



Department  
for Transport

# East Midlands Franchise Invitation to Tender

7 June 2018

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## **ITT ATTACHMENTS**

- ATTACHMENT A – TRAIN SERVICE REQUIREMENT
- ATTACHMENT B – DRAFT FRANCHISE AGREEMENT
- ATTACHMENT C – FINANCIAL TEMPLATES
- ATTACHMENT D – DRAFT FUNDING DEED
- ATTACHMENT E – DRAFT CONDITIONS PRECEDENT AGREEMENT
- ATTACHMENT F – FORM OF TENDER
- ATTACHMENT G – DRAFT ESCROW AGREEMENT
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- ATTACHMENT I – STAKEHOLDER BRIEFING DOCUMENT
- ATTACHMENT J – RV MECHANISM NETWORK RAIL LETTER OF SUPPORT

## Section 1: Introduction

### 1.1 Introduction

1.1.1 This Invitation to Tender, its appendices, all documents issued with and in connection with it and all clarification questions and responses relevant thereto (together the “**ITT**”) are issued by the Department for Transport (the “**Department**”) pursuant to the functions of the Secretary of State for Transport (the “**Secretary of State**”) under the Railways Act 1993 and the Railways Act 2005, as amended. All references in this document to the Department, Network Rail or the Office of Rail and Road (“**ORR**”) include, where appropriate and unless the context otherwise requires, references to those bodies’ predecessors and successors. References in this document to a “**Bidder**” means those entities who pre-qualified to Bid for the East Midlands Franchise following the process set out in the Franchise Expression of Interest (Franchise EoI) and Franchise Pre-Qualification Process Document (Franchise PPD) published on 20 December 2016 and reissued on 20 July 2017 and that had previously pre-qualified for a Passport under the prequalification system described in the Pre-qualification Questionnaire Passport Process Document and the Rail Franchising PQQ Passport OJEU Notice.

### 1.2 Form of Contract

1.2.1 This ITT invites Bids from Bidders in respect of a service concession contract (as that term is defined in the Concession Contracts Regulations 2016 although for the avoidance of doubt those Regulations do not otherwise apply to this contract award). This ITT forms part of a competitive procurement conducted in accordance with relevant legal requirements including Regulation (EC) No 1370/2007 of the European Parliament and of the Council of 23 October 2007 on public passenger transport services by rail and by road (as amended on 24 December 2017 by Regulation (EC) 2016/2338) and repealing Council Regulations (EEC) Nos 1191/69 and 1107/70 (“**Regulation (EC) 1370/2007**”). This procurement will be conducted in line with the applicable general principles of EU law and the requirements of English law. It will be awarded on the basis of the most economically advantageous tender, determined in accordance with the evaluation criteria and methodology specified in Section 7: (Evaluation Criteria and Methodology).

### 1.3 Exceeding the Department’s requirements

1.3.1 The Department is seeking ambitious and innovative Bids which are also deliverable. The competition evaluates and values quality in two ways:

- a) By offering Bidders the opportunity to meet (and, where appropriate, exceed) the Department's minimum requirements for the East Midlands Franchise ("**East Midlands**", "**EM**" or "**Franchise**") set out in this ITT; and
- b) By assessing the deliverability of the proposals put forward by Bidders based on the evidence they have provided.

1.3.2 More information on how Bids will be evaluated is set out in subsection 7.3.5 (Scoring Methodology).

## **1.4 Communications**

1.4.1 Save to the extent permitted by this ITT or agreed in advance with the Department (and without prejudice to the provisions of subsection 3.9 (Bidder Clarification Questions), Bidders must ensure that all communications from or on behalf of Bidders and their Associated Entities with the Secretary of State and/or the Department in respect of this ITT and the East Midlands Franchise are made through AWARD (as described further in subsection 3.9 (Bidder Clarification Questions) or by email to EastMidlandsFranchise@dft.gsi.gov.uk. No other methods of communication are permitted unless agreed with the Department in advance. For the purpose of this ITT, "**Associated Entity**" shall have the meaning given in the Franchise Letting Process Agreement ("**FLPA**") between the Bidder and the Secretary of State in respect of the East Midlands competition.

## **1.5 Structure of this ITT**

1.5.1 This ITT provides:

- a) The scope and objectives of the East Midlands Franchise Section 2: (Scope and Objectives);
- b) Information and instructions to Bidders (including instructions on how to access the detailed information available regarding the East Midlands Franchise and the processes for enquiries, communications, amendments and clarifications to the ITT during the Bid period) Section 3: (Information and Instructions to Bidders);
- c) An explanation of the requirements for Bid submission (including the format, content, procedure and timetable for submission of Bids) and of the expected process following Bid submission Section 4: (Explanation of Requirements for Bid Submission and Overview of Process following Bid Submission);

- d) Detailed Bid submission requirements – Delivery Plans (Section 5:);
- e) Detailed Bid submission requirements – Financial (Section 6:); and
- f) The evaluation criteria and methodology to be applied to the Bids that are received Section 7: (Evaluation Criteria and Methodology); and
- g) An explanation of the Department’s risk adjustment process (Appendix 3 – Risk Adjustment Process).

## **1.6 Other documents**

1.6.1 For the purpose of the East Midlands competition, this ITT replaces and supersedes in their entirety both the Rail Group - Passenger Services documents “**Franchise Competition Guide**” published on 4 February 2016 and the East Midlands Franchise Competition Prospectus published on 16 November 2016. Accordingly, in the event of any inconsistency between either of those documents and this ITT, the terms of this ITT will prevail.

## **1.7 Franchise Letting Process Agreement**

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

## **1.8 Commencement of the East Midlands Franchise**

1.8.1 The Department's aim is for the new East Midlands Franchise to commence operations with effect from 02.00 on Sunday 18 August 2019.

## **1.9 Liability for costs, updates and termination**

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



## **1.10 Defined terms**

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

## Section 2: Scope and Objectives

### 2.1 Scope of the East Midlands Franchise

2.1.1 The East Midlands Franchise comprises the Franchise Services set out in the Franchise Agreement.

### 2.2 Franchise Objectives

2.2.1 Table 2.1 (Franchise Objectives) shows the Franchise objectives.

**Table 2.1** *Franchise Objectives*

- Support the Government agenda to make the Midlands region an engine for growth, working particularly to develop connectivity within and outside the region; to focus on supporting the region's industry and leisure economy. To improve the quality, frequency and timings of journeys on the east of the franchise network and to seek to develop new services and connections.
- Provide the franchise capacity to address predicted growth in demand, in particular into St Pancras International but also for local crowded services like Derby-Crewe, working with Network Rail to minimise the impact on passengers and the effective running of train services during any redevelopment works.
- Invest in the East Midlands train fleet to bring this up to world class standard of on-train passenger facilities and improve fleet capacity, operating performance and reliability, whilst complying with Persons of Reduced Mobility Technical Specification for Interoperability (PRM - TSI) and reducing operating costs and the carbon footprint.
- Develop a maintenance and stabling strategy for a new proposition for rolling stock which will be introduced during the next franchise.
- Improve passenger satisfaction and public perception of the railway – including the ticket purchasing experience. The range of ticketing media and fulfilment options should see active innovation, including barcode, print at home, smartcard and solutions that support the Government's manifesto commitments to improve compensation arrangements. In addition, in line with passenger expectations and the Department's policy, to deliver high speed Wi-Fi and wireless connectivity to passengers.
- Develop fully aligned incentives between management in the Train Operating Company and Network Rail to secure the investment and improvement in the route's infrastructure, including the services to Corby & Kettering, and infrastructure improvement where most

needed, to reduce journey times on long distances and achieve a high level of service resilience and reliability.

- Invest in the Franchise workforce, their training, skills and career development to create an environment that makes this franchise a place its staff is proud to work in. To develop opportunities to give employees a share in decision-making in the franchise and the potential to share in the franchise's successes.
- Develop coastal, leisure and high value tourist services, including working collaboratively with heritage railways.

2.2.2 Bidders will fulfil the Franchise objectives by meeting the requirements that the Department has articulated in Section 5: Detailed Bid submission requirements – Delivery Plans of this ITT.

## 2.3 Evaluation of Financial Robustness

The Department has amended its Bid evaluation processes to ensure that Bidders submit ambitious but realistic Bids based on prudent financial assumptions when competing for franchises. In particular, the Financial Robustness Test (defined in subsection 7.6.1 (Financial Robustness Test)) has been amended from the approach used on previous franchise competitions.

The amended Financial Robustness Test included in this ITT will test Bidders' forecasts based on a Central Risk Adjusted Scenario as well as a Downside Risk Adjusted Scenario, as described in subsection 7.6 (Evaluation of Financial Robustness) and Appendix 3 (Risk Adjustment Process). The former is based on the Department's reasonable view of the most credible financial outcome and the latter includes a reduction in passenger revenue, using a common algorithm across all Bids, that applies a greater reduction to Bids where significant risk adjustments have been applied to determine the most credible financial outcome. The outcomes of these scenarios will be equally weighted in the price evaluation. Bidders should note, however, that the Department will eliminate a Bid that is forecast to default in the Central Risk Adjusted Scenario at any point during the Core Franchise Term and is therefore deemed to have unacceptable financial risk, except as described in subsection 7.6.2.11. The Department will also reduce a Bidder's Evaluated Payments for any forecast FRM Revenue Support payments in these two scenarios. However, the calculation and evaluation of Required Parent Company Support will remain unchanged.

The Modelling Change requirements set out in subsection 6.7 (Change) have also been amended and Bids may be found to be non-compliant if the

Modelling Suite is not demonstrated to result in transparent and efficient contracting of future Changes, based on clear and reasonable methodology and credible assumptions. Bidders should also note the requirements set out at subsection 6.5.2 i) to provide a detailed explanation of how the opening revenue forecast has been derived in the Record of Assumptions.

## **Section 3: Information and Instruction to Bidders**

### **3.1 Applicability of this document**

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

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

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

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

3.2.3 The Department expressly disclaims any and all liability (other than in respect of fraudulent misrepresentation) based on or relating to any such information or representations or warranties (express or implied) contained in, or errors in, or omissions from, this ITT or the information contained in AWARD, or based on or relating to the recipient's use of it, or the use of it by any of its Affiliates or the respective representatives of any of them in the course of its or their evaluation of any franchise or any other decision. In the absence of express written warranties or representations as referred to below, the information in this ITT and the information on AWARD shall not form the basis of any franchise agreement or any other agreement entered into in connection with the replacement or acquisition of a passenger rail franchise.

3.2.4 Atkins Limited (Technical Advisor), Grant Thornton UK LLP (Financial Advisor) and Eversheds Sutherland (International) LLP (Legal Advisor) are acting for the Department in relation to the award of the East Midlands Franchise. The advisors do not and will not regard any other person as their client in relation to the award of the East Midlands Franchise. They are not, and will not be, responsible to anyone other than the Department for providing the protections afforded to their clients or for advising on the contents of this document or any matter referred to in it.

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

3.2.6 Without prejudice to the provisions of the FLPA and the confirmations given in the Form of Tender, the only information provided by the Department which will have any legal effect and/or upon which any person may rely will be such information (if any) as has been specifically and expressly represented and/or warranted in writing to a successful Bidder in the relevant Franchise Agreement or in any other relevant agreement entered into at the same time as the Franchise Agreement is entered into or becomes unconditional. Nothing in this ITT is intended to create a contract between the Secretary of State and any Bidder.

### **3.3 Intellectual property**

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### **3.4 Industry consultation and disclosure of information in Bids**

3.4.1 Bidders should be aware that, following the submission of Bids, the Department may consult HMT, ORR, Network Rail, Industry Partners, High Speed Two (HS2) Limited, Transport Focus, London Travel Watch, Rail Safety and Standards Board, East Midlands Councils, England's Economic Heartland, Transport for London, Transport for the North, Transport for Greater Manchester, Merseyside Passenger Transport Executive, South Yorkshire Passenger Transport Executive, West Yorkshire Passenger Transport Executive and Transport for West Midlands (including without limitation to the extent set out in Section 7: (Evaluation Criteria and Methodology)). The Department may also consult such other persons as it considers necessary or appropriate for the purposes of evaluating Bids (the entities in this subsection being collectively referred to as "**Consultees**" and each separately referred to as a "**Consultee**").

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

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

### **3.5 Non-compliant Bids**

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

3.5.2 If the Department considers that a Bid may be non-compliant, it may (but it is not obliged to) seek additional information or clarification from the relevant Bidder in accordance with subsection 4.14.2 (Engagement with Bidders and evaluation clarification process).

3.5.3 Where a Bid is found to be non-compliant in accordance with subsection 3.5.1 (if applicable further to the process described in subsection 3.5.2), and except where subsection 3.6 (Automatic elimination) applies, the Department may at its sole discretion reject the Bid and disqualify the Bidder who has submitted that Bid from the competition. For the avoidance of doubt, this subsection does not apply in circumstances where a Bid is found to be non-compliant in accordance with subsections 3.5.10 or 3.5.11 below.

3.5.4 Where a Bid is found to be non-compliant in accordance with subsection 3.5.1 and where the Department decides not to reject the Bid and disqualify the Bidder pursuant to subsection 3.5.3 above, it may start to evaluate the Bid and:

- a) Take into account the effect of the non-compliance in all relevant elements of the evaluation (including, without limitation, in the allocation of evaluation scores and in the Financial Robustness Test); and

- b) May also, where appropriate, correct the Modelling Suite for the purposes of running the FRT and calculation of the Bidder's Risk Adjusted NPV used in the calculation of the Final Score in accordance with subsection 7.2 (Definition of MEAT for the Competition) as necessary to take into account its reasonable view of the most likely financial impact of the non-compliance on the Department in accordance with subsection 7.6 (Evaluation of Financial Robustness),

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

3.5.5 Where a Bid is found to be non-compliant in accordance with subsection 3.5.1 and where the Department decides not to reject the Bid and disqualify the Bidder pursuant to subsection 3.5.3 above, or to complete the evaluation of the Bid and address the non-compliance through the process set out in subsection 3.5.4 above, the Department will at its sole discretion take any other action it considers necessary and appropriate in the circumstances, including but not limited to:

- a) Disregarding the non-compliance; or
- b) Requiring any or all Bidders to adjust or update their Bids so that they are compliant.

In so doing the Department shall have sole discretion as to whether or not any such action would have a material impact on any or all of the Bids such that any element of the evaluation requires to be reopened or Bids are to be adjusted or updated.

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

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

Requirement of the ITT with which the Bid is non-compliant	Full details

3.5.7 Where the Bid is found to be non-compliant in accordance with subsection 7.5 (Modelling Change tests) (and, for the avoidance of doubt,



this includes circumstances in which a Bid is found to be non-compliant in accordance with subsection 7.5 (Modelling Change tests) as a result of the application of the process set out in subsection 3.5.4), the Department will at its sole discretion take any other action it considers necessary and appropriate in the circumstances, including:

- a) Eliminating the Bidder from the competition;
- b) Disregarding the non-compliance;
- c) Adjusting the requirements of this ITT, and giving all Bidders the opportunity to adjust or update their Bids to reflect the revised requirements; or
- d) Requiring any or all Bidders to adjust or update their Bids so that they are compliant.

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

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

3.5.10 A Bid will also be treated as non-compliant if it receives an evaluation score of less than 4 in respect of either of the following Sub-Plans:

- a) 2.1 Train Services
- b) 2.2 Rolling Stock; and/or
- c) 4.1 Customer Experience.

together the “**Key Sub-Plans**”.

3.5.11 Following completion of the evaluation of Bids, the Department will calculate an “**Overall Evaluation Score**” for each Bid, which will be the aggregate of the evaluation scores for each Sub-Plan, weighted in accordance with Table 7.2 (Sub-Plan weightings). A Bid will also be treated as non-compliant if it receives an Overall Evaluation Score of less than 4.

For the avoidance of doubt, the Overall Evaluation Score will be used only for the purpose described in this subsection 3.5 (Non-compliant Bids), and it will not be used in the calculation of the Bid’s overall Quality Score, which will be determined in accordance with subsection 7.10 (Conversion of evaluation scores into Quality Scores).

3.5.12 If a Bid is found to be non-compliant in accordance with subsection 3.5.10 or subsection 3.5.11, the Department may at its sole discretion either:

- a) Disregard the non-compliance; or
- b) Notify the Bidder of the non-compliance and give the Bidder the opportunity to adjust or update its Bid within a time period specified by the Department so that it is compliant. Only those consequential adjustments to other areas of the Bid that are a direct consequence of the adjustments required to address the non-compliance will, in the sole discretion of the Department, be permitted.

3.5.13 The Quality Score of the Bid (as defined in subsection 7.3.1.2) may not be improved as a result of the process set out in subsection 3.5.12 b). If the adjusted Bid results in a change to the Bid’s Modelling Suite, the adjusted Modelling Suite will be used for the purposes of FRT and calculation of the Bidder's Risk Adjusted NPV used in the calculation of the Final Score in accordance with subsection 7.2 (Definition of MEAT for the Competition).

### 3.6 Automatic elimination

3.6.1 Table 3.2 (Elimination events) lists the events which will trigger the automatic elimination of a Bidder from the Bidding process (and, for the avoidance of doubt, subsection 3.5.7 will apply).

**Table 3.2** Elimination events

Elimination event
A Bidder uses MOIRA2.0, MOIRA2.1 or MOIRA2.2 or any of the component parts or intermediate outputs of the aforementioned programs for modelling revenue impacts, timetable changes, crowding or any other purpose.
A Bidder is projected in its Central Risk Adjusted Financial Model to have a Financial Ratio Breach at any point during the Core Franchise Term, except as described in 7.6.2.11, and therefore the Bid is deemed to have unacceptable financial risk.

### **3.7 Right to disqualify Bidders**

3.7.1 The Department also has the right to disqualify a Bidder (and for the avoidance of doubt subsection 3.5.7 will apply) where:

- a) It has the right to do so under the terms of the FLPA; or
- b) At any time prior to the execution of the Franchise Agreement the Bidder is unable to satisfy the requirements for pre-qualification as set out in the East Midlands pre-qualification process.

### **3.8 Data Site and AWARD**

3.8.1 The Department has established a web based data site for the East Midlands Franchise (the "**Data Site**") and a portal, which are operated by QinetiQ Commerce Decisions and are known as "**AWARD**". The Data Site contains, in electronic form, documents and information specifically relating to the East Midlands Franchise, including incumbent operator information. Additionally, AWARD will be used for Bidder Clarification Questions ("**BCQs**") and Bid submission, evaluation and clarification. Short-listed Bidders have been granted access to AWARD.

### **3.9 Bidder Clarification Questions**

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

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

3.9.3 The Department will transmit to all other Bidders (without reference to the identity of the Bidder which submitted the question) BCQs raised and responses made, with the exception of those deemed confidential as provided in subsection 3.9.4.

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

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

3.9.6 The Department will aim to respond to BCQs expeditiously having regard to the nature, extent and availability of the information requested. The Department will endeavour to respond to BCQs within 15 working days from receipt unless stated otherwise within Section 5: (Detailed Bid submission requirements – Delivery Plans).

3.9.7 Except as described in subsection 7.12 (Delivery Plan Negotiation) Bidders should be aware that BCQs may not be accepted from 20 working days prior to the closing date for Bid submission, save in respect of new information provided after this point. Therefore the last date for the submission of BCQs for this competition will, in the absence of any extension, be 8<sup>th</sup> August 2018. Any BCQs received after this point will only be accepted at the sole discretion of the Department. Bidders may also have the opportunity to meet with the Department as described in subsection 7.12 (Delivery Plan Negotiation).

3.9.8 Before submission of Bids, Bidders will have the opportunity to meet with the Department to discuss any points of clarification that are appropriate and necessary in order for Bidders to prepare their Bids. In the event that any answers given in that process, or any information or instructions given in any draft documents conflict with information or instructions given in this ITT then the terms of this ITT will prevail. If, however, Bidders are seeking to rely on any of the information or indication or view imparted during a meeting, they must subsequently submit a BCQ and may rely only on the response provided to that BCQ and not on any information or indication or view imparted during a meeting.

3.9.9 No other notes and/or records of such meetings form part of this ITT and unless confirmed by the Department in response to a BCQ,

information or views given by the Department at the meetings shall not be relied upon in the preparation of any Bid.

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

### **3.10 Transparency and Freedom of Information**

3.10.1 Bidders should note that, even where information is identified as commercially sensitive or confidential, the Secretary of State may be required to disclose such information in accordance with the FOIA and/or EIR. The Secretary of State is required to form an independent judgment concerning whether information is exempt from disclosure under the FOIA and/or EIR at the time of any request. In particular Bidders should be aware of the Code of Practice issued by the then Secretary of State for Constitutional Affairs under section 45 of the 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 response have been provided in confidence or are commercially sensitive, the Secretary of State will be obliged to disclose those parts

3.10.2 Bidders should refer to section 3.5 of the Franchise Pre-Qualification Process Document for information relating to transparency and freedom of information, and should note that the Department will place a copy of the ITT in the public domain at the same time as, or shortly after, it is supplied to Bidders, with redactions where appropriate.

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

### **3.11 Competition Matters**

3.11.1 Depending on the identity of the Bidder, the award of the Franchise may constitute a "relevant merger situation" under the Enterprise

Act 2002 ("**EA02**") as amended by the Enterprise and Regulatory Reform Act 2013 (i.e. one over which the Competition and Markets Authority ("**CMA**") would have jurisdiction), or a concentration with a European Community dimension under the EU Merger Regulation (Council Regulation (EC) No.139/2004) ("**EUMR**"), which would be required to be notified to the European Commission ("**EC**").

3.11.2 If the award of the Franchise to a particular Bidder would give rise to a realistic prospect of a substantial lessening of competition (under EA02, as amended), or, where EUMR is applicable, raises serious doubts as to its compatibility with the common market, such as would give the CMA, or the EC (as appropriate) cause to subject the award of the Franchise to a substantive (second phase) investigation, this might prejudice the timing of the Franchise process and/or the ability of the Bidder to operate the Franchise as bid. The CMA and EC also have the power during a first phase investigation to accept remedies in order to address concerns that would otherwise require a second phase investigation.

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

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

- a) Whether the award of the Franchise to it would require notification to the EC under EUMR, and, if so:
  - i) Whether the Bidder proposes to request pursuant to Article 4(4) EUMR that the transaction is referred back to the CMA for consideration and how it views the prospects of such a request being accepted; or
  - ii) In the alternative, the likelihood of the CMA requesting referral back of the case to the UK;
- b) The Bidder's reasoned analysis of the likely competition assessment of the transaction, including its assessment of the prospect of clearance in the first phase of any investigation by the

CMA and/or the EC (as applicable) together with a description of the analysis undertaken and evidence reviewed by the Bidder in carrying out such assessment;

- c) The strategy which the Bidder will adopt to minimise any delay or substantive issues which will be caused by the need to obtain clearance from the CMA or EC and which may affect the Bidder's ability to operate, or commence the operation of, the Franchise, in accordance with the requirements of the Franchise Agreement and assuming that an award is made to the Bidder. In particular, the Bidder must:
- i) Explain how it proposes to approach pre-notification discussions with the CMA or, as the case may be, the EC, to ensure the notification is complete and that all necessary supporting evidence is included;
  - ii) Confirm that it will co-operate fully with the EC and/or the CMA during their investigations, in particular by responding promptly to any requests for information;
  - iii) Explain whether or not the award raises any competition concerns including taking into account any existing activities of the Bidder including any tenders;
  - iv) Confirm the Bidder's, and any of its Affiliates', willingness to offer undertakings or commitments to the CMA or the EC in order to avoid a second phase investigation, a description of the nature and extent of any such undertakings the Bidder would be willing to offer, and its reasoned analysis as to why such undertakings or commitments are likely to be accepted by the CMA or the EC. If the Bidder considers that it would not be required to offer such undertakings or commitments, then the Bidder must provide its reasoning supporting such conclusion;
  - v) Confirm that any such undertakings or commitments given would not impact on the ability of the Bidder and/or any of its Affiliates to operate any other UK rail franchise of which it is the franchisee, or to the extent they would, a detailed assessment of such impact;
  - vi) Provide an indication of the likely timetable for securing any required competition clearance, including the

preparation of notifications, timing of pre notification discussions, formal notification and clearance; and

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

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

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

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

- a) Restricts the information which is included in the confidential and privileged legal advice to that which is most sensitive. Information which is likely to be provided to the competition authorities with the merger notification should not fall into this category;
- b) Marks the confidential and privileged advice as follows: "Confidential and privileged legal advice - not to be circulated or disclosed"; and



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

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

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

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

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

- a) The Bidder to commence operation of the Franchise on the Department's proposed Start Date;
- b) The Bidder otherwise to operate the Franchise in accordance with its Bid; or
- c) Any Affiliate of the Bidder to commence operation of or continue to operate any other UK rail franchise of which it is the franchisee,

the Department, acting reasonably, reserves the right to disqualify that Bidder.

