



InterCity West Coast Franchise

Draft Invitation to Tender

19 May 2011

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IMPORTANT NOTICE

This document is 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 or Network Rail include, where appropriate and unless the context otherwise requires, references to those bodies’ predecessors and successor(s).

This document is not a recommendation by the Secretary of State, or any other person, to enter into a Franchise Agreement or to acquire shares in a current or prospective franchisee or its parent undertaking. In considering any investment in a franchise, franchisee, prospective franchisee or parent undertaking, you should make your own independent assessment and seek your own professional financial and legal advice.

The information contained in this document does not purport to contain all of the information that a prospective franchisee or shareholder may require. Neither the Secretary of State, nor any of his employees, agents or advisers ("**representatives**"), makes any representation or warranty (express or implied) (and no such representatives have any authority to make such representations and warranties) as to the accuracy, reasonableness or completeness of the information contained in this document.

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

The Department reserves the right at any time to issue further supplementary instructions and updates and amendments to the instructions and information contained in this document as it thinks fit.

Eversheds LLP and WS Atkins Plc are acting for the Department in relation to the award of the Intercity West Coast franchise, and will not regard any other person as their client or be responsible to anyone other than the Department for providing the protections afforded to their clients nor for advising any other person on the contents of this document or any matter referred to in it.

The Department will not be responsible for the costs or expenses of any Bidder in relation to any matter referred to in this document howsoever incurred, including the evaluation of

the Intercity West Coast franchise opportunity, the award, or any bid for the award of the Intercity West Coast franchise, or negotiation of the Franchise Agreement.

This Invitation to Tender document should be read in conjunction with the draft Franchise Agreement and the National Rail Franchise Terms ("Terms") supplied with it.

Unless the context otherwise requires, capitalised terms used in this document shall have the same meaning given to them as in the draft Franchise Agreement.

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Additionally, where this document is supplied directly by the Department to a Bidder: This unredacted version of the document is confidential and is being issued only to persons who have entered into an appropriate Franchise Letting Process Agreement, the terms of which will, in the event of any conflict, prevail over those in this Important Notice. Neither this document, nor any part of it nor any other information supplied in connection with it, may, except with the prior written consent of the Department, be disclosed to any person other than in confidence to the recipient's advisers, nor used for any purpose other than consideration by the recipient of whether or not to make a bid. If the recipient does not continue with its interest in the award of the Intercity West Coast franchise franchise, or if the Department notifies the recipient that the process has ceased, or that the recipient is no longer being considered for the award of the Intercity West Coast franchise or otherwise upon request by the Department, the recipient will promptly return this document and any other information provided in connection with it to the Department, destroy any electronic copies not capable of being returned to the Department, and not retain any copies or reproductions in any form.

SECTION 1: INTRODUCTION AND CONTEXT

1.1 Purpose of this Invitation to Tender

This Invitation to Tender ("ITT") sets out:

- the Intercity West Coast franchise proposition for which the Department is seeking bids;
- how the competitive process will work;
- how Bidders should complete their bids; and
- how the evaluation process will work.

Appendices and a number of documents are attached which set out the requirements for the completion of bids and additional relevant information.

The Department's aim is for the new Intercity West Coast franchise to commence operations with effect from 0200 hours on 9 December 2012.

1.2 Scope of the Intercity West Coast Franchise

Train services to be operated by the new Intercity West Coast franchise will provide train services from London Euston to the West Midlands, North West England, North Wales and Scotland, and serve the key cities of London, Birmingham, Liverpool, Manchester, Edinburgh and Glasgow.

Details of the Intercity West Coast franchise, its services and resources can be found in the data site www.icwcdatasite.co.uk.

A map of the Intercity West Coast franchise area and routes is included at Appendix 1A and 1B.

1.3 The Department's Objectives for the Intercity West Coast Franchise

- To exploit the full potential of the route and maximize capacity.
- To manage effectively the integration of new rolling stock vehicles.
- To improve overall passenger satisfaction.
- To deliver the agreed Olympic services.
- To improve accessibility to services and stations.
- To improve the environmental performance of the franchise.
- To manage effectively any changes during the franchise.
- To achieve sustainable value for money

1.4 Closing date for Bids

Bids must be submitted by 12.00 hours GMT on 1 May 2012.

SECTION 2: INFORMATION AND INSTRUCTIONS TO BIDDERS

2.1 Franchising Timetable and Process

An overview of the Department's management process for the letting of a franchise is documented in "[A Guide to the Railway Franchise Procurement Process](#)". The remaining stages of the process for appointing the Franchisee: Bid Preparation; Bid Evaluation and Negotiation; and Mobilisation, together with their indicative timings, are set out below.

Table 2-1: Franchising Timetable

Stage	Description	Party Responsible	Planned Date
Bid Preparation	Preparation of bids	Bidders	Jan 2012
	Submission of bids	Bidders	Jan – May 2012
Bid Evaluation & Negotiation of Bids	Evaluation of bids, clarification, negotiation and agreement to terms of the Franchise Agreement and related documentation.	The DfT and Bidder(s)	May – Aug 2012
	Secretary of State consent to the InterCity West Coast franchise award		Aug 2012
Mobilisation	Prepare for transfer of operations	Franchisee	Aug – Dec 2012

The Department reserves the right to alter the timetable or the process, or to terminate this process at its sole discretion. Bidders will be informed of any such changes.

2.2 Restriction on Communications/Press Releases etc during Franchise Competition

The outcome of a rail franchise competition is of national significance and therefore generates a high level of public interest and media speculation. Bidders are not to use media or communication channels in a way that might reflect adversely and unfairly on the industry, its participants or the integrity or outcome of the competition.

Therefore, during the Bid Preparation Phase and until the award of the Intercity West Coast franchise, the Department requires that Bidders confine any communications about the competition to communication that is necessary in order to develop their proposals. Until the award of the Intercity West Coast franchise, Bidders are required to refrain from comment to national, local and industry media, Passenger Focus, PTEs, Members of Parliament and stakeholders about matters connected with the Intercity West Coast franchise competition. If there are compelling reasons to make a public statement or comment then, so far as practicable, the Department requires Bidders to discuss the content of such statements or comments with the Department in advance.

2.3 Changes in Circumstances

Bidders (including for this purpose each participant in any joint venture or consortium arrangement) are required to notify the Department of the occurrence of any of the events listed below (for the purposes of this Section 2.3, a 'change in circumstances') promptly, and in any case no later than 21 days after such change in circumstances occurs. A change in circumstances means the occurrence of any of the following:

- any change to their corporate structure or the structure of the bid vehicle from that set out in their application to be accredited to receive this ITT. This includes the grant of any options to acquire shares, any agreement relating to the exercise of rights attaching to such shares, and any amendments to a shareholders' agreement, articles of association or similar constitutional documents;
- any changes to the information provided to the Department as part of the accreditation process; or
- any other changes to their circumstances, or the basis of their bids, which may be expected to influence the Department's decision on the suitability of the bid vehicle to be the Franchisee for the Intercity West Coast franchise.

Any such notification shall provide full details of the proposed change, including final form copies of the documentation required to put such change into effect.

The Department reserves the right to approve or reject such changes (including any changes to the basis on which the Bidder was accredited to receive this ITT), or to impose such conditions as it considers appropriate. The Department further reserves the right to exclude a Bidder from further participation in the competition where it rejects any such changes.

2.4 Cost of Bidding and Model Audits

Each Bidder will be responsible for all costs, expenses and liabilities incurred by it in connection with the Intercity West Coast franchise letting process, whether or not its bid and/or associated negotiations are ultimately successful or the process is subsequently varied in any way. Bidders will be responsible for all costs associated with the Modelling Best Practice Confirmation and Model Audit (each as defined in Section 5.8 (Model Sign-off – Terms of Reference)).

2.5 Preparation of Bids

The Department expects to receive bids that contain minimal qualifications. Bidders should make full use of all the information provided with this ITT, in the data site as defined in Section 2.6 (Data Site) and, thereafter, the query process described in Section 2.7 (Query Process).

2.6 Data Site

The Department has established a 'virtual data room' (the "data site"), operated by Connect Internet Solutions, containing, in electronic form, documents and information specifically relating to the Intercity West Coast franchise and the incumbent operator of the Intercity West Coast franchise.

2.7 Query Process

All queries and requests for information must be submitted by Bidders in the Microsoft Excel format prescribed in the 13 April 2011 e-mail from Dale Ward, DfT Procurement, to accredited Bidders.

Queries and requests for clarification or additional information should be submitted by e-mail to: WestCoast@dft.gsi.gov.uk

Any query or request for clarification or additional information must meet the requirements stated below. Failure to satisfy the Department of the value of the information sought may result in the request not being accorded priority attention and/or it being viewed as an unreasonable request for information.

A Bidder may request that the Department treat a query and its response as confidential. Any such requests must be made at the time of submission of the query. The Department will advise the Bidder if it considers that the query cannot be treated as confidential, at which time the Bidder may either withdraw the query or accept that the response may (at the Department's discretion) be transmitted to the other Bidders.

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

Queries from Bidders will be responded to expeditiously having regard to the nature, extent and availability of the information requested. The Department will endeavour to respond to all queries before bids need to be submitted, but Bidders should note that the Department cannot guarantee this, especially if queries are received later than ten working days before the required submission date, or if it has not been possible to collate the necessary data for a response.

The Department reserves the right to transmit to other Bidders (without reference to the identity of the author of the query) the questions (other than those agreed as confidential) asked by, and the answers provided to, any Bidder. This will be done by means of bulletins published periodically on the Intercity West Coast franchise data site.

2.8 Structure and Format of Bids

Bidders should note that the Department will evaluate the compliance of bids with the structure set out in Table 2-2 (Structure and Format of Bids) and, following any appropriate clarification, may ask for re-submission or disqualify any bid that does not conform or is deficient in comparison with this structure.

The size of the main text of the bid including the Executive Summary and proposed means of delivery of the Base Service Specification *including all annexes/appendices* will be limited to 1,500 pages; and the size of the text relating to any Incremental Options will be subject to a separate overall size limit equivalent to 15 pages multiplied by the number of Priced Options requested by the Department. Bidder-generated Incremental Options will not be subject to a size limit equivalent. This requirement is summarised in Table 2-2.

The following elements of the bid will be outside the page limit:

- the contents of the financial part as described in Table 2-2;
- the contents of the technical data part as described in Table 2-2;
- the contents of the legal and compliance part as described in Table 2-2; and
- covers, section dividers and indices.

One page constitutes one printed side of A4. For main text the minimum font size is 12 pt, font type is standard (i.e. not 'narrow') and minimum line spacing is 13pt. Double sided printing is required where this is practicable. Bidders will be encouraged to use a simple presentation style, avoiding expensive bindings, colour photographs and other high cost elements of production that do not directly add value to the substance of the bid.

The Department reserves the right to advise any Bidder exceeding the page size limit that their bid is non-compliant and not to evaluate that bid unless/until the Bidder informs the Department, within a timetable stipulated by the Department, which pages they wish to withdraw in order to become compliant.

Bidders are required to submit numbered copies of their bid, in accordance with the requirements listed in Table 2-2 (Structure and Format of Bids) and in the following formats:

Hard Copies

Hard copies should be contained in ring binders suitably segregated into the number of sets required. Bidders should clearly identify the part and set number (e.g. Part 1 Set 1, Set 2, Set 3, Set 4 and Set 5) and each ring binder must be labelled clearly with the volume name, copy number, the Bidder's name and an index of the contents of the binder.

Five hard copies are required of Part 1 the Main Text, and Part 2 Financial. Three hard copies are required of Part 3 Technical Data, and Part 4 Legal and Compliance.

Electronic Copies

Electronic copies should be in CD format. Each CD must be labelled clearly with the part, copy number, the Bidder's name and the contents of the CD. Information is required to be stored in Microsoft Word/Excel 2003 (or later) format. Documents should not be submitted in Acrobat, except where unavoidable. All electronic copies should be packaged separately from the hard copy sets and identified as "Additional CDs".

Four electronic copies are required of Part 1 the Main Text, and Part 3 Technical Data. Three electronic copies are required of Part 2 Financial and Part 4 Legal and Compliance.

Additional Electronic Copies

One electronic un-priced copy of Part 1 the Main Text is required in CD format, labelled clearly with the copy number, the Bidder's name and the contents of the CD. Information is required to be stored in Microsoft Word/Excel 2003 (or later) format. The Department will send this copy, together with one of the Part 3 copies specified above, to Network Rail. Documents should not be submitted in Acrobat, except where unavoidable.

Bids are to be submitted to:

Dale Ward
 Rail Contracts
 Commercial and Technical Services
 Department for Transport
 3/29 Great Minster House
 76 Marsham Street
 London
 SW1P 4DR

by 12.00 hours GMT on 1 May 2012.

Bidders should ensure that they complete and include the Declaration of Conformity Statement at Attachment H, in their Part 4 Legal and Compliance responses.

No other documents or information shall be submitted with the bid. The bid must be submitted in boxes marked '**CONFIDENTIAL - Intercity West Coast Franchise bid submission in response to ITT**'. The boxes should not be marked in any way that would indicate the identity of the Bidder. Bidders should obtain a formal receipt from the Department at the time of the submission of their bid.

The Department requires that Bidders supply each complete set of documentation in a separate box and ensure that an index is provided for the electronic information. The Department also requires that, for electronic information, the file structure matches the sequence of the hard copy documentation.

Bids received after the Department's stated date for submissions, or which are not duly completed and signed, may be disregarded by the Department. Nevertheless, the Department expressly reserves the right, in its absolute discretion, to treat any bid as valid and to proceed with the inclusion of any bid notwithstanding any procedural defect in relation to the submission of the bid.

All bids are required to be in English and amounts denominated in pounds sterling.

Bidders will be required to present up to 1 hour on the key elements of their submissions to the Department on the working day following bid submission.

Table 2-2: Structure and Format of Bids

Bidders are required to provide the following when submitting their bids:

Part		Hard Copy	Electronic	Size limit
1	Main text			
	Executive Summary Delivery Plans for Base Service Specification (Section 4)	5 copies	4 copies +1 unpriced copy +1 HTM copy	1500 pages including annexes/appendices
	Delivery Plans for	5 copies	4+1+1 copies	none

	Incremental Options			
2	Financial			
	Operational Models and Financial Model (Section 5) including revisions in respect of Priced Options and Incremental Options PDF of Templates & outputs of Tier 1 Operational Models	none	3 copies	75MB maximum size per workbook (See Section 5)
	Record of Assumptions, Operating Manual, Modelling Best Practice confirmation, Financial Adviser's letter, Confirmation of Bond availability, ROSCO term sheets	5 copies	3 copies	none
3	Technical Data			
	If appropriate, timetable submissions including: working timetables, rolling stock and crew diagrams and platform workings in support of Delivery Plans for Base Service Specification, Priced Options and Incremental Options	3 copies	4 copies	none
4	Legal and compliance			
	'Deltaview' mark-up of the Franchise Agreement, including completion of those parts marked 'Bidders to populate' Non-compliance statements Changes in circumstances and competition matters Declaration of Conformity Confirmation that bid will be held valid for 275 days from bid return date as specified in Section 2.13	3 copies	3 copies	none

2.9 Executive Summary

Part 1 of the bid should also include an Executive Summary that describes the Bidder's vision for the InterCity West Coast franchise and how the Department objectives for the franchise will be met. The Executive Summary should not contain overall pricing

information but should include information on reduction in unit costs referred to in section 3.6.1.

2.10 Incremental Options

The Department welcomes proposals that enable the delivery of a more efficient service, representing better value for money for passengers and taxpayers (Incremental Options). Such Incremental Options must be presented, fully specified and priced incrementally from the Base Service Specification, and should be self-contained, i.e. not dependent on any other Incremental Option which may be included in the submission.

The Department requires the Incremental Option to be expressed as a clearly defined commitment, with clear timed plans for implementation that describe the circumstances and conditions under which the Incremental Option can be delivered, the benefits which will be achieved, and (if appropriate) how Bidders will engage with stakeholders in implementing proposals. Bidders will be expected to identify clearly the risks, constraints or other factors that may affect deliverability of any Incremental Option and any ways in which these might be mitigated or overcome.

The Department is aware that Bidders are likely to assess a range of potential initiatives for the Intercity West Coast franchise whilst preparing their bids. Bidders may identify initiatives, which they consider to be of merit, but which have failed to achieve the Bidder's financial criteria for inclusion in the Base Case bid. In these circumstances, Bidders are encouraged to submit the initiatives as Incremental Options. The Department will consider purchasing the Incremental Options offered by the winning bidder subject to affordability constraints and economic appraisal criteria.

2.11 Non-Compliance Statements

2.11.1 Franchise Agreement Non-Compliances

Bidders are required, when submitting their bids, to list in the format set out in the following table, all requirements of this ITT with which they are not able to confirm compliance in full. Full details of the reasons for the non-compliance should be given. Any provision not so listed and detailed will be regarded as having been accepted unconditionally.

Bidders are also required when submitting their bids to list in the format set out in the following table, all clauses, sections and schedules of the Franchise Agreement and associated contractual documents with which they are not able to confirm compliance in full. Full details of the reasons for non-compliance should be given. Any provision not so listed and detailed will be regarded as having been accepted unconditionally.

Table 2-3: Format of Non-Compliance Statement

Document	ITT Sections/Terms and Conditions which have NOT been complied with	Details
<i>ITT</i>		
<i>Franchise Agreement</i>		

2.11.2 *Changes in Circumstances and Competition Matters*

Similarly, Bidders are required to include in their bids in the format set out in the following table, details of any change in circumstances or competition matters that affect their bidding position.

Table 2-4: *Format of Statement of Changes in Circumstances and Competition Matters*

Change	Reporting Required
Change in Circumstances	Bidders should include details in response to the instructions contained in Section 2.3 (Changes in Circumstances)
Competition Matters	Bidders should include full details of any matter under consideration, or which may reasonably be expected to be the subject of consideration, by OFT and/or the Competition Commission or the European Commission as referenced in Section 2.17 (Competition Matters)

2.11.3 *Secretary of State's Risk Assumptions*

Bidders are discouraged from proposing their own SoSRAs. Where Bidders do propose their own SoSRAs, the Department may either reflect the cost of the SoSRA(s) in the risk adjusted price of its proposal, or request that the Bidder price for the withdrawal of the SoSRA(s). If a Bidder does not agree to a request to withdraw the SoSRA(s), the Department may consider the bid to be non-compliant.

