4 Further to the reviews described above, the Department will determine the values for exogenous revenue factors that it will use in the risk-adjusted forecasts for all Bidders, in accordance with subsection A3.4 (Revenue – exogenous). It will also identify any evidence or analysis provided by a Bidder with its Bid which may be relevant to the risk adjustment of another Bid, in accordance with subsections A3.5 and A3.6.

A3.2.1.5 The Department will then identify the risk adjustment(s) it intends to make to each Bidder’s Models (“Proposed Risk Adjustments”). The basis for such risk adjustments is described below.

A3.2.1.6 The Department will review the consistency of the Proposed Risk Adjustments individually and in aggregate and if necessary it will revise the Proposed Risk Adjustments.

A3.2.1.7 Before finally determining any risk adjustment(s), the Department shall inform the Bidder of the Proposed Risk Adjustments, and its rationale for the Proposed Risk Adjustments, provided that the Department reserves the right not to follow the process referred to in this subsection A3.2.1.7 and subsection A3.2.1.8 in respect of that Bidder if, after taking into account the Parent Company Support and the Materiality Threshold in accordance with subsection 7.6.1 (Financial Robustness Test):
• The Proposed Risk Adjustments would not result in the Bidder being projected in its Risk Adjusted Financial Model to breach the Financial Ratios 1.050:1 at any point during the Core Franchise Term or the Extension Period (on the basis that, in such circumstances, the risk adjustment process will have no impact on the outcome of the evaluation of the relevant Bidder’s Bid); or

• The Proposed Risk Adjustments would not result in the Bidder being projected in its Risk Adjusted Financial Model to breach the Financial Ratios 1.050:1 at any point during the Minimum Financial Robustness Period, but would result in it being projected to breach the Financial Ratios 1.050:1 at any subsequent point during the Core Franchise Term or during the Extension Period, and that further to the process described in subsection 7.6.1 (Financial Robustness Test) and subsection 7.3.5 of (Impact of financial robustness test on evaluation scores), the Department determines that this will not result in any change to the ranking of Bidders.

A3.2.1.8 Where the Department informs a Bidder of the Proposed Risk Adjustments:

• It may also raise further questions in relation to the Proposed Risk Adjustments;

• The Bidder will have 5 working days (or such longer period as the Department may specify) to respond to any such questions and comment on the Department’s rationale behind the Proposed Risk Adjustments; and

• The Department will determine the risk adjustments (“Final Risk Adjustments”) after receipt of responses or, where no responses are provided, after the date by which responses were to be provided.

A3.2.1.9 The Final Risk Adjustments will then be applied to each Bidder’s Models as appropriate to produce each Bidder’s Risk Adjusted Financial Model.

A3.2.2 The Department reserves the right only to undertake some or all of the stages referred to in subsections A3.2.1.5 to A3.2.1.9 with respect to one or more leading Bidder(s), if it determines that undertaking those other stages of the process as described above will have no impact on the selection of the winning Bid.

A3.2.3 The Department reserves the right to develop its own models in order to assist with the calculation or aggregation of risk adjustments.
A3.3 Approach to determining adjustments

A3.3.1 Subject to subsections A3.1.2 to A3.1.4, this subsection describes the approach to determining risk adjustments to factors such as:

- Revenue forecasts from Initiatives;
- Exogenous revenue forecasts; and
- Operating, financing and capital cost forecasts.

A3.3.2 Where the Department identifies in its reasonable view a material risk of a materially different financial outcome from that projected in the Bidder's Modelling Suite, whether with respect to cost or revenue, it may either risk adjust revenue, cost or both, as appropriate in order to reflect its reasonable view of the most credible financial outcome.

A3.3.3 Risk adjustment will take into account any risk mitigations already identified by Bidders in their forecasts and reported in the Delivery Plans and Record of Assumptions.