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

3.11.13 Bidders should be aware that the above considerations apply to joint venture and consortium members in the same way as to sole Bidders. In particular, Bidders should note that the EA02 and the EUMR are capable

of applying to such joint venture and consortium members where they exercise a form of control known as "material influence" (under the EA02) or "decisive influence" (under the EUMR), both of which are capable of existing well below a 50% interest.

3.11.14 Bidders are strongly encouraged to contact the Department to discuss any merger control concerns as early as possible.

### **3.12 Regulation (EC) 1370/2007**

3.12.1 Pursuant to Article 4(1)(b) of Regulation (EC) 1370/2007 the Department must ensure that the Franchise Agreement to be entered into with the winning Bidder does not result in the overcompensation of the Franchisee for the purpose of the Regulation.

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

- a) Confirming that the relevant Financial Templates have been populated correctly;
- b) Assessing whether the Bid suggests that the Franchisee will be engaging in commercial arrangements which are inconsistent with normal market practice or market rates (including as a result of trading with Affiliates); and/or
- c) Identifying whether there is any information that is contained within the Bid which indicates either that the operation of the profit share mechanism in the Franchise Agreement will be distorted, or that the Franchisee will be otherwise overcompensated.

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

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

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

### **3.13 Changes to information or circumstances**

3.13.1 Bidders should note that the sections of the FLPA and the Franchise PPD dealing with changes to information and circumstances, including changes in ownership or conflicts of interest, continue to apply. In assessing changes, the Department reserves the right to disqualify the Bidder from the competition and, as applicable, reject that Bidder's Bid, if as a consequence of that change:

- a) The Bidder would no longer pre-qualify to be shortlisted to receive this ITT in accordance with the evaluation process set out in section 4 of the Franchise PPD;
- b) The Passport requirements are no longer met by the Bidder, meaning that a Passport would not be awarded to it on the basis of the evaluation process outlined in section 4 of the Passport PPD if a fresh application was made at the relevant time;
- c) Where the Bidder's participation in the East Midlands competition depends on a Temporary Visa, the Temporary Visa would not be awarded to that Bidder on the basis of the Temporary Visa application process outlined in section 5.6 of the Passport PPD (as referred to by section 5.4 of the Franchise PPD) if a fresh application was made at the relevant time; or
- d) The continued participation of the Bidder in the competition following the change would mean that the Bidder is placed at a competitive advantage, in breach of the principle of equal treatment.

3.13.2 The Department will carry out the Tests described in subsection 6.10 (Updating of EoI financial and economic standing tests (the "Tests") and submission of updated Bond Provider letter(s)) on receipt of Bids for all Bidders, and immediately prior to the award of the Franchise for the leading Bidder, on the basis of the most recent financial information.

### **3.14 Variations to the Franchise Agreement**

3.14.1 Bidders' attention is drawn to the variation provisions in paragraph 1 of Schedule 9.3 of the Franchise Agreement and the ability of the Secretary of State to amend the contracted TSR (Train Service Requirements). The Secretary of State reserves the right to require variations to the Franchise Services and/or the manner in which Franchise Services are required to be delivered, and any consequential changes to the Franchise Agreement, acting in compliance with the law. The Secretary

of State may also require variations to other contracted provisions or outputs, acting in compliance with the law.

3.14.2 In particular, variations may result from changes to the specification or timing of committed projects affecting the East Midlands Franchise. Variations will not necessarily be restricted to the effects of committed projects. However, any changes required will be such as a reasonably competent and professional operator of the East Midlands 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 East Midlands Franchise proposition taking into account the need to be able to vary the nature, quantity and manner of delivery of East Midlands 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 rail policy.

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

### **3.15 Form of Tender**

3.15.1 Bidders are required to include in their Bids a Form of Tender as set out in Attachment F (Form of Tender). For the avoidance of doubt, any amendments to the Form of Tender will mean that the Bid is deemed non-compliant, and the provisions of subsection 3.5 (Non-compliant Bids) of this ITT shall apply.

## Section 4: Explanation of Requirements for Bid Submission and Overview of Process following Bid Submission

### 4.1 Preparation of Bids

4.1.1 Bidders are reminded that they are expected to stand behind all aspects of their Bids. In particular, Bidders are referred to subsection 4.14.3 (Contractualisation).

4.1.2 The Department expects to receive Bids that contain no qualifications. Bidders shall not propose amendments to the Franchise Signature Documents (other than to fill gaps denoted by the drafting note 'Bidders to populate'), including by proposing their own Secretary of State Risk Assumptions or any other contractual amendments which seek to transfer risk from the Franchisee to the Secretary of State. For the avoidance of doubt, any failure by a Bidder to comply with the requirements of this subsection 4.1 shall mean that the Bid is deemed non-compliant, and the provisions of subsection 3.5 (Non-compliant Bids) of this ITT shall apply.

### 4.2 Franchising timetable and process

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

**Table 4.1** *Franchising timetable*

Description	Party Responsible	Planned Date
Submission of Bids	Bidders	By noon on 5 September 2018.
Evaluation of Bids, clarification, drafting of Committed Obligations Secretary of State consent and HMT approval to the East Midlands award	The Department and Bidder(s)	From 10 September 2018. March – April 2019
Planned Franchise award and preparation for commencement of Franchise	The Department and the Franchisee	April 2019 – August 2019
Start of Franchise	Franchisee	18 August 2019

### 4.3 Structure and format of Bids

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

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

Part	Areas	Submission Requirements	Size limit
<b>1</b>	<b>Main text</b>		
	Delivery Plan 0 (Bid Summary)	<p>One electronic copy submitted through AWARD</p> <p>One un-priced electronic copy submitted through AWARD</p> <p>One electronic copy submitted in CD or DVD format</p> <p>One un-priced electronic copy submitted in CD or DVD format</p>	20 pages maximum
	Delivery Plans 1 - 4 as required by Section 5: (Detailed Bid submission requirements – Delivery Plans)	<p>One electronic copy submitted through AWARD</p> <p>One un-priced electronic copy submitted through AWARD.</p> <p>One electronic copy submitted in CD or DVD format</p> <p>One un-priced electronic copy submitted in CD or DVD format</p>	1000 pages maximum including annexes and appendices
	Letters of Support	<p>One electronic copy submitted through AWARD</p> <p>One electronic copy submitted in CD or DVD format</p>	Max 12 pages each
<b>2</b>	<b>Financial</b>		
	Operational Models and Financial Model as required by Section 6: (Detailed Bid submission requirements – Financial)	<p>One electronic copy submitted through AWARD</p> <p>One electronic copy submitted in CD or DVD format</p> <p>PDF of worksheets of Tier 1 Operational Models that directly interface with the Financial Model or other Tier 1 Operational Models (note: it is</p>	75MB maximum size per Microsoft Excel workbook (See Section 6 (Detailed Bid submission

Part	Areas	Submission Requirements	Size limit
		only the interface worksheet of each Tier 1 Operational Model that is required); one electronic copy of these PDF files through AWARD and one in CD or DVD format.	requirements – Financial))
	<p>PDFs of the populated financial templates;</p> <p>Record of Assumptions, required by subsection 6.5 (Record of Assumptions) plus supporting xls sheets where required;</p> <p>Operating Manual, required by subsection 6.6 (Operating Manual);</p> <p>Modelling Best Practice Confirmation, required by subsection 6.8.2 (Modelling Best Practice Confirmation);</p> <p>Financial Structure and Funding Plan, financial adviser’s letter, Parent Company Support and Bonding, required by subsection 6.9 (Financial Structure and Funding Plan);</p> <p>Any other term sheets or financing arrangements for projects;</p> <p>Confirmation of bond availability, required by subsection 6.9.1 (Bid requirements);</p> <p>Update of financial information to update financial tests, required by subsection 6.10 (Updating of Eol financial and economic standing tests (the “Tests”) and submission of updated Bond Provider letter(s)); and</p> <p>ROSCO term sheets required by subsection 5.9.15 c) (within Sub-Plan 2.2 (Rolling Stock) under Evidence Bidders Shall Provide).</p>	<p>One electronic copy submitted through AWARD</p> <p>One electronic copy submitted in CD or DVD format</p>	None

Part	Areas	Submission Requirements	Size limit
<b>3</b>	<b>Technical Data</b>		
	<p>The following details should be submitted in support of the main text of the Bid submission:</p> <p>The technical data required in Table 5.2 (Operational data required as part of Bids) in the format described in subsection 4.11 (Submission of Bids)</p>	<p>One electronic copy submitted through AWARD</p> <p>One electronic copy submitted in CD or DVD format</p>	None
<b>4</b>	<b>Legal and compliance</b>		
	<p>Versions (clean and redline mark up against the version of each agreement provided with this ITT or, if subsequently amended, the latest versions uploaded to AWARD) of each of the Franchise Agreement, the Funding Deed, the Conditions Precedent Agreement, Escrow Agreement and any other agreements to be signed as part of the award of the Franchise (together the <b>“Franchise Signature Documents”</b>) with those parts marked ‘Bidders to populate’ completed.</p> <p>Non-compliance statements as required by subsection 3.5 (Non-compliant Bids)</p> <p>Statement of competition matters as required by subsection 3.11 (Competition Matters)</p> <p>FOIA statement if submitted in accordance with subsection 3.10 (Transparency and Freedom of Information)</p> <p>A completed Form of Tender as required by subsection 3.15 (Form of Tender)</p>	<p>One electronic copy submitted through AWARD</p> <p>One electronic copy submitted in CD or DVD format</p>	None
<b>5</b>	Schedule of Initiatives (as required by subsection 4.14.3 (Contractualisation))	<p>One electronic copy submitted through AWARD</p> <p>One electronic copy submitted in CD or DVD format</p>	None



4.3.2 Table 4.3 (List of Agreed Documents) below lists the Agreed Documents required as part of the Delivery Plans and Section 6: (Detailed Bid submission requirements - Financial), and states whether these documents count towards the page limit of the main text.

4.3.3 For the avoidance of doubt, Agreed Documents which form part of a Sub-Plan should not be submitted as an embedded Appendix to that Sub-Plan, but should be submitted as separate files and referenced as per subsection 4.7 (Cross referencing).

**Table 4.3** *List of Agreed Documents that form part of the Delivery Plans and Section 6: (Detailed Bid submission requirements – Financial).*

Agreed Documents	ITT Section (where applicable)	Included within page limit?
Alliance Agreement	Sub-Plan 1.2 (Partnering)	No
Customer & Stakeholder Engagement Strategy	Sub-Plan 1.2 (Partnering) and Sub-Plan 4.1 (Customer Experience)	Yes
Train Service Requirements	Sub-Plan 2.1 (Train Services)	No
Bid Fares Strategy	Sub-Plan 3.2 (Fares, Ticketing, and Revenue Protection)	No
Passenger’s Charter	Sub-Plan 4.1 (Customer Experience)	No
Station Social and Commercial Development Plan	Sub-Plan 4.2 (Stations)	Yes
Financial Model	Section 6 (Detailed Bid submission requirements - Financial)	No
Operational Model	Section 6 (Detailed Bid submission requirements - Financial)	No
Record of Assumptions	Section 6 (Detailed Bid submission requirements - Financial)	No

#### **4.4 Page limits, size of text, other formatting**

4.4.1 The size of the main text of Delivery Plans 1 - 4, including annexes and appendices in accordance with subsection 4.5 (Annexes and appendices) below, will be limited to 1000 pages. Bidders shall provide a table detailing the Page Count for each Sub-Plan.

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

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

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

- a) The contents of the financial part as required by Section 6: (Detailed Bid submission requirements - Financial) and described in Table 4.2 (Structure and format of Bids);
- b) The contents of the technical data part as described in Table 4.2 (Structure and format of Bids);
- c) The contents of the legal and compliance part as described in Table 4.2 (Structure and format of Bids);
- d) The contents of the Agreed Documents that are not included in the page limit where stated in Table 4.3 (List of Agreed Documents).
- e) Covers, section dividers and indices where these do not contain substantive parts of the Bid;
- f) Letters of Support, compliant with subsection 4.6.1, submitted as supporting evidence for a Delivery Plan; and
- g) The contents of the Schedule of Initiatives template as described in Table 4.4 (Schedule of Initiatives).

4.4.5 Delivery Plan 0 shall not fall within the 1000 Page Count limit but shall be limited to 20 pages. If Delivery Plan 0 exceeds 20 pages it will not be passed to evaluators.

4.4.6 Bidders are required to confirm in response to the relevant question on AWARD whether the listed documents are within or outside the Page Count limit set out in subsection 4.4 (Page limits, size of text, other formatting) and confirm that the Bid is no greater than the Page Count limit. Bidders must not submit additional or supplementary information which is not expressly permitted by this ITT or accepted by the Department in accordance with the evaluation clarification process. Any pages which exceed the Page Count limit and any additional or supplementary information will be disregarded for evaluation purposes and will constitute non-compliance.

## **4.5 Annexes and appendices**

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

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

## **4.6 Letters of Support**

4.6.1 Letters of Support must not exceed 12 A4 pages in length. Any pages over the 12 pages limit will be disregarded for evaluation purposes. Each letter must be submitted as a PDF file. The text and formatting requirements as described in subsection 4.4 (Page limits, size of text, other formatting) do not apply to Letters of Support.

## **4.7 Cross referencing**

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

## **4.8 Bid consistency**

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

## **4.9 Language**

4.9.1 All responses must be in English. This requirement does not apply to any requested information which has not been created for the Bid (e.g. company financial reports), but a translation into English must be provided for any requested information submitted in a language other than English and such translation shall not fall within the page limit described in subsection 4.4 (Page limits, size of text, other formatting).

## **4.10 Monetary amounts**

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

## **4.11 Submission of Bids**

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

- a) Each CD or DVD shall be labelled clearly with the Bidder's name. The Department requires that an index is provided for the electronic information. Electronic information is required to be saved using the Open XML Standard format supported by Microsoft Office 2010 or later (but fully compatible with Microsoft Office 2010). Specifically, spreadsheets must be saved using the Microsoft Excel 'xlsx', 'xlsb' or 'xlsm' file extension and documents as Microsoft Word 'docx' files;
- b) All material which forms part of the "Main text" in Table 4.2 (Structure and format of Bids) must be provided using Microsoft

Word 'docx' files with the exception of Agreed Documents and Letters of Support;

- c) Unless specifically stated otherwise, documents should only be submitted in PDF if they are not available in their original format. PDF versions should be searchable electronically. Where Microsoft Word documents are specifically requested, a duplicate PDF version will not be required;
- d) The un-priced electronic copies shall be submitted through AWARD and in CD or DVD format clearly labelled with the Bidder's name and an index of the contents of each CD or DVD. The un-priced CD or DVD should be distinguishable from the priced electronic copy referenced above. Information is required to be saved using the Open XML Standard format supported by Microsoft Office 2010 onwards; and
- e) Bidders must submit three DVDs each containing:
  - i) The MOIRA1 output files (and any intermediate files which process these output files) which input changes in demand to the revenue model; and
  - ii) The version(s) of MOIRA1 that have been used to populate the revenue model, if they do not use the version of MOIRA1 supplied on the Data Site.

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

4.11.3 Bids (both the CD or DVD copies to be provided and electronic copies to be submitted through AWARD) must be received by the Department **by noon on 5 September 2018**. A Bid is submitted late for the purposes of this ITT if any part of the Bid or copy in any format required by this ITT is submitted after the above deadline. For the avoidance of doubt, Bids submitted late will be treated as being non-compliant, and the provisions of subsection 3.5 (Non-compliant Bids) of this ITT shall apply.

4.11.4 Uploaded documents will need to follow the file name format shown below:

EM\_ [Bidder name] Delivery Plan [2.1 Train Services] – File X of Y

4.11.5 CD or DVD copies of Bids are to be submitted to:

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

4.11.6 No other documents or information shall be submitted with the Bid. CD or DVD copies of the Bid must be marked 'CONFIDENTIAL - East Midlands Bid submission [insert date]'. The boxes should not be marked in any way that would indicate the identity of the Bidder. Bidders will be issued with a formal receipt for the submissions from the Department at the time of the submission of their Bid. It will be the Bidder's responsibility to ensure the safe transfer of Bid submissions to the Department.

#### **4.12 Presentations**

4.12.1 Bidders are required to meet with the Department to discuss their Modelling Suite on a working day specified by the Department no earlier than 7 working days and no later than 15 working days following Bid submission. Meetings will not be scored and are for information only. The sole purpose of these meetings is to assist the evaluation teams in understanding how the Modelling Suite works (i.e. from a functional and practical perspective) and not to discuss any aspects of the contents of the Bidder's Modelling Suite. In the event that there is any difference between what is discussed at the meeting and the Bid, then the copy of the Bid submitted through AWARD shall take precedence.

#### **4.13 Validity of Bids**

4.13.1 All Bids including the terms, Bid price, and any subsequent changes agreed shall be held valid for a period of 365 calendar days from the date of Bid submission. Bidders are required to confirm this in their Form of Tender.

#### **4.14 Process following Bid submission**

##### **4.14.1 Bid evaluation**

4.14.1.1 Bids will be evaluated in accordance with the criteria and methodology contained within Section 7: (Evaluation Criteria and Methodology).

#### **4.14.2 Engagement with Bidders and evaluation clarification process**

4.14.2.1 The Department is subject to obligations under EU and English law, including the obligations of equal treatment and non-discrimination. Subject to this, the Department reserves its rights to seek clarification in any form from, and/or to engage in any other way with, any or all of the Bidders at any time during the process, including in order to assist in its consideration of a Bid. For the avoidance of doubt, this includes the process described in subsection 7.12 (Delivery Plan Negotiation).

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

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

- a) A Bidder's response includes information in addition to that specifically requested in the question; or
- b) A Bidder's response purports to correct or would have the effect of correcting an error in its Bid;

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

#### **4.14.3 Contractualisation**

4.14.3.1 The Department expects the winning Bidder to deliver everything set out in its Bid. The Department will wish to contract Initiatives that have contributed to the score awarded to a Sub-Plan to ensure that the Franchise Agreement covers the factors that have been taken into account in awarding the Franchise. The scope of these commitments will cover at least the Initiatives and level of detail that have contributed to selection of the winning Bidder (including, as appropriate, inputs, outputs and expenditure).

4.14.3.2 Where a Sub-Plan contains a significant number of relatively small Initiatives, Bidders are encouraged to group Initiatives for the purposes of identifying inputs, outputs and expenditure where appropriate.

4.14.3.3 Should an Initiative be contracted, and where the Residual Value Mechanism does not attach to an asset, the Department reserves the right

to designate an asset as a Primary Franchise Asset to transfer at nil value at the end of the Franchise to the Successor Operator.

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

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

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

- a) Specify the date by which the relevant Initiative will be completed and, where applicable, commenced;
- b) Specify how long the relevant Initiative will be maintained for (in the absence of any dates being specified, the relevant Initiative will be required to be maintained from the Start Date to the end of the Franchise Term);
- c) Where it contains a commitment to spend a specified amount (an 'expenditure commitment'), clearly set out that amount, what types of expenditure may be counted towards such expenditure commitment (such as capital expenditure, operating expenditure, project management costs, etc.), whether the amount is inclusive or exclusive of VAT and the date(s) by which the expenditure will be spent;
- d) Include details of any matters which require that the Initiative is a Contingent Initiative, together with details of the impact of the occurrence of such matters and the identity of any person the Initiative is dependent on;
- e) Cross-refer (where applicable) to the relevant provision of the Franchise Agreement which specifically obliges the Bidder to comply with or perform the relevant Initiative; and



- f) Cross-refer the specific values to the Record of Assumptions and the Financial Structure and Funding Plan, and ensure these can be reconciled.

The Schedule of Initiatives is required to record the obligations, including timing and where appropriate spend, Bidders have committed to undertake and will be used to inform the drafting of committed obligations. Accordingly, Bidders should submit a Schedule of Initiatives, following the example set out in Table 4.4 (Schedule of Initiatives) below. Each Initiative should conform to the template layout provided for this purpose titled *Example Initiative Template* located in Data Site folder 01.02 (Final ITT and Attachments). Bidders must note that the Schedule of Initiatives must not contain anything which is not also set out in the relevant Sub-Plan. As set out in subsection 4.3 (Structure and format of Bids), the Schedule of Initiatives shall fall outside the page limit.

**Table 4.4** *Schedule of Initiatives*

Detail required for each Initiative
Name
Sub-Plan and section of Bid where detailed
Record of Assumptions reference
Components of the Initiative, including a description of the quality, nature or standard achieved by the Initiative
Cost of each component of the Initiative both capital and operating costs, in totality and by year
Revenue and benefits of the Initiative in totality and by year
Start date and/or completion date for each component of the Initiative
Whether the Initiative is a Specimen Scheme
Whether the Initiative is a Contingent Initiative and what the dependencies are
Whether the RV Mechanism is applied and the value of the relevant asset at the end of the Core Franchise Term
Whether the Initiative applies to the whole Franchise or to one of the Market Segments

#### 4.14.4 **Intention to award**

4.14.4.1 Without prejudice to the Department's rights pursuant to subsection 1.9 (Liability for costs, updates and termination), following

completion of evaluation, the Department will inform the Bidder with the most economically advantageous tender (as determined in accordance with Section 7: Evaluation Criteria and Methodology) that the Department intends to award the Franchise to it.

#### **4.14.5 Signature of the Franchise Signature Documents**

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

#### **4.14.6 Announcement to the London Stock Exchange and information to unsuccessful Bidders**

4.14.6.1 Following the notification to and delivery of the signed (but not dated) Franchise Signature Documents by the preferred Bidder, it is anticipated that an announcement will be made to the London Stock Exchange at 0700 hours on the next morning on which it opens, setting out the Department's intention to award the Franchise following the voluntary standstill period.

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

### **4.15 Voluntary standstill period**

4.15.1 The Department intends to run a voluntary standstill period of at least 10 calendar days in respect of this procurement (although it concludes that it is not presently obliged to do so by Law) and accordingly the basis of such a standstill process shall be as set out in this ITT or as otherwise advised by the Department to Bidders.

## Section 5: Detailed Bid submission requirements - Delivery Plans

### 5.1 Introduction

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

5.1.2 Each of the Delivery Plans (other than Delivery Plan 0 Bid Summary) is split into a number of Sub-Plans. A list of the Delivery Plans and their associated Sub-Plans is set out below.

**Table 5.1** *Delivery Plans and Sub-Plans*

Delivery Plan	Sub-Plan
0. Bid Summary	Not applicable
1. Franchise Management	1.1 Leadership and Sustainability
	1.2 Partnering
2. Train Service and Performance	2.1 Train Services
	2.2 Rolling Stock
	2.3 Performance
3. Revenue	3.1 Marketing and Branding
	3.2 Fares, Ticketing and Revenue Protection
4. Customer Experience and Stations	4.1 Customer Experience
	4.2 Stations

5.1.3 Details of the Department's requirements for each Sub-Plan are set out in Part (A) under each Sub-Plan in this Section 5 (Detailed Bid submission requirements – Delivery Plans).

5.1.4 In order for the Department to assess the extent to which each Bid meets, or, where appropriate, exceeds each of the requirements set out in Part (A) under each Sub-Plan, Bidders shall provide relevant and credible evidence that supports their proposals, and the delivery of those proposals, for each Sub-Plan. Such evidence must include, as a minimum (the "**Minimum Evidential Requirements**"):

- a) The Initiatives that the Bidder proposes to undertake in order to deliver each of the requirements set out in Part (A) under each Sub-Plan. Bidders should note subsection 4.14.3 (Contractualisation);

- b) Information which demonstrates the relevance of each Initiative in delivering, or where appropriate, exceeding the requirements set out in Part (A) under each Sub-Plan;
- c) A statement of the Net Present Values and annual values of revenues and operating and capital costs associated with each Initiative in respect of which any of these elements exceeds £1,000,000 (2019/20 prices) in any Franchisee Year, along with cross references to the relevant sections of the Record of Assumptions;
- d) Full supporting evidence of how those Initiatives will be resourced, managed and delivered, including a project plan, and where possible projected outputs, as appropriate;
- e) Details of the risks pertaining to the delivery of those Initiatives, and how these risks will be mitigated; and
- f) A statement or letter setting out the commitment (and, if relevant, any qualifications on that commitment), views or comments of any third party that the Bidder is relying on in delivering or exceeding these requirements.

5.1.5 The Department cannot and does not wish to be prescriptive in all areas about how Bidders may seek to exceed the Department's requirements. However, without seeking to constrain innovation in any way, the Department has set out in Part (C) under most Sub-Plans, examples of how a Bidder may exceed the Department's requirements. These examples are illustrative only and therefore not exhaustive. Where no examples are given, Bidders may still provide additional Initiatives, but note subsection 5.1.6. Bidders should note, where additional Initiatives are proposed, that each one of them must align with the relevant requirements for the Sub-Plan and be supported by credible implementation plans.

5.1.6 Details of how each Sub-Plan will be evaluated (including Table 7.3 East Midlands marking framework and guidance) are set out in subsection 7.3.5 (Scoring Methodology).

5.1.7 Bidders must not propose Initiatives funded by the Network Rail Regulatory Asset Base (RAB). Bidders must confirm that any additional capital expenditure proposed is not funded in this way. Bids will be considered non-compliant if Network Rail RAB expenditure is proposed.