2.12 Non-Compliance

If any bid is found not to comply with the Department’s requirements (including whether or not such non-compliance is specified in any Non-Compliance Statement), or lacks, in the opinion of the Department, any information necessary to enable evaluation, or is found to contain inconsistent information, the Department may:

- evaluate the bid as submitted;
- seek additional information or clarification from the Bidder; or
- reject the bid.

2.13 Validity of Bids

Bidders shall confirm the validity of their bids including the terms, bid price, and any subsequent changes agreed for a period of 275 days from the date of bid submission.

2.14 Industry Consultation and Disclosure of Information in Bids

Bidders should be aware that, following the submission of bids, the Department will need to consult HM Treasury, the Office of Rail Regulation ("ORR"), its advisors and Network Rail. The Department will also consult such other persons as it considers necessary or appropriate including, but not limited to, its advisers, Transport Scotland, Welsh Assembly Government, bodies representing passenger interests (such as Passenger Focus), the Disabled Persons Transport Advisory Committee or successor body, affected Local

Authorities and Local Economic Partnerships (collectively referred to as Consultees and each separately referred to as a Consultee).

Accordingly, the submission of bids will constitute permission by the Bidders for the Department to disclose to any Consultee all or any of the information contained in, or supplied in connection with, such bids, excluding any commercially sensitive material as appropriate and which is clearly marked by Bidders as such.

In addition, Bidders are reminded that in order to develop and agree Track Access Agreements and Station Access Agreements, Network Rail will need to consult, amongst others, passenger and freight train operating companies and that this process may involve discussion of relevant aspects of the bids. Bidders are required to cooperate with these consultations. The Department may ask Network Rail to comment on such elements of the bids and to address their comments to both the relevant Bidder and the Department.

In developing their bids, Bidders can expect to be contacted by, and are encouraged to consult with stakeholders relevant to the Intercity West Coast franchise following the start of the Bid Preparation Phase. It is each Bidder's responsibility to decide on the scope and extent of Stakeholder Consultation but they should note that the Department may seek views from stakeholders on the state of progress of consultation. Bidders should note that Network Rail will formally advise the Department of the level of contact and engagement that it has had with each Bidder.

2.15 Evaluation of Bids

Bids must be complete and submitted in accordance with the instructions to Bidders set out in this document. Bids must be compliant with the requirements of the Franchise Agreement. The evaluation of bids shall be conducted in accordance with the Department's Guide to the Railway Franchise Procurement Process and Franchise Evaluation Process Charts, available on the DfT website.

This process includes a consideration of the value for money and affordability of the franchise proposition before award.

The Department will evaluate bids and rank them for the purposes of selecting the Franchisee on the basis of the results of each Bidder's Base Service submission only.

Any Incremental Options may be evaluated for the winning bidder. The results of the evaluation of these proposals will serve to inform the Department on the procurement options to be pursued with the preferred Bidder, and only after the Department has made its preferred Bidder decision.

Bidders are asked to submit a cost for extending the franchise by 20 months, to 12th December 2027. The Department will take into account 50% of the risk adjusted NPV of this premium when evaluating each bid.

2.16 Negotiation and Award

Following bid evaluation and clarification, the Department reserves the right to negotiate with one, some, or all Bidders. There will be no public announcement of the preferred Bidder until that Bidder has been advised that the Department intends to award them the franchise. The Franchise Agreement will be initialled, and therefore subject to no further changes, after the London Stock Exchange closes and the Secretary of State has been informed of the identity of the preferred Bidder. The Department intends to run a voluntary mandatory standstill period of 10 calendar days between informing all Bidders of the outcome of the franchise bid process and entering into the franchise with the successful bidder. During this standstill period the Department will not award the franchise to the successful Bidder. An announcement will be made to the London Stock Exchange at 07.00 hours the following morning setting out the Department's intention to award the franchise following a mandatory 10 day standstill period. Following the successful conclusion of the standstill period, the Franchise Agreement will be awarded.

2.17 Debrief for Bidders

The Department considers that debriefing of Bidders for a franchise is an important element in an open and transparent franchise procurement process. This assists the Department in the lessons learned process, and provides input that may help shape the development of future franchise procurements.

Each Bidder will be invited to a separate debrief session during the voluntary 10 day standstill period referred to above. This session is to help them understand how their bid performed and how future bids could be improved. Following the debrief session Bidders will be advised that they may submit a list of questions to which the Department will provide a written answer. Responses to this information may be provided outside of the 10 day standstill period and will not delay award of the franchise agreement to the successful bidder.

Bidders are deemed to understand fully the procurement process that the Department is running to let this franchise which is a Part B services contract to which the Public Contracts Regulations 2006 do not apply.

2.18 Competition Matters

The Office of Fair Trading ("the OFT") expects that notification to the OFT will be made following the announcement by the Department of the identity of the Intercity West Coast Franchisee. Notwithstanding this, the OFT strongly encourages any Bidder who believes that a successful bid would give rise to a substantial number of overlaps with its other transport interests to contact the OFT as soon as possible, on an informal basis, to discuss the OFT's requirements in the event of a successful bid.

Following signature of the Franchise Agreement, the Franchisee will meet with the OFT to discuss the information the OFT requires in relation to a Notification. The OFT will only commence its inquiry into the award of the Intercity West Coast franchise following the receipt of a satisfactory submission from the Franchisee. If there are significant overlaps, the OFT will want survey evidence to consider the substitutability of alternative modes of transport in the franchise area. If necessary the OFT will be happy to discuss further how any such survey should be carried out and how evidence should be supplied.

Following submission of the Notification, the OFT, or after any reference, the Competition Commission, may require undertakings from the Franchisee (and/or any companies within the Franchisee's group) to prevent pre-emptive action which might prejudice any reference or impede any possible future remedies. Such undertakings would be likely to be in relation to the on-going behaviour of the Franchisee (and/or any companies within the Franchisee's group) such as prices and Service Levels on overlapping modes of transport within the physical area of the Intercity West Coast franchise. The undertakings may be required until such time as any merger inquiry is concluded.

Where the turnover of parties to a merger exceeds certain turnover thresholds, the merger must be notified to the European Commission under the European Community Merger Regulation ("ECMR") for scrutiny. The European Commission however has previously indicated that it will not consider the merger until such time as the Bidder has been awarded the franchise. Bidders must inform the Department promptly if notification to the European Commission may be required. The OFT might seek, under Article 9 of the ECMR, to have the merger referred to the UK competition authorities if it seems likely that the merger might threaten to impede effective competition or if it affects a market within the UK which does not constitute a significant part of the common market. Alternatively, under Article 4(5) of the ECMR, the parties to a merger can ask the European Commission, prior to notification, to have the merger referred to the UK competition authorities for consideration, provided certain criteria are fulfilled. The European Union process may have an impact on the timetable in which the merger can be completed since completion of the deal is prohibited while the merger is subject to European Union scrutiny. The Bidder will co-operate with any inquiry and provide assistance to the European Commission in deciding whether to clear the concentration, or to initiate proceedings and undertake an in-depth investigation. Because completion of the deal is prohibited while the merger is subject to EU scrutiny the potential applicability of the EU regime is relevant to the deliverability of bids. Accordingly in addition to notifying the Department of its assessment of the risks of the EU regime applying in its bid Bidders must also indicate how it is proposed that the risks will be mitigated and its view of the likely effectiveness of such risk mitigation. The Department will take this into account in evaluation.

The Department does not expect to delay entry by the Bidder into the Franchise Agreement if inquiries by the OFT and the Competition Commission are not complete. The Franchisee will be required to sign the Franchise Agreement and (subject to the special circumstances of the EU regime applying discussed above) commence the operation of the franchise notwithstanding any ongoing competition law processes, investigations or negotiations. Bidders will be at full risk for implementing any requirements mandated by the OFT, the Competition Commission or the European Commission.

If any Bidder is advised by the OFT, the Competition Commission or the European Commission that the award of the franchise would be subject to any prohibitions, divestments of interests or undertakings the Bidder will inform the Department as soon as possible and if such requirements would, in the view of the Department prejudice the franchise, or any other franchise, the Department reserves the right to disqualify the Bidder from the Intercity West Coast franchise reletting process.

2.19 Transparency and Freedom of Information Act 2000

The Freedom of Information Act 2000 (the "FOIA") provides a general right of access to all information held by public authorities. The Department is a public authority. The general right of access to information is then limited by a number of exemptions. When someone requests information under FOIA, the Department must release that information unless one of the exemptions in the FOIA applies.

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, such that they may be exempt from disclosure under FOIA. 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.

Bidders should note that, even where information is identified as commercially sensitive or confidential, the Department may be required to disclose such information in accordance with the FOIA. The Department is required to form an independent judgment concerning whether the information is exempt from disclosure under the FOIA. In particular bidders should be aware of the Code of Practice issued by the Secretary of State for Constitutional Affairs under section 45 of the FOIA: [Section 45 FOIA](#) which limits the circumstances under which a public authority should agree to hold information in confidence. It could be the case, therefore, notwithstanding notification by bidders that parts of a bid have been provided in confidence or are commercially sensitive, that the Department will be obliged to disclose those parts.

Bidders 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.

Bidders' attention is drawn to the relevant provisions of the FLPA, which permits in certain circumstances disclosure of information by the Department, as well as the provisions in relation to the disclosure of information contained in the Environmental Information Regulations 2004 and section 145(2) of the Railways Act.

Bidders' attention is also drawn to the pre-existing provisions of the National Rail Franchise Terms that state that DfT may make certain information available to ORR, and may publish it. The Department intends that unit cost and/or cost data supplied to the Department by the franchisee as part of the periodic management accounts will be made available to the ORR for benchmarking and will be published. The Department does not expect such information to be exempt under the terms of the FOIA.

2.20 Redactions from the Franchise Agreement and Associated Documents

The Department is committed to transparency in the procurement of its contracts. This includes the publication of all tender documents for contracts over £10,000 on a single website ("Contracts Finder" which can be found at www.businesslink.gov.uk/ContractsFinder and the publication of contracts in full. By responding to this ITT Bidders are agreeing to abide by these commitments.

Additionally, in accordance with s73 of the Railways Act 1993 (as amended), the Secretary of State is required to keep a register of franchise documents for the reference of the Office of Rail Regulation and Scottish Ministers (“the Section 73 Register”).

Bidders are required to acknowledge that, except for any information which is exempt from disclosure in accordance with the provisions of the FOIA, the content of the Franchise Agreement, the Conditions Precedent Agreement and any agreed Side Letters (together the “Franchise Signature Documents”) is not Confidential Information. The Department shall be responsible for determining in its absolute discretion whether any of the content of the Franchise Signature Documents is exempt from disclosure in accordance with the provisions of the FOIA. Notwithstanding any other term of the Franchise Agreement, the Bidder hereby gives his consent for the Department to publish the Franchise Agreement in its entirety, (but with any information which is exempt from disclosure in accordance with the provisions of the FOIA redacted) including from time to time agreed changes to the Franchise Agreement, to the general public.

The Department may consult with the Bidder to inform its decision regarding any redactions but the Department shall have the final decision in its absolute discretion. The Franchisee shall assist and cooperate with the Department to enable the Department to publish the Franchise Agreement.

Within four weeks of signature of the Franchise Agreement, the Franchisee will be required to submit to the Department a list of proposed redactions from the Franchise Agreement, the Conditions Precedent Agreement and any agreed Side Letters (together the “Franchise Signature Documents”).

The Franchisee may request that any such redaction is made in respect of the Public Register, the Section 73 Register, or both. For each redaction, the Franchisee should specify the exact text it proposes should be redacted, and justify the redaction with reference to the criteria in s73(3) of the Act, and/or the exemptions in Part II of FOIA, as appropriate. The Department will then consult with the Franchisee to endeavour to agree a list of proposed redactions in advance of the Secretary of State publishing the Franchise Signature Documents on the Public Register and the Section 73 Register.

Prior to the commencement of the Franchise, the Franchisee is required to satisfy the conditions as set out in the Conditions Precedent Agreement. Satisfaction of those conditions may involve the entry into, or provision to the Department, of a number of other Agreed Form Documents and other documents. Within thirty calendar days of the date on which the Certificate of Commencement is issued, the Franchisee will again be required to submit to the Department a list of proposed redactions from these further documents in the manner described above. The Department will again consult with the Franchisee to endeavour to agree a list of proposed redactions in advance of the Secretary of State publishing these further documents on the Public Register and Section 73 Register.

Should agreement on a redacted version of any document not be reached, the Secretary or State may, at his sole discretion, nevertheless place that document on the Register subject to such redactions (if any), as he considers appropriate.

2.21 Variations to the Franchise Agreement

Bidders' attention is drawn to the variation provisions in Schedule 19 section 1 of the Terms 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 Terms.

The Secretary of State may also require variations to other contracted provisions or outputs. In particular, variations may result from changes to the specification or timing of committed projects affecting the Intercity West Coast franchise. Further information on relevant committed National Rail projects is provided in section 3.3.1.

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 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 franchise proposition taking into account the need to be able to vary the nature, quantity and manner of delivery of franchise 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.

Given the length of this franchise, and the strong likelihood of economic, social, budgetary and operational circumstances changing over up to 15 years, the Government believes it is likely to make variations to the contract during the franchise term. In order to provide an incentive for the train operator to develop and implement such changes, it may be appropriate for the train operator to receive a reasonable level of financial benefit, if any financial benefit arises from such changes to the contract. It may also be appropriate for the Department to share such benefits with the franchisee.

SECTION 3: THE BASE SERVICE SPECIFICATION: INPUTS AND ASSUMPTIONS

Bidders are expected to refer to the draft Franchise Specific Agreement and National Rail Franchise Terms Fifth Edition (West Coast) which will be supplied in due course after the publication of this ITT.

Bidders' notice is drawn to the affordability constraints that apply to the rail industry. Regardless of the value for money aspect of any given investment proposal, the Department will only consider such proposals if its budget allows.

3.1 Franchise Duration

Appendix 8 of the Franchise Agreement (Figures for the Calculation of Annual Franchise Payments) requires Bidders to price for a franchise length of 13 years and 4 months, with the franchise ending on 31st March 2026.

The franchise can be extended by up to 20 months, although this would be solely at the Department's discretion. The Department will seek a 'price' from Bidders for this extension period proposed, up to a maximum end date of 12th December 2027. 50% of the present value of risk-adjusted premium for this period will be included in any assessment of overall franchise value.

3.2 Service Specification

3.2.1 Train Service Requirements

The minimum weekly quantum of station stops for each service group will be mandated in the Train Service Requirement (TSR). This weekly quantum corresponds to the number of stops that will be provided in the May 2011 timetable but excludes the stations of Wrexham and Carstairs. The existing services at these two stations are not contained in the current Service Level Commitment. Bidders are free to determine whether there is a commercial justification to continue these services.

Bidders will be required to continue to provide, each week, the number of stops at each station as shown in the TSR table. There is also a requirement to provide a minimum number of stops by day of week. It is mandatory that there will be no decrease from the numbers shown in the TSR tables.

The TSR table has been devised to allow a greater level of flexibility. It divides the services into just two groups with the total of stops being a combination of northbound and southbound directions. The totals allow a reduction in the daily quantum of stops at individual stations by approximately 10% (or 1 stop where the total is fewer than 10) but allow no reduction taking the seven days together. This may allow bidders opportunities to maximise the capacity provided on certain individual days of the week while reducing it on other days in order to cater effectively for the variations in daily demand.

Bidders will be expected to achieve a sensible balance of services in northbound and southbound directions and to provide, broadly, a standard pattern timetable.

The draft TSR also contains some ‘first and last’ train requirements at key locations. These first and last train requirements are broadly the same as those provided in the May 2011 timetable.

Franchise Commencement, on December 9th 2012, will coincide with the introduction of the December 2012 timetable which the new franchisee will be required to continue to operate (with the addition of the usual summer holiday period additions) for the full 12-month period.

Table 3-1: Train Service Requirement Changes

	Date Introduced	Description
	December 2012 to December 2013	Inherited timetable to be operated
	December 2013	First opportunity to introduce additional/amended services.

3.2.2 Timetable Development

The Train Service Requirement can be satisfied by a continuation of the existing standard pattern timetable which comprises:

- 3tph Euston to Birmingham New St, one of which extends to Wolverhampton
- 3tph Euston to Manchester Piccadilly; two via Stoke and one via Crewe
- 1tph Euston to Liverpool
- 1tph Euston to Chester, with some extensions to Bangor and Holyhead
- 1tph Euston to Lancaster, extended in most hours to Glasgow
- 1tph Birmingham to Scotland

For the purpose of the new TSR these services are collected together into two service groups:

- services between London Euston and the west Midlands, north-west England, north Wales and Scotland;
- services between Birmingham and Scotland.

It will be acceptable to combine services from the two service groups in such a way that through journeys may be offered between stations south of Birmingham and stations north of Birmingham.

Proposals from bidders for alternative service patterns will be welcome (provided that they maintain or increase the number of station calls shown in the TSR) if they are designed to deliver one or more of:

- better operational performance
- increased capacity
- increased frequency

- reduced journey times
- improved connectivity
- a material contribution to the financial performance of the TOC

Bidders will also be expected to have considered the options outlined in Network Rail's West Coast Route Utilisation Strategy.

The Department recognises that future timetable changes will be required or will become appropriate and Bidders will be expected to demonstrate how they would manage such changes during the duration of the franchise. Where it is proposed that there should be timetable changes, it will be for the operator to carry out appropriate public consultation and to secure the necessary track access rights.

3.2.3 Timetable Submissions and Fleet Plans

It is not mandatory for bidders to submit timetable information with their bids. However, should bidders wish to propose timetable alterations, attention is drawn to the requirement to support any proposal for change with evidence to prove the proposal's deliverability, and it is reasonable to assume that detailed timetable and/or rolling stock deployment plans will be useful to provide this supporting evidence.

Bidders should provide such proposals in full working timetable format as a .pif file in order for Network Rail to import the timetable into its Timetable Planning System. This will allow compatibility with other operators' services to be assessed. It will also be necessary to supply public and working timetable versions for the use of the Department's evaluators and their technical advisors.

The capacity requirement for the InterCity West Coast franchise is based on the expectation that passengers should normally be able to get a seat on InterCity services. In devising their fleet plans bidders should seek to ensure that they will be able to meet this expectation and to accommodate all the demand that they have forecast on all trains on all routes at all times of day and week addressing both existing and future crowding needs to the extent possible. It will be necessary for bids to demonstrate that the fleet plan delivers the capacity necessary to meet the forecast demand.

There are no constraints on bidders' choices of rolling stock. However, it should be noted that:

- The class 390 vehicles are covered by a Section 54 agreement until 31.03.2022;
- The class 221 vehicles are covered by a Section 54 agreement until 31.03.2016.