A3.3.4 Except with respect to Contingent Initiatives, where a Bidder includes contingency costs and/or revenues in its Financial Model, for the purpose of the risk adjustment process, the Department will assume that the cost will not be incurred and/or that the revenue will not be received (except if the Department considers it appropriate to include contingency cost given the nature of a specific Initiative, for example a capital project).

A3.3.5 For the purpose of risk adjustment, the Department will assume that there will be no financial benefits to the Franchisee during the Franchise Term from expenditure financed through the Innovation Account.

A3.3.6 Where appropriate, to reflect the Department’s reasonable view of the nature of the potential financial impact of a risk, the risk adjustment applied may be profiled by year to allow for delivery of an Initiative later in the Franchise Term than envisaged in the Bid, or for 'ramp-up' of the Initiative (to allow for a different initial profile of the impacts of the Initiative).

A3.3.7 Risk adjustments may be either positive or negative, both individually and in aggregate.

A3.3.8 The Department would not generally make a risk adjustment if it expected that the impact of the adjustment would be less than £1,000,000 (2015/16 prices) in any given year. However, the Department reserves the right to do so, particularly if there are a number of potential risk adjustments individually below this threshold, but which, in aggregate, would exceed it.
A3.3.9 To demonstrate risk adjustment, examples of risk adjustment are provided in subsection A3.7.

A3.4 Revenue – exogenous

A3.4.1 Risk adjustments may be made in respect of any of a Bidder’s exogenous revenue projections (i.e. the resultant predicted outcome of the methodology, assumptions and values used by the Bidder) where the Department’s reasonable view of the most credible outcome is different to that set out in a Bidder’s Modelling Suite.

A3.4.2 For exogenous revenue factors, equivalent values will be used in the risk-adjusted forecasts for all Bidders.

A3.4.3 In determining any risk adjustment, the factors that the Department will take into account may include, but shall not necessarily be limited to:

- The demand forecasting guidance in PDFH v5.1 (except for fares, for which PDFH v4 will be used and for car costs and journey purpose / ticket type mapping, where PDFH v5.0 will be used);
- WebTAG Rail Passenger Demand Forecasting Methodology;
- Other published analysis;
- Departmental commissioned analysis;
- Any analysis provided by the Bidder to justify the methodology and assumptions that it has used;
- Any analysis provided by another Bidder with its Bid, to the extent that it is relevant and credible;
- Exogenous Forecasts; and
- Adjusted car costs and alternative data on employment\(^\text{17}\). These alternative demand drivers are used by the Department as a substitute for the employment data and car cost forecasts provided in the Exogenous Forecasts.

A3.4.4 The Exogenous Forecasts include: GDP, employment, population, non-car ownership, fuel cost, car time, bus cost, bus time, bus headway, air passengers for airport flows only. The methodology for the construction of Exogenous Forecasts and the additional demand drivers is defined in the document “February

\(^{17}\) Adjusted car costs are provided in the document “February 2015 adjusted EDGE inputs car costs” Bidders should contact ATOC for CEBR employment data. Further information can also be found in the webTAG data book: https://www.gov.uk/government/publications/webTAG-tag-data-book-november-2014
Bidders should bid their own views of the Exogenous Forecasts and other relevant exogenous revenue factors and the impact of the same on their Modelling Suites. However, the Department will use the Exogenous Forecasts and alternative demand drivers for the purposes of risk adjustment unless the Department’s reasonable view of the most credible outcome as regards the Exogenous Forecasts and alternative demand drivers changes, taking into account all of the information available to it including compelling evidence submitted by Bidders(s) or new data released after the issue of the ITT. Consequently, the Department reserves the right to update the Exogenous Forecasts and alternative demand drivers at any time. Exogenous revenue factors comprise those drivers of passenger demand that are not within the control of the Department or the Franchisee, such as factors relating to the economy, population, employment, land use and competition from other operators or other modes of transport, including the Exogenous Forecasts and alternative demand drivers.