5.1.8 Bidders must also read the contents of the Franchise Signature Documents provided with this ITT which contain provisions relevant to

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

5.1.9 Bidders' attention is drawn to subsection 4.7 (Cross referencing) of this ITT.

## 5.2 Residual Value Mechanism

5.2.1 The Department has developed a residual value mechanism (the "**Residual Value Mechanism**" or "**RV Mechanism**") to promote investment in assets where there is a return over a period greater than the Core Franchise Term. The Residual Value Mechanism may be used to promote investment in Sub-Plans 1.1 (Leadership and Sustainability), 2.2 (Rolling Stock) 3.2 (Fares, Ticketing and Revenue Protection) and 4.2 (Stations). In order for any asset proposed by a Bidder to be covered by the RV Mechanism and designated as a Primary Franchise Asset, the Bidder must conform to all, without exception, of the following requirements:

- a) Any asset or collection of related assets (such collection referred to here as a "**Scheme**") proposed, must contribute towards meeting or exceeding the requirements of the relevant Sub-Plan set out in Part (A) of that Sub-Plan;
- b) Any asset or Scheme proposed must not exceed a capital cost of £70 million (2019/20 prices). The residual value of the asset payable at the end of the Core Franchise Term may only take account of the capital costs of the asset (which shall only include the cost of the asset and installation). Ongoing operating costs and project management costs incurred by the Franchisee during the Franchise Term must be borne by the Franchisee and may not be passed on to a Successor Operator;

- c) The useful economic life of the asset or each asset comprised in a Scheme must be greater than the Core Franchise Term remaining at the time the asset is brought into use;
- d) The Bidder may propose up to seven assets or Schemes within its Bid, where the RV Mechanism is to be used. The total value of all of the assets or Schemes subject to the RV Mechanism must not exceed £120 million (2019/20 prices);
- e) Any asset or Scheme proposed shall be delivered and brought into use at least three years prior to the end of the Core Franchise Term, and either generate revenue or reduce costs which would otherwise be incurred from that time;
- f) The transfer value of the asset at the end of the Core Franchise Term will be calculated based on an assumption that the asset will be fully depreciated on a 'straight line' basis over a maximum of 15 years from the point at which the asset or Scheme is brought into use or such shorter time period equivalent to the useful economic life of the asset (using FRS 101 or IFRS accounting assumptions where appropriate to the asset) should that period be less than 15 years. The Bidder should ensure that such transfer is also reflected in the capital allowance pool and in respect of any deferred tax recognised in the balance sheet in the Financial Model tax calculations;
- g) The asset or Scheme must be financially positive (i.e. generate revenue or cost savings in excess of the cost of the asset or Scheme, for the avoidance of doubt a positive nominal payback) over the maximum of 15 years or such other shorter period as is equivalent to its useful economic life and should not abstract revenues from other train operating companies. For the avoidance of doubt, the case for the asset or Scheme proposed (which illustrates that the asset or Scheme is financially positive) should be based on the financial assessment associated with the asset or scheme itself and not relative to possible alternative assets or schemes which the Franchisee could have proposed to meet the Department's requirements. In addition, the remaining return following the asset transfer to the Successor Operator must exceed the transfer value calculated in accordance with these instructions and provided in the Bidder's mark-up of the Franchise Agreement referred to below;
- h) The Bidder may propose the use of third party funding to purchase such assets or Schemes, but such funding may not bind a

Successor Operator. This means that the Successor Operator will not be required to assume any liabilities associated with any third party funding and such funding arrangements will not transfer to the Successor Operator or have a value attributed to them for the purposes of the Franchise Agreement. Such funding must clearly be defined in the Financial Structure and Funding Plan and Record of Assumptions;

- i) With the exception of Network Rail Fixture Assets (the requirements for which are described in the Franchise Agreement), the relevant asset or Scheme (which for this purpose and without limitation includes all related software licences and intellectual property relating thereto) must remain the unencumbered property of the Franchisee throughout the Franchise Term and be capable of unencumbered transfer to the Successor Operator at the end of the Franchise Term (and this principle will apply even where the asset is funded in whole or in part by one or more third parties). This means that, with the exception of Network Rail Fixture Assets, assets which are fixed to property and become the property of the landlord, or any items on rolling stock which become the property of the owner are not capable of inclusion in the RV Mechanism. Bidders may not propose rolling stock under this RV Mechanism;
- j) The relevant asset or Scheme shall be designated as Primary Franchise Asset(s) in accordance with and subject to the Franchise Agreement; and
- k) The Bidder must submit the evidence set out in subsection 5.2.4.

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

- a) Reserves the right to amend the marked up version of the Franchise Agreement submitted by the Bidder to remove any references to the residual value of the relevant asset(s) and not to designate any such asset as a Primary Franchise Asset;
- b) Will otherwise evaluate the Bid on the basis that the Initiative(s) associated with the introduction of the asset or Scheme are included in the Bid and will be committed to by the Bidder (subject to subsection 4.14.3 (Contractualisation)); and
- c) May take into account the fact that the RV Mechanism will not apply to the asset or Scheme in all relevant elements of the

evaluation (including, without limitation in the allocation of evaluation scores and in the Financial Robustness Test).

5.2.3 Bidders must populate the relevant parts of the Appendix to Schedule 14.6 of the Franchise Agreement and Supplemental Agreement forming part of the Franchise Agreement, detailing the asset and the expected value for transfer under the Transfer Scheme upon the Expiry Date of the Franchise Agreement. For this purpose, the Bidder should assume the Expiry Date will be the date derived from limb (a) of the definition of "Expiry Date" (as Schedule 14.6 of the Franchise Agreement provides for the effect on the transfer value of an asset in an Extension Period).

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

- a) Commercial justification of the asset or Scheme (including evidence of the satisfaction of the requirement at subsection 5.2.1 g) using its forecast revenues and costs, and any non-financial information in line with WebTAG guidance (though Bidders should note the requirement that the asset or Scheme must be financially positive over a maximum of 15 years, from the point at which the asset or Scheme is brought into use, or such shorter period equivalent to the useful economic life of the asset should that period be less than 15 years);
- b) Detailed description and capital cost of each asset or Scheme, operating costs and project management costs;
- c) A demonstration (with supporting evidence) of the useful economic life of the asset or Scheme, which must be greater than the Core Franchise Term remaining at the point when the asset is brought into use but will not be taken into account to the extent that it is longer than 15 years , when calculating the residual value of the asset;
- d) The terms of any third party funding for the asset or Scheme; and
- e) Evidence that the asset (or in the case of a Scheme each asset within it) will be and remain the unencumbered property of the Franchisee for the Franchise Term and will transfer to the Successor Operator unencumbered at the end of the Franchise Term or that the asset will qualify as a Network Rail Fixture Asset, including, where the proposed RV Asset is to be located on



Network Rail land, a supporting letter from Network Rail in the form of the template at Attachment J.

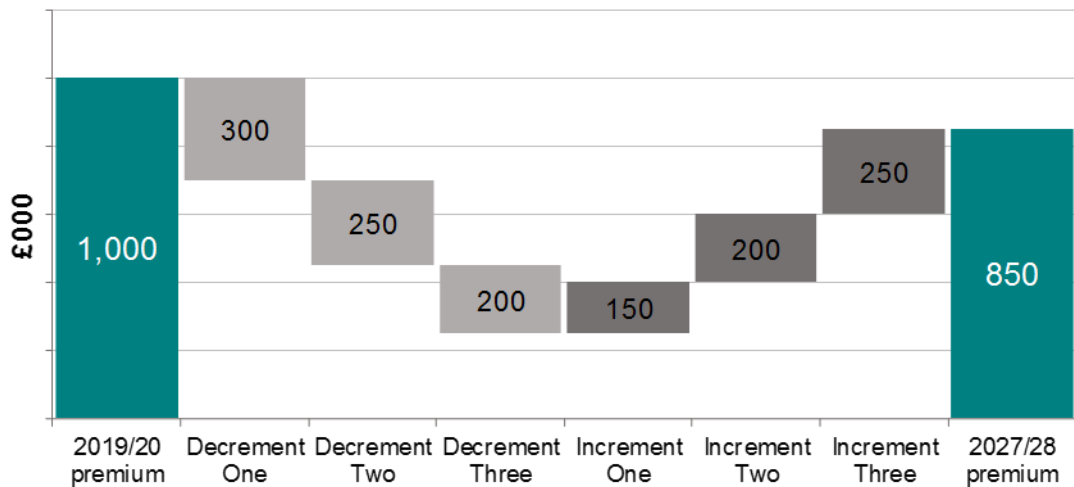
5.2.5 If the Department considers that the evidence supplied by the Bidder is insufficient to justify the inclusion of the asset or Scheme within the RV Mechanism or the transfer value attributed by the Bidder to an asset, the Department may (but it is not obliged to) seek additional information or clarification from the relevant Bidder in accordance with subsection 4.14.2 (Engagement with Bidders and evaluation clarification process).

### **5.3 Delivery Plan 0 - Bid Summary**

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

- a) The Bidder's overarching strategy and objectives for the Franchise;
- b) The Bidder's view of the market, its opportunities and challenges;
- c) A programme summarising key business activities, including a delivery schedule which shows the dates of:
  - i) Key actions which the Franchisee needs to take in order to deliver the principal Initiatives included in the Delivery Plans;
  - ii) Any significant events that will affect the operations, costs or revenues of the Franchise; and
  - iii) Key risks and how they will be mitigated.
- d) A waterfall chart summarising the changes in revenue and cost (and consequently Franchise premium) between 2019/20 and 2027/28 such that the impact of any significant Initiatives is highlighted. The chart shall only disaggregate factors greater than £5,000,000, and shall be in 2019/20 prices. An example waterfall chart is shown below.

**Figure 5.1 Example Waterfall Chart**



5.3.2 Bidders should prepare a priced and unpriced version of Delivery Plan 0. In the unpriced version of Delivery Plan 0 the Bidder should redact any possible inference about Bid price including waterfall charts, subsidy per passenger mile, generalised statements about long term trends in subsidy or premium etc.

5.3.3 Bidders should be aware that the Bid Summary will not be scored, but, subject to subsection 4.4.5, that all evaluators will be provided with a copy of it to aid their understanding of the Sub-Plans that they will evaluate.

**5.4 Delivery Plan 1 – Franchise Management**

**5.5 Sub-Plan 1.1 Leadership and Sustainability**

**Bidders may propose assets to be funded by the Residual Value Mechanism described in subsection 5.2 (Residual Value Mechanism) under this Sub-Plan.**

**(A) REQUIREMENT**

5.5.1 The Department requires a Franchisee who will invest in the franchise workforce, their training and skills; and develop opportunities to give employees a share in decision making in the franchise and the potential to share in the Franchise’s successes, including by:

- a) Mapping and developing enhanced management, leadership, succession and skills planning at all levels throughout the organisation;
- b) Increasing the capability of the workforce throughout the Franchise Term to address skills gaps and increasing the diversity

of the workforce to address under representation across all levels and grades; and

- c) Supporting the delivery of the Department's Transport Infrastructure Skills Strategy (published in January 2016) and the National Skills Academy's Rail Sector Skills Delivery Plan.

5.5.2 The Department requires a Franchisee who will support and improve the health and wellbeing of the franchise workforce, including by monitoring, managing and improving occupational health risks, staff engagement, morale and general wellbeing.

5.5.3 The Department requires a Franchisee who will develop its innovation capability throughout the Franchise Term.

5.5.4 The Department requires a Franchisee who will follow the Rail Safety and Standards Board (RSSB) Rail Sustainable Development Principles, through its leadership, management and investment throughout the Franchise Term, including by:

- a) Structuring the Franchisee and managing it with effective corporate management systems to continually improve the capability of the Franchisee;
- b) Creating a management structure that enables effective and ongoing engagement with East Midlands Councils and other local stakeholders throughout the Franchise Term, maintaining a responsive, constructive and collaborative working arrangement in respect of the management of the Franchise;
- c) Building the capacity and competence of leadership and management of the Franchisee in sustainable development;
- d) Implementing a sustainable procurement strategy that is independently assured as being in compliance with ISO20400;
- e) Having regard to National Planning Policy, District and Borough Local Plans, Local Enterprise Partnership plans and other relevant plans when considering its rail passenger service plans and delivery;

- f) By the end of the second year of the franchise delivering six stations that have zero operational CO<sub>2</sub>e emissions<sup>1</sup>, being two each of:
  - i) Unstaffed stations;
  - ii) Small staffed stations with annual entries and exits of under 250,000; and
  - iii) Medium stations with annual entries and exits of between 500,000 and 2,000,000.

The figures for entries and exits must be based on the annual 'Estimates of Station Usage' published for 2016/17 by the Office of Rail and Road.

- g) Achieving a positive social impact through the franchise, for example by providing Passenger Services that support access to employment opportunities, especially for those travelling from areas with a high degree of social deprivation.

5.5.5 The Department requires a Franchisee who will safeguard the security of:

- a) Passengers and staff working across the Franchise, including by:
  - i) Taking steps to reduce the incidence and fear of crime and anti-social behaviour against staff; and
  - ii) Ensuring that staff are suitably trained and prepared to support better security outcomes and to respond effectively in the event of a terrorist attack or other major incident; and
- b) Internal and passenger-facing IT systems, and who will take appropriate steps to minimise and manage the risk of a cyber-attack on those IT systems for which the Franchisee is responsible and which are required to deliver an operational railway (including internal and passenger-facing systems) in accordance with the Department's *Rail Cyber Security – Guidance to Industry* and the *RDG Rail Cyber Security Strategy*.

5.5.6 The Department requires a Franchisee who will apply the principles of community safety (set out in *Delivering Safer Communities: a*

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<sup>1</sup> For avoidance of doubt this cannot include green energy tariffs or carbon offsetting

*guide to effective partnership working*) to assess and review the security and crime risk across the franchise in partnership with local communities, police, Government and other relevant stakeholders. The objective should be to reduce security risks and crime, minimise disruption to the network and improve overall passenger confidence across the franchise.

**(B) EVIDENCE BIDDERS SHALL PROVIDE**

5.5.7 In addition to the Minimum Evidential Requirements, Bidders' responses shall include:

- a) Details of the metrics that will be used to monitor progress in:
  - i) Increasing the positive social impact of the franchise;
  - ii) Occupational health, employee engagement, and workforce health and wellbeing; and
  - iii) Developing the Franchisee's innovation capability.
- b) Their approach to continuous skills gap analysis and a workforce pipeline strategy that includes:
  - i) How gaps will be addressed;
  - ii) How the Franchisee will attract young people into rail; and
  - iii) How the Franchisee will support Government targets that 20% of new entrants to engineering and technical apprenticeships are women and that there is a 20% increase in the number of BAME candidates undertaking apprenticeships.
- c) Where Bidders are suggesting any material change in staff headcount during the Franchise Term, the reasons for that change and the way in which it will be managed, highlighting any impacts on operations and customer contact;
- d) Proposed usage of different employment contract types, including explanations for any use of zero hours contracts and how the Bidder's remuneration and contracting plans compare against the Real Living Wage;
- e) Details of the governance processes, resources and capabilities that will be in place throughout the life of the franchise to deliver the Franchisee's Sustainable Development Strategy (in

accordance with paragraph 10.1(b) of Schedule 13.1 (Rail Industry Initiatives and Co-operation) of the Franchise Agreement) and the Skills and Leadership Strategy (in accordance with paragraph 9.5 of that Schedule);

- f) Their approach to delivering zero CO<sub>2</sub>e stations, including technologies to be considered, stations chosen (and criteria for choice) and monitoring and verification process. This must include full data sharing of costs and monitoring and verification results with the Department;
- g) Plans for increasing the positive social impact of the franchise;
- h) Plans to increase access to rail for vulnerable groups and communities, including those seeking work or recently returned to work, rural communities, groups unfamiliar with rail and those with limited access to private transport, such as young adults; and
- i) The Bidder's approach to managing security risks, including the approach the Bidder will adopt in order to:
  - i) Promote a security-conscious culture within the Franchise and effectively prepare staff to support better security outcomes and to respond in the event of an incident; and
  - ii) Minimise and manage the risk of a cyber-attack in accordance with the latest relevant cyber security guidance, including how they will identify critical systems, continually assess potential vulnerabilities and regularly test their capability to respond to a cyber incident.

### **(C) SCORING**

5.5.8 For meeting, overall, the above requirements to an acceptable standard, a Bidder will score 6 in line with Table 7.3 of the ITT (East Midlands marking framework and guidance).

5.5.9 Without prejudice to the generality of subsection 7.3.5 of the ITT (Scoring Methodology), specific examples of how the above requirements may be exceeded are set out below:

- a) Specific targets to increase the quality and/or diversity of apprenticeships;

- b) Proposals which exceed the Environmental Impact Targets in Schedule 11.2 of the Franchise Agreement;
- c) Proposals to include a greater number of zero CO<sub>2</sub>e stations (than the six required); and
- d) Commitment to specific independent standards on environmental or social issues, such as the Ethical Trade Initiative Base Code and Living Wage Employer accreditation.

## **5.6 Sub-Plan 1.2 Partnering**

5.6.1 For the purposes of this Sub-Plan reference to ‘other stakeholders’ includes but is not limited to the following, without limitation: High Speed 1 Limited, High Speed Two (HS2) Limited, Network Rail, Office of Rail and Road, other train operating companies, freight operators, Rail Delivery Group, British Transport Police, Community Rail Partnerships, East Midlands Councils, Midlands Connect, England’s Economic Heartland, Combined Authorities, Passenger Transport Executives, Local and County Councils and all Local Transport Authorities, Unitary Authorities relevant to the geographic scope of the Franchise, Transport Focus, Transport for the North, Transport for London, Passenger Groups and the Franchisee’s wider supply chain including Small and Medium Enterprises (SMEs).

5.6.2 Bidders should note that Sub-Plan 2.3 Performance has a number of specific requirements relating to joint working with Network Rail (e.g. paragraphs 5.10.1 b), 5.10.1 c) and 5.10.1 f)) and asking how they propose to work with Network Rail and other operators in a collaborative and innovative way. Bidders should provide their response to these requirements under this Sub-Plan where they will be evaluated.

5.6.3 Bidders should note that where the word “single” has been used in reference to accountability to passengers and leadership structures, their proposals must respect each party’s ultimate accountabilities and regulatory responsibilities.

### **(A) REQUIREMENT**

5.6.4 The Franchisee will be required to enter into and maintain an Alliance Agreement with Network Rail Infrastructure Limited (representing Network Rail’s London North East and East Midlands (LNE and EM) route) with particular emphasis on the East Midlands franchise. The objectives of this Alliance will be to operate a single team and as a minimum, to improve:

- a) The operational performance of the Franchise;

- b) Customer satisfaction;
- c) The efficiency and efficacy of operations, maintenance, renewals and enhancements on the network over which passenger services will operate;
- d) Whole system integration of the railway, by working with other TOCs on the LNE and EM route and all other routes on which the Franchisee operates;
- e) Communications with the aim to provide a single point of accountability to passengers and stakeholders and improve provision of information at all stages of the journey; and
- f) Employee engagement.

(Together the “**Alliance Objectives**”).

5.6.5 The Department requires the Franchisee to:

- a) Collaborate with Network Rail to achieve the Alliance Objectives and to work with Network Rail on potential future Digital Rail technological solutions. The obligations in this respect are set out in paragraph 2 of Part 3 of Schedule 6.1 to the draft Franchise Agreement.
- b) Build on existing joint working arrangements including Derby Rail Operating Centre (ROC) and propose new initiatives which deliver against the Alliance Objectives.
- c) Further develop the concept of the passenger-focused Route Supervisory Board/s (which is to include passenger representation), or similar, to oversee all integrated teams and activities and to implement these Boards jointly with NR.
- d) Work with Network Rail on the LNE and EM route to establish a single leadership to deliver strategic oversight and demonstrates how a common culture of shared responsibility for continuous improvement will be embedded in the Franchise and Network Rail.
- e) The Department requires a jointly agreed scorecard with Network Rail. The jointly agreed scorecard should be aligned with the obligations set out under Schedule 7.1, Schedule 7.2 and Schedule 7.3 of the Franchise Agreement, such that achievement of the targets set out in the score cards will assist in the delivery



by the Franchisee of the obligations set out under Schedule 7.1, Schedule 7.2 and Schedule 7.3 of the Franchise Agreement.

- f) Develop the operation of the current co-located, integrated and formalised operational control tasked with operating trains, and maintaining the infrastructure on a day-to-day basis as well as managing responses to delays and coordinating service recovery to the benefit of passengers.
- g) Develop the operation of the current co-located, integrated and formalised performance team to deliver the joint initiatives and further targets agreed with Network Rail through its LNE and EM route.
- h) Adopt a joined-up approach to planning enhancement projects, where appropriate allocating roles and responsibilities to optimise outcomes for passengers, and improve efficiency and effectiveness of delivery. This should align with the existing Memorandum of Understanding relating to enhancements delivery between the Department and Network Rail.
- i) Work proactively in partnership with other rail industry stakeholders to develop and deliver initiatives to include the following:
  - i) Supporting wider rail industry strategies, including improvements to the passenger experience such as their comfort and wellbeing; and
  - ii) Delivering improved strategic planning at rail industry level and between operators.
- j) Manage change within the Franchise in partnership with stakeholders to ensure that any change is delivered in a way that minimises disruption, maintains passenger experience and keeps stakeholders informed.
- k) Adopt a joint approach with Network Rail to Timetable Capacity and Possessions Planning to ensure efficient and effective delivery of the railway for operations, maintenance and renewals.
- l) Join and participate in the Community Rail Partnerships (CRPs) listed in the table in Appendix 1 to Schedule 13.1 of the Franchise Agreement (and any successor CRPs and any partners and organisations looking to form CRPs along Routes operated by the

Franchisee) and perform the obligations set out in paragraph 2 of Schedule 13.1 of the Franchise Agreement.

- m) Implement any works specified by the Department that will be carried out with a view to enabling further, deeper integration in the future; and
- n) Submit proposals for collaborative working, including achieving accreditation to ISO 44001/2017 'Collaborative Business Relationships' with industry stakeholders.

## **(B) EVIDENCE BIDDERS SHALL PROVIDE**

5.6.6 In addition to the Minimum Evidential Requirements, Bidders' responses shall include as a minimum:

- a) Support from Network Rail for the Bidders' proposed initiatives;
- b) Plans for building on existing joint working initiatives with Network Rail;
- c) A final form Alliance Agreement based on the Agreed Document "AA" described in clause 2.2 of the Franchise Agreement, such Agreed Document to be amended and populated as appropriate to reflect the Bidder's proposed initiatives. Bidders should note that the Agreed Document "AA" is the template prepared in association with the Rail Delivery Group (RDG) to preserve necessary regulatory separation and accountability. This document will be excluded from the Page Count;
- d) The proposed terms of reference for the Route Supervisory Board/s;
- e) Organograms or organisation charts for proposed joint working arrangements (covering performance, operational control, communications, property and enhancements);
- f) Details of any Key Performance Indicator (KPI) agreed with Network Rail and how these will be sufficiently incentivised; The organisational approach for the engagement with stakeholders (referring where necessary to the Customer and Stakeholder Engagement Strategy) including how the Bidder has understood stakeholder priorities for generating additional passenger benefits by addressing the needs, priorities and aspirations of passengers and other stakeholders and how feedback will be acted upon;

- g) How the Bidder will partner and collaborate with other organisations, inside and outside the industry, seeking third party funding where appropriate, in order to foster innovation and assist bringing new technologies, processes, business models and products to the rail market, that become viable during the Franchise Term;
- h) The Bidder's strategy for engaging with and supporting Community Rail Partnerships and organisations looking to form Community Rail Partnerships along or adjacent to the Routes operated by the Franchisee as described in Section A. This should include details of their understanding of the Routes' potential as set out in Community Rail Report, and how they can help deliver priorities for each Community Rail Partnership during the Franchise Term. They should also supply a draft version of the first year's Community Rail Report; and
- i) Evidence of how they will support the delivery of infrastructure upgrades including as set out in the Midland Main Line: Programme Delivery Statement and in particular the associated realisation of journey time benefits.