While it is not mandatory that these fleets should be deployed in the franchise it should be noted that, even if these fleets do not form part of the fleet plan, the Department will assign any financial liabilities incurred in respect of the section 54 agreements to the cost of the franchise via an adjustment to the premium line, until such time as alternative leases have been entered into.

The capacity figures for each of the fleets that will be in use at the commencement of the franchise are:

Type	No. Standard seats*	No. 1 st Class seats*	Total seats
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221 (5-car)	256	26	282
390 (9-car)	300	147	447
390 (11-car) (planned)	442	147	589

The fleet plan, showing the number of vehicles of each class and the period of the franchise for which they will be leased, must be clearly set out in bid submissions and must be accompanied by the term sheets from the relevant vehicle owners.

Bidders are required to detail how they would provide and deploy any additional capacity that they propose to introduce and to assess the demand requirements for the appropriate allocation of first and standard class seating as part of their proposals.

If crowding (i.e. the number of passengers exceeds the number of seats) is forecast to exist at Franchise Commencement, bidders should detail on which trains and in which circumstances this crowding is expected to occur. Details should also be given of the measures that will be implemented to eliminate this crowding or reasons why it is appropriate to allow the crowding to continue (e.g. it is for short distances or occurs only in particular irregular circumstances).

During the franchise, if it should happen that count data shows that capacity provision is failing to match demand, the franchise operator will be required to provide evidence of the actions taken to address or mitigate such crowding. This may involve adjusting the timetable or train formations to bring the train(s) concerned within the loading standard or, if there is a good reason not to take any action, a detailed explanation of why no action is appropriate. If overcrowding is anticipated to continue, they shall be required to produce a Capacity Management Plan to remedy the situation.

For the purpose of assessing the adequacy of capacity provision, individual service groups will be monitored:

London - Birmingham – Wolverhampton
 London - Liverpool
 London - Manchester
 London – Preston – Glasgow
 London - Chester – Bangor – Holyhead

Scotland - Birmingham New St

For those fleets that remain in the fleet plan beyond 31 December 2019, it must be clearly set out how and when PRM TSI compliance will be achieved.

Should bidders propose the introduction of new-build rolling stock they must demonstrate that they have considered the issues associated with new rolling stock and rolling stock modifications detailed within the recent paper published and adopted by Technical Strategy Advisory Group (“TSAG”). It is for Bidders to decide which, if any, of these best practice guidelines they should adopt.

Where bidders are proposing a major refurbishment of rolling stock it is expected that they will comply with relevant European legislation and with existing industry standards and guidance as published by the RSSB (www.RSSB.co.uk) for the fitment of European Railway Traffic Management System (“ERTMS”) and GSM-R.

Where improvements are made to rolling stock leased from ROSCOs there will be no mechanism for a residual value payment from the next operator at the end of the franchise.

The Government is eager to use accurate data on train loadings and crowding levels to inform decisions about pricing and capacity. Bidders are therefore required to provide, in line with Departmental requirements, detailed passenger counts for all services where passengers are counted by automatic equipment in a format compatible with the Department's rail passenger counts database. This involves providing all information the train generates where Automatic Passenger Count (APC) equipment exists. Where and when there are gaps in data coverage, additional manual counts, on a quarterly basis, are required.

Bidders are expected to maintain, as a minimum, the current level of automatic load monitoring equipment that is fitted to the existing rolling stock fleet and to ensure that it operates in good working order and is correctly calibrated. The Department expects that not less than 30% of vehicles of each main rolling stock vehicle type should be fitted with this equipment by 2016. It will be necessary for APC equipment to be fitted to any new rolling stock in order to comply with these requirements.

Bidders are required to set out a detailed plan to cover the train maintenance strategy for the franchise alongside and also, in respect of additional services and/or additional rolling stock, a strategy for rolling stock stabling. Bidders should detail if any and what depot enhancements will be required and when and how these would be carried out. They should also detail how any enhancements would be funded.

3.2.4 Public Holidays and Special Events

In response to changing demand, bidders will be required to consider the appropriate level of service for special events and on public holidays across all routes.

Network Rail requires engineering access to the network in order to maintain a safe and reliable railway. Bidders will be required to consider this and work with Network Rail to minimise the disruption on the West Coast Main Line. In particular Network Rail has suggested that efficiency and reliability might be improved if the existing policy of blocking two tracks (for maintenance purposes) on the four track sections for sixteen hours between 2000 Saturday and 1200 Sunday were extended to eighteen hours.

A number of special events take place across the franchise area and bidders are required to consider the appropriate levels of service to be provided for such events.

3.2.5 Rail Replacement Services

The Department is keen that bidders demonstrate how they will minimise disruption for passengers. Given the diversionary paths available, bidders will be expected to demonstrate how they will work together with NR and other passenger and freight

operators to minimise inconvenience to passenger journeys and to minimise the use of rail replacement bus services. Where road services are unavoidable bidders should demonstrate how standards of service provision to passengers will be maintained.

3.3 Management and Delivery of Change

3.3.1 Committed Projects Impacting on the InterCity West Coast Franchise

Further details are available in the data site on a number of the schemes outlined below.

3.3.1.1 Birmingham New Street Station

Over £640m is being spent on the Birmingham Gateway Project. This is designed to comprehensively renovate and improve Birmingham New Street Station. This work should be completed by 2015. The station will remain operational during the work. The scheme is designed to accommodate forecast passenger demand up until 2035. When complete, this scheme will allow better interchange, better vertical access between platforms and concourse and more passengers to be accommodated through the station throughout the day. Bidders should consider how this additional demand and station capacity will affect the franchise. The project is being delivered in 2 phases. Phase 1 includes the creation of a new concourse area and works to platforms and vertical access and is due to be completed in late 2012. Phase 2 is anticipated to be completed in December 2014 and will involve closing the existing concourse while it is upgraded and passengers will use the new concourse area.

Bidders must detail how they will facilitate the provision, staffing and maintenance of new ITSO smart ticketing compliant gate lines at Birmingham New Street Station as part of the Gateway Project.

The new franchise will be required to staff and maintain the gate lines from the completion of Gateway Phase 2 (anticipated in December 2014) and will be required to carry out any necessary back of house functions linking in with their role as lead retailer.

The new franchise will be required to sub contract back to NR the operation and maintenance of the gates, which would then be recharged to all TOCs that use the station via Qualifying Expenditure.

When Phase 1 opens there will be no change to the arrangements for gate lines. London Midland currently staffs the gate lines. We expect them to continue to staff the gate lines until the end of Gateway Phase 2. The new operator will take over responsibility from the completion of Phase 2 or sooner by agreement between the TOCs and NR.

3.3.1.2 Electrification Schemes

In 2010 the electrification of the route between Liverpool and Manchester via Newton-le-Willows was confirmed. This will allow electric trains to run between Liverpool and Manchester, as well as enabling electric trains to run from Manchester to Scotland via the West Coast Main Line.

Electrification of three other routes in the North West were also confirmed, allowing electric trains to operate on the Liverpool – Preston – Blackpool and Manchester – Preston – Blackpool routes.

These electrification proposals will create opportunities for new electric services to be introduced which will improve capacity and connectivity, as well as improving environmental performance and providing new diversionary routes. Bidders should consider the opportunities and risks that these schemes represent.

These schemes involve power supply renewals and an upgrade of the traction power supply across the busier parts of the West Coast Main Line route. It includes modifications and alterations to various electricity supply connection points, provision of new 25kv conductors along with other renewals and improvements to the overall system.

The work is due to be completed during CP4 and CP5. The power supply upgrade is a key project and essential to provide for the planned future growth of traffic on the route, and must be successfully implemented before additional electric services can be accommodated.

Should bidders propose further electrification schemes such as Crewe to Chester, it is expected that they would provide evidence within their bids of how they propose to finance, plan and deliver such schemes within the franchise term.

3.3.1.3 Bletchley Re-Modelling

This project is designed to be completed by June 2013. Improvements will include the renewal of life expired signalling and track assets, transfer of signalling control from Bletchley to Rugby Signalling Control Centre, provision of 12-car capability on Platforms 4 and 5 of Bletchley station, provision of a bi-directional freight loop to accommodate 775m train length, a new higher speed Bletchley South Junction at Drayton Road and capability for extending Bedford-Bletchley services to Milton Keynes Central.

3.3.1.4 Re-Signalling Projects

A signalling renewals programme is planned for parts of the West Coast Main Line to provide a number of enhancements through schemes at Northampton, Watford, Crewe, Carlisle, Warrington and Preston. Further options may exist for works to be conducted in CP5 at Allerton and Speke, Macclesfield, Carlisle and Motherwell.

3.3.1.5 Managing the Interface with Network Rail, PTEs and other TOCs.

The projects detailed in this section will require close liaison between the InterCity West Coast operator, Network Rail, PTEs and other operators. Bidders should provide a detailed proposal as to how such interfaces will be managed to ensure the close liaison needed to deliver these projects.

3.3.1.6 Managing the Interface with Passengers

The projects detailed in this section may involve some disruption to passenger journeys. Bidders should provide a detailed proposal as to their approach to managing this interface. Specific attention should be placed to:

- Information prior to possessions & possession planning
- Information during possessions
- Staff availability at stations during possessions
- Management, delivery and information pertaining to rail replacement services
- Quality of rail replacement services
- Approach to alternative rail service patterns (and their development)

It would be expected that the approach highlighted in response to the above would become the norm across the franchise area.

Bidders should detail any specific proposals that they would implement associated with very long possessions.

3.3.1.7 Community Rail

The Department expects the bidders for the new InterCity West Coast franchise to demonstrate a commitment to work with any partnerships that develop over time and to indicate how they propose to work with communities over the life of the franchise.

3.3.1.8 Pricing Change

The foregoing paragraphs include the current best understanding of the impacts of committed projects on the InterCity West Coast franchise. Bidders should be aware that, as the detailed plans for delivery of committed projects develop, changes to the specification may be required affecting implementation dates, TSR requirements, the Train Fleet, or other requirements. These will be priced as Changes in accordance with the Terms. The franchisee will be required to demonstrate they have sufficient resources to price Change. This will be assessed as part of the Management & Delivery of Change including Sustainability & the Environment Delivery Plan and also be considered as part of the Modelling Change evaluation of the Models, Records of Assumptions and Operating Manuals. Further information on these requirements is provided in Sections 4 and 5.

3.3.1.9 High Speed 2

While the points above detail those schemes which have been committed to, the biggest scheme that is likely to affect the new franchise is currently an uncommitted scheme – HS2.

This is for a high speed network which would link London to Birmingham, Manchester and Leeds through a "Y" shaped network approximately 350 miles long and capable of carrying trains travelling at speeds of up to 250 miles per hour. This network would be delivered in two phases: the first a high speed rail route running from London to the West Midlands and the second the onward legs to Manchester and Leeds.

The initial phase of this network would provide Birmingham to London journey times of around 49 minutes. A connection to the West Coast Main Line would be provided close to Lichfield so that direct high speed train services could also be operated to other cities not directly served by high speed tracks such as Manchester, Liverpool and Glasgow, reducing journey times to those destinations by up to half an hour. Substantial line

capacity on the southern stretches of the West Coast Main Line would also be released by transferring long-distance services to this high speed route, which could be used to expand commuter, regional and freight services. The HS2 route currently subject to public consultation would run from a rebuilt Euston station in London to a new Birmingham City Centre station at Curzon Street. Additional interchanges would be provided with Crossrail, Heathrow Express and the GWML at Old Oak Common and with the WCML, motorway network and Birmingham Airport close to the NEC.

A link to the HS1 line would be constructed as part of the first phase of the network, and a direct link to Heathrow would form part of the second phase, opening at the same time as the routes to Manchester and Leeds. Prior to the opening of the second phase, high speed rail travellers would be able to link to the airport by connecting with Crossrail and Heathrow Express services at Old Oak Common.

The Government's expectation is that, subject to public consultation and Parliamentary approval, the first phase of the network could open from 2026, with the second phase opening in the mid-2030s.

A full public consultation began in February 2011. Subject to the outcome of this consultation it is likely that the first phase of High Speed 2 would fundamentally alter the nature of the InterCity West Coast franchise once operational. Bidders will be required to demonstrate how they will work closely with HS2 Ltd and Network Rail during the planning, construction and commissioning of any new railway line. Such a line, if built, would terminate at a completely rebuilt and enlarged London Euston station. It would run on alignments remote from the West Coast Main Line and its branches, crossing over the Coventry to Birmingham line near Berkswell and the WCML east of Lichfield and have a new grade separated junction with the WCML north of Lichfield.

Whilst the development, detail design and approvals for such a line, including parliamentary scrutiny by means of a hybrid bill process, is at an early stage, bidders should assume the following in formulating their proposal.

Bidders should expect that effects of any possessions or restrictions during construction work on bridged crossings and the junction in the Midlands, probably after 2020, would be dealt with through normal industry compensation mechanisms.

Work on creating the new and enlarged Euston station would take place between 2017 and 2025 followed by testing and commissioning of the high speed line prior to opening in 2026. However for the first two years the effect on existing services would be confined to general demolition and construction works along the western and southern perimeters of the existing station platforms and concourse.

From mid-2019, bidders should assume that a number of new platform faces, of up to 260m length, will be brought into use and rendered suitable for use by long distance electrified services. These will be on the western side of the newly extended station area outside the perimeter of the existing platform area. Bidders should assume these will have a separate temporary entrance and connections to LUL and will remain in use for approximately six years.

At the same time as the new western platforms are brought into use, work will start on progressively rebuilding the existing platforms, approach tracks, LUL concourse and the

new station concourse itself. This work will progress in a series of phases, proposals for which will be developed over the coming years.

In order to achieve rebuilding, from this time the number of platforms available at Euston for all services at any one time will be reduced from 17 to 14. This number includes the new platforms described above.

A report from Network Rail, detailing how NR expects to use the available platform capacity, is available in the data site.

This initial evaluation work indicates that these 14 platforms will still be able to accommodate the level of InterCity West Coast service that is being operated in the May 2011 timetable. Bidders should assume that they would only be compensated for restriction of use if the number of trains they could operate to/from London Euston per hour were to fall below the level in the May 2011 timetable, although it will be necessary to reduce turnround times - typically to between 30 and 45 minutes – in order to ensure efficient use of the available platform capacity.

At the end of the rebuilding process, the new Euston would have 14 platform faces available for services by all operators on the WCML and the temporary platforms will be taken out of service to be rebuilt as part of the high speed line station. Of the WCML platforms, not less than eight would be at least 300m long.

Throughout the construction period it may be expected that there would be a measure of additional restriction at weekends and especially during stage changeover phases which would affect the operation of the approach tracks, platforms, concourse areas and walkways. Bidders should assume these effects would be compensated through normal industry processes.

Bidders should consider and show what specific actions they would expect to take during the whole of the HS2 Euston construction period to ensure that the timetable can be delivered robustly and reliably. For example they would need to show how they would ensure that the tighter turnaround times for trains will be achieved, and whether this might involve the provision of additional train crew and station passenger assistance staffing.

3.4 Fares, Ticketing and Ticket Retailing

Bidders will be required to demonstrate how they will minimise revenue loss across the InterCity West Coast area.

3.4.1 Fares Policy

The Departmental fares policy will be applied to the InterCity West Coast franchise. All fares baskets have been simplified by removing the lowest value flows (up to 5% of basket value) and all baskets will be subject to a fares policy, which increases the permitted aggregate value of the fares baskets by RPI+3% each year, and limits increases in individual fares to no more than RPI+3% +5% year-on-year for the 3 years commencing in 2012. Bidders should assume that the old policy of RPI+1% and RPI+1+5% respectively will apply for the remainder of the franchise.

Other fares will be unregulated, and may be priced or varied at the commercial discretion of the operator, subject to the normal constraints of the Ticketing & Settlement Agreement and other industry arrangements.

Bidders should be aware that the Department expects to undertake a review of fares policy later this year in line with the recommendation of the McNulty report. It is anticipated that the results of this review could be implemented by train operators from January 2013.

3.4.2 Lead Operator

There are no planned changes to lead operator status within the InterCity West Coast.

3.4.3 Zonal Fares

Bidders are free to propose the development of zonal fare schemes outside of the London area as they see fit and should continue to operate the zonal fares and pricing structure schemes currently in force on the franchise.

3.4.4 Ticketing Technology

Bidders must include proposals to implement new ticketing technology within the new InterCity West Coast franchise. This is in accordance with the Department's wider policy to introduce smart ticketing for all surface transport modes.

3.4.4.1 ITSO Ticketing

Bidders are required to include the introduction of ITSO compliant ticketing throughout the franchise area on all ticket types no later than February 2015. Such a scheme is required to be able to issue, accept and validate all valid ticketing products on any valid ITSO customer media, in accordance with the ITSO Operating Licence.

Bidders should assume that Oyster equipment on the TfL network will be capable of reading ITSO based products from January 2013.

The Franchisee should provide an ITSO-compliant ticketing system comprising ticket issuing equipment, readers and validators (and where appropriate on gates) throughout the franchise and any necessary ITSO back-office functionality. This may also require negotiations with other train operators.

The Franchisee shall use all reasonable endeavours to promote inter-availability and to join any ATOC approved smartcard-related ticketing schemes (either currently implemented or developed over the life of the franchise), as well as to work with PTEs and local authorities within the franchise area who may wish to move any multi-modal ticketing schemes onto ITSO and to not unreasonably withhold consent.

As a minimum, bidders must provide ITSO compliant ticket issuing and validation equipment to facilitate ticket checking on trains and at the following stations where the franchise is SFO:

Birmingham International, Carlisle, Coventry, Crewe, Lancaster, Macclesfield, Preston, Rugby, Stafford, Stockport, Stoke-On-Trent, Warrington Bank Quay, Wigan North Western, Wolverhampton

Bidders should also consider how they can work with Network Rail and other Train Operating Companies to provide ITSO compliant ticket issuing and validation equipment at:

Birmingham New Street, Edinburgh, Glasgow Central, Liverpool Lime Street, London Euston and Manchester Piccadilly

Provision of equipment at other stations is at the discretion of the Bidder.

Bidders will be expected to demonstrate how they will ensure a steady growth of passenger journeys are undertaken on ITSO compliant ticketing. Targets of uptake will be set out in the Franchise Agreement and where the targets are not achieved, Bidders will be required to set out an improvement plan, with a defined level of expenditure for each target not achieved.

3.4.4.2 Ticket Vending Machines

Bidders are free to propose locations for additional ticket machines in their bids clearly stating the underlying reasons for their selection. Bidders should also consider extending the functionality of TVMs and work on solutions to enable passengers to view the ticketing products and associated itineraries loaded onto their ITSO customer media at points on their journey.