A3.5 Revenue – excluding exogenous

A3.5.1 Risk adjustments may be made in respect of any of a Bidder's endogenous revenue projections (i.e. the resultant predicted outcome of the methodology, assumptions and values used by the Bidder). For these purposes, endogenous revenue includes revenue from Initiatives, non-farebox revenue, and any other element of its revenue projections other than exogenous.

A3.5.2 Subject to subsection A3.1.4, in determining any risk adjustment, the factors that the Department will take into account may include, but shall not necessarily be limited to:

- The demand forecasting guidance in PDFH v5.1 (except for fares, for which PDFH v4 will be used and for car costs and journey purpose / ticket type mapping, where PDFH 5.0 will be used);
- WebTAG Rail Passenger Demand Forecasting Methodology;
- Other published analysis;
- Departmental commissioned analysis;
- The credibility of the delivery proposals, including resources and delivery timescales;
Any analysis provided by the Bidder to justify the methodology and assumptions that it has used;

Any analysis provided by another Bidder with its Bid, to the extent that it is relevant and credible; and

An assessment of whether total projected revenue growth is credible (taking into account the aggregated impact of different factors and Initiatives proposed).

A3.6 Cost

A3.6.1 Risk adjustments may be made in respect of any of a Bidder's operating, financing or capital cost projections (i.e. the resultant predicted outcome of the methodology, assumptions and values used by the Bidder).

A3.6.2 Subject to subsection A3.1.4, in determining any risk adjustment, the approach which will be adopted will be as follows:

- Where costs do not depend on Bidder Initiatives or management action (for example, EC4T or diesel unit rates), equivalent values will be used in the risk-adjusted forecasts for all Bidders, unless a Bidder provides credible evidence to convince the Department, in its reasonable view, that it will achieve a different financial outcome. Where relevant, the common values will be based on the Department's comparator model assumptions, unless the Department determines that there is more credible alternative evidence available, in which case it will revise its assumptions accordingly; and

- Where costs depend on Bidder Initiatives or management action, the Department will make an assessment in accordance with subsection A3.6.3.

A3.6.3 The factors that the Department will take into account may include, but shall not necessarily be limited to:

- The credibility of the delivery proposals, including resources and delivery timescales;

- Any analysis provided by the Bidder to justify the methodology and assumptions that it has used; and

- Any analysis provided by another Bidder with its Bid, to the extent that it is relevant and credible.
A3.7 Examples of risk adjustments

A3.7.1 This subsection A3.7 provides examples of risk adjustments. Both the nature of the Initiatives described, and the types of adjustments set out, should be considered as illustrative only. The Department will undertake risk adjustments in accordance with the principles described in this Appendix 3 and these examples should not be taken to limit how the Department will undertake this.

A3.7.2 A revenue protection Initiative is proposed in order to increase passenger revenue. This Initiative includes purchase of new equipment which, together with additional revenue protection staff and improved processes such as revised deployment of revenue protection officers, is projected to achieve a reduction in ticketless travel and therefore an ongoing increase in revenue with no change to the quantum of passengers actually travelling. Risk adjustment could be appropriate, for example:

• The timing of implementation could be considered to be unrealistically ambitious, for example if there is insufficient time to recruit and train new staff or to install new equipment, and therefore risk adjustment(s) may be applied to delay the timing of revenue, benefits and operating costs;

• The scale of ongoing costs for the additional staff could be considered unrealistically low, or resources may be deployed inefficiently, and therefore risk adjustment(s) may be applied to increase these costs accordingly;

• The scale of the proposed ongoing revenue gain could be considered over-ambitious, for example by comparison to revenue gains achieved on a network with similar levels of gating and staffing, and therefore risk adjustment(s) may be applied to scale back the additional revenue claimed; or

• One-off transition costs may have been overlooked, for example staff recruitment and training costs, and therefore risk adjustment(s) may be applied to add in cost provision for these one-off items.