### **(C) SCORING**

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

5.6.8 Without prejudice to the generality of subsection 7.3.5 specific examples of how the above requirements may be exceeded are set out below:

- a) Responses that will provide a greater degree of co-ordination between the Franchisee and Network Rail at an executive level;
- b) Initiatives accompanied by commitments to improving operational performance, reducing the cost of project delivery and enhancing the passenger experience;
- c) Proposals for joint working that extend to other key stakeholders;
- d) Initiatives which commit to staff secondments for key operational roles between the Franchisee and Network Rail accompanied by demonstrable benefits;

- e) Proposals for collaborating with Network Rail with evidence of Network Rail support for the proposals. This could include proposals with well-defined arrangements for sharing efficiency benefits that are realised through collaboration between both Parties. Any such proposals should not include risk sharing arrangements or reciprocal benefit share mechanisms based around aligning or integrating business-level profits and losses and any such proposals will not be taken into account in evaluation;
- f) Proposals to reduce the number of temporary speed restrictions by, at a minimum, returning the infrastructure to the higher permitted speed that was in place before the temporary restriction was put in place and raising line speeds where it is appropriate to do so;
- g) Responses with well-defined mechanisms that entrench jointly agreed KPIs e.g. alignment of executive pay incentives;
- h) Proposals which deliver significant wider integrated network benefits;
- i) Detailed proposals for additional investment in and commitment to community rail initiatives, inclusive of station adoption, including proposals to enhance and facilitate community engagement in areas not served by the existing Community Rail Partnerships;
- j) Proposals for alternative solutions which demonstrably provide a more efficient way of dealing with compensation issues than the existing Track Access Contract compensation mechanisms;
- k) Plans to work with Network Rail and other operators in respect of actions which can be taken in the management and operation of the Franchise to contribute to the delivery of national and strategic objectives to improve network performance to a level beyond achieving the requirements in Schedule 7.1 (Performance Benchmarks) of the Franchise Agreement; and
- l) Proposals that provide innovative solutions to implementing the Alliance Objectives in a multi-user, multi-route environment.

## **5.7 Delivery Plan 2 – Train Service and Performance**

### **5.8 Sub-Plan 2.1 Train Services**

#### **(A) REQUIREMENT**

5.8.1 The Department requires a Franchisee who will plan and operate train services that meet the needs of passengers on the Midland Main Line, regional and local services by meeting the minimum train service and capacity requirements described in the Train Service Requirements, TSR 0, TSR 1 and TSR 2 contained in Attachment A (Train Service Requirements) to this ITT<sup>23</sup>.

5.8.2 These train services should:

- a) Operate at broadly regular intervals, except where variations in frequency are needed in order to match the profile of demand across the day (e.g. peak additional services; ramping up and down of frequency at the beginning and end of the day);
- b) Enable and contribute to improved operational performance in line with the requirements of Sub-Plan 2.3 (Performance);
- c) Minimise journey times as far as practicable, including by keeping allowances (including public time differentials) in the timetable to the minimum necessary in order to comply with the Timetable Planning Rules (TPRs) whilst meeting other relevant requirements of this ITT (including Performance);
- d) Be timed correctly for the slowest-timed rolling stock that may be planned to be allocated to that service;
- e) Be deliverable within the constraints of the infrastructure, taking account of the infrastructure enhancement schemes described in the Infrastructure Assumptions Document (IAD) plus any

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<sup>2</sup>If bidders identify any manifest errors or inconsistencies within the TSR tables, they may raise a BCQ no later than 10 working days after the TSR tables are issued with the ITT. If the Department agrees that an error has been made, it will issue an amended version of the TSR to all bidders.

<sup>3</sup> Solely for the purposes of assessing compliance with the TSR in the bid evaluation process, the Department will disregard any non-compliances that would be resolved if the timing of a particular train service in the bid timetable were to be adjusted by no more than five minutes. For example, a service that is scheduled to arrive at a particular station at 0955 may be counted towards meeting the specified requirement at that station for the 1000-1559 interval, provided that the service is not also counted towards meeting the specified requirement at that station for the 0600-0959 interval. Bidders must identify any instances where they are reliant on this flexibility to demonstrate compliance with the TSR. This flexibility does not apply in respect of the capacity requirements or the requirements about first and last train First Service and Last Service times.

enhancements schemes that the Bidder commits to fund and deliver); and

- f) Allow paths for other operators' services in accordance with the instructions set out in section (D) below.

5.8.3 The Department requires a Franchisee who, in addition to meeting any minimum capacity or crowding requirements set out in the TSR, will provide Sufficient Capacity on Relevant Services to the greatest extent practicable within the constraints of this ITT and of the railway infrastructure (taking account of the enhancement schemes described in the IAD) and where necessary and practicable making use of Selective Door Operation (SDO) to enable longer trains to call at under-length platforms. This requirement applies from the TSR2 timetable change date until the end of the Franchise Term. For the purposes of this requirement:

- a) **“Relevant Services”** means any Passenger Services except for the Corby peak services to/from London St Pancras (service code 1560);
- b) **“Sufficient Capacity”** means that:
  - i) The rolling stock allocated to each service provides standard-class capacity measured in accordance with subsection D of Delivery Plan 2.2 below (which may include standing capacity only on Peak Passenger Services) that equals or exceeds the forecast standard-class passenger loading at the critical load point as described in the “Loading Forecasts” rows in Table 5.2 below; and
  - ii) Where standing is forecast on Peak Passenger Services, passengers are not required to stand for more than 20 minutes.

5.8.4 The Department requires a Franchisee who will build up and maintain an establishment of trained and experienced safety-critical train crew and will:

- a) Reduce to a minimum the need for rest-day working and/or overtime working, where these are currently a necessity to deliver the Plan of the Day prior to December 2021, noting that this does not preclude the use of overtime to cover unexpected events, emergencies or to provide cover for services delivering for the

uplift in passenger demand that may occur seasonally or during special events from time to time;

- b) Operate an associated recruitment plan to meet current and future headcount demand for the Core Franchise Term and beyond; and
- c) Regularly report to the Department on the build-up and maintenance of their train crew establishment.

## **(B) EVIDENCE BIDDERS SHALL PROVIDE**

5.8.5 In addition to the Minimum Evidential Requirements, Bidders' responses shall include:

- a) An overview of the principal proposed changes to train service patterns and rolling stock deployment at any time during the Franchise Term, compared to the TSR0 requirement inherited at the Start Date especially for features that exceed the TSR;
- b) A narrative explanation to demonstrate that their plans can reasonably be expected to provide Sufficient Capacity for TSR2 timetable changes, recognising that:
  - i) In respect of services for which Table 5.2 below does not require forecasts of critical loads to be provided, the critical load may be higher than the forecast loading at London St Pancras, Nottingham and Lincoln; and
  - ii) The evidential requirements set out in Table 5.2 below do not, of themselves, demonstrate that peak standing will be confined to 20 minutes duration (at busy times of year or during perturbation for example).
- c) A description of how the Bidder's timetables and operational plans (including its approach to management, diagramming and deployment of rolling stock and train crew) will support delivery of its proposed train service and better train service performance;
- d) The Bidder's approach to train crew establishment which should include:
  - i) Their high-level strategy (including an industrial relations plan) to phase out the need for planned / rostered rest-day working and / or overtime working to deliver its Plan of the Day by December 2021;

- ii) Their proposed train crew establishment along with supporting evidence that their train crew establishment minimises the need for rest-day working and/or overtime working either based upon the Rail Delivery Group Guidance Note on Driver Establishment Calculation or an equivalent methodology. Note this should reflect expected service uplifts and make adequate allowance for any issues affecting train crew availability, including sickness absence, turnover, time off for training/trade union release, annual leave (and other time off arrangements), and any local agreements affecting (but not limited to) rostering, shift lengths, working hours and train crew availability;
  - iii) How the Bidder will regularly report to the Department progress on phasing out current levels of any essential reliance on planned / rostered overtime or rest-day working to deliver its Plan of the Day by December 2021; and
  - iv) How the Bidder will regularly report to the Department on its train crew establishment including metrics and KPIs such as vacancies as a percentage of establishment, spend on overtime working as a percentage of the overall train crew cost.
- e) A description of how the Bidder will approach and resource the operational planning required to deliver the changes as described in this Sub-Plan (including timetable and diagramming activities). This should include how the Bidder will work with Network Rail and other relevant industry parties.
  - f) A Technical Annex and the further operational data described in paragraphs 5.8.6 to 5.8.19 including Table 5.2 below (all of which are to be excluded from the Page Count).

*Technical Annex*

5.8.6 The Technical Annex will comprise of a number of documents providing detailed operational data and shall contain:

- a) A brief summary of the key points in the Bidder's Delivery Plan 2.1 submission that relate to:
  - i) Proposed changes to the train services. This should include a narrative description of any planned train



service changes that are not covered by the timetables that are required to be submitted by the Bidder in paragraph 5.8.8 below;

- ii) Proposed changes to rolling stock types deployed on each route served by the Franchise, where necessary describing how they intend to obtain route clearances from Network Rail;
  - iii) Changes in infrastructure functionality (over and above those described in the IAD), that the Bidder is assuming, their proposals for funding and delivering them, and evidence of Network Rail support (and for the avoidance of doubt this evidential requirement would also apply to any plans that rely on ETCS and/or traffic management deployment at any time during the Franchise Term); and
  - iv) Proposed additions to the geographic scope of the franchise set out in Schedule 1.1 of the draft Franchise Agreement. Such additions are permissible only if they have been approved by the Department in a response to a Bidder Clarification Question, as set out in subsection (D) below.
- b) The following further information (which should be briefly summarised in the Bidder's Delivery Plan 2.1 submission but does not need to be replicated there in full):
- i) Any changes to the Engineering Access Statement (Section 4), signal box opening hours and TPRs that have been assumed (with supporting evidence, including the views of Network Rail);
  - ii) A description of where revised SRTs have been applied for any rolling stock deployed that is not currently published in Network Rail's B Plan (with supporting evidence, including the views of Network Rail);
  - iii) A description of any flexing of other passenger and freight operators' services that has been assumed necessary to deliver a public timetable that is compliant with the TSR;

- iv) Any instances in which compliance with the TSR is dependent on the 'five minute flex' described in endnote 5 to subsection 5.8.1;
- v) A brief summary of the approach to crowding modelling, and the principal strengths and weaknesses of this approach; and
- vi) Details of any Relevant Services where Sufficient Capacity is not expected to be provided at any point after TSR2, and an explanation of why it would not be possible to provide additional capacity on those services within the constraints of the railway infrastructure (taking account of the IAD) and the other requirements of this ITT.

#### *Operational Data*

5.8.7 Bidders must provide the operational data set out in Table 5.2 (Operational data required as part of Bids) as part of their Bids.

#### *Timetables*

5.8.8 Bidders must provide their proposed weekday timetables for TSR1 and TSR2 covering all proposed services.

5.8.9 Bidders must provide a description of any train service changes proposed to take effect at any time other than the timetable changes set out in TSR1 and TSR2 which are not reflected in the timetables provided. Bidders are not required to provide full timetables or rolling stock diagrams to reflect incremental changes, but must describe their proposals and their anticipated impacts in sufficient detail and with sufficient evidence to assure the Department that they are deliverable and can be resourced.

5.8.10 Bidders' timetables must comply with the technical requirements set out in the document entitled *East Midlands Technical Guidance for Timetable Submissions* in Data Site folder 01.02 (Final ITT and Attachments).

5.8.11 Bidders are required to demonstrate that their proposed timetables and associated rolling stock diagrams comply with the TPRs and can be accommodated at turnaround stations. In particular, the Department requires Bidders to provide station platform working arrangements for Bidders' services and other operators services for weekdays at the following locations:

- a) London St Pancras;
- b) Nottingham;
- c) Derby;
- d) Bedford; and
- e) Lincoln.

#### *Train Plans and Passenger Loading Forecasts*

5.8.12 Bidders must provide their proposed weekday Train Plan for their TSR2 timetable. For any other dates on which they propose substantial timetable and rolling stock alterations, they must also supply relevant Train Plans. These plans must include loading forecasts complying with the minimum requirements set out in Table 5.2 below.

5.8.13 Bidders must use the standard Train Plan template provided for this purpose in the file entitled *East Midlands Train Plan template* in Data Site folder 01.02 (Final ITT and Attachments).

5.8.14 Bidders are required to provide loading data for the specific peak locations based on their December 2021 (TSR2) Timetable and Train Plan (assuming Autumn 2023 levels of demand) and on their December 2023 Train Plan (assuming Autumn 2025 levels of demand).

5.8.15 These loading forecasts shall be derived from the Bidder's crowding model.

#### *Rolling Stock Diagrams and Availability*

5.8.16 Bidders must supply Rolling Stock diagrams for their proposed TSR1 and TSR2 weekday timetables. These diagrams must include ECS workings and the start/end of service which are consistent with the overall depot and stabling strategy included in Sub-Plan 2.2.

5.8.17 Bidders must also supply tables showing the percentage fleet availability assumed for each rolling stock type in their TSR1 and TSR2 weekday timetables. Bidders must use the standard fleet availability template provided for this purpose in the file entitled *East Midlands Fleet Availability Table Template* in Data Site folder 01.02 (Final ITT and Attachments).

#### *Train Crew Diagrams*

5.8.18 Bidders must supply Train Crew diagrams for their proposed TSR2 weekday timetable.

*Additional Data Requirements*

5.8.19 Any changes to the Engineering Access Statement and signal box opening hours and costs that have been assumed (with supporting evidence, including the views of Network Rail).

*Further Instructions*

5.8.20 Further information about the format of these evidential requirements is set out in Table 5.2 (Operational data required as part of Bids), and bidders may support TSR1 with relevant information over and above the specification in that table where possible.

**Table 5.2** *Operational data required as part of Bids*

Item	Time Periods	Notes	Formats
Overview of train service proposals	-	As described in paragraph 5.8.5 above the overview itself is to be included within the Delivery Plan	-
Technical Annex	-	The Technical Annex is to be contained in a separate document and does not count towards the Page Count.	Word and PDF
Timetables	December 2020 (TSR1) and December 2021 (TSR2) and any other material changes	All services (SX). To include paths allowed for other operators' services, as a minimum during the period SX 07:00-19:59.  It is not necessary for Bidders to submit full working timetables for SO or SuO, with the exception of enhanced services where bidders intend to go above the TSR which may include but not be limited to Skegness summer services.	PDF (Public and Working timetables) plus PIF and SPG technical interface files
Platform working arrangements	TSR2 and any other material changes	SX only	Excel
Train Plan	TSR2 (Dec 2021) and Dec 2023	All SX services.	Excel

Item	Time Periods	Notes	Formats
Loading Forecasts	London St Pancras, Nottingham and Lincoln (TSR 2)	TSR2 (Dec 2021): Services arriving at and departing from London St Pancras, Nottingham and Lincoln, based on Autumn 2023 levels of demand from the Bidders' crowding model.  Loading forecasts to be provided at the critical load point.	Excel
Loading Forecasts	London St Pancras, Nottingham and Lincoln (Dec 2023)	Dec 2023: Services arriving at and departing from London St Pancras, Nottingham and Lincoln, based on Autumn 2025 levels of demand from the Bidders' crowding model.  Loading forecasts to be provided at the critical load point.	Excel
Loading Forecasts	All Other Services (TSR2)	TSR2 (Dec 2021): MOIRA1 outputs (uplifted to Autumn 2023 levels of demand) or calibrated loadings from the Bidder's crowding model.  Loading forecasts to be provided at the critical load point.	Excel
Rolling Stock Diagrams	TSR1 and TSR2	To be included for SX and include ECS moves consistent with Sub-Plan 2.2.	PDF and Excel or machine-readable Word
Train crew diagrams	TSR2	Diagrams to be included for SX timetable.	Text and Excel
Fleet availability table	Throughout Franchise Term	Table to be included for SX timetable.	Excel
Train Fleet table	Throughout Franchise Term	-	Excel

## **(C) SCORING**

5.8.21 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (East Midlands Franchise Marking Framework and Guidance). A bid that scores below 4 in this sub plan will be treated as non-compliant.

5.8.22 The Department's evaluation of the deliverability of the Bidders' train service proposals will include consideration of:

- a) The extent to which the Bidder's proposed timetables comply with the TPRs (including Sectional Running Times) published by Network Rail at the date of issuing this ITT;
- b) The credibility of evidence provided by the Bidder (including any evidence of Network Rail's views) that supports the Sectional Running Times (SRTs) used in the preparation of their timetables, where these are different from those published by Network Rail from their B Plan system; and
- c) The credibility of evidence provided by the Bidder (including any evidence of Network Rail's views) to justify any departures from the TPRs.

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

- a) Bids that, taking the train service proposition in the round, generate passenger benefits over and above those required by the TSR by addressing the needs, priorities and aspirations of passengers and other stakeholders, such as those highlighted in responses to the public consultation as summarised in the *Stakeholder Briefing Document* in Data Site folder 01.02 (Final ITT and Attachments);
- b) Bids that provide additional train services for which there is likely to be significant passenger demand and whose primary impact is likely to be to increase rail passenger volumes rather than to abstract demand and revenue away from other operators. Without limiting the above, the Department attaches particular value to credible commitments to (in no particular order):
  - i) Enhance Sunday services on the Midland Main Line from December 2020 above the level specified in the TSR;

- ii) Maintain or improve connectivity across Nottingham; and
  - iii) Identify where there is likely to be demand for services to operate earlier in the morning and/or later in the evening than is specified in the TSR, and after working with Network Rail, provide Passenger Services in their Timetables and Train Plans to meet this demand without a material reduction in train service performance.
- c) Bids that preserve, provide new, or enhance existing direct journey opportunities that are important to passengers but are not specified in the TSR, including but not limited to:
- i) Maintaining connectivity between non-London locations on the Midland Main Line without adversely affecting journey time improvements for longer-distance flows;
  - ii) Reinstating peak train services between Wellingborough and Bedford to replace the bus service between these stations as soon as reasonably practicable; and
  - iii) improving strategic east to west connectivity, which could include enhancements to the Derby – Crewe service to reduce journey times between principal stations and/or extension of this service to destinations beyond Derby.
- d) Bids that demonstrate robust proposals to reduce long-distance journey times on the Midland Main Line, working with Network Rail to deliver journey times as close as possible to the target journey times contained within the document titled *MML PDS SIGNED* in Data Site folder 01.02 (Final ITT and Attachments), within the constraints posed by infrastructure and other operators' services;
- e) Commitments to operate additional services may be made on a time-limited or experimental basis if supported by a commitment to review and report to the Secretary of State on passenger loadings and associated costs and revenues, though time-limited commitments will receive less weight in the evaluation of this Sub-Plan than equivalent commitments that apply throughout the Franchise Term;
- f) Commitments to operate services on Boxing Day on parts of the network where there is likely to be significant demand;

- g) Bids that (in addition to meeting the provisions of the Franchise Agreement Schedule 1.2 paragraph 4.3) show a proactive approach to the wider aspects involved in planning and providing for extra public demand on seasonal and special events. Evidence will need to be provided that shows how (as reasonably practicable) the Bidder intends to provide the services needed to cater for that demand. This should not be just limited to train capacity and the production of the Plan of the Day Timetable, but should explain how areas such as (but not limited to) local authority liaison, special event organiser / Police co-operation, passenger demand management and passenger flows between the station and the special event will be handled. The following locations / events should be especially considered:
- i) Music Festivals held at Donington Park;
  - ii) Lincoln Christmas Market;
  - iii) Seasonal summer demand to Skegness and other east coast resorts;
  - iv) Nottingham Goose Fair;
  - v) Matlock Illuminations; and
  - vi) Major sporting events within the geographic scope of the Franchise, including football, rugby, horse racing and cricket.
- h) Bids that include proposals for occasional use on the national network of heritage traction and rolling stock, for example to augment capacity to serve special events, to provide a special standard of customer experience, or to commemorate significant events;
- i) Strong, robust proposals for how information and resources will be managed and deployed during severe weather, planned and unplanned disruption and special events. This should include how the Franchisee will engage with and inform customers, communities and stakeholders prior to planned engineering works;
- j) Bids that include commitments to fund and deliver enhancements to the railway infrastructure (for example targeted line speed improvements to improve journey times) that will deliver passenger benefits and/or increase franchise value beyond the



franchise term (over and above those enhancements included in the IAD or Network Rail's latest Enhancements Delivery Plan). Evidence will need to be provided that shows how the Bidder intends to deliver these proposals including the opinion of Network Rail, funding proposals and deliverability;

- k) Bids that will identify ways to overcome the obstacles to successful delivery of worthwhile enhancements, including by working with Network Rail, other passenger and freight operators, and other stakeholders (including potential funders and delivery agents);
- l) Bids that include Initiatives that will improve rail's modal share for surface access to and from East Midlands Airport and London Luton Airport, in particular by operating appropriate earlier and later services to and from those airports, striking a balance between individual stakeholder aspirations;
- m) Bids that include initiatives to enhance regional connectivity, for example extending services between Norwich and Nottingham to Sheffield and serving Cambridge; and
- n) Bids that support the delivery of a connected timetable and provide benefits of improved end to end journey times, which may include, but are not limited to, proposals within Lincolnshire.

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

- a) The enhancements are deliverable, taking account of all relevant requirements in this ITT;
- b) There is likely to be sufficient passenger demand to justify the enhancements; and
- c) Their primary impact is likely to be to increase rail passenger volumes rather than to transfer demand away from other train operators.

5.8.25 Offering additional services that do not meet the criteria in paragraph 5.8.24 may be expected to result in a lower Final Score, as they will have no positive impact on the Quality Score (Q) but the costs of operating those services will have an adverse impact on their bid price (P).

Appendix 3 of this ITT (Risk adjustment) may also be applicable in this context.

## **(D) FURTHER INSTRUCTIONS TO BIDDERS**

### *Other operators' services*

5.8.26 Bidders must maintain paths for all other passenger and freight operator services as they appear in the May 2018 timetable, except where otherwise stated below.

5.8.27 Bidders may flex existing services, subject to:

- a) The quantum rights of passenger operators being maintained as described in their Track Access Agreements with Network Rail;
- b) Full compliance with freight access rights, including departure and arrival windows and minimum turnaround times, where stated; and
- c) Complying with the requirements set out below from 5.8.30 onwards (further requirements in respect of the future GTR, Cross Country and East Coast services).

5.8.28 The other operator's services will still be deliverable without material adverse impacts on calling patterns, service intervals, journey times or turnaround times for those services.

5.8.29 If proposing to re-time another operator's services, Bidders must provide sufficient evidence to demonstrate:

- a) That the other operator's services will still be deliverable without material adverse impacts on calling patterns, service intervals, journey times or turnaround times for those services;
- b) Why any changes are being proposed; and
- c) The industry and passenger benefits, where applicable, for proposing this change. Bidders should note that it is not possible to define what constitutes a "material" adverse impact, as this will depend upon the nature of the service in question. But Bidders should be aware that the scoring of their train service proposals will take account of the extent to which their proposals can be expected to affect (for better or for worse) the quality of the paths available for other operators.

### *Govia Thameslink Railway (GTR)*

5.8.30 A future timetable for GTR Thameslink services has been provided in .pif format in Data Site folder 01.02 (Final ITT and Attachments). The documents are titled *GTR Dec 18 SO*, *GTR Dec 18 SUN*, and *GTR Dec 18 SX*. This Thameslink timetable has been developed assuming six East Midlands paths per hour and Bidders should assume this Thameslink timetable from December 2020 onwards. If there are instances where the adoption of this future Thameslink timetable makes base timetable freight paths TPR non-compliant with GTR services south of Bedford, then Bidders should highlight these areas of non-compliance but are not required to resolve them as part of their timetable submission.

5.8.31 Bidders may flex Thameslink paths, with the following restrictions:

- a) The origin/destination of each service must not be altered, nor can origins/destinations be swapped between services;
- b) The presentation time to and from the Thameslink Core (Canal Tunnels Junction) must not be altered; and
- c) Performance and engineering allowances, timetable adjustments, dwell times and other timetabling considerations mandated in version 2.0 of the 2019 Timetable Planning Rules must be retained.

### *Cross Country*

5.8.32 The Cross Country operator is currently working with Network Rail to develop the December 2018 timetable. Bidders should work with Network Rail to understand the emerging opportunities from this timetable change. As the Department is unable to provide assumptions on the December 2018 and other future timetables, unless direction and agreement is made with Network Rail, Bidders should assume that the Cross Country services operate as they do in May 2018.

5.8.33 Bidders should note that, unless agreed with Network Rail, changes to timings or quantum of services at Birmingham New Street will not be accepted.

### *East Coast*

5.8.34 From no later than December 2021, regular hourly East Midlands services are required to make a parallel move across the East Coast Main Line (ECML) at Newark Flat Crossing.

5.8.35 Between the hours of 07:00 and 21:00 (SX) Bidders must provide paths for the East Coast operator to operate one train per two hours between Lincoln and Newark North Gate and vice versa. Bidders should assume this service occupies Platform 4 at Lincoln in odd hours between xx:17 and xx:45.

*Freight*

5.8.36 In addition to maintaining existing freight paths from the May 2018 timetable within the flexing rules provided, from December 2020 Bidders are required to structure their timetables on the Midland Main Line between Kettering North Junction and Kilby Bridge Junction to provide additional capacity for freight, informed by the MML Industry Planning Group (IPG) Indicative Train Service Specification (ITSS).

5.8.37 Bidders should assume that, unless existing rights are greater, there will be a maximum of two freight paths per hour in each direction between Kettering and Bedford in off-peak hours. Where existing freight paths fall below this level, there is a requirement for Bidder timetables to provide capacity for an increased quantum of service between Kettering North Junction and Kilby Bridge Junction and vice versa, but with no further requirement to path these services beyond these locations.