3.4.4.3 New and Alternative Retailing Methods

Bidders are free and are encouraged to propose new and alternative ways of retailing tickets and may wish to consider internet, mobile telephone and home printing amongst others. Bidders may also wish to consider how contactless EMV payment cards might be utilised alongside other alternative ways of retailing.

3.4.4.4 Access to Season Tickets

Bidders should consider how best to promote the use of season tickets including allowing passengers who travel regularly but not every weekday or not to a standard pattern to benefit from some season ticket discount;

Proposals may be linked to the adoption of ITSO compliant ticketing and might include payment methods not normally used by national rail, for example, direct debit.

Bidders should be aware that flexi-smart ticketing schemes may be introduced on certain parts of the network by other franchised operators. Bidders would be expected to co-operate with the development and implementation of such schemes. Should the bidder be required to participate directly in the schemes, the normal Change procedures, including those to Fares regulation will apply.

3.4.5 Station Gating and Gate-line Staffing

Existing levels of gate line coverage at minimum should be maintained throughout the franchise term. Bidders are free to propose additional gates at locations where they would ease emerging passenger flow issues.

Where gate lines are operated, bidders are expected to provide plans for appropriate staffing levels and this should be included within the Ticket Sales and Revenue Protection Delivery Plan.

Gate lines will be introduced at Birmingham New St on a phased basis during the early years of the new franchise. Bidders are required to detail plans for staffing and maintaining the gate lines from the completion of Gateway Phase 2 (see point 3.3.1.2)

Bidders are free to provide proposals for additional gating schemes where a case can be demonstrated and where the gating schemes are deliverable. Bidders should pay particular attention to potential negative impacts of any proposed scheme.

Bidders will be required to set out when such gates will become operational, and the hours when the gates will be staffed, reflecting the security and other benefits gating schemes bring.

3.4.6 Marketing

Bidders will be required to set out detailed plans of how they will utilise marketing techniques to increase passenger usage and revenue. These plans should clearly state initiatives targeting existing passengers and initiatives designed to attract new users, and retain them as repeat customers.

3.5 Improving Performance

Bidders are required to propose Performance targets for the franchise.

3.5.1 Performance Targets

The targets in the draft Franchise Agreement represent the minimum level of improvement the Department is willing to contract. Bidders are invited to propose a target that is more challenging than those provided. Should Bidders choose to offer a more challenging target they are expected to provide evidence as to how these more challenging targets will be delivered in the Operational Performance Improvement Delivery Plan. This more challenging target will then form the basis of the Franchise Agreement. Offering to contract a more challenging target will receive credit during the bid evaluation.

Bidders must commit to targets for the reduction in delay minutes (“service delivery”), in cancellations, for which InterCity West Coast is responsible. These targets are itemised in the accompanying tables.

Bidders must work towards achieving at least 90.9% Public Performance Measure (MAA) by March 2014 with any further improvement possible year by year to March 2026 being identified. Credit will be given to bidders who identify the source of such improvement and can demonstrate they will have a credible plan for meeting their aspiration. The

Operational Performance Improvement Delivery Plan in the bid should outline how the bidder will work to ensure their own activities assist Network Rail wherever possible in meeting targets.

The starting point for all proposed targets is based on the most recent available current performance data. To allow for any changes in performance between ITT issue and franchise commencement, targets will be recalibrated to reflect actual emerging performance achieved in the year up to the commencement of the franchise. Where major operational events have occurred during the period used for finalising the service delivery and cancellations targets, and they are events which in the Department's view are exceptional, the effect of any such events will be excluded from the calculation of the final target.

Bidders should consider whether disaggregated punctuality figures for different parts of the franchise should be published and are expected to demonstrate how they will deliver improved punctuality at intermediate stations where connections are particularly important.

3.5.1.1 Network Rail

Bidders are referred to the Department's projections for delay minutes attributable to Network Rail in their calculations for payments under Schedule 8 of the Track Access Agreement and in forecasts of any associated revenue effect. These figures will be placed in the data site and are supplied by Network Rail. In their calculations for payments under Schedule 8 of the Track Access Agreement and in forecasts of any associated revenue effect, Bidders should use their own projections for Delay Minutes attributable to Network Rail and where these depart from the Department's projections they should provide satisfactory evidence of the reasons behind this. Bidders should use their own methodology for the calculation of Average Minutes Lateness. The Franchisee will be responsible for the cost and revenue implications of any mismatch between their Network Rail performance projections and actual Network Rail performance.

3.5.1.2 Train Operator-responsibility delay minutes

Bidders should provide their submissions based on not exceeding the Delay Minute targets appended to the Franchise Agreement. Bidders are expected to provide evidence in their Operational Performance Improvement Delivery Plan of how these targets will be achieved.

In developing the target the following methodology has been applied. Delay Minutes data ("Service Delivery") is currently sourced from Network Rail's 'PEARS' system data. The figures in the tables are a moving annual average (MAA) value. As the data set used sets delay minutes in dispute to the train operator, a provision has been made to estimate the final outcome (following all dispute resolution). It is expected that the recognised industry source (currently the 'PEARS' system), taking into account disputed minutes, will be used as the basis for reporting against the Service Delivery benchmark once the franchise starts.

Underlying assumptions are for Operator ('TOC-On-Self') delays to be improved by 1% of the starting value per year until March 2019 as a result of initiatives the bidder proposes, and thereafter to be maintained at the improved level. The Improvement Plan, Breach and

Default levels have been set to be 7.5%, 15% and 20% greater than the Target figure for the duration of the franchise.

3.5.1.3 Cancellations

Bidders should provide their submissions based on not exceeding the Cancellations levels appended to the Franchise Agreement sent out with this ITT. Bidders are expected to provide evidence as to how they will keep cancellations within these target levels in their Operational Performance Improvement Plan.

The Cancellations data has been calculated as per the definition in the Franchise Agreement with 1 total cancellation counting as 1 Cancellation and 1 part cancellation counting as 0.5 of a Cancellation. All Service Recovery and Force Majeure cancellations have been taken out of the calculation of the benchmarks. The source of the cancellations data is based on the data supplied by the current operator under their Franchise Agreement. Underlying assumptions are for Operator ('TOC-On-Self') cancellations to be improved by 1% of the starting value per year until March 2019, and thereafter to be maintained at the improved level. The Improvement Plan, Breach and Default levels have been set to be 7.5%, 15% and 20% greater than the Target figure at any point of time throughout the duration of the franchise. The benchmarks have been rounded to 2 decimal places acknowledging that they act on a relatively small number of cancellations.

3.5.1.4 Significant Lateness

From 2009, the Department's HLOS seeks an improvement in the percentage of trains which are 30 minutes late or cancelled because of Network Rail and train operator-responsibility events with no exclusions (the 'Significant Lateness Measure'). Bidders will be expected to identify their contribution to improvement by this measure. This proportionate improvement on current performance should be at least equal to the level of improvement in the TOC-on-Self Cancellations Target in section 3.5.1.3 above.

3.5.1.5 TOC-on-TOC delay Minutes

Bidders will be expected to recognise the impact of TOC-on-TOC and TOC-on-FOC minutes for which they are responsible on other operators, and identify any improvements that can be made to minimise this delay.

3.5.1.6 New Performance Measures

Bidders should assist the industry in setting and aligning targets for any new regulatory performance measures that may be introduced in Control Period 5, or beyond that period.

3.5.2 Contribution to HLOS Safety metrics

The HLOS includes a requirement for the rail industry to deliver a 3% reduction in the national level of risk to passengers and rail workers between 2008/9 and 2013/14. Bidders are required to detail how they will work with other industry partners to help facilitate the delivery of this target and what strategies they would employ to deliver the train operator element of this target.

Bidders are also required to set out how they will engage with other parties to reduce the incidents of other third-party safety related incidents.

3.6 McNulty and Industry Reform

3.6.1 The Rail Value for Money Study and Industry Cost Reduction

Sir Roy McNulty has been leading the Rail Value for Money study. The study findings were published in May 2011.

Bidders are required to consider how the costs of running the railway can be reduced to secure a sustainable and efficient railway for the future. Bidders are also expected to propose in their plans how they would reduce the unit costs of the existing operations to improve efficiency.

Reducing the cost of the railway is a very important objective for the DfT.

Bidders are required to describe how they plan to reduce the unit costs that they can control during the life of the franchise. A specific delivery plan is not required; rather every delivery plan should include a section that describes the initiatives that bidders will implement to reduce unit costs. A quantitative summary of the total reductions expected to be achieved by these initiatives should be presented in the bid executive summary.

The Department considers that 'total costs per vehicle mile', presented on an annual basis, is an appropriate measure for unit costs. The executive summary should provide, for each year of the franchise, the impact that bidder initiatives have on this measure.

Bidders should also ensure that their cost data during the franchise can be made available to DfT and ORR. This data may be published and be compared with the levels of unit costs in other franchises.

The new franchisee will be expected to work with the Department and Network Rail on ideas for bringing costs down and improving cooperation between the management of track and train. Bidders should develop plans for how closer working and alignment of incentives with Network Rail will improve value for money.

Bidders should also outline within their plans how they will work together with the wider rail industry to incorporate further changes that emerge from workstreams following the Rail Value for Money study publication.

The Efficiency Benefit Share (EBS) mechanism included within the Track Access Agreement will be excluded from the financial adjustment process following a Charging review. This means that from CP5 onwards the franchisee will be on risk for any future changes made to the structure of the EBS by the ORR. Franchisees are encouraged to work together with Network Rail to develop mutually beneficial cost saving schemes.

Bidders should also demonstrate how they will work to facilitate and implement the outcomes of structural reform in the industry.

3.6.2 Combined Management and Maintenance of Stations

The Department has been working with ORR, NR and ATOC to develop a proposition for the combined management and maintenance of stations to reduce costs. The successful bidder will assume full repair responsibilities for the 17 stations for which it is SFO under a 99 year lease from Network Rail at peppercorn rent. Bidders are required to price for this from the start of the franchise. The responsibilities will be governed by a modified contractual framework including new station licence requirements for asset stewardship and greater development rights under the lease. The franchisee will retain revenue from commercial activities subject to the revenue sharing arrangements in the franchise agreement and - in addition to Qualifying Expenditure - receive Long Term Charge for station users. The franchisee will not pay Long Term Charges to Network Rail for the stations at which the franchisee is SFO.

Bidders should set out their plan including timetable, milestones and capability to secure a stations licence and in particular how they will satisfy the asset stewardship obligation. They should also make clear what steps will be required to secure a safety certificate to cover the full repair responsibilities at stations. The Department expects to see policies and funded plans submitted with the bid to support the repair, maintenance and renewals activities to deliver an average condition by station category of no less than the condition at the start of the franchise. The successful franchisee will be required to secure a parent company guarantee set at £5m to rise in line with RPI to cover liabilities at handover of station assets. The level of liability at handover will be determined by the ORR against the requirements of the station licence obligations. Bidders are free to propose an alternative form of security that is equivalent or stronger.

Bids should include proposals to manage station assets more flexibly to achieve a better experience for passengers, exploit the commercial potential of stations and achieve an overall improvement in value for money. Network Rail has expressed a desire to work with operators to deliver better value for money and customer service particularly at stations of strategic importance. Bidders will be expected to have considered appropriate methods of delivery and in some cases this could be through Network Rail.

The Department expects to see the franchisee establish a sound platform for integrated station management. The bid will therefore be expected to include proposals for the efficient and effective: retention and updating of asset data; and ultimate hand over of the policies, strategy (including forward delivery and development plans) and records to the subsequent franchisee.

Further guidance on franchise expectations at stations is available in the data site.

3.7 Accessing the Network

The new Franchisee is expected to be the Station Facility Owner (“SFO”) for 17 stations and trains may call at a further 27, which are managed by a mix of TOCs and Network Rail. More information can be found in the data site.

Bidders should demonstrate their approach to improving the accessibility of the railway network, and in particular the access arrangements at stations. Bidders should indicate their plans for wider transport integration and their approach to engaging with local authorities and other stakeholders to improve the journey opportunities and experience for passengers. (see section 3.11).

3.7.1 Cycling

The Government encourages all train operators to carry folding bikes at all times and to carry non-folding bikes wherever possible, whilst recognising that in peak periods there may be circumstances where it is in the best interests of the majority of passengers not to do so, and to supply cycle parking at most railway stations.

All stations at which the incumbent is SFO currently have some cycle space provision with many covered by CCTV. Bidders are free to consider improving facilities at stations for cyclists to encourage greater cycle use by passengers. It will be for bidders to decide upon the locations of any additional secure spaces in consultation with stakeholders, reflecting current provision and overall need. To define any type of Cycle Parking facilities provided, DfT cycle policy and approaches developed by the Cycle Rail Working Group should be considered.

3.7.2 Car Parking

Car parking is seen as a constraint in many locations because of limited capacity, and bidders are free to develop proposals to enhance provision across the franchise area. Currently over 8500 car parking spaces exist on the franchise, of which approximately 200 are for disabled users. The specific locations of any spaces proposed are a matter for Bidders to determine but the locations chosen must be informed by current and future levels of car park utilisation. Any increases proposed in the number of car parking spaces in the franchise area should be considered alongside other modes and environmental concerns. Bidders should also be mindful of planning issues as part of the wider issue of access to stations. Where additional parking is planned, consideration should be given to providing recharging facilities for electric and hybrid vehicles, and for the benefits of implementation of a Station Travel Plan.

Bidders should make reference to the provision of Blue Badge spaces in line with the Department's "Accessible Train and Station Design for Disabled People: A Code of Practice".

3.7.3 Station Travel Plans

Station Travel Plans focus on access and egress at stations for all modes including on foot. These plans are currently being piloted by ATOC, and a number of pilot studies are currently underway, one of which is the pilot involving Stoke-on-Trent.

Bidders will be required to consider the development and implementation of Station Travel Plans over the lifespan of the InterCity West Coast franchise, and should draw on the experiences and results of the pilots.

The specific locations of any Station Travel Plans proposed are a matter for Bidders to determine but the locations chosen must be informed by developments with local authorities, other public transport operators, Network Rail and local user representatives to examine ways in which overall access to stations can be improved.

Bidders should set out the expected level of contribution to the development and implementation of any proposed plans and provide an indication as to where the priorities for station travel plans exist.

3.7.4 Plus Bus and Multimodal Travel Initiatives

Bidders should set out their approach to the Plus Bus initiative and will be expected to continue participation in current multi-modal schemes. Bidders should also set out any other initiatives and programmes to encourage multi-modal transport.

3.7.5 Railways for All

The Railways for All Strategy describes what the rail industry will be doing to improve disabled access. A key part of this is the £370m Access for All funding to deliver access improvements. Bidders will be expected to detail how they will co-operate with and reasonably assist and facilitate the implementation of the Programme. Further information can be found at the following website:

<http://www.dft.gov.uk/transportforyou/access/rail/railstations/access/accessforallstations>

The station list for works to be undertaken may be extended over the course of the Franchise Term and may include other InterCity West Coast stations, although this is not guaranteed. The facilities installed where InterCity West Coast is the SFO may result in an increase to the Long Term Charge and some operational costs may be incurred. Bidders should make provision for this.

3.7.6 Train Accessibility

Attention is drawn to the Rail Vehicle Accessibility (Interoperable Rail System) Regulations 2008 which set a date, of 1st January 2020, by which time all trains must be accessible to persons with reduced mobility. The Department has been working with rolling stock leasing companies to define what this means for the fleets they own.

Bidders must work with rolling stock leasing companies and identify in their bid when the corrective work that has been identified by the Department as being necessary (if any) will take place, for the fleets they intend to be operating on 1 January 2020. Wherever possible, use should be made of planned maintenance downtime for any refurbishment or upgrade to address areas of non-compliance. Bidders must detail how their proposals will fully deliver the degree of accessibility required by 2020, using the compliance checklists agreed with rolling stock leasing companies as the basis for agreement of outstanding work with the Department.

Bidders must indicate in their bid that they will comply with the rail vehicle accessibility standards in the Technical Specification for Interoperability – Persons with Reduced Mobility (“PRM TSI”) when undertaking work during the franchise that does not trigger the full authorisation process of the Railways (Interoperability) Regulations 2006. Where it can be shown that is not reasonably practicable to comply with individual standards when undertaking such “minor” work, the franchisee should seek agreement from the Department not to undertake that aspect of the work.

Following changes to the technical accessibility standards, the Class 390 fleet is now considered to fully comply with the physical requirements of those standards, although naturally the onus remains on the franchisee to ensure they are also operated in a compliant manner while in service.

3.7.7. Service Accessibility

Bidders' attention is drawn to the current requirements in the Equality Act 2010 which places a duty on service providers, including station and train operators, to provide reasonable access to their services.

Bidders should demonstrate in their proposals how they will ensure compliance with these duties and should describe in detail their compliance strategy applicable to both stations and trains. Bidders are required to comply with the licence condition requirement to have a Disabled People's Protection Policy (DPPP) in place and the commitment within the DPPP to follow the Code of Practice. They will also need to detail how they will consult with disabled people to ensure the reasonable needs of disabled passengers are identified and addressed, both within existing facilities and where enhancements are planned.

Bidders should also outline their plans for staff training in disability awareness and detail their procedures for the sale of tickets to disabled passengers. Bidders are required to outline plans of how they will provide an Assisted Passenger Reservation Service including any improvements proposed. It is expected that the assisted persons' helpline will be provided free of charge.

A minor works budget should be included for improving accessibility and mobility to the value of £300,000 per annum. Bidders' attention is drawn to Schedule 4, paragraph 2.7 of the Terms which requires the Franchisee to establish and manage the Minor Works Budget to fund the carrying out of the Minor Works.

3.7.8 Station Staffing

Bidders should set out a plan as to how staff should be deployed at each station including levels of staff provision at ticket offices, on gate-lines, for train despatch or for carrying out more general activities within the station. It would be expected that staff should assist passengers as part of their overall journey.

It is not necessary for all stations to have a continuous visible staff presence, but staff should be on-duty at each station each operational day. It is for Bidders to define the balance of resources at each station between the various functions and which deliver the most effective results.

Smartcard ticketing and new retailing methods through such channels as the Internet have considerably reduced the need for passengers to use ticket offices. Bidders should consider more flexible and economic staffing arrangements at stations which provide a visible staff presence, revenue protection and help in choosing and purchasing a ticket. Any proposed changes to ticket office opening hours during the franchise should be approached as per normal industry practice.