A3.7.3 A station enhancement investment programme Initiative is proposed, to improve passenger satisfaction at a portfolio of stations, and therefore increase passenger revenue. The scope of the programme includes augmenting ticket offices, mobility impaired access, enhanced security, car parking, shelters, waiting rooms and toilet facilities at these stations. Risk adjustment could be appropriate, if, for example:

• The timing of implementation could be considered to be unrealistically ambitious, for example if there is not adequate time to achieve any
planning/highway consents, and risk adjustment could be applied to delay the realisation of benefits and costs;

- The capital investment assumed for the station works could be considered unrealistically low and therefore risk adjustment could be applied to increase the capital investment required to deliver the works;

- The scale, timing, build-up and/or trend in any passenger revenue benefits could be considered over-ambitious, or inconsistent with PDFH and/or WebTAG guidance, and risk adjustment(s) could be applied to scale back or increase the revenue benefits claimed;

- One-off transition costs may have been overlooked, for example costs of provision of temporary facilities during the period when the works are being carried out (such as temporary ticket office and access arrangements), and therefore risk adjustment(s) could be applied to add in cost for provision of these one-off items; or

- Any additional annual operating and maintenance costs relating to these additional station facilities may have been excluded from the forecast, and risk adjustment(s) could be applied to add in some cost provision for this.

A3.7.4 A Bidder proposes enhancements to the customer proposition, in order to generate additional revenue. Examples could include revised branding, refreshment of rolling stock, or provision of enhanced passenger information systems. Risk adjustment could be appropriate, if, for example:

- The timing of implementation could be considered to be unrealistically ambitious, for example there could be inadequate time to implement the enhancement, and therefore risk adjustment(s) could be applied to delay the timing of revenue and costs associated with the Initiative;

- The costs assumed to implement the enhancements could be considered unrealistically low, and risk adjustment(s) could be applied to increase the costs assumed accordingly;

- The scale, timing, build-up or trend of passenger revenue resulting from the enhancements could be considered over-ambitious, for example if the assumptions used are not consistent with PDFHv5.0 or for example if proposed revenue uplifts were double counted or overestimated when compared to industry specific market research, and risk adjustment(s) could be applied to scale back the revenue benefits claimed; or

- Transition impacts may have been overlooked, for example any staff training, or loss of rolling stock availability whilst modifications are being
carried out. Risk adjustment(s) could be applied to take account of any impacts during transition.

A3.7.5 A Bidder proposes marketing campaigns that represent a significant increase from the previous levels on this Franchise, but the claimed marketing return on investment is abnormally high and not supported with sufficient evidence from appropriate case studies and campaigns. Risk adjustment(s) may be applied to scale back the passenger revenue benefits claimed.

A3.7.6 A Bidder proposes ticket office closures, to be enabled by new ticketing technology and equipment, but the rate of deployment is considered to be too ambitious. Risk adjustment(s) may be applied to delay the envisaged level of staff reductions and timing of reductions and add back staff costs accordingly. Any revenue benefits associated with the new ticketing technology would also be scaled back.

A3.7.7 A Bidder assumes low rates of wage increases and does not provide evidence that this is consistent with market rates and therefore that it will be able to recruit and retain staff with this level of wage increase. Risk adjustment(s) may be applied to increase staff costs in line with forecast economic indicators and market trends.

A3.7.8 A Bidder proposes to reduce levels of staffing to such an extent that this is considered to represent a risk to ongoing deliverability of the Bidder's commitments in one or more area of the business. Risk adjustment could be applied to add in additional staff and associated costs. If appropriate, the revenue forecast could also be subject to risk adjustment to reflect the impact of reductions in staffing levels on passenger revenue.

A3.7.9 A Bidder assumes growth in EC4T unit rates materially lower than is considered realistic. A risk adjustment could be applied to increase these costs to reflect more credible alternative forecasts of the trend in energy costs.

A3.7.10 A Bidder assumes significant benefits from alliancing that are not adequately justified. Risk adjustment(s) may be applied to reduce any claimed benefits or cost savings to the extent that these are considered over-ambitious.