5.8.38 These additional requirements over and above existing freight paths are set out in the tables below:

**Northbound**

Existing freight paths in each hour at Kettering North Junction	Additional freight path requirement in each hour (all timed for Class 66) between Kettering North Junction and Kilby Bridge Junction via Market Harborough
No existing paths	1x 2000t path and 1x 600t path
1 < or equal to 600t trailing load or LE	1x 2000t path
1 > 600t trailing load	1x 600t path
2 or more	No additional requirement

**Southbound**

Existing freight paths in each hour at Kettering North Junction	Additional freight requirement in each hour (all timed for Class 66) between Kilby Bridge Junction and Kettering North Junction via Market Harborough
No existing paths	2x 2000t paths
1 service of any trailing load or LE	1x 2000t path
2 or more	No additional requirement

These additional requirements only apply in the following time periods at Kettering North Junction:

Time band at Kettering North Junction	Requirement
00:00 – 05:59	Additional requirement applies
06:00 – 10:59	No additional requirement
11:00 – 13:59	Additional requirement applies
14:00 – 19:59	No additional requirement
20:00 – 23:59	Additional requirement applies

#### *Timetable Planning Rules and Sectional Running Times*

5.8.39 In preparing their Bids, Bidders must use version 2.0 of the 2019 Timetable Planning Rules and the 2018 Engineering Access Statement, except as set out below:

- a) Where changes to the TPRs will result from infrastructure changes identified in the IAD; and
- b) Where the Bidder is proposing to deploy rolling stock types for which suitable Sectional Running Times have not been supplied by Network Rail or can demonstrate that existing SRTs are inappropriate (and in either case the Bidder must demonstrate Network Rail's support for their proposed approach).

#### *Geographic Scope*

5.8.40 Schedule 1.1 of the Franchise Agreement issued to Bidders alongside this ITT sets out the routes on which the Franchisee will be permitted to operate Passenger Services. If a Bidder wishes to propose extensions to the geographic scope as set out in that Schedule, they must raise a confidential BCQ with the Department at the earliest opportunity. The Department will consider such proposals against the following criteria:

- a) The extent to which the proposal addresses priorities for passengers and/or other stakeholders;
- b) The likelihood of generating additional passenger demand, as opposed to abstracting revenue from another franchise;
- c) The extent to which the Franchisee would be better placed than the operators of other franchises to satisfy that demand;

- d) The likely impact of the proposed services on other operators' services, for example: in relation to train service performance or in creating or restricting opportunities for other operators to offer a more attractive service to their passengers;
- e) The likely impact of the proposed services on the capacity and performance of the network; and
- f) The geographic scope of the franchise must not be extended to Birmingham New Street.

5.8.41 In raising a BCQ, Bidders should therefore set out clearly:

- a) The additional route(s) that they would propose to add to the geographic scope of the Franchise including a date when the geographic scope would be extended;
- b) The nature of the train service they propose to operate on the additional route(s), e.g. in terms of frequency and calling patterns and any impact on other Services operated by the Franchisee; and
- c) The rationale for proposing to do so, including any evidence they consider relevant to the criteria identified in paragraph 5.8.40 above.

5.8.42 In responding to the BCQ, the Department will inform the Bidder:

- a) Either that the proposed extension to the geographic scope would be permissible (and in doing so the Department may specify conditions that it would require to be met in order for the proposed extension to be permissible); or
- b) That the proposed extension would not be permissible (and in doing so the Department may identify particular features of the proposal that render it unacceptable. In this situation it would be acceptable for the Bidder to submit a revised proposal via a further confidential BCQ).

## **(E) CONTRACTUALISATION OF TRAIN SERVICE PROPOSALS**

5.8.43 The provisions of this subsection apply in addition to the provisions of subsection 4.14.3 (Contractualisation) and subsection 7.7 (Evaluation impact of contractual treatment of Bidders' Initiatives).

5.8.44 The Department will seek to capture the principal features of the bid while avoiding undue inflexibility.

5.8.45 The Department may deem new train services as Experimental Services as set out in the Railways Act 2005 chapter 36.

#### *Train Service Requirements*

5.8.46 The Department will prepare amended versions of the TSR to reflect the positive features of one or more train service proposals from the Bidder that we wish to contract.

5.8.47 The Department will include capacity metrics that are expressed as seats and/or total capacity which we would base on the Bidder's Train Plan.

#### *Train Plans*

5.8.48 The Department will seek to contract weekday and weekend Train Plans that reflect these principal features in accordance with the Franchise Agreement Schedule 1.1 paragraph 10.7.

#### *Process*

5.8.49 In preparing an amended TSR or Train Plan, the Department or its technical advisers may (at the Department's discretion) consult or otherwise involve the relevant Bidder during the process.

5.8.50 The Department will issue the amended TSR or the Train Plan to the Bidder, asking it to confirm that it would be prepared to enter into the Franchise Agreement on the basis of that amended mark-up. If the bidder is not prepared to do so, subsection 7.7 shall apply.

## **5.9 Sub-Plan 2.2 Rolling Stock**

5.9.1 Bidders may propose the use of existing or newly-built rolling stock. Except where stated, the Department will not differentiate between new and refurbished rolling stock. Bidders may also propose the procurement of assets other than rolling stock and such assets may be funded by the Residual Value (RV) Mechanism under this Sub-Plan. Bidders may not propose the procurement, lease or modification of rolling stock using the RV Mechanism.

## **(A) REQUIREMENT**

5.9.2 The Department requires a Franchisee who will be required to implement a rolling stock fleet solution, supported by depot, maintenance, stabling and train presentation strategies, that together:

- a) Deliver the train services set out in Sub-Plan 2.1 (Train Services);
- b) Meet the operational performance benchmarks in Schedule 7.1 and Customer Service and Train NRPS benchmarks relating to trains as set out in Schedule 7.2 and 7.3 in the Franchise Agreement;
- c) Apply continuous monitoring, assessment and improvement processes to drive efficiency and effectiveness; and
- d) Comply with the additional requirements set out in section E (Further Instruction as to Rolling Stock Requirement).

5.9.3 The Franchisee is required to implement a rolling stock fleet solution that delivers the train services to consistently high standards of rolling stock availability, reliability and presentation through effective management, maintenance and improvement of rolling stock assets. As a minimum this includes ensuring that all rolling stock that forms part of the Train Fleet:

- a) Is compatible with the technical and operational constraints of the infrastructure throughout the Core Franchise Term and any Extension Period, including as described by the Infrastructure Assumptions Document (IAD) and any further infrastructure enhancement schemes that the Bidder commits to fund and deliver;
- b) Provides interior layouts and seating configurations best suited to the routes and markets served;
- c) Is fitted with enhanced passenger information systems in each carriage by no later than December 2023 that include (in addition to relevant regulatory requirements) the capability to:
  - i) Acquire and display (in a user-friendly format) real-time travel and delay information, including that which allows passengers to make informed decisions with regard to interchange opportunities including services run by other transport operators;



- ii) Interface and integrate with other remote information systems (including systems providing real-time information about onward connections by rail and other modes, and where applicable on-train passenger loading measurement and SDO systems); and
- iii) Display information from those systems that is relevant for typical journeys the passengers make.

5.9.4 Notwithstanding the requirements in paragraph 5.9.1, bidders are required to provide newly-built rolling stock to operate intercity services on the Midland Main Line between London St Pancras and Sheffield/Nottingham in compliance with the applicable Train Service Requirement. This rolling stock must be capable of:

- a) Operating in electric mode (to take advantage of electrification infrastructure where this exists);
- b) Operating in another mode (including for the whole journey if necessary); and
- c) Operating Class 222-timed services from the as-bid TSR1 and TSR2 on the Midland Main Line with no detriment to intermediate and end-to-end journey times.

5.9.5 Bidders must ensure that:

- a) A minimum of one train meeting the requirements of paragraph 5.9.4 is capable of introduction for track testing and as a demonstrator by 31 December 2021;
- b) A minimum of one train meeting the requirements of paragraph 5.9.4 is capable of introduction into passenger service by 30 April 2022; and
- c) The remainder of the fleet meeting the requirements of paragraph 5.9.4 is in operation in passenger service by no later than 31 December 2023.

5.9.6 Notwithstanding the requirements in paragraph 5.9.1, bidders are required to provide rolling stock to operate services between London St Pancras and Corby in accordance with the applicable Train Service Requirement. This rolling stock must be an electric multiple unit and operating by no later than December 2020 when the necessary electrification infrastructure will be available. Bidders must ensure that the rolling stock provides a level of passenger comfort and amenity that is

identified by stakeholders, including such things as an appropriate mix of tables, at seat power, appropriate luggage space and appropriate door configurations for access/egress of passengers.

5.9.7 A summary of the Bidders' approach to any newly-built rolling stock which is introduced into the Franchise to take account of changing requirements in the future. This could be, but is not limited to, providing flexibility of operation and re-allocation of space.

5.9.8 The Department requires a Franchisee that, as soon as reasonably practicable, is able to measure and monitor the energy consumption of its trains to enable improvements in energy usage to be made. This may be done through the fitment of on-train measuring equipment or an alternative process. In the case of electric traction, the Franchisee should become a Metered Train Operator as set out in Schedule 1.6 (The Composition of the Train Fleet) of the Franchise Agreement. The Franchisee must implement such systems and processes as are necessary to enable diesel fuel consumption to be measured and monitored on a journey-by-journey basis.

5.9.9 Bidders must provide plans for measuring and improving the environmental performance of rolling stock operations and maintenance including:

- a) Metering and management of energy consumption, including plans for the measurement and verification of any efficiency measures adopted;
- b) Improving energy efficiency (e.g. retrofitting more efficient technology, reducing ECS movements);
- c) Providing a traction energy and carbon trajectory over the course of the Core Franchise Term and any Extension Period;
- d) Measuring and improving the environmental performance of rolling stock, depots and stabling locations. Plans should include the approach to improving energy efficiency, renewable energy generation, water and waste management over the course of the Core Franchise Term and any Extension Period; and
- e) Demonstration of deliverability to trial new and emerging technologies within the Train Fleet, where such technologies have clear potential to benefit the wider rail market. These technologies to include novel propulsion/on-board energy storage which can

deliver zero harmful tail-pipe emissions and can be applied at fleet scale by the mid to late 2020's.

5.9.10 The Department requires a Franchisee who will support the development of European Train Control Systems (“**ETCS**”) and who will, in addition, ensure that passive provision for the future installation of on-train ETCS equipment is included within the design of any newly-built trains to be introduced into the Franchise. Passive provision should meet the requirements of GB ETCS Ready On-board Sub-system Requirements Specification<sup>4</sup>.

5.9.11 The Department requires a Franchisee who will develop a quantified strategy for improving the energy efficiency arising from rolling stock operations and maintenance and meet the targets and reporting requirements specified in Schedule 11.2 of the Franchise Agreement.

5.9.12 The Department requires a Franchisee who, when procuring newly-built trains or installing or upgrading on-train CCTV systems on existing trains, will reflect the principles outlined in RDG’s “National Rail & Underground Closed Circuit Television (CCTV)” and BTP’s “Output requirements from CCTV Systems” guidance documents.

5.9.13 Any newly-built rolling stock must be fitted with the equipment necessary to enable the trains to be operated in Driver Only Operation (DOO) when in Passenger service.

5.9.14 Bidders are required to reduce air pollutants across the Franchise, including NO<sub>x</sub>, CO, PM<sub>10</sub>, PM<sub>2.5</sub> and noise pollution. This proposal should include:

- a) Their approach to understanding the impacts of air pollutants from the franchise;
- b) Proposed mitigation measures, including where and when these will be implemented;
- c) How performance will be monitored;
- d) How air pollution impacts will be reduced at all major stations; and
- e) How air pollution mitigation will be specified for any new or refurbished rolling stock.

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<sup>4</sup> Available from [www.rssb.co.uk/improving-industry-performance/ertms](http://www.rssb.co.uk/improving-industry-performance/ertms)

## **(B) EVIDENCE BIDDERS SHALL PROVIDE**

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

- a) Their proposed fleet strategy, to include:
  - i) An explanation of how the composition of the Train Fleet is proposed to change over the course of the Franchise Term;
  - ii) How the introduction of newly-built or cascaded fleets into the Franchise will be managed so as to avoid disrupting services for passengers and to meet standards of punctuality and reliability performance;
  - iii) Evidence that their proposed fleets will be compatible with the technical and operational capabilities of the infrastructure including as described in the IAD; and
  - iv) A summary fleet plan using the Excel template titled *East Midlands Fleet Plan Template v1.00* in Data Site folder 01.02 (Final ITT and Attachments).
- b) Their proposed depot, maintenance, stabling, and train presentation strategies (including plans for financing and delivering any significant investment in upgrading depot and stabling facilities in order to support those strategies). Depot strategies should also include, but are not limited to, evidence such as:
  - i) Letters of support from Network Rail in terms of depot development and network connections. These will be excluded from the Page Count;
  - ii) Approaches to obtaining local authority planning consent, including details of any outline planning applications or consent (where applicable); and
  - iii) Details of any mitigation measures in the event that a bidder should be unable to deliver their proposed depot strategy e.g. due to local authority restrictions.
- c) Term Sheets for any rolling stock forming part of the Bidder's Train Fleet within the Franchise and evidence to support proposals for newly-built rolling stock. Term sheets must include any offer

letters from manufacturers including project plans for delivery of fleets and associated equipment, maintainers including the detail of the offer and financiers which includes assumptions around maintenance reserves. Maintenance Reserves should demonstrate that whole-life costs are balanced throughout the life of the vehicles and the burden will not fall on future operators of an increased maintenance reserve to make up for charges not applied in the initial term. For clarity the Maintenance Reserves apply to newly-built rolling stock and existing fleets. Maintenance Reserves amounts should be clearly shown and identified in the bid assumptions and financial model. These term sheets will be excluded from the Page Count;

- d) Demonstration of deliverability of any proposed fleet change programmes and the impact on passenger services during their implementation;
- e) Details of how the Franchisee will work with relevant fleet owners to minimise operational disruption from, and ensure timely completion of, any necessary rolling stock enhancement works required (e.g. compliance with accessibility requirements in the Railways (Interoperability) Regulations 2011.);
- f) Plans for how and when modifications will be delivered (any consequent impacts on passenger services should be detailed in Sub-Plan 2.1 (Train Services) and cross-referenced here;
- g) Details of potential key suppliers on whom the Franchisee will depend to maintain, clean and (if proposed) reconfigure or refurbish the Train Fleet;
- h) Where fleet cascades are part of the rolling stock fleet solution, details setting out how the cascades will be managed and what mitigation they would use should incoming stock be delivered later or outgoing stock is retained for longer than has been assumed;
- i) Where the Bidder's proposed Train Fleet includes vehicles that, at the time of issuing this ITT, are in operation or are planned to be brought into operation on another franchise, the Bidder should provide the Department with further information as set out in Section E below. This shall include:
  - i) An explanation of their reasons for being confident that the current or successor operator of the 'donor' franchise will be able to secure sufficient suitable alternative rolling

stock to continue to operate their train services to current standards and not worsen the quality of the passenger facing facilities; and

- ii) An explanation of what mitigation the Bidder would use should the incoming cascaded stock be delivered later than assumed in the Bid (bearing in mind the provisions relating to Cascaded Rolling Stock in Schedule 2.2 of the Franchise Agreement) or in an unsatisfactory condition. This must include identification of the alternative rolling stock that the Bidder would lease in the event of the Secretary of State requiring the rolling stock to be leased back to the donor franchise under Schedule 2.2; and
- j) Bidders are expected to submit an outline delivery plan to meet the requirements in paragraph 5.9.9 e) above. This plan should include the following details:
- i) Suggested technical nature of the proposed technology (e.g. Hydrogen, battery, supercapacitor, hybrid) and supporting rationale (e.g. stage in technological development, strategic national fit);
  - ii) Suggested location(s) and proposed timing(s) of trial, noting that the bidder may propose to run the trial in more than one location;
  - iii) Suggested delivery partners which could include systems integrator, ROSCO, rolling stock manufacturer/refurbisher, sub-systems manufacturer(s), energy suppliers;
  - iv) Outline for the protection of Intellectual Property; and
  - v) Outline risk management plan which includes arrangements to maintain service in the event of trial underperformance.

### **(C) SCORING**

5.9.16 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (East Midlands marking framework and guidance). A Bidder that scores below 4 in this Sub-Plan will result in their Bid being treated as non-compliant.

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

- a) Initiatives to enhance the reliability of the Train Fleet beyond the requirements set out in section (A) above such that, in the Department's reasonable opinion, the requirements of Schedule 7.1 (Performance Benchmarks) of the Franchise Agreement are likely to be significantly exceeded;
- b) Initiatives to enhance the quality of the Train Fleet substantially beyond the requirements set out in section (A) above;
- c) Where technically feasible and where power limitations permit, initiatives to fit air conditioning or air cooling to those vehicles that are not already fitted that is designed to operate effectively and reliably within the range of ambient temperatures normally experienced across the Routes;
- d) Initiatives to give passengers the ability to charge their mobile devices e.g. fitment of power sockets and/or USB ports for newly-built fleets to be procured, or for rolling stock that undergoes a refurbishment, subject to the installation being technically feasible, power limitations permitting and not being disproportionately expensive;
- e) Initiatives to improve whole industry cost efficiency such as reducing the impact of rolling stock on infrastructure, enable efficient and safe monitoring of the condition of infrastructure or provide additional data (e.g. GPS data, OLE monitoring equipment and ride monitoring equipment) that is of practical benefit to the rail industry;
- f) Initiatives to deliver state-of-the-art customer and operator facilities and services, through integration of on-board and trackside people / process / and technology solutions, with such equipment and systems being capable of cost efficient upgrade, such as:
  - i) Integrated train to shore passenger / customer information systems;
  - ii) Vehicle loading and passenger boarding / alighting information over and above the requirements in

Schedule 1.5 (Information about Passengers) of the Franchise Agreement; and

- iii) Passenger Announcements and Train Crew calls using train crew smart phones / tablets.
- g) Initiatives to reduce, in conjunction with the Sub-Plan 2.1 (Train Services), the service impact of fleet performance incidents, network disruption and other operational challenges;
- h) Initiatives to reduce the weight of trains, particularly for newly-built stock;
- i) Proposals to increase capacity for the carriage of bicycles where a need can be demonstrated while meeting the Sufficient Capacity metrics specified in paragraph 5.8.3 of Sub-Plan 2.1;
- j) Initiatives to increase the number of vehicles fitted with automatic passenger counting equipment beyond the requirement in the Franchise Agreement or to increase the accuracy of existing passenger counting equipment;
- k) Proposals to deliver the rolling stock required in paragraph 5.9.4 into passenger service earlier than the dates specified in paragraphs 5.9.5 b) and c), by working with Network Rail and coordinating this with the delivery of MML infrastructure; and
- l) Proposals to enable British Transport Police to access remotely CCTV on-board trains.

#### **(D) FURTHER INFORMATION**

5.9.18 The provisions of this subsection apply in addition to the provisions of subsection 4.14.3 (Contractualisation) and subsection 7.7 (Evaluation impact of contractual treatment of Bidders' Initiatives).

##### *Newly-built Rolling Stock*

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



- a) Where text has been omitted from the document, this is because the Secretary of State has decided to exclude the text in accordance with the provisions within the Freedom of Information Act 2000.

5.9.20 When contractualising any proposal for newly-built rolling stock, the Department will incorporate into the Franchise Agreement:

- a) An obligation on the Franchisee to use all reasonable endeavours to bring the newly-built rolling stock into passenger service by the Target Date(s);
- b) An obligation on the Franchisee to secure the rolling stock has been brought into passenger service no later than twelve months after the Target Date(s); and
- c) Provisions to address the financial consequences of the newly-built rolling stock entering into service sooner than, or later than, the Target Date(s):
  - i) That there will be no adjustment to the Franchise Payments in consequence of the newly-built rolling stock entering into passenger service earlier than the Target Date(s);
  - ii) In the event that the newly-built rolling stock does not enter into passenger service until after the Target Date(s), then (without prejudice to any other remedies that may be available to the Secretary of State) the net financial effect of the delay to the Franchisee will be assessed. If the net financial effect of the delay is a saving to the Franchisee, then the Franchise Payments will be adjusted in the Secretary of State's favour by the amount of the saving. If the net financial effect of the delay is an increase in the cost to the Franchisee, then the Franchisee will bear the cost; and
  - iii) The assessment of the net financial effect will take account of:
    - A) Any liquidated damages that any third party is liable to pay to the Franchisee in relation to the delay in the lease, maintenance and other operating costs avoided or deferred by the Franchisee in consequence of the delay (including

costs relating to the provision of depot facilities in relation to the newly-built rolling stock);

- B) Any additional lease, maintenance, and other operating costs reasonably incurred by the Franchisee as a result of extending the leases on other rolling stock within the Train Fleet beyond the lease expiry dates specified in Schedule 1.6 (The Rolling Stock) of the Franchise Agreement, or leasing in other rolling stock to substitute for the newly-built vehicles (the Franchisee having used all reasonable endeavours to minimise such costs);
- C) Any loss of revenue suffered by the Franchisee as a consequence of the delay (such loss being calculated in accordance with industry standard revenue forecasting guidance and practices); and
- D) Any other cost savings enjoyed by the Franchisee as a consequence of the delay. The operational Performance Benchmarks in Schedule 7.1 (Operational Performance) of the Franchise Agreement and the customer experience performance targets will not be amended in consequence of any delay and the assessment of the net financial effect of the delay will take no account of any changes to the payments arising under Schedules 7.1 (Operational Performance), 7.2 (Customer Experience and Engagement) and Schedule 7.3 (Service Quality Regime) of the Franchise Agreement that are a consequence of the delay.

#### **5.9.21 Rolling stock capacities – existing fleets and layouts**

5.9.22 Table 5.3 (Capacities of Rolling Stock for Bidding Purposes) sets out for information the standard class Passenger Carrying Capacity of the unit types in the Train Fleet as inherited from the Start Date. Bidders shall assume these capacities for the purposes of their Bids (except insofar as proposals to modify rolling stock interiors will affect capacity).

**Table 5.3 Capacities of Rolling Stock for Bidding Purposes**

Class	Vehicles (Vehicles per unit)	Standard class				First class		Owner/ Lessor
		Seats	Standing	Total	Wheel- Chairs	Seats	Wheel- Chairs	
153	10 (1-car)	72	30	102	1	0	0	Angel Trains
153	11 (1-car)	72	30	102	1	0	0	Porterbrook
156	8 (2-car)	139	68	207	2	0	0	Angel Trains
156	22 (2-car)	143	66	209	2	0	0	Porterbrook
158	32 (2-car)	151	68	219	2	0	0	Angel Trains
158	20 (2-car)	151	66	217	2	0	0	Porterbrook
222	16 (4-car)	150	100	250	1	33	1	Eversholt
222	85 (5-car)	196	129	327	1	49	1	Eversholt
222	42 (7-car)	244	151	395	1	106	1	Eversholt
HST	3 sets	234	n/a	234	0	70	1	Angel Trains
HST	9 sets	357	n/a	357	2	111	0	Porterbrook

*Rolling Stock capacities – introduced fleets and altered layouts*

5.9.23 Where a Bidder is proposing to reconfigure the interior layout of any existing rolling stock, or to introduce into the franchise cascaded or newly-built stock, an assessment will need to be made of the Passenger Carrying Capacity of that reconfigured, cascaded or newly-built stock.

5.9.24 This can be done by submitting a Confidential BCQ. Such a question must be accompanied by a fully-legible A3 scale drawing of each vehicle, showing:

- a) Key dimensions (including internal and external vehicle length and width, aisle widths, dimensions of vestibule areas and the width of door apertures when open);
- b) Its interior layout (including fixed and tip-up seats; grab-poles, hand-holds etc.);
- c) The areas designated for use by wheelchair users (with a clear indication, where applicable, of which tip-up seats are still available for use when the wheelchair spaces are occupied);
- d) Which areas are designated as first class accommodation; and
- e) The formation of the vehicles as part of the unit.

5.9.25 The Department will endeavour to respond within 8 working days of receipt of such a BCQ and fully-legible scale drawing as indicated above.

5.9.26 Bidders should supply the interior layout information for any modified, cascaded or newly-built rolling stock as set out in 5.9.24 above with their bid documentation. If the Bidder has already submitted up-to-date information (via a BCQ) then they don't need to re-submit it here. This will be excluded from the total Page Count.

5.9.27 Bidders should fill in the *EM Passenger Carrying Capacity Tables* template, as found in Data Site folder 01.02 (Final ITT and Attachments), for each vehicle. They should clearly mark where they have obtained the Passenger Carrying Capacity numbers from. In the case of estimated numbers, the Department will make its own assessment of the capacity for the purposes of evaluating the bid from the information supplied in 5.9.26 above.

#### *Passenger Carrying Capacity*

5.9.28 The following describes the process used by the Department to calculate the Passenger Carrying Capacity of a train for the purpose of train service planning. It is not intended to calculate the maximum number of people that can actually be conveyed on the vehicles.

5.9.29 The Department will assess the capacity of each individual vehicle with in a train. In its assessment, the Department will assume that each passenger will occupy an area of 0.45m<sup>2</sup> whether seated or standing.