Bidders should also note the need to coordinate this plan with the requirements set out in sections 3.4.5 and 3.8.

To improve the level of information available to passengers when staff are not available at stations, Bidders will be required to maintain the existing coverage of help points at stations and will be expected to propose what level of Help Point coverage will be achieved in the future and by when.

3.7.9 National Stations Improvement Programme

A number of stations on the InterCity West Coast franchise area are included in the National Stations Improvement Programme (“NSIP”), the £150 million fund to improve approximately 150 medium-sized stations.

Bidders will be required to co-operate in the implementation of works at stations designated for improvement under this fund, such as Carlisle, Wigan North Western and Wolverhampton.

Where an InterCity West Coast station is confirmed on the Programme, it is expected that the successful Bidder will proceed with the scheme as designed. Information on the InterCity West Coast candidate stations along with proposed implementation dates and scope of works are included within the data site.

3.7.10 Better Rail Stations

A review of station standards conducted by Chris Green and Sir Peter Hall in November 2009 highlighted Crewe, Stockport, Warrington Bank Quay, Preston and Wigan North Western stations as within the 10 key interchange stations that would benefit from investment in improved facilities. Furthermore Carlisle and Wolverhampton appear within the list of the top 30 stations highlighted for enhancements.

Network Rail has been working with local partners to assess what improvements can be delivered at some of these stations.

Following extensive consultation, a new franchising system has been devised to facilitate and encourage significant private investment, and designed to deliver important benefits for passengers.

New contractual provisions have been developed that will allow operators to receive value for investment in franchise assets, where these assets improve the value of the franchised business and where they have a value at the end of the franchise. Assets that meet the appropriate criteria will be designated as Investment Assets and the successor operator will be required to purchase these assets at a price that reflects their ongoing value to the business. Provisions will also be in place to ensure that the operator receives benefit for improvements to stations leased by the franchisee. A detailed set of valuation guidelines for both investment assets and station improvements will be placed in the data site in due course.

Bidders should be aware that the Department has received representation from Cheshire East, Coventry City Council and Wolverhampton City Council on schemes they have been developing for Coventry, Crewe and Wolverhampton stations. While none of these schemes are committed, bidders may wish to engage with stakeholders on such proposals.

Bidders will be expected to outline in their bids their approach to working with stakeholders to develop future schemes.

It will be for bidders to consider what appropriate enhancements should be made at stations, however they will be expected to have considered how best to enhance the quality of the station portfolio in their proposals and are also encouraged to facilitate any enhancements proposed in as cost-effective a manner as possible.

3.8 Improving Service Quality

The Department is seeking to achieve tangible improvements in the overall quality of journey provided to passengers. Bidders should include this as a generic approach throughout their proposal. A number of issues addressed within this ITT seek Bidders proposals to improve service quality.

Bidders are reminded that they are free to propose Incremental Options that the Department could seek to procure should they be value for money and affordable. These would not form part of the analysis of the main bid, but Bidders should be aware of the Department's particular interest in any such proposals relating to service quality.

3.8.1 National Passenger Survey Targets

Bidders should note that it is the Department's intention that a twice yearly National Passenger Survey ("NPS") of the InterCity West Coast franchise will be conducted by Passenger Focus.

Bidders will be required to demonstrate how they will improve passenger satisfaction on the franchise. It is expected that current performance levels will be improved over the life of the franchise.

The franchise will be monitored against a number of disaggregated NPS targets based on three attribute measures for the following service metrics:

- Stations
- Trains
- Customer Service and Information

The NPS attributes included in each metric and the associated methodology are contained within the data site. Each element is based on a number of aggregated NPS scores.

Bidders will be required to set out their own targets for each metric taking into account the improvements being sought as part of this ITT. It is expected that current performance levels will at least be maintained, unless good evidence can be provided as to why this is not achievable. Targets will be assessed on an annual basis.

Historic NPS data, split between the metrics highlighted above are detailed within the data site. Passenger Focus has committed in future to publish disaggregated NPS scores based on the metrics noted above. Passenger Focus will also provide a specific set of NPS scores for InterCity West Coast that isolate as far as is possible NPS scores for

specific InterCity West Coast managed attributes – i.e. only assessing InterCity West Coast managed stations. Details of this approach are contained in the data site.

The NPS score for each metric, and associated targets must be displayed at all relevant stations alongside other performance measures. It is expected that such information will first be published for NPS Survey Wave 30, spring 2014.

Where the targets are not achieved Bidders will be required to set out an improvement plan, with a level of expenditure of £250,000 per annum for each target not achieved.

3.8.2 Delay Repay / Passengers' Charter

Bidders will be required to produce a Passenger's Charter including a Delay Repay compensation scheme based on delays to journeys. The Delay Repay compensation scheme should apply to all ticket types from daily tickets through to annual season ticket holders irrespective of what caused the delay.

The value of compensation should be calculated on an equitable basis for all, with an entitlement to claim compensation of 50% of the fare for the affected journey for passengers delayed by between 30 and 59 minutes, 100% of the fare for the affected journey for delays of 60-119 minutes and 100% of the return fare for delays of 120 minutes or more. For season tickets, compensation would be calculated using the proportional daily cost of the ticket. Compensation would be provided in National Rail Travel Vouchers with cash instead if vouchers were not accepted. Claims would be "postage-paid"

Bidders should demonstrate a commitment to a proactive policy of informing passengers of their right to claim in any given situation and to set out the procedures that will be adopted to make it easier to claim. Should a period of sustained poor "peak" performance be experienced (as measured by the number of trains arriving at their final destination within 10 minutes of their scheduled time), bidders should consider compensating season ticket holders over and above the arrangements outlined above. In doing so, Bidders should consult Passenger Focus.

Bidders should provide a definition of "sustained poor peak performance" and state how this will be assessed and by what route types.

"peak" for Delay Repay purposes is defined as arrivals at London Euston between 07:00 and 09:59 and departures from London Euston between 16:00 and 18:59 on Mondays to Fridays (excluding Bank Holidays). This definition of "peak" does not apply to fares.

In the event that an emergency timetable is introduced, compensation entitlements will be based on the timetable that is offered with due consideration also given as to what timetable a season ticket holder could have reasonably expected at the time of purchase. Holders of other tickets will, as now, be entitled to refunds on tickets that have not been used under the provisions of the National Rail Conditions of Carriage.

For season tickets valid between 1 month and 1 year purchased before the start of the new franchise, Bidders are expected to honour in full any discounts which are due on renewal. Delay Repay will not be claimable on these tickets. Delay Repay will apply after the first renewal of the season ticket after the start of the new franchise.

3.8.3 Managing Disruption

Bidders must outline their approach to dealing with disruption and provide detailed proposals as to their approach to managing unplanned disruption. Specific attention should be placed on contingency plans for overruns of planned possessions and associated communications strategies along with how they will work with other operators to minimise disruption during planned engineering works.

Bidders will be expected to demonstrate how they will work with Network Rail in developing their policy documentation for Passenger Information During Disruption (PIDD).

Bidders are expected to demonstrate how they will work constructively with HS2 Ltd, the HS2 infrastructure provider and Network Rail to facilitate the construction of High Speed 2 and manage any disruption that occurs should this project proceed.

These plans should set out how Bidders propose to keep customers informed about planned engineering works and any timetable changes, including the best ways of using new or existing communication channels, such as Passenger Information Systems (PIS), to keep customers informed.

Bidders are also required to set out how, if no diversionary path exists, frequent, high-quality, accessible and well-managed rail replacement services are to be provided during periods of disruption.

3.8.4 Passenger Information

Passenger demands for quality information at stations about train times and platforms should be addressed. Bidders should provide details of how they will improve information provision, particularly in terms of consistently reliable technology, backed up by well-informed staff. Bidders are also encouraged to propose new ways in which they will communicate with passengers.

Bidders are free to propose enhancements in information provision across the franchise and should demonstrate how any gaps in provision of electronic information at stations may be remedied.

Bidders should demonstrate how they propose to make all reasonable endeavours to adopt practices in the National Rail Enquiries good practice guides on passenger information.

Bidders should demonstrate how they will utilise existing channels of communication, such as real time information both at station and on train to provide accurate and up to date information especially when things go wrong.

Bidders may wish to consider linking information on rail journeys on their websites with Transport Direct website services to allow door to door journey planning.

Bidders may wish to consider specific communications plans for the major infrastructure projects, as detailed in section 3.3.

Reliability and availability of information screens should be routinely monitored as part of any Service Quality monitoring regime and Bidders are required to demonstrate that they have processes in place to deal quickly and effectively with any defects, including any inconsistencies with PA announcements.

3.8.5 InterCity Catering Service

Bidders should assess the appropriate level of catering provision to be provided on InterCity West Coast services and demonstrate how they will deliver any services proposed.

3.9 Security

The Department is looking to ensure that the rail network provides a safe and secure environment for passengers and staff.

Bidders should consider the findings in Passenger Focus' "Passenger perceptions of personal security on the railways" and consider how best to address them within their plans.

3.9.1 Secure Station Accreditation

Bidders are required to maintain the current delivery of Secure Station Accreditation ("SSA") at all stations, for the duration of the franchise period.

3.9.2 Train and Station Security

The InterCity West Coast Franchisee will be responsible for security on board its trains and at its stations. Bidders will need to include a brief assessment of current security arrangements at all levels from theft and assault to the threat of terrorism and they should demonstrate what measures will be taken to make improvements. Bidders are free to consider Investment in technological security solutions.

Bidders must include appropriate reference to how they intend to comply with the legal requirements for, and act upon the guidance to, station owners and operators and train operators to protect railway assets, staff and passengers from acts of terrorism as set out in the National Railways Security Programme ("NRSP"). The NRSP incorporates the requirements of Instructions served on station and train operators under section 119 of the Railways Act 1993.

Bidders will need to maintain the current position that 100% of services operated have on-train CCTV throughout the franchise period.

The current level of CCTV coverage at stations, as a minimum, should be maintained. Bidders are also encouraged to look at which if any stations merit investment in additional or enhanced CCTV coverage.

Bidders should consider whether to enhance the level of 'Park Mark' award provision and should consider whether coverage should be extended to cover all stations.

3.9.3 Staff Security & Safety

Bidders will be required to outline how and what policy they intend to implement to protect staff security with the aspiration of driving down the number of verbal and physical assaults against staff. Bidders must also demonstrate what support will be offered to staff that are victims of assault.

Bidders are required to detail plans of how they will contribute to achieve the reductions in the national risk to passengers and rail workers as detailed in section 3.5.2.

3.9.4 British Transport Police

3.9.4.1 British Transport Police Resource

Bidders will be required to assess with the British Transport Police (“BTP”) the security/crime risk at all stations in the franchise and ensure that their proposals include the prioritization of all the identified high risk locations. Where new CCTV is provided or existing systems replaced, bidders will be expected to provide CCTV compatible with systems employed by the BTP. Bidders should outline how they will work in partnership with the BTP with regard to specific areas of concern over the safety and security of passengers and staff, reduction in delay and crimes against property. In doing so they should explain how they influence where appropriate resources are deployed such as in areas where particular security issues are most prevalent.

3.9.4.2 British Transport Police Service Agreement

Bidders should be aware of proposed changes to the British Transport Police Authority Police Services Agreement (“PSA”). The current PSA will not be continued within the new InterCity West Coast franchise and Bidders should include the cost implications of moving to this new PSA within their bids. It is intended that the new PSA will start at the start of the new franchise in April 2012. Details of the process that the British Transport Police Authority will use to define the new PSA will be included within the data site alongside indications of the likely current and future year charges based on a likely charging regime.

3.10 Sustainability and the Environment

3.10.1 Environmental Management Plan

The Department invites bidders for this franchise to develop plans for measuring and reducing the environmental impact of their rail activities. Where initiatives reduce energy bills or other costs, the Department expects the benefits to be reflected in lower franchise costs.

Bidders should take account of the sustainability principles developed by the cross-industry Sustainable Rail Programme and reflect these as appropriate in their bids. They should take account of the environmental best practice document produced by the Sustainable Rail Programme and which is available in the data site. All initiatives should be considered on a whole-life, whole-system cost basis.

Bidders are expected to set annual targets as part of their proposals to improve the environmental performance of the franchise. Bidders are free to define such targets but examples could include:

- Reductions in energy consumption and CO₂ emissions from rail traction and non-traction operations;
- Reductions in water use; and
- Reductions in total waste to landfill.

Bidders may also want to consider setting targets for other areas including noise, emissions of air quality pollutants, land contamination and other environmental impacts.

Bidders are required to monitor and publish the overall environmental performance of the franchise as an annual progress statement and will be expected to comply with the carbon management framework being developed by the Sustainable Rail Programme, in particular as regards reporting energy consumption.

Bidders should consider the introduction of ISO14001 accreditation or an equivalent environmental management system across all operations. Bidders should explain how environmental issues will be managed within the franchise, including by ensuring senior management accountability. They should also set out plans for raising awareness of environmental issues among staff and customers and for encouraging and implementing ideas for reducing environmental impacts.

Bidders are expected to demonstrate an awareness of the environmental impact of the goods and services they procure to support their franchise operation and commit to developing and implementing a sustainable procurement policy to reduce this throughout the life of the franchise. In doing so, they should consider applying the relevant British standard BS 8903

3.10.2 Energy and Carbon Management

Bidders will be expected to reflect industry best practice in their proposals to measure, monitor and manage their traction and non-traction energy consumption:

- For traction energy this should include consideration of training in eco-driving techniques, the fitment of driver advisory speed systems and energy efficient timetabling and stabling arrangements, and intelligent control of auxiliary loads in-service and when stabled
- For non-traction energy bidders may wish to consider improving the energy performance of stations and depots through, for example, better insulation, more efficient lighting and heating and the use of micro-generation.

Bidders should consider modifying trains to provide accurate information on electricity consumption suitable for Network Rail billing purposes, for example through the fitment of electricity consumption meters.

Bidders should also consider measures for monitoring diesel fuel consumption to assist energy efficiency, reduce costs and carbon emissions, inform maintenance and driver training strategies and prevent spillages.

3.11 Stakeholder Relations

The Department is looking to ensure that Bidders work closely and effectively with all stakeholders throughout the franchise. Bidders are required to confirm that they will co-operate with key stakeholders over the life of the franchise to facilitate efficient development of major projects, service and accessibility improvements and any other industry changes.

3.11.1 Managing the Interface with the wider rail industry

3.11.1.1 Major projects

Bidders will be expected to provide detailed plans for how they will manage the relationship with Network Rail, and other industry parties, with regards to the major infrastructure works highlighted in section 3.3.

Bidders must provide sufficient internal resources as part of detailed proposals as to how such interfaces will be managed to deliver such projects.

3.11.1.2 Day-to-Day Interfaces

Bidders will be expected to provide plans for how they will manage the ongoing relationship with Network Rail on a day to day basis, alongside liaison arrangements with other industry parties.

3.11.3 Stakeholder Engagement and Consultation

3.11.3.1 Passenger Focus

Passenger Focus is an independent public body set up by the Government to protect the interests of Britain's rail passengers. Bidders should detail how they will engage with Passenger Focus and what planned regular involvement this will entail, including proposals to consult with Passenger Focus regarding key franchise issues.

3.11.3.2 Other Relevant Groups

Bidders should demonstrate how they will work effectively with other TOCs. Given the geographical nature of the franchise, Passenger Transport Executives should be widely consulted for views. Local authorities have an ongoing aspiration for improvement in communication to help facilitate change, and as part of ongoing local initiatives. The new Franchisee will also be expected to work closely with the ODA to facilitate the requirements for both the Olympic and Paralympic Games in 2012 and HS2 and NR to facilitate the development of High Speed 2. The Department will expect Bidders to highlight how they will encourage effective dialogue with groups such as these.

3.11.3.3 General Public

Bidders should state how they will keep the general public informed of key decisions and outline how they will ensure they consult with them. In particular given the level of disruption likely due to major infrastructure projects, Bidders should outline a clear communications strategy.

3.12 Mobilisation and Migration

Bidders must demonstrate their capability to carry out an effective mobilisation within the necessary timescales and proceed to commencement of operations on 9th December 2012.

3.12.1 Mobilisation

The Franchisee must mobilise with the intention of fulfilling the following aims:

- to ensure the integrity and continuity of existing services;
- to work with other TOCs, Network Rail, ORR and other stakeholders to ensure a successful handover from the incumbent TOC by the agreed transfer date.

This will include, amongst other things:

- staff transfers; and
- transfer of supporting assets and finalisation of commercial arrangements.

For clarity, mobilisation activities are interpreted in this document as being those leading up to the commencement of operations. Migration activities are those relating to the transfer and integration of the existing operations, supporting assets, systems and commercial arrangements to create the new InterCity West Coast franchise.

The Department expects a working group to be established including the Franchisee, the incumbent TOC and Department representatives to oversee and monitor progress during the period between selection of the Franchisee and commencement of operations. The main purpose of this group will be to ensure the full and active participation of all parties in a fair, reasonable and timely manner.

3.12.2 Transfers to the Franchisee

It is proposed to transfer all property, rights and liabilities that are likely to be required to operate the InterCity West Coast franchise to the Franchisee via the Start Date Transfer Scheme. Bidders should also consider the transfer of station leases scheme outlined in 3.6.2.

3.12.3 Rolling Stock

The Franchisee will need to agree with the Department, rolling stock leasing companies and vehicle maintainers as appropriate, the transfer of existing (or commencement of new) leases and associated contracts for the rolling stock that will enable it to deliver its obligations under the Franchise Agreement. This requirement will be a condition precedent to the start of the InterCity West Coast franchise.

It should be noted that there is no requirement for Bidders to enter into or transfer leases that operate on the existing franchise. However, if rolling stock leases with section 54

undertakings are not transferred, the Department will assign any financial liabilities it incurs to the cost of the franchise via an adjustment to the premium line, until such time as alternative leases have been entered into.

3.12.4 Employees

3.12.4.1 Transfer of Undertakings (Protection of Employment)

Bidders should assume that the transfer of the West Coast Trains Limited business and the entry into the Franchise Agreement will constitute the transfer of an undertaking for the purposes of the Transfer of Undertakings (Protection of Employment) Regulations 1981 as amended 2006 (TUPE). Details will be provided of employees of West Coast Trains Limited, who will transfer to the InterCity West Coast franchise.

3.12.4.2 Pensions

Bidders are required to confirm acceptance of the terms and conditions relating to pensions contained in Schedule 16 (Pensions) of the Terms. This confirmation should be included in Part 4 Legal and Compliance and commented on in response to the Organisation, Staffing & Stakeholder relations, Mobilisation & Migration Delivery Plan.