#### *Seated Capacity*

5.9.30 The seated capacity of any vehicle will be assessed by counting the following:

- a) Standard class fixed seats that provide lumbar support;
- b) Wheelchair spaces; and
- c) Tip-up seats that have a standard size base, lumbar support and which are capable of being used when the wheelchair spaces are occupied.

5.9.31 Any seat furniture that does not meet these criteria will be classified as a perch-pad and will not be counted towards the seated capacity.

#### *Standing Capacity*

5.9.32 The standing capacity of any vehicle will be assessed by measuring the total area of the vehicle that is reasonably accessible for use by standing passengers.

5.9.33 To determine the capacity of a vehicle, the overall internal area of the vehicle is measured. This is measured at the waist level of the vehicle as per standard rolling stock internal layout and configuration plans.

5.9.34 Areas that are inaccessible to passengers for standing are measured and deducted from the total vehicle area. This includes but is not limited to:

- a) Area used for seating. This is equal to the number of seats identified in 5.9.30 multiplied by 0.45m<sup>2</sup>;
- b) Perch pads (where applicable, the stowed area)
- c) Toilets;
- d) Staff area;
- e) Any area which is only available to first class ticket holders;
- f) Litter bins;
- g) Equipment cupboards;
- h) Draught screens;
- i) Floor mounted luggage stacks;
- j) Dedicated cycle racks;

- k) Gangways between vehicles unless specifically designed for passengers to stand on; and
- l) Spaces between seats (back to back) unless there is a sufficiently large area to reasonably stand and it is not intended to be used for another purpose such as luggage or bicycle storage.

5.9.35 To determine the standing capacity of a vehicle, the total area available for standing passengers in 5.9.32 is divided by 0.45m<sup>2</sup> and rounded down to the nearest whole number.

#### **(E) FURTHER INSTRUCTIONS AS TO ROLLING STOCK REQUIREMENTS**

5.9.36 This section sets out further instructions to Bidders which are aimed at ensuring, so far as possible, that:

- a) Bidders for future franchise competitions can have reasonable certainty about the rolling stock that will be available to them; and
- b) Any plans for inward cascades into the Franchise do not leave the donor TOC without realistic options to maintain their existing service offer for their passengers.

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

5.9.38 To that end, only the following rolling stock may be proposed by Bidders for inclusion within the East Midlands franchise Train Fleet:

- a) The rolling stock that is comprised within the East Midlands franchise Train Fleet at the date of issuing this ITT;
- b) Electric or diesel or bi-mode or hybrid multiple units, locomotives, driving van trailers and coaching stock of any class that are leased by a Relevant Operator other than the current East Midlands Franchisee at the date of issuing this ITT and that either:

- i) Will be demonstrably surplus to the requirements of that Relevant Operator because:
  - A) Newly-built rolling stock is being procured to replace it; or
  - B) Other rolling stock is due to be cascaded in to the donor franchise to replace it; or
  - C) The Bidder proposes to release suitable alternative replacement stock from the East Midlands franchise that could be used by the donor franchisee.
- ii) Will not be demonstrably surplus to the requirements of that operator, but the Bidder can demonstrate that it will be feasible for that operator to secure alternative rolling stock in sufficient time to enable that operator to maintain the operation of its train services to at least current standards. Alternative rolling stock must be capable of delivering comparable or better operational performance characteristics, and of achieving comparable or better levels of passenger satisfaction. For these purposes the Bidder must demonstrate that it has allowed an appropriate lead time for any modifications that may be needed to the alternative rolling stock to enable it to meet the stated operational and quality requirements, for the training of drivers, and a reasonable contingency margin.
- c) Electric or diesel or bi-mode or hybrid multiple units, locomotives, driving van trailers and coaching stock of any class that are not leased at the date of issuing this ITT by any Relevant Operator; and
- d) Any newly-built rolling stock that the Bidder commits to procure.

5.9.39 Where a Bidder proposes rolling stock falling within paragraph 5.9.38 b), their Bid must:

- a) Demonstrate that the conditions in paragraph 5.9.38 b) are met;
- b) Explain how the Bidder would handle a delay to the proposed inward cascade. Such explanation must set out:

- i) How they would continue to meet the TSR in spite of such a delay; and
- ii) If applicable, which of their proposed service enhancements over and above the TSR would have to be deferred or cancelled in the event of such a delay; and
- c) An explanation of how the Bidder would provide rolling stock if there were to be a delay of up to two years to the delivery of the MML Key Output 1 electrification infrastructure as defined in the Franchise Agreement, e.g. through existing rolling stock optional lease extension.

5.9.40 Bidders should provide an explanation of what mitigation they would use should incoming stock be delivered later than assumed in the Bid (bearing in mind the provisions relating to Cascaded Rolling Stock in Schedule 2.2 of the Franchise Agreement). This must include identification of the alternative rolling stock that the Bidders would lease in the event of the Secretary of State requiring the rolling stock to be leased back to the donor franchise under Schedule 2.2.

5.9.41 Where text has been omitted from the document, this is because the Secretary of State has decided to exclude the text in accordance with the provisions within the Freedom of Information Act 2000.

## **5.10 Sub-Plan 2.3 Performance**

### **(A) REQUIREMENT**

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

- a) Deliver the performance benchmarks specified in Schedule 7.1 of the Franchise Agreement;
- b) Work with Network Rail and other operators to identify the causes of any poor performance there may be and develop and implement suitable mitigations to the poor performance in question as appropriate;
- c) Work to foster and maintain a “Right Time Railway” culture (where all trains are on time at every station along the route), reducing delays through collaboration with Network Rail and other operators;



- d) Implement and maintain applicable competency standards for control staff, providing specific training and maintaining applicable competency standards for those staff members with a key role in managing disruption, including on call staff and explain how the competencies will be assessed, measured, and monitored;
- e) Develop an approach to performance that focuses on: analysing performance failures, specifically establishing the root cause of any performance failure; improving performance, with emphasis on sub-threshold delay, poor performing routes, high delay impact locations and areas of passenger interchange;
- f) Design and implement business continuity processes for the operational aspects of the business, setting out how they will engage with industry partners (including Network Rail, ROSCOs and train maintainers) to minimise delay and disruption to passengers; and
- g) Utilise current and evolving technology to improve the operational resilience of the Franchise.

**(B) EVIDENCE BIDDERS SHALL PROVIDE**

5.10.2 In addition to the Minimum Evidential Requirements, Bidders' responses shall include:

- a) Proposals for the delivery of a "Right Time Railway" including:
  - i) How they propose to develop staff competencies, identify relevant targets and how these will be incentivised; and
  - ii) How they propose to work with Network Rail and other operators to develop initiatives to ensure that a "Right Time Railway" culture and performance is embedded across the Franchise.
- b) Their overall strategy for operational planning and management, covering issues such as:
  - i) How the Bidder would manage and organise their operational control functions; and performance management, business continuity, engineering and service recovery arrangements including the co-location of resources with Network Rail and other industry

partners where this would deliver demonstrable industry performance benefits;

- ii) Their strategy for service delivery which reflects the differing requirements between peak and off-peak; and
  - iii) Their proposals for managing extreme weather and seasonal conditions including leaf fall.
- c) Plans for delivering the benchmarks under Schedule 7.1 of the Franchise Agreement including for each initiative proposed the:
- i) Problem identification;
  - ii) Approach and resource commitments for the proposed solution; and
  - iii) Measurable evidence of the impact on performance.
- d) How sub-threshold delay will be identified, analysed and reduced;
- e) How their Train Plan and rolling stock utilisation and work force strategy support the robustness of the delivery of the requirements of Part (A), particularly by identifying the key risks and how these will be mitigated; and
- f) How the Franchisee will minimise the impact of routine and ad hoc engineering work and challenging circumstances on the provision of Passenger Services, including by:
- i) Maintaining the provision of Passenger Services (for example by working with Network Rail and other operators to maximise the number of trains to continue running while engineering work is taking place, and/or by using suitable diversionary routes where available); and
  - ii) Developing and implementing appropriate arrangements to ensure the continued safety and welfare of passengers in completing their journey.

### **(C) SCORING**

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

5.10.4 Without prejudice to the generality of subsection 7.3.5 (Scoring Methodology) specific examples of how the above requirements may be exceeded are set out below:

- a) Plans to work with Network Rail and other operators in respect of actions which can be taken in the management and operation of the Franchise to contribute to the delivery of national and strategic objectives to improve network performance to a level beyond achieving the requirements in Part (A);
- b) Plans that demonstrate investment in significant journey time/cancellation risk reduction across the Franchise, inclusive of, but not restricted to the continuous improvement of “Right Time Railway” performance across the Franchisee area;
- c) Initiatives which commit to specific operational performance targets at a local level and how staff will be incentivised to achieve these;
- d) Proposals which commit to specific KPIs for the reduction of sub-threshold delay coupled with an explanation of how this information will drive decision making within appropriate levels of the business;
- e) Initiatives which commit to the use of right time data (i.e. making sure the right information is available for the right people when they need it) for relevant business planning coupled with commitments of how this information will underpin decision making within appropriate areas of the business;
- f) Initiatives which commit to working with the operators of other services on the Network Rail LNE and EM route to improve overall operational performance on all routes used by the Franchisee;
- g) A Digital Rail Proposal which demonstrates significant value for money to the Department and improves operational performance, for example through providing material savings to the Department and/or Proposals that offer a broader range of digital investments than is available at the Start Date;
- h) Initiatives to deliver a rolling stock and train crew rostering system capable of being integrated with Network Rail’s traffic management systems; and

- i) Initiatives to deliver a driver advisory system or traffic management system capable of being integrated with Network Rail's traffic management systems and/or ERTMS.

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

## **5.11 Delivery Plan 3 – Revenue**

### **5.12 Sub-Plan 3.1 Marketing and branding**

#### **(A) REQUIREMENT**

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

- a) Develop and implement effective marketing strategies and plans to promote Passenger Services and generate growth in revenue (farebox and non-farebox) and passenger journeys in a manner that reflects the character and requirements of the markets served;
- b) Actively market and promote the improvements in train service patterns, rolling stock quality and customer service as they take place through the course of the Franchise Term to maximise the patronage and revenue arising from the improvements, and to improve public perception and the reputation of the Franchise;
- c) Use branding to maximise the value of the Franchise whilst having regard to the overall costs and benefits of branding including meeting the obligations set out in Schedule 14.2 of the Franchise Agreement, which, amongst other requirements, requires the Franchisee to:
  - i) Implement and maintain Neutral Branding and the East Midlands Railway Brand throughout the Franchise Term; and
  - ii) Ensure that all rights in the East Midlands Railway Brand are capable of being designated as Primary Franchise Assets and transferred to a Successor Operator at nil value.

- d) Make effective and suitable use of Marks owned by the Secretary of State that are appropriate to the regions served by, and the heritage of, the Routes, e.g. “The Master Cutler”; and
- e) Develop marketing initiatives in conjunction with stakeholders, including Community Rail Partnerships to grow the level of passenger journeys undertaken including, but not limited to, tourists and leisure users.

**(B) EVIDENCE BIDDERS SHALL PROVIDE**

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

- a) Their approach to developing new markets and growing existing market segments of the Franchise, showing returns on investment in marketing activities, including evidence of plans to maximise the benefits of investments and other improvements in the Franchise;
- b) Their approach for delivering Neutral Branding capable of being designated as Primary Franchise Assets for transfer to a Successor Operator via the Transfer Scheme at nil value;
- c) Their approach to identifying marketing spend including setting out the Minimum Marketing Spend and the Minimum Marketing Team Spend in Appendix 1 of Schedule 6.3 of the Franchise Agreement where the Forecast Revenue Mechanism applies;
- d) Plans for working with stakeholders to develop marketing initiatives including plans for working with Network Rail on marketing improvements that are being delivered on the Routes; and
- e) Plans for supporting the uptake of Smart Ticketing through marketing and promotional activities.

5.12.3 The Department will be looking for evidence to support the projected return on investment from Bidder’s marketing schemes at a sufficient level of detail to inform the Department’s risk adjustment process (see Appendix 3 - Risk Adjustment Process).

**(C) SCORING**

5.12.4 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (East Midlands marking

framework and guidance). Without prejudice to the generality of subsection 7.3.5 (Scoring Methodology), specific examples of how the above requirements may be exceeded are set out below:

- a) Strong proposals for effective, well targeted marketing schemes whilst robustly demonstrating how each initiative delivers additional revenue;
- b) Marketing initiatives that stimulate modal shift to, and travel by, rail generally, including through collaboration with stakeholders and other train, light rail, heritage railway, tram and bus operators, including but not limited to tourist sites and attractions;
- c) Well-tailored local marketing and branding developed in conjunction with local stakeholders that helps to promote rail as an integral part of public transport provision;
- d) Proposals which deliver better use of any under-utilised capacity during the off-peak;
- e) Proposals that retain or expand effective and suitable use of Marks owned by the Secretary of State that are appropriate to the regions served by, and the heritage of, the Routes examples of which include Midland Mainline, InterCity and “The Robin Hood”; and
- f) Proposals that adopt innovative approaches to customer relationship management.

### **5.13 Sub-Plan 3.2 Fares, Ticketing and Revenue Protection**

**Bidders may propose assets to be funded by the Residual Value Mechanism described in subsection 5.2 (Residual Value Mechanism) under this Sub-Plan.**

#### **(A) REQUIREMENT**

5.13.1 The Department requires a Franchisee who will make rail fares easier to understand, fairer, and better suited to customers’ needs, and who will do so in a manner that is subject to continuous improvement.

5.13.2 The Department requires a Franchisee who will offer product(s), in addition to existing season tickets, that give customers who travel fewer than 5 days a week a better value-for-money option than buying multiple return journeys.

5.13.3 The Department requires a Franchisee who will communicate information about fares and tickets to current and prospective customers (including people with physical, sensory or cognitive disabilities and people with other protected characteristics under the Equality Act 2010) clearly and transparently, so that:

- a) The information that customers need is easily accessible through and consistent across a range of different communications channels, enabling them to choose the most appropriate and best value fare for their journey;
- b) Any restrictions and conditions on the ticket purchased are clearly communicated prior to, during and after the ticket buying process; and
- c) Customers are getting the cheapest appropriate ticket for their journey and that these are available across all ticket retailing options on the date of purchase.

5.13.4 The Department requires a Franchisee who will deliver a high-quality standard of ticket retailing service, which will:

- a) Provide all customers with widespread and easy access to the full range of fares and a range of ticket retail opportunities that meet their needs, including providing for those without access to technology;
- b) Provide a high-quality customer experience at ticket vending machines including a commitment to adopt the *Ticket vending machines design guidelines* available in Data Site folder 01.02 (Final ITT and Attachments) for all new machines and all software and hardware upgrades; and
- c) Provide a modern ticketing system that will:
  - i) Offer passengers an attractive, simple to use and easily accessible option to make their journey without a paper ticket for at least all journeys that are entirely made on Passenger Services; and
  - ii) Minimise whole industry costs and whole life costs, including by using common industry systems and standards and adopting broader industry initiatives where available and appropriate.

5.13.5 The Department requires a Franchisee who will maximise the benefits of investment in Smart Ticketing systems and infrastructure, including by committing to:

- a) Stretching and realisable targets for the uptake of Smart Ticketing for, as a minimum, all journeys that are entirely made on Passenger Services, such targets being no less than 50% of all such journeys on Smart Ticketing by December 2020;
- b) A policy of issuing annual, weekly and monthly season tickets, which are ordered online or at ticket offices, on smart tickets as the default option as soon as possible from the Start Date, but no later than April 2020;
- c) Develop systems that are able to communicate with each other through the sharing of electronic data about fare products loaded onto a passenger's smart ticket to provide customer support before, during and after the journey; and
- d) Demonstrate how the information and data provided by Smart Ticketing Schemes will be used to better inform decision making and product development.

5.13.6 The Department requires a Franchisee who will ensure that revenue protection activities are appropriate and create a sensitive and positive sense of customer engagement, including by empowering staff to apply their discretion (for example where passengers have made a genuine effort to buy the correct ticket) and also provide support, information and assistance with other aspects of their journey if required.

#### **(B) EVIDENCE BIDDERS SHALL PROVIDE**

5.13.7 In addition to the Minimum Evidential Requirements, Bidders' responses shall include:

- a) A summary of the Bidder's proposal under this sub-plan, including an overview of the key benefits to passengers.
- b) The Bidder's Bid Fares Strategy including, as a minimum:
  - i) A clear, quantified description of the planned future fares structure and approach to determining the level of fares (regulated and unregulated) for all markets in general terms, and how the Franchisee will deliver it;



- ii) A clear, quantified description of the planned future structure and approach to determining the level of fares (regulated and unregulated) in specific terms between London and (as a minimum) the following key markets:
  - A) Sheffield;
  - B) Nottingham; and
  - C) Corby.
  
- c) The Bidder's approach to fares, including:
  - i) Details of any changes planned to the availability of specific fares;
  - ii) Details of how the Bidder will consult with Stakeholders and passengers in developing and implementing any fares changes planned; and
  - iii) Details of how any proposed changes to the structure and level of fares are expected to impact upon forecast demand and franchise revenues.
  
- d) Details of any commitments or price guarantees that the Bidders' intend to offer to passengers, such as guarantees that customers are getting the cheapest appropriate ticket for their journey.
  
- e) The Bidder's approach to ticketing, including:
  - i) Details of how the Bidder will consult with Stakeholders and passengers in developing and implementing changes to ticketing;
  - ii) Projections of journeys by sales channel and details of targets for increased usage of Smart Ticketing (at a minimum disaggregating targets between seasons and single/returns) and how they will be achieved;
  - iii) A description of how the Bidder will deploy modern ticketing which should include details of:
    - A) The customer experience for different users of the modern ticketing system, such as walk-up passengers;

- B) The proposed technical approach, with specific reference to how the approach is compatible with wider industry initiatives; and
- C) How it will manage the introduction of any new forms of ticketing for customers.

5.13.8 How the Bidder will manage the level of ticketless travel, including their approach to consulting with local authorities, during the Franchise Term having regard to the obligations under part 3 of Schedule 6.1 (Franchise Specific Obligations) and Schedule 6.3 (Contractual Incentive Mitigations) of the Franchise Agreement if the Forecast Revenue Mechanism is active.

**(C) SCORING**

5.13.9 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (East Midlands marking framework and guidance). Without prejudice to the generality of subsection 7.3.5 (Scoring Methodology), specific examples of how the above requirements may be exceeded are set out below:

- a) Implementation of a customer-focused fares structure which provides greater consistency in pricing and improves customers' satisfaction with, and understanding of, the value-for-money for the journey they are making;
- b) Proposals to enable annual season ticket holders across the franchise to spread the cost of their ticket throughout the year at no additional cost over the ticket price and any fulfilment fees;
- c) Proposals to significantly enhance the customer experience when using ticket vending machines, for example by providing a simplified interface which enables customers to be confident they are purchasing the most suitable ticket for the journey they want to make;
- d) Proposals to expand opportunities for passengers to buy through-tickets that allow travel on another mode of public transport at one or both ends of the rail leg of their journey, including on existing and modern ticketing systems;
- e) Innovative proposals to maximise the wider customer benefits of modern ticketing such as providing targeted customer information before, during and after the journey;

- f) Particularly strong proposals to drive significant increases in the usage of Smart Ticketing above the levels set out in subsection 5.13.5; and
- g) Proposals which use current or evolving technology to reduce congestion at gatelines, including but not limited to London St Pancras, in a manner which supports the passenger experience, and protects revenue.

## **5.14 Delivery Plan 4 – Customer Experience and Stations**

### **5.15 Sub-Plan 4.1 Customer Experience**

For this Sub-Plan, Bidders are to demonstrate how they will meet the Requirements in section (A) for each of the Market Segments.

#### **(A) REQUIREMENT**

5.15.1 The Department requires a Franchisee who will provide a high quality experience for all customers (including persons with reduced mobility and, people with physical, mental, sensory or cognitive impairments) by:

- a) Embedding a customer-driven culture throughout the business, where proactive engagement with customers, communities and stakeholders drives decisions and operational activity;
- b) Continually developing, training and motivating customer-facing staff so that they are supported and empowered to:
  - i) Provide a visible, helpful and proactive customer facing presence throughout the hours of train service and station operation, including at staffed stations, on-board trains and through other means of customer contact such as help points, social media or personal mobile devices;
  - ii) Provide assistance and information to customers prior to, during and after special events and periods of planned and unplanned disruption;
  - iii) Deal with complaints in a way that satisfies passengers; and
  - iv) Promote security and deliver a safe and secure environment on-board trains, including by reducing anti-social behaviour.

- c) Gathering more immediate, frequent and granular insight into issues affecting customer sentiment, and acting upon this insight to improve services and build trust;
- d) Using current and evolving technology to provide both real time and integrated journey information that is accurate, timely, simple and easy to use at all stages of the passenger journey, particularly during special events and planned and unplanned disruption. This should include:
  - i) The routes and services of other operators and transport modes; and
  - ii) Information prior to and during the journey on seat availability and busy trains/carriages.
- e) Providing high quality on-board mobile connectivity which meets the needs and expectations of passengers on the route;
- f) Delivering the NRPS Customer Services and Dealing with Delays Benchmarks set out in Schedule 7.2 and the SQR Benchmarks set out in Schedule 7.3 of the Franchise Agreement, and maintaining high standards of cleanliness, presentation and quality of facilities and services, including during challenging circumstances; and
- g) Implementing a Passenger's Charter from the start of the Franchise that includes Delay Repay compensation arrangements as defined in the document "Guidance on Passenger's Charter Compensation", and actively promotes awareness of the passengers' rights to claim compensation.

**(B) EVIDENCE BIDDERS SHALL PROVIDE**

5.15.2 In addition to the Minimum Evidential Requirements, Bidders' responses shall include:

- a) Details of how their proposed initiatives and actions will:
  - i) Contribute towards achieving the NRPS Customer Services and Dealing with Delays Benchmarks set out in Schedule 7.2 and the SQR Benchmarks set out in Schedule 7.3 of the Franchise Agreement, including by enabling prompt remedial action to be taken where performance is at risk of falling below any NRPS and/or SQR Benchmark;

- ii) Enable continual improvement in customer service, including how staff can escalate enquiries or problems from customers; and
  - iii) Improve the management of special events, planned and unplanned disruption by focusing on individual customer need and experience in planning and completing their journey.
- b) Their Customer and Stakeholder Engagement Strategy, including:
- i) How the Franchisee will engage with customers, stakeholders and potential customers (including persons with reduced mobility and people with physical, mental, sensory or cognitive impairments) to drive continuous improvements in customer experience;
  - ii) How the Franchisee will use the results of customer and stakeholder engagement to inform business decisions and improve customer services, and how customers and stakeholders will be informed of the progress made;
  - iii) How the Franchisee will provide a visible and accessible means for customers and communities to raise and address any issue, and get direct feedback on the action taken to resolve the issue raised;
  - iv) How the Franchisee will work with customers, communities and stakeholders to develop CCI (Customer and Communities Improvement) Schemes;
  - v) A draft initial Customer Report setting out the key commitments the Franchisee will make to its customers, including but not restricted to how it intends to improve services and facilities and how it will act to address any problems that arise; and
  - vi) How the Franchisee proposes to use future Customer Reports to improve engagement with its customers.
- c) Details of any proposed accreditations in customer service and/or service quality that the Bidder intends to apply for;
- d) Their approach to delivering on-board mobile connectivity, including:

- i) Their proposed solution, including the minimum data speed per passenger, minimum data allowance and their implementation plan;
- ii) An explanation of the customer experience to be provided along with any limitations, restrictions or charging of the service; and
- iii) An outline plan for fitment of any necessary on-train equipment and systems.

### **(C) SCORING**

5.15.3 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (East Midlands Franchise marking framework and guidance). A Bidder that scores below 4 will result in the bid being treated as non-compliant.

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

- a) Innovative Initiatives that will deliver an exceptional customer service experience for passengers across the Franchise;
- b) Innovative and comprehensive proposals for the provision of personalised information that is tailored to passengers' individual needs over and above what is already widely available, which may include (but is not limited to):
  - i) Expansion of the level of information provided to passengers prior to and during their journey about the availability and condition of facilities on-board their service and/or at their stations; and
  - ii) The use of customer data to make targeted communications to passengers and build relationships with them.
- c) Proposals that deliver a best-practice digital strategy to produce optimal customer service outcomes as part of a multi-channel, data-driven approach, referencing tools and integration, social media and content strategy, governance and skills capability; and
- d) Proposals to provide enhanced on-board mobile connectivity over and above the current offering, including:

- i) Offering on-board mobile connectivity as free to use for passengers;
- ii) Offering a wider geographic scope ensuring continuity of coverage along all routes;
- iii) Enhanced levels of passenger service and/or bandwidth; and
- iv) Delivery of lineside infrastructure which will significantly enhance on-board mobile connectivity for passengers and which will have benefits beyond the Core Franchise Term.

5.15.5 For the avoidance of doubt, a proposal to exceed the NRPS Benchmarks defined in Schedule 7.2 and SQR Benchmarks defined in Schedule 7.3 of the Franchise Agreement alone will not be considered sufficient to exceed the above requirements.