Bidders should not assume that the Department will provide any indemnity regarding any payments that may be required under the Railways Pensions (Protection and Designation of Schemes) Order 1994 (SI 1433) or otherwise.

The Franchisee will become the Designated Employer for the active, retired and deferred members of the current shared cost sections of the Railways Pension Scheme (“RPS”) as defined below:

West Coast Trains Limited Shared Cost Section

Bidders are required to set out their approach to managing the existing pension scheme from the start of the franchise period with all assumptions clearly stated.

Subject to meeting their obligations under the RPS, at the end of the Franchise Term the Franchisee shall have no responsibility for any deficit in the scheme (other than contributions due and payable before the end of the Franchise Term by the Franchisee) and have no right to benefit from any surplus which may exist in the relevant section.

3.12.5 Operational and regulatory requirements

3.12.5.1 Safety Certificates for Railway Undertakings

Existing rail safety regulations changed in April 2006 as a result of the European Railway Safety Directive (2004/49/EC), as implemented in Great Britain by the Railways and Other Guided Transport Systems (Safety) Regulations 2006 (“the ROGS Regulations”). The ROGS Regulations replaced the existing railway safety case regime with safety certificates for rail undertakings (i.e. TOCs).

The Franchisee will be required to obtain a Safety Certificate in accordance with the ROGS Regulations for the InterCity West Coast franchise as a condition precedent to the commencement of the InterCity West Coast franchise. The Franchisee shall be

responsible for maintaining the Safety Certificate for the term of the InterCity West Coast franchise.

Bidders must engage with HM Railway Inspectorate during the Bid Preparation Phase in order to ensure that the Safety Certificate will be issued in good time for the start of the franchise. Further information on the requirements and the process for obtaining a railway Safety Certificate can be found on ORR's website via the following link: [ORR Safety Certificate](#).

3.12.6.2 Licensing

As a condition precedent for the start of the InterCity West Coast franchise, the Franchisee will be obliged to apply for, and secure, licences and a related Statement of National Regulatory Provisions to operate railway assets within Great Britain. Typically, this process can take up to 16 weeks to complete, allowing for consultation and due process. ORR normally requires appropriate safety authorisations to be in place prior to the final issue of these licences.

Further information on the issue and administration of licences can be found at the following website: <http://www.rail-reg.gov.uk/>

3.12.6.3 Railway Safety Group

The Franchisee will be expected to become a member of the 'Railway Safety Group' and, as such, the Department will expect it to engage proactively as a member of that Group. In particular, this requires the Franchisee to engage in:

- the consultation process for new standards (both railway group standards and any ATOC 'Codes of Practice');
- the process of generating the 'Railway Safety Group Safety Plan' ("RSGSP"); and
- the delivery of an appropriate contribution to that RSGSP. TOCs are required to produce an Annual Safety Plan that should be available on request to the Department and ORR.

The Franchisee will also be expected to participate in industry groups and committees addressing the domestic, European and research safety agenda of the Railway Safety Group. The Department has an expectation of full engagement in safety at both Franchisee and parent company level.

3.12.7 Access

3.12.7.1 Station and Depot Access Agreements

Existing access rights will be transferred under the Start Date Transfer Scheme. Arrangements for gaining access to stations and depots operated by other TOCs are covered by access contracts between the Facility Owner and any beneficiaries wishing to

use the facility. Access contracts are regulated and are subject to approval or direction by ORR, which has produced a number of template access contracts for use by TOCs.

3.12.7.2 Track Access Agreements

A new Track Access Agreements will be transferred to the new operator as per normal industry practice at franchise commencement. Details of the new Track Access Agreements can be found in the data site and on the ORR website.

SECTION 4: THE BID: DELIVERY PLANS

4.1 Introduction

The Department requires Bidders to show how they will deliver the Franchisee's obligations contained in the Franchise Agreement and how this will meet the objectives of the West Coast franchise. The Department requires Bidders to produce a set of Delivery Plans (Table 4-2 refers), setting out how they intend to improve the reliability, reduce the cost and increase the revenue of the service.

4.2 Required Response

4.2.1 Plans and Criteria

Bidders are required to provide a full set of ten Delivery Plans, four of which are Key, addressing the issues of Performance, Revenue and Cost as appropriate.

Table 4-2 shows the Delivery Plans, the required Key Components and suggested Sub-Components. It should be noted that the list of sub-component items is not intended to be exhaustive but the Department will expect Bidders to consider at least these elements when developing their proposals. Bidders may wish to introduce further sub-components.

4.2.2 Performance

The performance criterion coverage within each Delivery Plan should address the business performance of the proposed franchisee. Whilst the ability to deliver improved operational performance in terms of punctuality and reliability forms an important component of this criterion, the coverage also needs to address wider business performance and how the Department's specification and objectives will be delivered.

4.2.3 Annexes and Appendices

Bidders may include annexes and appendices to their response that should be clearly referenced in the main text. Bidders are reminded that any annexes or appendices are subject to the size limits described in Section 2.8 (Structure and Format of Bids).

4.2.4 Cross Referencing

The Department's evaluators will follow cross references to specific identified components of the response in relation to other Delivery Plans. No credit will be given for unspecific general references, e.g. "further evidence on this issue is provided in our Ticket Sales & Revenue Protection Plan".

4.2.5 Modelling Change

The Department will assess its confidence in the Bidder's Models to price emerging Changes to the franchise specification and score it as a Delivery Plan. This will be assessed by consideration of the Part 2 Financial response, which is not subject to any

page limit. The RADAR components (identified in 4.3.3 Application of RADAR) will not be applied in respect to this Delivery Plan.

The following weightings will be applied to this element of the deliverability evaluation (the Operating Manual(s) will be used to assist the Department's understanding of all elements):

	Weighting
Assessment of worked examples of pricing change	20%
Suitability of Record of Assumptions for supporting the pricing of change	25%
Suitability of Financial Model for pricing change	25%
Suitability of Operational Models to model changes and support the pricing of change	25%
Integrity of modelling suite ensuring Models and supporting documentation work as a coherent whole	5%

4.2.6 Committed Obligations

Where Delivery Plans include promises for specific revenue spending, enhancement investment, or achievement of accreditation standards these will generally not receive credit unless they are linked to appropriate Committed Obligations which should be drafted in the Bidder's Part 4 Legal response.

The Department is aware that not all aspects of Delivery Plans lend themselves to Committed Obligations. Some plans are closely linked to the delivery of core TSR, financial, service quality and performance commitments already included in the Franchise Agreement and it is not intended to duplicate those obligations. Committed Obligations linked to delivery of outputs that would be recognised by customers are generally more appropriate than those linked to the internal process of delivery. The Department wishes to encourage focussed obligations in support of key features of Delivery Plans but is not seeking large numbers of de-minimis commitments.

In order to receive full credit the Committed Obligations recorded in Part 4 need to include a clearly defined measurable target, an appropriate time limit for delivery and a proportionate Committed Obligation Payment Adjustment (“COPA”) if delivery is delayed.

The final page of each delivery plan should clearly tabulate all committed obligations contained within that delivery plan, including target, timescale and COPA.

The Department will wish to contractualise improvements and investments that have been taken into account in scoring bid plans, in order to ensure that they are delivered. The Department would prefer to contractualise such commitments in as flexible a way as possible, in order to avoid the need to closely manage the on-time delivery of a long list of obligations. The Department would therefore encourage bidders to make commitments as flexible as possible, or to link commitments to output targets where appropriate. For example, commitments to provide more car parking spaces or secure cycle spaces could be set at franchise rather than station level, or could be linked to demand. Bidders should also consider setting output measures either as a trigger for starting or ceasing a planned

investment – for instance an investment might be committed in the event that passenger loadings or passenger satisfaction reach defined levels.

However, all committed obligations must be robustly and clearly defined in the franchise agreement and any obligations should therefore be based on well-understood, easily tested data – ideally independent data such as the national passenger survey. The Department reserves the right not to accept or give credit for commitments offered by bidders if, in the Department’s view, they are framed in a way that may be hard to verify, would increase the need for tight contract management, or may lead to legal dispute.

4.3 Evaluation Process

4.3.1 General

The Department will assess each response according to the Office of Government Commerce (“the OGC”) and European Foundation for Quality Management (“EFQM”) guidelines. The franchise will be awarded to the Bidder who offers the Department the best, robust proposition, in terms of price and reliability, for operating the Base Service Specification, selected in accordance with the Franchise Evaluation Process Charts.

The Department will assess the risk to delivery of overall business performance and the Department's objectives for the InterCity West Coast franchise. All Delivery Plans are weighted equally with the exception of the designated four Key Delivery Plans (identified in Table 4-2) that are weighted at twice the importance of other Delivery Plans. Evidence of the deliverability of projected revenues and costs will be used to inform the Department's risk adjusted view of the premium offered by the Bidder and the assessment of the financial risk of the bid.

Bidders’ attention is drawn to the guidance on risk assessment that is set out in paragraphs 21 and 22 of “A Guide to the Rail Franchise Procurement Process”.

4.3.2 Evidence

The Department requires evidence that the Delivery Plans are sound and achievable. Bidders are not expected to repeat evidence of their general competency as a transport operator that will have already been submitted and assessed as part of the EFQM evaluation undertaken at the Accreditation stage. However, evidence is required of deliverability of the specific plans presented for the new franchise, which may be in the form of relevant examples from other operations. The more ambitious the improvement offered by the Bidder or the more innovative its approach, the greater the need for evidence to support the bid.

4.3.3 Deliverability

All bids where the Department is confident of delivery of the Base Service Specification will be judged 'deliverable'. There is no fixed scoring threshold for deliverability but a bid will be judged 'undeliverable' if, after clarification by the Bidder, the risk to delivery of the Base Service Specification is judged unacceptably high by the Department. The risk to delivery could be unacceptably high if there is an exceptionally low confidence in one Delivery Plan or where there is low confidence in a number of Delivery Plans. The Department will pay particular attention to the Key Delivery Plans in assessing its confidence in delivery.

In order to achieve the maximum score available for a Delivery Plan, Bidders will need to demonstrate added value, consistent with the Department's objectives for the franchise, in excess of delivery of the Base Service Specification. In order to receive credit Bidders need to evidence that the added value is in itself deliverable. Examples might include contracting to exceed the minimum Performance Benchmarks required by the Department (Performance Improvement Plan).

4.3.4 Application of RADAR

The Delivery Plans will be evaluated using the RADAR® process. Bidders are encouraged to identify the RADAR components of their response in respect to each plan, which will be applied as follows:

RADAR component	Contents	Weighting
Approach	The Bidder's description of the outcomes which will be achieved and why. The linkage to the Department's objectives for the franchise should be described. This component should include analysis of the existing position supporting the approach proposed and the expected future results.	40
Deployment	How the outcomes proposed by the Bidder will be delivered. In addition to describing what resources are required and how they will be deployed, this component should include evidence that promised improvements can be secured. Where appropriate, promised improvements should be linked to Committed Obligations.	40
Assessment & Review	What Key Performance Indicators the Bidder will measure in order to ensure the delivery of outcomes. Where Committed Obligations are proposed that they are measurable, with appropriate time limits and proportionate COPA. How the business is structured and what processes are in place to react if the desired results are not achieved. This component should consider the risks to delivery and how the Bidder would manage and mitigate them, including possible mitigation actions if forecast revenue is not achieved.	20

The weightings adopted for each RADAR component reflect the application of this system to Delivery Plans for a new business. RADAR® scoring is the evaluation method used to score for the European Quality Award.

Table 4-2: Delivery Plans for the Intercity West Coast Franchise

The Delivery Plans should be submitted in the sequence shown. All plans are weighted equally with the exception of 'Key Delivery Plans' that carry double the weighting of other Delivery Plans. Components are not an exhaustive list.

Title	Components
1. Organisation, Staffing & Stakeholder Relations, Mobilisation & Migration	Corporate structure Total Establishment, Headcount & Location Organisation charts (summary) Proposed management team Reward policy and expected salary and wage inflation Pensions Changes to job descriptions and terms of employment (if any) Relations with trade unions Train crew strategy and management Stakeholder Management Working with PTEs Working with other local authorities Liaison and consultation with Passenger Focus and other user groups Community Rail Mobilisation programme to December 2012 inc management arrangements Skills and resources Liaison with industry stakeholders Safety Certificate for December 2012 Licences Industry IT systems Track access Station Access Trading Train Crew TUPE Pensions Implementation of December 2013 and other Planned Major Timetable Changes – Operational, Staff & Customer issues

Title	Components
<p>2. Management & Delivery of Change including Sustainability & the Environment</p> <p>KEY DELIVERY PLAN</p>	<p>Interface with major projects including HS2 and platform lengthening schemes</p> <p>Methodology for planning alternative timetables during Euston works including proposed weekday and weekend services</p> <p>Passenger information associated with HS2 works</p> <p>Station arrangements associated with HS2 works</p> <p>Service delivery around other planned engineering works</p> <p>Capability & resources to plan emerging service changes</p> <p>Liaison with other TOCs regarding service changes</p> <p>Impacts of NW electrification</p> <p>Rail replacement services</p> <p>Engineering access & network restrictions</p> <p>Assumptions regarding compensation from Network Rail</p> <p>Approach to partnering with the Department</p> <p>Capability & resources to price emerging service changes</p> <p>Capability & resources to plan changes at Birmingham New St</p> <p>Overall environmental approach and policy (including Rolling Stock and stations)</p> <p>Other energy efficiency measures including driver education</p> <p>Noise and light pollution</p> <p>Managing waste and recycling</p> <p>Water/land contamination, noise and biodiversity</p> <p>Air quality</p> <p>Environmental KPI's and approach to monitoring</p> <p>Environmental awards</p> <p>Proposals to support social inclusion</p> <p>Proposals for community engagement</p>
<p>3. Modelling Change</p>	<p>Fitness for purpose of Record of Assumptions & Models to price emerging Changes</p> <p>Clarity & transparency of Change examples within model Operating Manuals</p> <p>(N.B. Submission of a separate Modelling Change Delivery Plan is not required. This plan will be scored by the Department by reference to the financial submission in Part 2 of the response.)</p>

Title	Components
4. Marketing & Fares	Market Position and Offer Market analysis and exogenous growth Marketing Plans Fares structure Premium, Standard and Off Peak fares Airport opportunities Revenue forecasts (must demonstrate consistency with Fleet Deployment and Crowding forecasts) Concessionary fares Multi Modal Schemes and fares Fares basket management Customer fares information Car Parking pricing On train priced services Commercial advertising
5. Ticket Sales & Revenue Protection	Ticket vending machines Ticket office systems ITSO and ITSO based initiatives New Retailing opportunities On line sales Other sales outlets Staffing implications Availability of fares information Gating schemes Penalty Fares Revenue protection assessment, management and monitoring Revenue Protection resources and training

Title	Components
<p>6. Timetabling to Accommodate Current Demand & Future Growth</p> <p>KEY DELIVERY PLAN</p>	<p>Key constraints on trains</p> <p>Key constraints at stations</p> <p>Data capture, analysis and provision of information to the DfT</p> <p>APC Data and improvement plans</p> <p>Timetable initiatives</p> <p>Rolling stock initiatives</p> <p>Other initiatives and mitigations</p> <p>Planned Peak vehicle arrivals/departures into/from London termini & West Midlands/Scotland</p> <p>Forecast crowding over Franchise Term (must demonstrate consistency with Fleet Deployment and Crowding forecasts)</p> <p>Special Event Planning</p> <p>Fit with timetable constraints</p> <p>Compliance with TSRs</p> <p>Timetable planning</p> <p>Timetables (to the extent required)</p> <p>Unit diagrams including stabling strategy</p>

Title	Components
7. Rolling Stock, Depots & Train Maintenance	Rolling stock approach & policy overview Identification of fleet requirements & 'pinch points' Proposed fleet composition over Franchise Term Fleet deployment (must demonstrate consistency with revenue forecasts and Accommodating Current & Future Growth Plan) Rolling stock fall back plans Fleet utilisation Fleet preventative maintenance arrangements Reactive maintenance (depot and line of route) Allowance for heavy maintenance requirements Fleet improvement programmes Justification of cost assumptions including lease costs, maintenance costs (light and heavy) and fuel costs Introduction of any new rolling stock Depot & Maintenance approach & policy overview Management of depot facilities and requirements Trading Rolling Stock maintenance Depot arrangements including stabling and marshalling arrangements for current and enhanced fleets Facilities at stabling locations Depots & sidings security Quality systems Staff utilisation Train cleaning procedures & presentation standards Rolling Stock leases

Title	Components
8. Operational Performance Improvement	Data collection & analysis Proposed benchmarks (All) Performance Initiatives JPIP development process Network Rail interface Contribution toward the HLOS Performance Metric Control arrangements Train Reporting Contingency planning Opportunities from new electrification schemes Severe weather & leaf fall Other service and station disruption risks Rescue capability Contribution toward the HLOS safety metric targets Driving standards management Compliance with Network Rail standards Route and traction learning

Title	Components
<p>9. Stations and accessing the Network</p> <p>KEY DELIVERY PLAN</p>	<p>Ticket Office opening times</p> <p>Rostering approach & systems</p> <p>Staff Duties & responsibilities</p> <p>Monitoring of service levels</p> <p>Station Presentation Standards</p> <p>Management of non SFO stations</p> <p>Station Upkeep, Maintenance and Repairs (including improvements)</p> <p>Station Enhancement and investment (inc NSIP)</p> <p>Transport Integration Initiatives (including Station Travel Plans)</p> <p>Car park provision</p> <p>Provisions for cycles</p> <p>DDA related initiatives (inc A4A)</p> <p>Station security (including Secure Station accreditation)</p> <p>Car park security (including Park Mark accreditation)</p> <p>Security of staff and customers</p> <p>Trespass and vandalism</p> <p>Terrorism</p> <p>Assessment of potential new risks and mitigation</p> <p>Proposals for investment and improvement</p> <p>Liaison with law enforcement agencies</p> <p>Estate management and incomes</p> <p>Renewals and maintenance of stations</p> <p>Staff training</p>

Title	Components
<p>10. Improving Service Quality</p> <p>KEY DELIVERY PLAN</p>	<p>Station information</p> <p>On-train information</p> <p>Real time information initiatives</p> <p>Multi-modal information (inc real time information)</p> <p>Off Network Information (including Mobile and Internet)</p> <p>Other information sources</p> <p>Proposals for future improvements</p> <p>Signage and advertising</p> <p>Managing unplanned disruption</p> <p>Information for customers with disabilities</p> <p>Customer service training</p> <p>Approach to quality management</p> <p>Proposed Service Quality Management Systems</p> <p>NPS Performance</p> <p>Communicating targets and results to customers</p> <p>Customer contact centres</p> <p>Complaints handling policy and process</p> <p>Compensation & Refunds policy and process</p> <p>Passenger Charter</p> <p>Access to Season Tickets</p> <p>On train catering offer</p> <p>Internet provision</p> <p>On-train security</p>

SECTION 5: THE BID: FINANCIAL ELEMENTS

5.1 Introduction

This section describes the requirement for Bidders to submit a Financial Model and Operational Models (together “the Models”). The Models must be supported by a comprehensive Record of Assumptions and an Operating Manual. The requirement to provide other financial information is also described.