## **5.16 Sub-Plan 4.2 Stations**

**Bidders may propose the acquisition and use of assets to be funded by the Residual Value Mechanism described in subsection 5.2 (Residual Value Mechanism) except for assets funded through the Station Improvement Fund.**

### **(A) REQUIREMENTS**

5.16.1 The Department requires a Franchisee who will deliver for customers a high quality Station experience by:

- a) Targeting the provision of services and facilities at Stations proportional to the volume and characteristics of customers using the Stations and the potential growth in customer usage. As a contribution to the cost the Franchisee shall invest a minimum of £3.6 million, of which a minimum of £2.5million shall be for accessibility improvements, on improving services and facilities at Stations where there is a value for money yet non-commercial return on investment. The services and facilities to be provided shall include as a minimum but not be limited to the following elements:
  - i) Customers' physical comfort including protection from the elements;
  - ii) Customers' perceptions of safety and security while at the Stations, which may include improvements to Station

CCTV and/or integration of Station CCTV with British Transport Police CCTV;

- iii) The accessibility needs of customers with physical, mental or hidden disabilities, including cognitive impairments (these in addition to any Minor Works the Franchisee is obliged to carry out in accordance with Schedule 4 of the Franchise Agreement);
- iv) Real time rail and public transport information at Stations, with enhanced information during periods of disruption;
- v) The ability for customers to purchase tickets;
- vi) Initiatives that improve the environmental sustainability of Stations; and
- vii) Support for the delivery of initiatives identified in the Franchisee's Station Social and Commercial Development Plan required by Schedule 1.7 of the Franchise Agreement,

(the "**Station Improvement Fund**") allocated on the following basis:

- A minimum of £2.2 million for Stations with entries and exits of 100,000 or fewer, of which a minimum of £1.1million shall be for accessibility improvements;
- A minimum of £2.2 million for accessibility improvements at Stations with entries and exits of 250,000 or fewer (inclusive of the amount for accessibility improvements at Stations above);
- The remainder for accessibility improvements at Stations with entries and exits of more than 250,000.

The figures for entries and exits must be based on the annual 'Estimates of Station Usage' published for 2016/17 by the Office of Rail and Road. The Station Improvement Fund may be allocated to capital and operational costs but not project management costs. Capital costs must be incurred in the first three years of the Franchise Term.

- b) Developing and implementing an integrated transport strategy that benefits customers through recognising Stations as facilitators of intermodal connectivity. Such a strategy must comply with the Design Standards for Accessible Railway



Stations, and include as a minimum details of how the franchisee will:

- i) Work with local authorities to deliver local transport and development plans;
  - ii) Work with other transport providers to enhance intermodal interchange facilities;
  - iii) Provide appropriate vehicle access and parking provision;
  - iv) Provide appropriate cycle access and storage, referencing RDG Cycle Rail Toolkit 2;
  - v) Deliver the DfT 'Cycling and Walking Investment Strategy' (March 2017); and
  - vi) Provide Stations with the capability to serve major events.
- c) Establishing a strategy for working with the Facility Owner of stations where the Franchisee's services call to ensure a consistent customer experience; and
- d) Establishing a strategy for working with Network Rail and other TOCs to ensure that Stations that the Franchisee manages, but where other TOCs' services call, will be maintained and enhanced in accordance with the ambitions of the customers and communities that those Stations serve.

5.16.2 The Department requires a Franchisee who will effectively and efficiently manage, maintain and enhance the Stations by:

- a) Developing, measuring and reporting on a dashboard of metrics (in addition to NRPS surveys) for Stations or a group of Stations which evidence improvements to the Station; and
- b) Developing and implementing a planned approach to identify and deliver sustainable long-term operational, customer and commercial aspirations and opportunities at Stations.

## **(B) EVIDENCE BIDDERS SHALL PROVIDE**

5.16.3 In addition to the Minimum Evidential Requirements, Bidders' responses shall clearly demonstrate how initiatives are tailored to the

specific volumes and characteristics of the community and customers the Station serves. This shall include:

- a) Details of how the Bidder will ensure the successful delivery of the requirements set out in the Franchise Agreement, specifically how they will:
  - i) Achieve certification of their Station Asset Management Plan as required in Schedule 1.7 of the Franchise Agreement;
  - ii) Develop and deliver their Station Social and Commercial Development Plan, as required in Schedule 1.7 of the Franchise Agreement;
  - iii) Meet the requirements with respect to Secure Stations Accreditation and Secure Car Park Accreditation (and any successor schemes) set out in Schedule 1.7 of the Franchise Agreement;
  - iv) Deliver the Minor Works described in Schedule 4 of the Franchise Agreement, including evidence of consultation with representatives from disability groups;
  - v) Meet the NRPS Stations targets set out in Schedule 7.2 (NRPS, Customer Report and CCI Scheme) of the Franchise Agreement, over the duration of the Franchise Term; and
  - vi) Implement the Suicide Prevention Strategy as set out in Schedule 13.1 (Rail Industry Initiatives and Co-operation) of the Franchise Agreement and, in cross-industry consultation, develop and implement a suicide prevention plan as set out in Schedule 13.1 (Rail Industry Initiatives and Co-operation) of the Franchise Agreement; and
  - vii) Implement the Safeguarding Strategy and Plan as set out in Schedule 13.1 (Rail Industry Initiatives and Co-operation) of the Franchise Agreement.
- b) Details of how the Bidder will target and manage the delivery of investment at Stations (including through the Station Improvement Fund), including (but not exclusively) on items identified in the public consultation. Plans shall explain where,

why and how they will improve the quantity and quality of facilities at Stations.

### **(C) SCORING**

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

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

- a) Innovative proposals and/or a commitment to spend more than the amount of the Station Improvement Fund on Station improvements during the Franchise, which may include initiatives that significantly improve accessibility to the rail network for customers with physical, mental and hidden disabilities, including cognitive impairments;
- b) Initiatives that identify and prioritise investment at underperforming stations;
- c) In addition to the Station Social and Commercial Development Plan, specific commitments to refurbish unused or underused Station buildings and return them to use for commercial or social purposes;
- d) Specific commitments to deliver improvements to the environmentally sustainable performance of Stations in addition to minimum requirements set out in Sub-Plan 1.1 (for example the installation of drinking water fountains where practicable);
- e) Specific details of how the Franchisee will consult with and engage, on a two-way basis, Local Authorities and local health organisations (including but not necessarily limited to Primary Care Trusts and mental health charities) to share information on vulnerable persons and act on this intelligence accordingly;
- f) A commitment to introduce at Stations a Wi-Fi service that allows each passenger to browse web pages on the internet and send and receive mail electronically through any mobile, tablet or computer device that they may use for this purpose;
- g) A commitment to create, fund and maintain an in-life innovation fund to support the development and introduction of information

technology initiatives, e.g. platform indicators linked to carriage occupancy, car park occupancy; and

- h) Proposals to install electric vehicle charging points, where demand is currently evidenced or anticipated, at Stations.

5.16.6 For the avoidance of doubt, a proposal to exceed the National Rail Passenger Survey Benchmarks described in Schedule 7.2 of the Franchise Agreement will not be considered sufficient to exceed the above requirements.

## Section 6: Detailed Bid submission requirements – Financial

### 6.1 Introduction

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

- a) A Financial Model prepared in accordance with the requirements set out in subsections 6.3.1 (General), 6.3.3 (The Financial Model), 6.3.6 (Financial Templates) and 6.3.7 (Generic Model requirements);
- b) Supporting Operational Models prepared in accordance with the requirements described in subsections 6.3.1 (General), 6.3.2 (Structure of the Models), 6.3.4 (Operational Models) and 6.3.7 (Generic Model requirements);
- c) The Financial Model and Operational Models being collectively termed the “**Models**”;
- d) Supplementary Material prepared in accordance with the requirements set out in subsection 6.3.5 (Supplementary Material); Financial Templates populated in accordance with the requirements described in subsection 6.3.6 (Financial Templates);
- e) A Record of Assumptions prepared in accordance with the requirements set out in subsection 6.5 (Record of Assumptions);
- f) An Operating Manual prepared in accordance with the requirements described in subsection 6.6 (Operating Manual);
- g) Responses to all of the requirements surrounding Change as set out in subsection 6.7.2 (Modelling Change);
- h) Evidence that the Models have been reviewed in accordance with the requirements described in subsection 6.8 (Reviews and audit of Models);
- i) A Financial Structure and Funding Plan describing the Bidder’s financial structure and funding prepared in accordance with the requirements described in subsection 6.9 (Financial Structure and Funding Plan); and
- j) Updated financial information, to update the financial tests undertaken when Bidders were seeking to pre-qualify to Bid for

the Franchise as described in subsection 6.10 (Updating of EoI financial and economic standing tests (the “**Tests**”) and submission of updated Bond Provider letter(s)).

6.1.2 The Models, the Record of Assumptions and the Operating Manual being collectively the “**Modelling Suite**”, plus any Supplementary Material as directed by the Secretary of State (which would not automatically be subject to Model Audit), will be Placed in Escrow if the Bidder is successful pursuant to Schedule 9.2 (Identity of the Financial Model (Escrow Documents)) of the Franchise Agreement.

6.1.3 Bidders are to use the general modelling assumptions as set out in subsection 6.4 (Assumptions).

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

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

## **6.2 Errors in Models and/or Record of Assumptions**

6.2.1 Bidders are required to satisfy themselves as to the technical accuracy of their Modelling Suite and Supplementary Material prior to submission. Where any element of the Modelling Suite and Supplementary Material is found to contain an error or errors, during the course of evaluation or as a result of the Model Audit, the Department reserves the right at its sole discretion to:

- a) Evaluate the relevant element of the Modelling Suite as received, in which case the Bidder shall bear the risk of the error or errors within that element of the Modelling Suite and of any impact that this may have on the evaluation carried out in accordance with Section 7: (Evaluation Criteria and Methodology); or
- b) Correct the error or errors either itself or through clarification from the Bidder in accordance with subsection 4.14 (Process following Bid submission), and then evaluate that element of the Modelling Suite in accordance with Section 7: (Evaluation Criteria and Methodology); in which case the Department reserves the right at its sole discretion:

- i) Not to adjust, or require or allow the Bidder to adjust the Bid Franchise Payments and where applicable, the variable element of PCS, and /or correct the Modelling Suite; or
- ii) To adjust or require or allow the Bidder to adjust the Bid Franchise Payments and where applicable, the variable element of PCS, and/or correct the Modelling Suite on which the Financial Robustness Test will be re-run, in accordance with subsection 7.6 (Evaluation of Financial Robustness). Note that:
  - A) Such adjustments in aggregate cannot improve the P that is used to calculate the final Score i.e. the adjustments cannot result in a decrease to the Risk Adjusted NPV;
  - B) However, if the winning bid is one which has been subject to this adjustment, the franchise payments which will be contractualised in Schedule 8.1 (Franchise Payments) may be either lower or higher than Bid Franchise Payments to reflect the correction of errors, with DfT having sole discretion as to which error or errors are corrected; or
- c) Treat the Bid as non-compliant.

## **6.3 Financial and Operational Model requirements**

### **6.3.1 General**

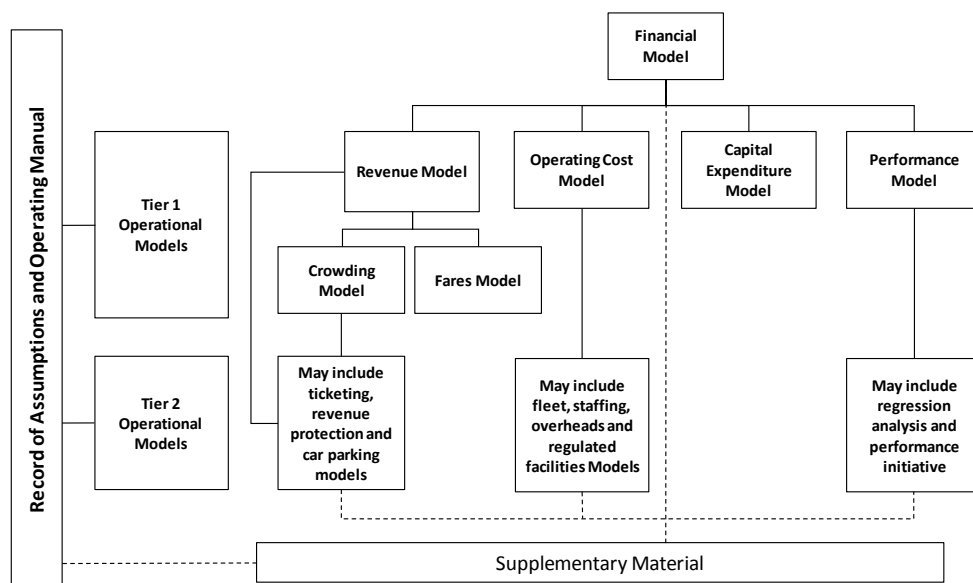
6.3.1.1 Each Bidder is required to submit and include as part of their Bid a Financial Model, which is supported by Operational Models and Required Supplementary Material as set out in subsection 6.3.5 (Supplementary Material). All Models must meet the requirements described in Section 4: (Explanation of Requirements for Bid Submission and Overview of Process following Bid Submission) and this Section 6: (Detailed Bid submission requirements – Financial). The Modelling Suite must demonstrate the financial consequences of the Bidder's business and operational plans over the Core Franchise Term and the Extension Period in order that the Department may evaluate them to the extent provided and in accordance with the evaluation criteria and methodology described in Section 7: (Evaluation Criteria and Methodology).

6.3.1.2 Any changes to the Models after Bid submission as a result of the clarification process described in subsection 4.14 (Process following Bid submission) or otherwise, must be clearly logged and traceable, including an audit trail in the relevant Model itself, using the worksheet ‘Version Control’ in the Financial Templates.

### 6.3.2 Structure of the Models

6.3.2.1 An example of how the Department anticipates that Models may be structured is illustrated in Figure 6.1.

**Figure 6.1** Anticipated Modelling Suite Structure



6.3.2.2 Whilst the Department believes that this structure provides a logical template for Bidders to adopt, it is not mandatory and Bidders may adopt any structure they choose provided that all information required by this Section 6: (Detailed Bid submission requirements – Financial) is included in the format required by Section 4: (Explanation of Requirements for Bid Submission and Overview of Process following Bid Submission) and the Department is able to evaluate the Models in accordance with Section 7: (Evaluation Criteria and Methodology).

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



### 6.3.3 The Financial Model

#### *General*

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

- a) Includes the calculations that are required to produce outputs for inclusion in the Franchise Agreement and Funding Deed as set out in the Financial Templates provided to Bidders through the Data Site and listed in Table 6.1 (Financial Template summary) in subsection 6.3.6 (Financial Templates) and for use in accordance with Section 7: (Evaluation Criteria and Methodology). Outputs from the Financial Templates will be used:
  - i) To populate the Franchise Payments in Appendix 2 to Schedule 8.1 of the Franchise Agreement. The Franchise Payment table set out in Appendix 2 to Schedule 8.1 of the Franchise Agreement must be completed in 2019/20 prices;
  - ii) To populate the Season Ticket Bond value;
  - iii) To populate the profit share thresholds in Appendix 1 to Schedule 8.2 of the Franchise Agreement;
  - iv) To populate the AFA and DFR in Appendix 2 to Schedule 8.2 of the Franchise Agreement;
  - v) To identify and track funding made available to the Franchisee as an Agreed Funding Commitment (AFC) or PCS and populate the Funding Deed;
  - vi) To populate the Required PCS value, the Additional PCS value and the Bonded PCS value which will be used to calculate amounts for the purposes of the Funding Deed; and
  - vii) To populate Target Revenue in Appendix 1 to Schedule 8.6 of the Franchise Agreement.
- b) Applies consistently on an annual basis, in accordance with the Franchise Agreement, the methodology required for calculating Franchise Payments;

- c) Includes the calculations required to determine the Financial Ratio, at the end of each Franchisee Year and part year during the Core Franchise Term and the Extension Period. Bidders are to note that this is to be calculated in the Financial Model as an annualised backwards view of compliance with the Financial Ratio described in paragraph 2.1(a) of Schedule 12 of the Franchise Agreement. For the avoidance of doubt, a Financial Ratio of 1.070:1 must be met in the Bid without drawing any PCS. In all cases, Bidders must ensure that Modified Revenue and Actual Operating Costs are calculated consistently with the definitions outlined in the Franchise Agreement. For the first part year of the Franchise the calculation should be calculated on a forward looking basis for 13 periods;
- d) Shows how the Franchise will be funded over the Core Franchise Term and the Extension Period;
- e) Includes all tax computations. Financial forecasts are to include calculations of the tax liabilities of the subject company in accordance with any applicable tax law. Complete integrated tax computations must be included in the Financial Model. The tax charge should be calculated on an annual basis and tax payments modelled on a realistic basis based on current tax legislation and enacted tax rates. To the extent that any group, consortium or other form of relief or sale of losses is anticipated, including consideration of the new loss relief rules effective from 1 April 2017 introduced by the Finance (No2) Act 2017, this must be clearly stated within the Financial Model and Bidders must provide a letter from their financial advisers, as set out in subsection 6.9.1.1, confirming that such relief will be supported by the Bidder's owning group. Capital and revenue expenditure and the deductibility of these costs must be clearly identified along with the rate of allowances applying to each item or pool of capital expenditure. The Bidder must provide a letter from their financial advisers as set out in subsection 6.9.1.1, confirming that they have given consideration to the deductibility of any interest expense taking into consideration both current rules concerning the tax deductibility of interest (thin capitalisation) and the issued legislation concerning changes effective 1 April 2017 introduced by the Finance (No2) Act 2017, and other transfer pricing and anti-avoidance provisions particularly where there is significant Agreed Funding Commitment in the base case or drawing of the PCS under sensitivities or Financial Robustness Test.

- f) Properly reflects the accounting rules applicable as at the date of the issue of this ITT under which the Franchisee will report its financial information with the exception of the adoption of IFRS16 – Leases. IFRS16 – Leases is applicable for accounting periods beginning on or after 1 January 2019 and the Department is requiring all Bidders to adopt IFRS16 - Leases as part of their bid submission for the East Midlands Franchise. As there are a number of Bidder specific assumptions and judgment required to implement IFRS16 – Leases the Bidder should ensure such assumptions and judgment are clearly stated within their Record of Assumptions with the rationale for such assumption and judgment and that the letter from their financial adviser as required under subsection 6.9.1.1 confirms that such assumptions are reasonable. The Bidder will be required to confirm with their financial adviser which assets IFRS16 – Leases should be applied to. The accounting basis chosen must be disclosed, consistent and once selected cannot be changed in any version of the Financial Model submitted during the Bidding process;
- g) States default prices in nominal terms and when viewed in real terms, outputs must be deflated to 2019/20 prices and outputs prior to this period must be inflated to 2019/20 prices;
- h) Calculates the Revenue Share and Revenue Support payments in accordance with Schedule 8.6 of the Franchise Agreement. For the avoidance of doubt, no Revenue Share or Revenue Support payments should be included in the Bid; and
- i) Provides output schedules in the format of the Financial Templates.

#### *Financial Robustness*

6.3.3.2 Each Bidder is required to submit with its Bid a Financial Model which includes functionality which allows the Department to undertake the Department's Financial Robustness Test as described in Section 7: (Evaluation Criteria and Methodology). Specifically, the Financial Model must:

- a) Include a switch or switches, which do the following:
  - i) Freeze Annual Franchise Payments and Target Revenue such that these do not change when undertaking the Financial Robustness Test;

- ii) Freeze the base case AFC drawdown and repayment profile per the commitment set out in the Bidders Financial Structure & Funding Plan (Note: AFC should only be available in the Financial Model in accordance with the timing and amount of the commitment set out in the Financial Structure and Funding Plan); and
  - iii) Simulate the pay out of all distributable profits, in each year of the Core Franchise Term and the Extension Period subject to the Financial Ratio in that year not falling below 1.070:1;
- b) Include the PCS, which should automatically be drawn down and/or repaid in order to meet a Financial Ratio of 1.070:1, up to the value of the total PCS committed in the Bid and Funding Deed but should not be drawn in the Bid;
  - c) Include a separate input that allows Notional PCS, over and above the total PCS committed in the Bid, (with no third party bonding or interest costs) to be drawn up to the Materiality Threshold (see subsection 7.6.2.11). For the avoidance of doubt to the extent that the Financial Ratio is no longer below 1.070:1 the repayment of the Notional PCS must take place prior to any PCS being repaid;
  - d) Include the ability to easily accommodate revised outputs from Operational Models in order to model two Risk Adjusted Scenarios described in subsection 7.6 (Evaluation of financial robustness). Bidders are encouraged to provide spare input rows within the Financial Model (where it is reasonable to do so) for the purpose of modelling risk adjustments;
  - e) Include and apply the functionality to link and calculate the forecast payments under performance and incentive regimes in the Franchise Agreement (specified under Schedules 7.1 to 7.3 of the Franchise Agreement and the ticketless travel regime specified under Schedule 6.3 of the Franchise Agreement) to whether or not a net Revenue Share or Revenue Support payment to or from the Department under the Forecast Revenue Mechanism is projected in each Franchisee Year and therefore whether or not Contractual Incentive Mitigations would be in place, leading to triggering of the Ticketless Travel Payment Adjustment (in paragraph 6.3 of Schedule 6.3), triggering of the CIM Service Quality Regime (in Schedule 7.3F) and application of the alternative payment rates in the operational performance

regimes as set out in Schedule 6.3 of the Franchise Agreement. For this purpose, it should be assumed that:

- i) Contractual Incentive Mitigations as set out in Schedule 6.3 of the Franchise Agreement are put in place in all Franchisee Years in which either a net Revenue Support or Revenue Share payment to or from the Department is projected; and
  - ii) the only implications of Contractual Incentive Mitigations on franchisee cashflow are on payments made under these performance and incentive regimes;
- f) Include and apply the functionality to link and calculate the profit share thresholds used in the calculation of forecast profit share payments to whether or not a net Revenue Support payment is projected in each Franchisee Year; and
- g) In order to apply the Downside Risk Adjusted Scenario, include the functionality to model an adjustment to passenger revenue (input in absolute monetary terms on an annual basis in the Financial Model input price base) which affects the revenue modelled in the Financial Robustness Test in the Downside Risk Adjusted Scenario (not the Central Risk Adjusted Scenario) but has no effect on journeys, crowding or any non-passenger revenue or operating cost lines. This adjustment should affect FRM Revenue as modelled in the Financial Model, but should not change the forecast performance and incentive regime payments from those in the Central Risk Adjusted Scenario, regardless of whether or not a net Revenue Support or Revenue Share payment under the Forecast Revenue Mechanism is projected in each Franchisee Year in the Downside Risk Adjusted Scenario.

#### *Addressing Franchise Change*

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

- a) Accurately executes the calculations as designed, and provides confidence in its robustness and ability to price Change. It must:
  - i) Provide a sufficient level of usability to allow Change scenarios to be run in a reasonable timescale;

- ii) Provide an appropriate level of granularity for populating template outputs, and is sufficiently transparent to show Changes clearly; and
  - iii) Be sufficiently flexible to form the required basis for the pricing of Change.
- b) In addition, Bidders must in relation to their Financial Model:
- i) 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;
  - ii) Provide a switch in their Financial Model to allow the Financial Templates to be presented in real or nominal terms (where real terms means nominal values are deflated (or inflated in the case of pre 2019/20 values) by RPI (to 2019/20 prices)); and
  - iii) Ensure that their Financial Model is self-contained within a single Microsoft Excel workbook. The Financial Model must be presented in annual terms, with year ends coinciding with the Franchisee Year end on 31 March (as demonstrated within the Financial Templates).

#### 6.3.4 Operational Models

##### *General*

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

6.3.4.2 Each Operational Model must include the functionality to allow the Department to undertake the Department's Financial Robustness Test as set out in subsection 7.6.1 (Financial Robustness Test).

6.3.4.3 Collectively, the Modelling Suite (including Supplementary Material) and Record of Assumptions should allow the user to track inputs pre-processed externally to the model back to the original input values (i.e.

the derivation of any pre-processed model inputs needs to be explained in the Record of Assumptions), noting that in some cases third party software may produce "hard coded" output files (e.g. software such as VoyagerPlan and MOIRA). In such cases any relevant input and output files should be submitted.

### *Change*

6.3.4.4 Each Operational Model must:

- a) Provide an appropriate level of granularity for generating Financial Model inputs, and be sufficiently transparent to show and model Changes clearly. This includes, but is not limited to, disaggregation of Network Rail related costs to a level of granularity of the Network Rail price lists;
- b) Be sufficiently flexible to allow the pricing of Change;
- c) Accurately execute the calculations as designed, and provide confidence in their robustness and ability to price Change; and
- d) Provide a sufficient level of usability to allow Change scenarios to be run in a reasonable timescale.