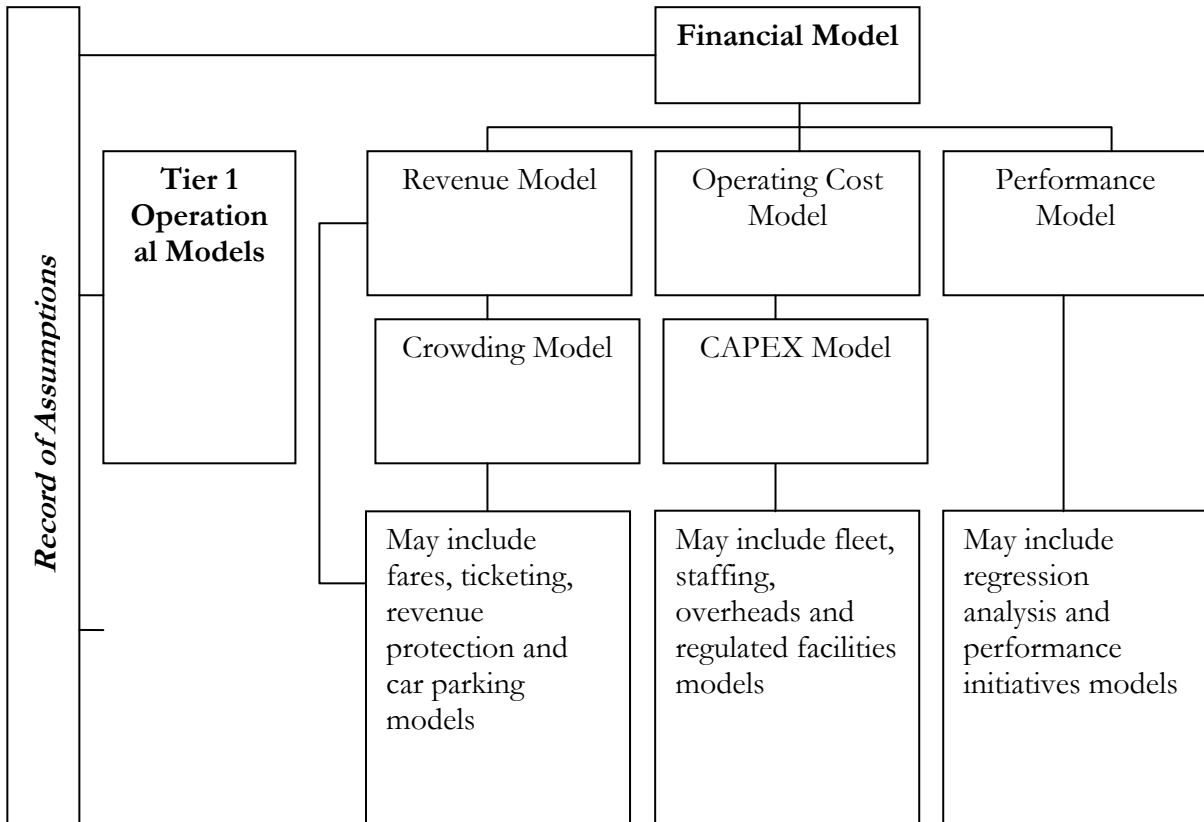
The Models will be used during bid evaluation to compare overall pricing, review detailed projections of revenues and costs and to test the financial resilience of Bidder solutions. The successful Bidder's Models will be subject to an independent Model Audit and placed in Escrow after contract signature. It is expected that subsequent Changes will be priced by processing revised assumptions through the Models and in accordance with the NRFT and FSA. The evaluation of bid deliverability will include an assessment of the fitness for purpose of the Models, Record of Assumptions and Operating Manual to price Changes.

The output schedules of the Financial Model should be in the format of the Templates provided in Attachment I (the Templates). Bidders are required to follow modelling best practice requirements and other constraints have been made clear in this section of the ITT, for example, in relation to model size. The Department recognises that some flexibility in modelling requirements may produce the most effective overall solution; as a consequence the scope of the model audit has been restricted and the ability for Bidders to apply, prior to bid submission, for derogations from specific elements of the instructions has been included.

5.2 Model Requirements and Constraints

5.2.1 General

Each Bidder is required to submit and include as part of their bid a Financial Model and **all** Operational Models that support that Financial Model. These must demonstrate the financial consequences of the Bidder's business and operational plans over the Franchise Term. All Models will be placed in Escrow under the Franchise Agreement. The Department anticipates that Models will be structured as illustrated below:



The minimum review standards that apply to each group of models are described in Section 5.8.

The Models should be presented in Microsoft Excel format, with workings and formulae intact (i.e. non input cells should not be ‘hard-coded’ with values), and be capable of running on Microsoft Office 2003 version software.

No rows, columns, cells or worksheets of the Models should 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.

The Department wishes to receive models that are efficient in their operation and use of memory. A maximum file size of 75MB is permitted, and smaller Excel workbooks are encouraged. Any workbook taking up more than 75MB of disk space will be deemed to be non-compliant unless a derogation has been granted.

Bidders are to avoid the use of macros in order to aid model transparency. The use of macros should be limited to areas where their use adds to the user friendliness of the Models (e.g. print macro) or aid the achievement of other requirements of the Models (e.g. avoid circularity or to transfer data between Models). Where macros are required, their function should be clearly explained within the Operating Manual.

In order to aid transparency, use of the INDIRECT and OFFSET functions is prohibited, except where a derogation has been granted.

The Financial Model Templates and Tier 1 Operational Models outputs should also be submitted in PDF format. This should include the Financial Statements for all Priced Options (and Incremental Options if submitted). No hard copies of Models are required.

The Models submitted by Bidders must be in line with best practice in accordance with the requirements set out in Section 5.8.1 and employ the accepted principles of Separation, Consistency, Integrity and Linearity, unless a derogation has been granted.

Although best practice would dictate that a consistent formula is used in each column, there are a number of circumstances where a model can be made more transparent by changing the formulae across an array. Provided it is made clear (even when printed out and the formulae cannot be seen) that the calculation method is different, the following two cases have been identified when the formulae can differ:

- to allow a different approach to the treatment of forecasts before the franchise commences (i.e. 9th December 2012), part years and any extensions as laid out in the Financial Templates; and
- to allow units, indices and other useful modelling ‘flags’ to be included in the columns to the left of the first modelled year.

Bidders do not need to seek derogation from the Department should the Models deviate from Best Practice in either of the two cases described above.

Cross-links between the Models should 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. 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 suite of Models will be maintained and updated together, and submitted simultaneously as required to support any Change arising during the Franchise Term.

5.2.2 Financial Model

The calculations required to produce other outputs for inclusion in the Franchise Agreement are included in the Templates provided to Bidders. These outputs are calculated on the basis of the Financial Statements populated by Bidders:

- Franchise Payments (Appendix 8 to the Franchise Agreement);
- Modified Revenue and Actual Operating Costs (Schedule 12 to the Terms); and
- Performance Bond and Season Ticket Bond values (Schedule 12 to the Terms).

These outputs should change automatically following the running of any sensitivity or Revised Inputs. However, the Financial Model should incorporate the GDP Risk adjustment mechanism set out in Schedule 8.1 to the Terms and have the functionality to freeze any Profit Share Thresholds and the Annual Franchise Payments so as to allow simulation of profit sharing or GDP adjustment payments by revenue and cost or other sensitivities.

The Department will specify and conduct sensitivity tests on the Financial Model as part of its evaluation process, and does not require Bidders to submit a set of standard sensitivity tests or provide this functionality. Bidders are not, however, required to remove this functionality from the Models where such functionality exists for Bidders' own use.

Bidders should 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.

The Financial Model must have an index switch to allow the user to apply or remove the effect of RPI so as to view the financial templates in both nominal and real terms.

The Financial Model should be self-contained within a single Excel Workbook, and should have the functionality to run Incremental Options (if submitted) by use of a switch applied to the Base Case Specification and without recourse to the Operational Models. The Operating Manual and Record of Assumptions should clearly explain the method by which the switch selects the case of the different scenarios. The Financial Model should be presented in annual terms, with year-ends coinciding with the Department's 31 March accounting year-end (as demonstrated on the Templates), except in the case of the part year periods identified in Section 5.3.

Any changes to the Financial Model after bid submission will need to be clearly logged and traceable, including an audit trail in the Financial Model itself, using the templated Version Control sheet. Although it is not a templated output, Bidders are required to incorporate a map illustrating the content and structure of the Financial Model.

5.2.3 Operational Models

The Operational Models are all models that contain calculations generating inputs either directly or indirectly to the Financial Model. These models will be structured as illustrated above, and will incorporate the following Tier 1 Operational Models:

- a Revenue Model. This demand / passenger revenue forecasting model must at least disaggregate demand and revenue into the ticket types and Service Groups contained in the Templates. Any further disaggregation of demand and revenue into more detailed flows or segments is at the discretion of the Bidder. The Revenue Model and its associated sub-models in Tier 2 also need to 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:
 - macro-economic factors, including competition with air services and car (disaggregated into individual factors where appropriate);
 - timetable changes;
 - fare proposals and policy;
 - operating performance;
 - service quality;
 - marketing;
 - revenue protection initiatives;
 - revenue / yield management initiatives; and
 - other investments or initiatives (such as station or rolling stock improvements).

- The Revenue Model should explicitly disaggregate the revenue effects associated with the relevant Delivery Plans listed in Table 4-2 in Section 4;
- a Crowding Model that is clearly linked to the Revenue Model. This should include a schedule of daily services and stops, with the relevant headcode, diagram and seat and standing capacity, covering individually each service for which crowding could have a material impact;
- an Operating Cost Model that should produce inputs to the Financial Model to the level of disaggregation required by the Templates. Any further disaggregation is at the discretion of the Bidder;
- a Performance Model, showing forecast average minutes lateness, attribution of average minutes lateness between the Franchisee and Network Rail, the impact on the Public Performance Measure and 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. All assumptions relating to the performance model and any performance improvement schemes and associated calculations should be clearly explained; and
- a capital expenditure/capital funding model, showing the detailed investment plan for each material incidence of funding of infrastructure, other works and schemes that support the Bidder's proposals and that reflects the precise details of their own funding arrangements.

The Models should have the capability to forecast the Other Revenue section of the Financial Model, to the level of disaggregation required by the 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 requested to detail the approach adopted in their Operating Manual and/or Record of Assumptions.

5.3 Financial Model Templates

The Department requires that the output from the Models follow the Templates that will be made available in the data site. The Department realises that Bidders may wish to expand the level of detail provided within the Models beyond these minimum requirements and requires that this is done in such a way as to remain consistent with the format of the Templates. The level of detail provided should be sufficient to give full transparency of all components of costs and revenues but the spare rows provided can be used to accommodate additional detail. Deleting or inserting rows or columns to the Templates is not permitted and will be deemed to be non compliant.

The outputs in the Templates should be linked to the input / calculation cells 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. Bidders can either add worksheets to the Templates or copy the Templates into their own models. Bidders are required to ensure that the named ranges defined in the Templates are preserved.

The format of the profit and loss account, cash flow statement and balance sheet are required to be set out in the manner stipulated by the Templates.

Bidders should note that any types of revenues or costs that it wishes to include under a catch all heading of ‘Other’ should not exceed £500,000 (in real terms) in any year. Where a Bidder anticipates that such revenues or costs will exceed this amount, they should each be separately identified in a separate spare row and not listed under the heading ‘Other’.

The Templates shall be populated in full, with outputs from the Models specified in years that are consistent with the Intercity West Coast franchise financial year. To this end relevant worksheets in the Templates are structured with columns that are headed with periods that represent the rail industry year to 31 March of each year.

The InterCity West Coast franchise runs part year from 9 December 2012 to 31 March 2013. In order to accommodate the difference between the rail year and the part year identified above, the relevant worksheets in the Templates provide an extra column where Bidders should derive the part year element from the full year columns. In addition, extra columns will be provided in the Templates for the optional 20 month extension following the first franchise end date.

Bidders 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.

The lockup ratios set out in Schedule 12 (Financial Obligations and Covenants) to the Terms is incorporated in the Templates and is based on the outputs contained in the templated financial statements.

The following table sets out the worksheets contained in the Financial Model Template and a brief summary of each worksheet’s content and status.

Sheet	Content	Status
Template Cover	Properties, legend	Bidder free to use/update
Template Control	Contains real/nominal switch for templated calculations, option flag, print and group/ungroup macros	Bidder to link cells G21 and G28 to model control sheet. Use functionality but do not alter structure.
Version Control	Version control record	Populate but do not alter structure
Templated Inputs		
Timeline	Define franchise timeline and part year adjustments	Populate blank column headers but do not alter structure
Indices & Rates	Repository of indices and rates	Populate but do not alter structure
Line Items	Master definition of line items	Bidder may populate spare line items denoted by square brackets
Templated Outputs		
LENNON Revenue	Template for forecasts of selected option	Populate but do not alter structure
Other Revenue	Template for forecasts of selected option	Populate but do not alter

		structure
Staff	Template for forecasts of selected option	Populate but do not alter structure
Other Opex	Template for forecasts of selected option	Populate but do not alter structure
RS Charges	Template for forecasts of selected option	Populate but do not alter structure
Infrastructure	Template for forecasts of selected option	Populate but do not alter structure
Performance	Template for forecasts of selected option	Populate but do not alter structure
TOC Capex	Template for forecasts of selected option	Populate but do not alter structure
Financial Statements		
P&L1	Template for forecasts of selected option	Populate (row 296 and below) but do not alter structure
P&L2	Template for forecasts of selected option	Contains formulae, do not alter
P&L3	Template for forecasts of selected option	Contains formulae, do not alter
CF	Template for forecasts of selected option	Populate but do not alter structure
BS	Template for forecasts of selected option	Populate but do not alter structure, including Opening Balance in column AL
Output Calculations		
NPV	NPV of Franchise Payments calculation (feed from Financial Statements)	Contains formulae, do not alter
FAA	Production of tables for Appendix 8 of the Franchise Agreement (feed from Financial Statements and bidder model)	Populate (highlighted rows only) but do not alter structure
FO&C	Schedule 12 Financial Ratio, Performance & Season Ticket Bond calculations (feed from Financial Statements)	Populate (highlighted rows only) but do not alter structure

5.4 Generic Bidding Assumptions

Bidders are to use the following assumptions in preparing their bids:

- The franchise will commence on 9th December 2012;
- the Intercity West Coast franchise financial year commences on 1 April of each year;
- financial forecasts are to include calculations of the tax liabilities of the subject company in accordance any applicable tax law. Complete integrated tax computations should be included in the Financial Model to the extent that any group, consortium or other form of relief or sale of losses is clearly stated within such model;
- Bidders are free to adopt either UK GAAP or IFRS but the accounting basis chosen must be disclosed and once selected cannot be changed;

- the units to be used in each bid submission are clearly set out in the Templates provided;
- the default prices stated in the Financial Model should be nominal but when viewed in real terms, outputs should be deflated to 2012/13 prices;
- the tables listed below should be completed in 2012/13 prices:
 - Franchise Payment table set out in Appendix 8 (Figures for Calculation of Franchise Payments) to the Franchise Agreement.
- annual Retail Prices Index and Average Weekly Earnings indices assumptions will be made available to Bidders in the datasite and shall apply from 1 April 2013 and annually thereafter. (Bidders should adopt their own RPI and AEI assumptions between 9 December 2012 and 31 March 2013 inclusive, and such assumptions should be clearly stated);
- the franchise contract will vary franchise payments in response to variations to national GDP compared with trend. The weighting, elasticities and other features of this mechanism will be set out in the franchise agreement. Further information will be made available in the data site.
- the real discount rate to be applied is 3.5 per cent per annum;
- net present values of the revenues, costs and Franchise Payments will be discounted back to the start of the franchise (9 December 2012);
- for the purposes of calculating net present values, the templated calculation assumes the following timings for cashflows:
 - 2 February 2013 for the part year 9 December 2012 to 31 March 2013;
 - mid-year cashflows (September) for full Franchisee financial years.
- GDP Risk Support and Profit Share levels and thresholds are as per the Franchise Agreement;
- there will be no changes to the Track Access Agreement and charging methodologies as a result of any reviews conducted by ORR during the Franchise Term (Bidders should use CP4 rates until the end of CP4 and assume that they are held constant in real terms thereafter, and
- for calculating Franchise Payments the methodology should be applied consistently on an annual basis, in accordance with the Franchise Agreement.

5.5 Record of Assumptions and Operating Manual

The Record of Assumptions and Operating Manual are required to accompany the Models and should be submitted as Microsoft Word documents.

The Record of Assumptions should contain all financial and operational assumptions used and shall 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.

The Record of Assumptions should include assumptions used in the pricing of any Incremental Options if submitted. A description of accounting policies, especially in relation to capital investment, as well as taxation assumptions should also be included.

In light of the Department setting out a less detailed train service specification than in previous franchise competitions, the Department now requires that Bidders submit a copy of their modelled timetable and source codes (which have been developed within MOIRA or any other revenue or timetable development software) to calculate the likely passenger revenues that will be earned from the timetable submitted with their bid and that been utilised in the population of Bidders' Revenue Models. The Department will accept this information electronically in raw format as an appendix to a Bidders' Record of Assumptions.

The Operating Manual should provide detailed instructions for operating the Models and include the following:

- a description of each Model, its structure and capability;
- 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;
- a description of the purpose and operational characteristics of each worksheet and how it interacts with the Models;
- instructions on how to input data, select assumptions and calculate the financial outputs;
- 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; and
- where macros (or other visual basic functions) have had to be used, a description of any macros used in the operation of the Models, the reason for their use and how they impact on the results.

The Operating Manual should include two worked examples of Change. The Financial Model is **not** required to include a switch to allow these examples to be selected. The Operating Manual should contain a detailed description of the required changes to the inputs to the Models and the rationale for such changes alongside a clear description of how the Models have been used to produce the worked examples. The examples should show the changes in key numbers leading to change in the franchise payment.

The two worked examples to be included in this section of the Manual are:

1. Changes to individual component costs from franchise commencement:
 - a. VTAC for Super Voyager motor vehicles increases by 20% in franchise years 2 and 3 only;
 - b. Average Minutes Lateness NR benchmark for Euston-Manchester service group increases by 20% from the base level;
 - c. Five additional staff are required in each of the following categories (a) platform staff at London Euston (b) revenue protection staff and (c) drivers; and
 - d. Pendolino units run an additional 15% loaded vehicle miles (cost impact only, diagram and revenue effects not required).
2. A second, more detailed, worked example will be made available via the datasite.

This section of the Operating Manual will be evaluated as a part of the Modelling Change Plan.

5.6 Incremental Options and 'Blank Option'

The Department is not specifying any Priced Options for the InterCity West Coast franchise. The Department requires a consistent level of detail / information for each proposed each Incremental Option, if submitted, to enable it to make an informed decision. Therefore financial outputs for each option should be produced automatically by use of a switch that will update the financial outputs automatically. Models should be capable of running multiple Incremental Options individually and also in combination, except where Options are mutually exclusive.

The Models are expected to form a robust platform for the pricing of Change during the Franchise Term. To this end, Bidders are required to provide a 'Blank Option' within their Financial Model, this capability allowing pricing, and price comparison with the Base Case specification in respect of at least one Change at some point during the Franchise Term.

Priced Options (and Incremental Options if submitted) should be indexed in accordance with the mechanism set out in Schedule 8.2 (Annual Franchise Payments) of the Terms.

5.7 Derogations

The Department may grant derogations from the modelling requirements in the following three areas:

- Model size;
- Use of OFFSET and INDIRECT functions; and
- Modelling Best Practice.

Applications must be made in writing to the Procurement Team by 1 April 2012 at the latest. It is not expected that derogations will be necessary for Financial Models.

5.7.1 Model size

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.

5.7.2 Use of prohibited functions

The Department will consider applications for use of the OFFSET and INDIRECT functions where the following are demonstrated:

- that 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
- that the use of these functions is clearly explained and documented in the Operating Manual and Record of Assumptions.

5.7.3 Modelling Best Practice

The Department will consider applications to relax the principles of Modelling Best Practice on an individual basis, and considers that derogations may be more appropriate for elements of Tier 2 Operational Models, at the underlying input/assumption interface.

5.8 Model sign-off - Terms of Reference

The minimum level of model audit or review required by the Department for each of the Models is summarised below:

	Independent Modelling Best Practice Confirmation	Model Audit	Calculation Review	Technical Review
Financial Model	✓	✓		
Tier 1 Operational Models	✓		✓	✓
Tier 2 Operational Models	✓			✓
Timescales and Requirements	Confirmation provided at Bid Submission	Model Audit Report following Department instruction	Completed in parallel with Financial Model Model Audit following Department instruction	Completed by the Department as part of its evaluation process

The Financial Model will be subject to a full Model Audit as described in Section 5.8.2. The Department recognises that the accounting elements of the Model Audit are not relevant to the Tier 1 Operational Models, and therefore requires a review of the calculations only, to be conducted by the same party as the Model Audit, as set out in Section 5.8.3. The Department will conduct a technical review of the Operational Models in Tier 1 and Tier 2 as part of its evaluation process. It is at the Department's discretion as to whether any aspect of the technical review is shared with the relevant Bidders.

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 section 2.4.

Bidders shall bear the risk of errors within the Financial Model, the Record of Assumptions and any associated Operational Models and of any adverse impact that this may have on the premiums payable. Further information on the requirements in relation to the Financial Model is provided in Section 5 (Financial Elements).

5.8.1 Modelling Best Practice Confirmation

Each Bidder must provide an independent Modelling Best Practice Confirmation report on all sections of the Models, co-addressed to the Department and that Bidder, as part of its

bid submission, taking account of any derogations obtained (described in Section 5.7). The Best Practice Confirmation is not considered to be an audit of the Models.

All costs associated with the preparation of the Modelling Best Practice Confirmation are for the Bidder's account only.

The Modelling Best Practice Confirmation must provide confirmation in adequate detail that the Models have or provide for:

- **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; and
 - Outputs: should not include any hard-coded input cells or calculations except for sums and check totals.
- 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;
- **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; and
 - Rows: a row will contain only one formula, copied across all columns.
- 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);
- **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; and
- **Linearity** of calculation flow (e.g. that there are no circular references);
- **Macros**, where required, their function should be clearly explained.

The Modelling Best Practice Confirmation must also provide confirmation that the 75MB size limit has been adhered to, and that the INDIRECT and OFFSET functions are not used except where derogations (described in section 5.7) are granted.

5.8.2 Model Audit

Following bid submission and prior to contract award the Department will request one or more Bidders to obtain an independent audit of Financial Model (the "Model Audit") on all sections of the Financial Model. The Model Audit shall be prepared for the benefit of the Department and the Bidder and shall be co-addressed to them. All costs associated with the preparation of the Model Audit are for the Bidder's account only. Bidders must obtain

the Department's acceptance (not to be unreasonably withheld) of their choice of independent model auditor and its agreement to the definition of the Financial Model for determining the scope of the audit. The Department will expect to receive the audit report within ten working days of it being requested of the Bidder.

The Department requires the Model Audit to confirm:

- 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 Base Case assumptions and input data is concerned, including the conversion of real values to nominal values;
- 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;
- 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;
- whether the calculation of the Annual Franchise Payments is in accordance with the terms of the Franchise Agreement;
- whether the calculation of the financial ratios is in accordance with Schedule 12 (Financial Obligations and Covenants) of the Terms;
- whether the Financial Model has been developed in a well structured manner to acceptable standards;
- 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;
- Priced Options (and Incremental Options if submitted): the Department will require an audit to be performed on all of the Options which have been, or may yet be, contracted. Any redundant Options should be removed from the Models at this point; and
- For robustness purposes the Department may provide the preferred Bidder with no more than five tests for the purposes of understanding robustness of the stress test. 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. A robustness test is defined as a change in one or more variables.

Bidders should note the allocation of risk with respect to errors within the Models described in section 5.8.

5.8.3 Calculation Review

The independent party conducting the Model Audit will also conduct a review of the calculations employed in the Tier 1 Operational Models. 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:

- whether the Tier 1 Operational Models have been constructed appropriately so as to materially achieve the objective that it was designed to meet, insofar as its logical integrity under the Base Case assumptions and input data is concerned;
- whether the Tier 1 Operational Models have been developed in a well structured manner to acceptable standards;
- 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; and
- Priced Options (and Incremental Options if submitted): the Department will require a review of all of the Options that have been, or may yet be, contracted. Any redundant Options should be removed from the Models at this point.

5.9 Financial Structure and Funding

Each Bidder is required to:

- detail 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;
- submit precise details of its own funding arrangements and detail the exact nature of relationships with any funding partner or underlying financial securities provided by third parties;
- provide details of the providers of the Performance Bond and Season Ticket Bond including term sheets from the Bond Provider(s) in order to demonstrate that the requirements of the Franchise Agreement have been met;
- submit a statement from the relevant Bond Provider accepting the form of the Performance Bond as set out in the Franchise Agreement;
- submit a statement from the relevant Bond Provider accepting the form of the Season Ticket Bond as set out in the Franchise Agreement;
- submit a parental company guarantee of £5m to rise in line with RPI to cover liabilities at handover of station assets;
- demonstrate how ongoing working capital requirements, as forecast in the Financial Model, will be funded;
- for each franchise commitment made in the bid (or groups of commitments if appropriate), submit a funding plan with full details of its linkage with the Financial Model, each source of funding, including rights and obligations of each type of funding and details of agreements with the organisations providing funding. For each source, a letter of support and term sheet must be provided from the underwriting financial institution setting out the terms and conditions (including all condition precedents, fees, repayment profile, basis of interest rate calculation) of the finance;
- incorporate in its funding plans, an investment profile as detailed in the Templates providing for each proposal category (Base Case Specification and Priced Options (and Incremental Options if submitted)) and by investment category;
- submit a letter from its financial adviser(s) 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;

- 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;
- the funding plans are accurately reflected in the Financial Model;
- For any investment that Bidders anticipate will retain a realisable residual value payment from a successor TOC at franchise end (under the terms of the Franchise Agreement provisions), this value should be clear in its amount and derivation. The criteria that this valuation will be based on will be issued to bidders alongside the National Rail Franchise Terms.
- confirm the interest rates and contractual terms of any inter-company debt funding, subordinated loans or other funding arrangements between or to be between the Franchisee and any affiliate or third party; and
- provide details and assumptions for interest earned on cash deposits.

5.10 Other Information Required

Bidders should show separately the costs involved and assumptions made in relation to pension contribution rates, both employer and employee.

5.11 Funding Agreement

A bidder will make proposals to fund the Franchisee through the acquisition of shares in the Franchisee by its parent company and may, additionally, propose that the Franchisee is funded by a loan facility from its parent company. The Secretary of State requires such funding proposals to be robust and, accordingly, they must be contractualised on completion of the Franchise Agreement. A template “Deed of Undertaking re: Share Capital and loan facility” will be provided to Bidders who are required to confirm in their bids that they accept its terms and will be prepared to contractualise their funding proposals accordingly from completion of the Franchise Agreement.

SECTION 6: FURTHER INFORMATION

Further information relating to the Intercity West Coast Franchise, for example on issues such as working with stakeholders and accessing the network can be found in the data site (folder 15).

APPENDIX 1A: LIST OF INTERCITY WEST COAST FRANCHISE STATIONS

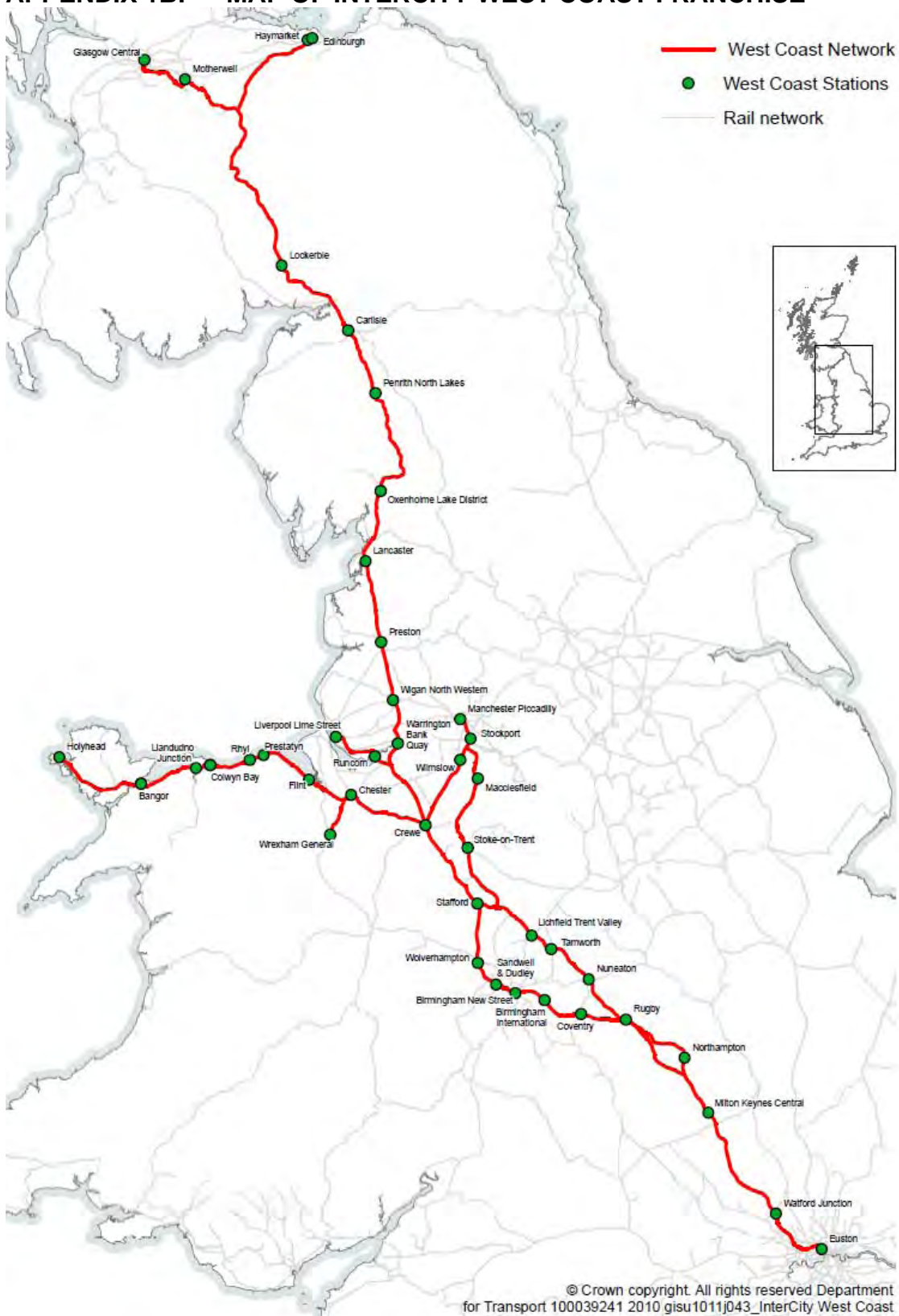
The InterCity West Coast Franchisee will be Station Franchise Operator at 17 Stations:

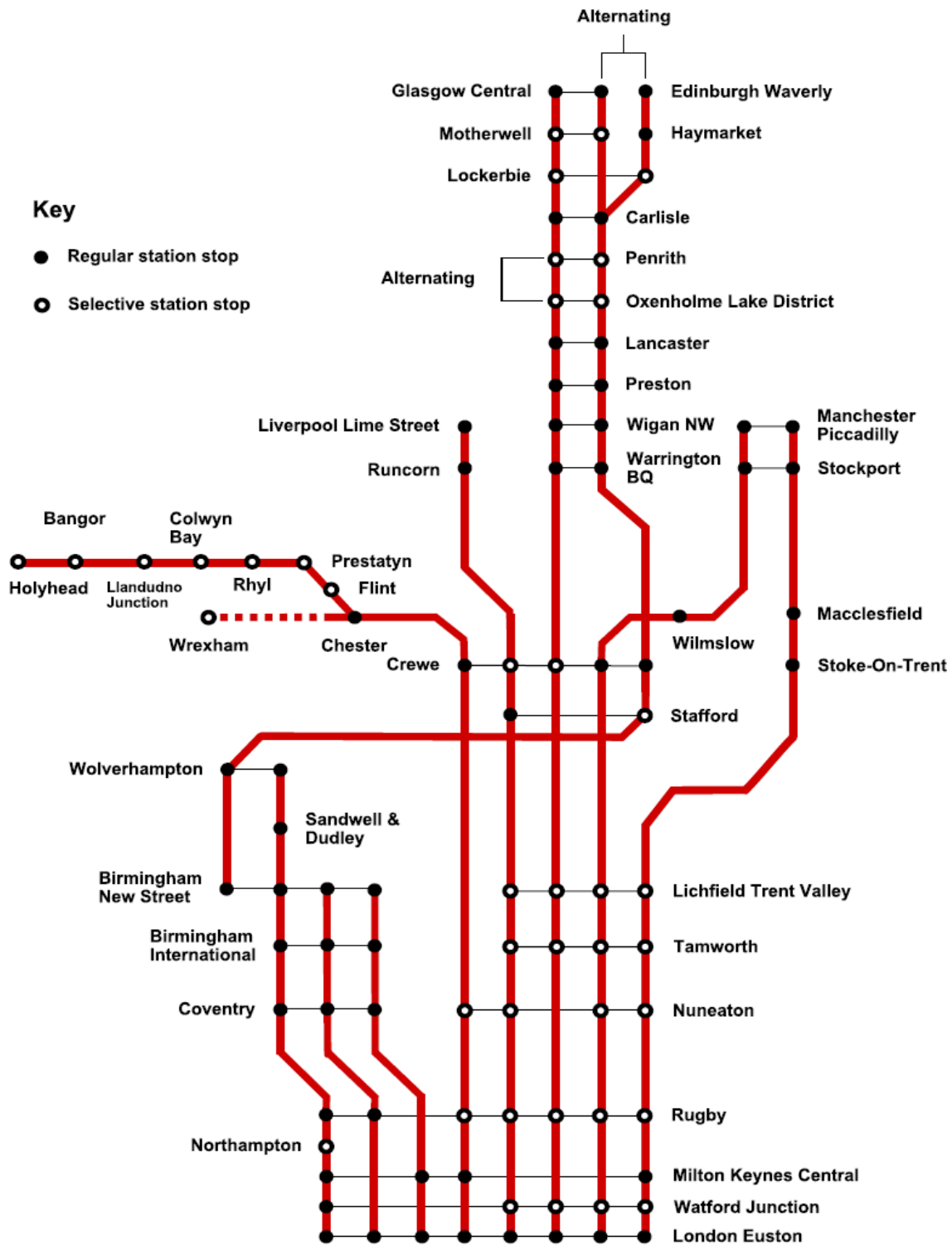
Birmingham International	Carlisle	Coventry
Crewe	Lancaster	Macclesfield
Oxenholme Lake District	Penrith North Lakes	Preston
Rugby	Runcorn	Stafford
Stockport	Stoke-on-Trent	Warrington Bank Quay
Wigan North Western	Wolverhampton	

In addition, the current InterCity West Coast franchisee operates train services that call at the following 27 stations at which it is not SFO:

Bangor	Birmingham New Street	Chester
Colwyn Bay	Edinburgh Waverley	Flint
Glasgow Central	Haymarket	Holyhead,
Llandudno Junction	Lichfield Trent Valley	Liverpool Lime Street
Lockerbie	London Euston	Manchester Piccadilly
Milton Keynes Central	Motherwell	Northampton
Nuneaton	Prestatyn	Rhyl
Sandwell and Dudley	Tamworth	Watford Junction
Wrexham General	Wilmslow	Carstairs

APPENDIX 1B: MAP OF INTERCITY WEST COAST FRANCHISE





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ATTACHMENTS

- A InterCity West Coast Franchise Train Service Requirement**
- B InterCity West Coast Franchise Agreement (To follow)**
- C National Rail Franchise Terms (To follow)**
- D Conditions Precedent Agreement (To follow)**
- E Funding Agreement (To follow)**
- F InterCity West Coast Financial Templates (To follow)**
- G InterCity West Coast Stakeholder Briefing Document**
- H Declaration of Conformity Statement (To follow)**