### *Operational Model Structure*

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

- a) Revenue Model;
- b) Fares Model (which may be included in the Revenue Model);
- c) Crowding Model;
- d) Operating Cost Model (which may be included in the Financial Model);
- e) Performance Model; and
- f) Capital Expenditure Model (which may be included in the Financial Model or the Operating Cost Model);

As described in subsections 6.3.4.6 to 6.3.4.37, where a Bidder uses sub models in Tier 2, these must also be submitted and will be placed in Escrow pursuant to Schedule 9.2 of the Franchise Agreement.

### *Revenue Model*

6.3.4.6 This demand and passenger revenue forecasting model must use the input format provided by the Department (see subsection 6.3.7). Input LENNON data should be aggregated to flow groups and ticket categories according to the template mapping provided by the Department which can be found in Data Site folder 01.02 (Final ITT and Attachments). Revenue forecasts must be able to populate the ticket types and Service Groups contained in the Financial Templates (see subsection 6.3.6 (Financial Templates)).

6.3.4.7 Any further disaggregation of demand and revenue into more detailed flows or segments is at the discretion of the Bidder, but the Revenue Model outputs of demand and revenue must be re-aggregated into the templated flow-groups and ticket categories without use of weighted mapping. The Revenue Model and Supplementary Material and its associated sub models in Tier 2 must also show clearly and apply all demand forecasting input assumptions and parameters and their impact on demand and revenue. This will include, but not be limited to, such factors as:

- a) Macro-economic factors (disaggregated into individual factors where appropriate and consistent with WebTAG and PDFH to the extent required by subsections 6.3.4.10 and 6.3.4.13);
- b) Competition factors, including competition with bus and coach services and car (disaggregated into individual factors where appropriate and consistent with WebTAG and PDFH to the extent required by subsection 6.3.4.10 and 6.3.4.13);
- c) Timetable changes;
- d) Fare proposals and policy that demonstrates compliance with Schedule 5 of the Franchise Agreement;
- e) Operating performance;
- f) Service quality;
- g) Marketing;
- h) Revenue protection Initiatives;
- i) Revenue / yield management Initiatives; and
- j) Other investments or Initiatives.



When modelling the revenue effect of initiatives where WebTAG and PDFH evidence is scarce. Bidder's Records of Assumptions must provide clear and detailed descriptions of the approaches used and robust evidence for underlying assumptions.

6.3.4.8 The Modelling Suite must have functionality to model timetable changes that have different impacts on Mondays to Fridays, Saturdays and Sundays. For this purpose, a version of MOIRA1 will be made available through either the Data Site or provided on a CD or DVD with preloaded generalised journey time ("GJT") elasticity sets that are consistent with WebTAG, PDFH 5.1 and PDFH 6.0. Any deviations away from this standard setup must be accompanied by supporting documentation as set out in subsection 6.3.4.13.

6.3.4.9 Bidders must submit the following as required in subsection 4.3.1 and subsection 4.11.1:

- a) The .spg files containing the assumed Franchise Services;
- b) The .spg files for timetable changes to other operators' services assumed by the Bidder, if any;
- c) The MOIRA1 output files (and any intermediate files which process these output files) which input changes in demand to the Revenue Model; and
- d) The version(s) of MOIRA1 that have been used to populate the revenue model, if they do not use the version of MOIRA1 supplied on the Data Site.

6.3.4.10 Bidders must use techniques or models used as standard in the rail industry, comprising MOIRA1 and bespoke revenue and crowding models for constructing their Bids. The techniques should follow an elasticity-based approach. For the purposes of this competition, the Department has used WebTAG unit M4 as updated in May 2018. This is consistent with PDFH 6.0 with the following major exceptions:

- a) For exogenous factors apart from in the within London Travelcard Area and to and from airports, the elasticities in the WebTAG databook (tab M4.2.4)<sup>5</sup> should be used. (These are broadly the same as the recommendations in PDFH 6 apart from for

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<sup>5</sup> <https://www.gov.uk/government/publications/webtag-tag-unit-m4-forecasting-and-uncertainty-may-2018>

EmplIndex elasticities for to and from cities outside of London where PDFH 6 recommends lower elasticities.)

- b) The GJT trend should not be used; and
- c) PDFH 5.0 is used for GJT elasticities for airport flows.

6.3.4.11 Bidders should note that changes to WebTAG may occur prior to or after the date for Bid submission.

6.3.4.12 Bidders should follow an elasticity-based approach, but are not required to use WebTAG or PDFH recommended demand elasticities or to follow the approach set out in WebTAG. However, where PDFH has not been followed (whether in whole or in part), Bidders must provide evidence to justify the use of alternative assumptions in accordance with subsection 6.10 (Supplementary Material).

6.3.4.13 Bidders should bid their own views of exogenous revenue factors. The Department's central forecast of exogenous demand drivers ("**Forecasts of Exogenous Factors**") includes the Department's Demand Driver Generators ("**DDGs**"). The DDGs are provided in Data Site folder 01.02 (Final ITT and Attachments). These may be updated from time to time. The accompanying note and methodology for the construction of DDGs is also available in the same folder on the Data Site. For the avoidance of doubt, Bidders are not required to use the Department's DDGs, or WebTAG-recommended or PDFH elasticities, but if the DDGs are not used, evidence to justify the use of alternative assumptions and approaches must be provided, in accordance with subsection 6.3.5 (Supplementary Material).

6.3.4.14 Any alternative assumptions used must be independently replicable and based on independent, published sources or independently repeatable research. Any analysis justifying the use of alternative assumptions and approaches must be provided in the form of supporting spreadsheets. Bidders must also provide a copy of supporting research material e.g. research or analysis papers by the Bidder or a third party, sufficient to enable the work to be repeated, or journal articles from a relevant publication or analytical reports, and indicate the reliability of this source, for example by providing information such as the source, date, author, any peer review taken place, any assessment of the confidence in the data, techniques and evidence used. The Record of Assumptions must summarise the assumptions and approaches in sufficient detail to be understood as a standalone document, making reference to supporting

spreadsheets, research material and any other evidence used where applicable.

6.3.4.15 However, for the purpose of the Financial Robustness Test the Models must have the functionality to enable the Department to replace the Bidder's own exogenous factors with the Department's risk adjusted view. In practice this will be a clearly documented procedure with accompanying spreadsheets that, when followed, allow the Models to move between the Bidder's exogenous demand assumptions and the Department's risk adjusted Exogenous Forecasts.

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

6.3.4.17 The following operating cost and revenue items must be linked mechanistically to patronage or passenger fares revenue and this relationship should be rational:

- a) Other LENNON revenue;
- b) Ticket sales commission receivable;
- c) Catering income;
- d) Car parking income;
- e) Ticket sales commission payable;
- f) Catering costs;
- g) Ticket consumables and printing; and
- h) Passenger compensation

6.3.4.18 Bidders must leave available a spare driver input slot within the revenue model so that a further multiplicative variable can be added to the revenue forecast. This slot should allow a model user to input a percentage uplift or index into the model by model segment (e.g. ticket type and/or

geographical segment), and apply this differentially to revenue and journeys. This slot may be used for the Financial Robustness Test, for sensitivity tests, and for the purpose of Change.

#### *Fares Model*

6.3.4.19 Information on fares may be provided in a standalone model or incorporated in the Revenue Model. However presented, the relevant model or part of a model must be able to calculate the impact of changes to fares, including regulated fares. The Department will deem the Model to meet this requirement if:

- a) They take as an input the percentage value of the fares increase, not the prices of each individual fare, so that a change in the value of “k” in Schedule 5.4 of the Franchise Agreement passes clearly to a change in the fares increase;
- b) They assess and demonstrate compliance with the Regulation of Fares Basket Values in Schedule 5.4 of the Franchise Agreement;
- c) They can model a total (cumulative) change in regulated fares levels over the Franchise Term of up to 10 percentage points above or below the base assumption as described in subsection 6.4.1; and
- d) They can model a change in regulated fares levels for individual years of up to 4 percentage points above or below the base assumption, if levels of cumulative change remains within the thresholds defined under subsection c) above. For example, in a year where the base assumption is that “k” is 0%, they must be able to model a change in regulated fares of between RPI + 4% and RPI - 4%.

6.3.4.20 Changes to fares regulation pursuant to paragraph 5 of Schedule 5.7 of the Franchise Agreement are a Change under the Franchise Agreement to which the procedure in Schedule 9.3 of the Franchise Agreement applies.

6.3.4.21 If the Bidders propose to increase the prices of different fares by different percentages:

- a) The Models must assess and demonstrate compliance with the Regulation of Individual Fares in Schedule 5.5 of the Franchise Agreement; and

- b) The differential increases that the Models include must be deliverable, and must not breach the requirements of the Franchise Agreement and the Ticketing and Settlement Agreement. As examples:
- i) If Bidders propose to increase the price of singles by a greater percentage than they increase the price of returns, the price of singles must not exceed the price of returns; or
  - ii) If Bidders propose to decrease the price of anytime fares but not of Off Peak fares, the price of Off Peak fares must not exceed the price of anytime fares.

6.3.4.22 Bidders are not required to model the value of every fare that they will set. However, if a Bidder's fares strategy breaches the requirements of 6.3.4.19 d) above, it will be deemed undeliverable, and will be subject to the risk adjustment process described in Appendix 3 (Risk Adjustment Process).

#### *Crowding Model*

6.3.4.23 Bidders must submit a crowding model which is clearly linked to the Revenue Model, clearly documented in the Record of Assumptions and consistent with the technical data submitted for Sub-Plan 2.1 (Train Services). The Crowding Model shall include a schedule of services and stops, expected rolling stock formation and seated and standing capacity for trains as set out in subsection 5.9.21. The Crowding Model must be used to calculate suppression factors for each year of the Core Franchise Term and the Extension Period, which are input into the Revenue Model. The Crowding Model should estimate suppressed demand in the base LENNON data, in line with PDFH recommendations. This is required to populate the templated breakdown by driver and initiative (or type of initiative) of Bidders' forecasts of unconstrained revenue growth.

6.3.4.24 The Crowding Model must show average daily loadings for each stop along the line of route for every service on which crowding may have a material impact, as a minimum for a Typical Autumn Weekday, based on the timetables in their Bid, see Table 5.2 (Operational data required as part of Bids). Crowding suppression should be calculated at the level of individual legs for these services.

6.3.4.25 For those trains not included in the Crowding Model, Bidders should demonstrate that crowding will not have a material impact. That is,

the maximum load on each service should not exceed 70% of the seating capacity, at any stage, during the Core Franchise Term and the Extension Period.

6.3.4.26 Bidders must use the survey data supplied in Data Site folder 04 (Data & Marketing Information) in constructing their respective crowding models. Bidders are free to supplement this with additional train loading and station census data, and must provide evidence of the source and derivation of supplementary loadings data.

6.3.4.27 Bidders must provide evidence of the source of data and assumptions used within the Crowding Model. If crowding curves relating to constrained and unconstrained loadings are used, the Record of Assumptions must provide detail of the derivation of the curves. Any derivation/use of crowding curves also requires consideration of effects of revenue management in smoothing (current and future) loadings.

6.3.4.28 For locations and/or times not covered by supplied survey data, Bidders may use MOIRA1 estimates of train-by-train loadings as inputs to the Crowding Model. MOIRA1 analysis (e.g. scaling factors) can also be used to provide a breakdown of Origin-Destination flows carried on each train over each arc of its journey.

6.3.4.29 Bidders must bear the following in mind in the development of their crowding models:

- a) The techniques used should be consistent with the approaches adopted by the PDFH;
- b) Where Bidders choose to depart from PDFH, robust evidence must be provided to justify the use of alternative assumptions and approaches;
- c) Bidders are not instructed to submit models that model the reassignment of passengers due to crowding, but will be free to do so. If modelling the reassignment of passengers due to overcrowding, Bidders should ensure that demand redistribution is modelled appropriately and avoids the manual adjustment of train loadings; and
- d) The Crowding Model should be developed such that it is transparent, understandable, and can be run within a reasonable timescale.

6.3.4.30 Crowding modelling approaches must detail the calibration and validation process, and allow full traceability of model inputs through to model outputs. The use of calibration and validation process should be fully documented.

*Operating Cost Model(s)*

6.3.4.31 Information on operating costs may be provided in a standalone model or incorporated in the Financial Model. However presented, the relevant model or part of a model must produce inputs to the Financial Model to the level of disaggregation required by the Financial Templates and to the level of granularity required by subsection 6.3.4.4 a)).

*Performance Model*

6.3.4.32 The Performance Model must produce the following inputs to the Financial Model:

- a) Annual payments to and from Network Rail in relation to Schedule 8 of the Track Access Agreement;
- b) Annual payments in relation to performance relative to the operational Performance Benchmarks as set out in Schedule 7.1 of the Franchise Agreement; and
- c) Annual forecast metrics in relation to Time to 3 Minutes, Time to 15 Minutes and All Cancellations as set out in Schedule 7.1 of the Franchise Agreement.

6.3.4.33 The Performance Model must be capable of calculating the following on a periodic and annual basis over the Franchise Term and for at least the equivalent of 13 rail periods prior to the Start Date:

- a) Forecast Average Minutes Lateness (AML), Deemed Minutes Lateness (DML) and Performance Minutes (AML + DML) by Service Group, attributed between the Franchisee and Network Rail;
- b) Forecast TOC-on-self delays per 1,000 actual train miles run, as defined in paragraphs 10 – 12 of Schedule 7.1 of the Franchise Agreement;
- c) Forecast TOC-on-self cancellations as a proportion of planned trains, as defined in paragraphs 3 - 6 of Schedule 7.1 of the Franchise Agreement;

- d) Forecast short formations as defined in paragraphs 15.2 – 15.7 of Schedule 7.1 of the Franchise Agreement;
- e) Forecast Time to 3 Minutes at all recorded stations, in line with Schedule 7.1 of the Franchise Agreement;
- f) Forecast Time to 15 Minutes at all recorded stations, in line with Schedule 7.1 of the Franchise Agreement;
- g) Forecast cancellations (all causes) as a proportion of planned trains, in line with Schedule 7.1 of the Franchise Agreement; and
- h) Forecast payments and receipts under the performance regime specified in Schedule 8 of the Track Access Agreement. These must be disaggregated by Service Group and the TOC and NR regimes must be shown separately.

6.3.4.34 The Performance Model must be capable of calculating annual forecast Schedule 7.1 of the Franchise Agreement payments over the Franchise Term, disaggregated by the following components in Schedule 7.1 of the Franchise Agreement: TOC-on-self delays; TOC-on-self cancellations; short formations; Time to 3 Minutes; Time to 15 Minutes; and All Cancellations.

6.3.4.35 Bidders must show all Initiatives which contribute to performance improvements within the Performance Model and provide references between such Initiatives and associated calculations.

6.3.4.36 Bidders are required to forecast expenditure associated with Delay Repay, either in the Performance Model or another model within the Modelling Suite. Regardless of where it is calculated, Delay Repay calculations must be linked to forecast performance levels as produced by the Performance Model, such that if a change is made to the operational performance forecast there is a consequent change to the forecast level of Delay Repay. Bidders' forecast amounts of passenger compensation (in respect of the provision of the Delay Repay scheme) within the cost base should be shown in the "Performance" sheet of the Financial Templates.

#### *Capital Expenditure Model*

6.3.4.37 Information on planned capital expenditure may be provided in a standalone model or incorporated in the Operating Cost Model or Financial Model. However presented, the relevant model or part of a model must include all items of capital expenditure, including those covered by the RV Mechanism (i.e. expenditure on assets with a life which is in excess of



one year in accordance with the FRS101 or IFRS accounting standard) in an itemised list with the facility to sort and group the items by:

- a) Sub-Plan;
- b) Specific Initiative as identified within the Bid;
- c) Asset category such as rolling stock, stations, IT systems, ticketing, depots, other infrastructure;
- d) Source of funding including self-funded, ROSCO funded and third party funded; and
- e) Treatment for tax purposes i.e. whether expensed in a year or attracting capital allowances at the applicable capital allowance rate, in which case how such allowances are calculated for the relevant item including in respect of treatment of the asset at the end of the Core Franchise Term and at the end of the Extension Period.

The list must set out all items covered by the RV Mechanism and all items with a value in excess of £250,000 (2019/20 prices) in any forecast year or £500,000 in total (2019/20 prices) for a project which continues across more than one year. Other items may be aggregated as long as the sorting and grouping indicated above can be achieved. The information provided should be clearly linked to the funding provisions (timings, sources, uses, repayments), be fully documented in the Financial Structure and Funding Plan and Record of Assumptions and be reconciled to any totals reported in Delivery Plan 0.

6.3.4.38 In addition to the information on capital expenditure required above, Bidders are required to set out total expenditure on assets, whether capitalised or expensed in the Bid, by submitting a completed version of the table set out in location folder '01 ITT & Bidder Consultation Documents' on AWARD, in the Record of Assumptions. Bidders should submit this table in Excel format as part of their Required Supplementary Material. Bidders should also provide the information required in section 6.3.4.37 a) – 6.3.4.37 e) above for all asset-related expenditure included in the table.

### 6.3.5 **Supplementary Material**

6.3.5.1 In situations where this ITT requires the Bidder to provide additional evidence or other material (including subsections 6.3.4.6 to 6.3.4.38 inclusive), ("**Required Supplementary Material**") Bidders must submit those items in a separate file labelled "Required Supplementary

Material” in which each item submitted must be clearly labelled and cross-refer to the subsection in this ITT and the items of the Modelling Suite to which the evidence or other material relates. This may include, for example, a research report or a spreadsheet which shows the calculations that lead to bespoke elasticity values inputting to the Revenue Model (enabling the Department to track model values pre-processed externally to the Model values back to the original inputs).

6.3.5.2 Separately and in addition to the requirements of subsection 6.3.5.1, if any element of the Modelling Suite which the Bidder is required to provide in accordance with this ITT contains a reference to an additional item of further information and/or tools other than the Required Supplementary Material or material already otherwise provided with the Bid, then:

- a) The Bidder may provide that other information or tools (“**Other Supplementary Material**”) with its Bid, in a separate file labelled “Other Supplementary Material”, and with each item of Other Supplementary Material clearly labelled and cross referenced to the specific place in the Modelling Suite where it is referred to;
- b) The Department will be entitled, but not obliged, to take account of any or all of the Other Supplementary Material supplied in its evaluation of the Bidder’s Bid. The purpose of enabling the Bidder to provide with its Bid items of Other Supplementary Material is to allow the Department to be able to use that information for clarification of the Bid if and to the extent that the Department considers that to be necessary for the purposes of its evaluation. Bidders should therefore not rely on the Department considering all or any part of the Other Supplementary Material or use it as a mechanism to avoid the size limits referred to in subsection 4.4 (Page limits, size of text, other formatting); and
- c) Where any item required to be included in the Modelling Suite, Required Supplementary Material or other part of the Bid is not so included, even if it is included in the Other Supplementary Material, the Department will treat the Bid as non-compliant in accordance with subsection 3.5 (Non-compliant Bids).

6.3.5.3 Supplementary Material is not required to be included as part of the Modelling Best Practice Confirmation and final Model Audit as per subsection 6.8 (Reviews and audit of Models). Bidders should note that the Department reserves the right to include some or all of the Supplementary Material as part of the Modelling Suite Placed in Escrow, either incorporated

into Record of Assumptions or as additional Tier 2 Operational Models, and if so the relevant items (or such of them as the Department requires) will be subject to the Model Audit calculation review.

6.3.5.4 The Department reserves the right to request additional supplementary material during the clarification process.

### 6.3.6 Financial Templates

6.3.6.1 The Department requires that the output from the Models follow the Financial Templates that will be made available on the Data Site and Bidders must incorporate these Financial Templates into the Financial Model and ensure they are fully populated. The Financial Templates have been developed to be consistent, where possible, with the information detailed in the Long Form Report. This is to assist Bidders in using that information and to ensure consistency of responses. The Bidders must therefore use the relevant revenue and cost captions within the Financial Templates. Where cost and revenue line items are already defined in the Financial Templates, Bidders must populate their Financial Templates in their Financial Model using these lines rather than allocating to alternative categories (for example, the financing cost line items on the P&L1 sheet, rows 527 - 539 must be used for presenting financing cost line items rather than the Bidder defining and using an alternative “**Other Operating Cost**” line). If Bidders require additional revenue and/or cost captions they must use the spare rows provided within each of the templates, clearly label the costs and revenues and provide adequate descriptions of these items in the Record of Assumptions.

6.3.6.2 Bids incorporating Financial Templates which do not conform to the structure as set out in the latest iteration of the Financial Templates provided or specified by the Department may be eliminated from the competition as a result of the Bid being determined as non-compliant. The Department also reserves the right to adjust the Bid or require Bidders to resubmit their Bid in a compliant format in accordance with subsection 6.2.1 (within a specified timescale).

6.3.6.3 The populated Financial Templates must also be submitted in PDF format. Bidders are required to integrate the Financial Templates into their Financial Model as the template outputs will form the basis for financial evaluation. No hard copies or further PDFs of Models are required. However Bidders should ensure that all sheets can print in a readable manner without any additional formatting being required and with consistent page breaks being applied across each sheet.

6.3.6.4 Each Bidder is required to submit with its Bid completed copies of the Financial Templates. A list of these Financial Templates together with a brief summary of each worksheet's content and status is set out below:

**Table 6.1** *Financial Template summary*

Sheet	Content	Status
Template Cover	Properties, legend	Bidder free to use/update
Template Control	Contains real/nominal switch for template calculations, option flag	Bidder to link cells F15 and F24 to model control sheet. Use functionality but do not alter structure.
Version Control	Version control record	Populate but do not alter structure
<b>Template Inputs</b>		
Timeline	Define Franchise timeline and part year adjustments	Populate blue cells but do not alter structure or amend green cells
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 in the blue highlighted cells
<b>Template Outputs</b>		
Pax Revenue	Template for forecasts of selected metric and revenues	Populate but do not alter structure
Other Revenue	Template for forecasts of selected revenues	Populate but do not alter structure
Staff	Template for forecasts of selected metrics and costs	Populate but do not alter structure
Other Opex	Template for forecasts of selected costs	Populate but do not alter structure
RS Charges	Template for forecasts of selected metrics and costs	Populate but do not alter structure
Infrastructure	Template for forecasts of selected metrics and costs	Populate but do not alter structure
Performance	Template for forecasts of selected metrics and costs/revenues	Populate but do not alter structure

Sheet	Content	Status
TOC Capex	Template for forecasts of selected costs	Populate but do not alter structure
<b>Financial Statements</b>		
P&L1	Template for forecasts for profit and loss account at specified level of aggregation	Populate highlighted cells but do not alter structure
P&L2	Template for forecasts for profit and loss account at specified level of aggregation	Contains formulae, do not alter
P&L3	Template for forecasts for profit and loss account at specified level of aggregation	Contains formulae, do not alter
CF	Template for forecasts of cashflow statements	Populate blue cells but do not alter structure
BS	Template for forecasts of balance sheet	Populate including Opening Balance in column AK, but do not alter structure
<b>Output Calculations</b>		
FAA	Production of tables and values to populate the Franchise Agreement including Appendix 2 to Schedule 8.1; and Appendix 1 to Schedule 8.2; and Appendix 1 to Schedule 8.6 of the Franchise Agreement (feed from Financial Statements and Bidder model) of the Franchise Agreement.	Populate (blue cells only) but do not alter structure
NPV	NPV of Adjusted Evaluated Payments calculation (feed from Financial Statements and calculation based on this)	Contains formulae, do not alter
FO&C	Schedule 12 of the Franchise Agreement Financial Ratio, Season Ticket Bond calculations (feed from Financial Statements)	Populate (blue cells only) but do not alter structure
Funding	Calculation template for Required PCS and for Bidder specification of Additional PCS and Agreed Funding Commitment.	Populate (blue cells only) but do not alter structure

6.3.6.5 The table in the FAA sheet containing Minimum Marketing Spend and Minimum Marketing Team Spend figures for Appendix 1 to Schedule 6.3 of the Franchise Agreement must be populated with the marketing costs assumed in the Bid forecast and in line with the description of marketing costs in paragraph 5 of Schedule 6.3 of the Franchise Agreement. As a minimum, costs included in the Financial Model in rows 121 (Marketing staff costs), 314 (Marketing operating costs), 357 (Advertising) and 358 (Media) of the P&L1 should be captured in the table in Appendix 1 to Schedule 6.3 of the Franchise Agreement. The table should be populated with these costs in 2019/20 prices.

6.3.6.6 The Financial Templates shall be populated in full (which includes columns I, J, K and L in the Financial Templates labelled 'Actual' and 'Forecast' for the years 2017 to 2020), where years 2017 and 2018 will be 'Actual' and year 2019 and 2020 will be 'Forecast', with outputs from the Models specified in Franchisee Years ending 31 March of each year.

6.3.6.7 With regard to historical years (Year -2 and Year -1), Year 0 and Year 1 (2017 to 2020):

- a) Bidders are not required to populate the balance sheet and cash flow for Years -2 to Year 1 in columns I, J, K and L in each of the "BS" sheet and "CF" sheet;
- b) Bidders are required to populate the profit and loss account for Years -2 to Year 1 in columns I, J, K and L up to the line "Operating Profit / (Loss) After Exceptionals and Contingencies" in each of the "P&L1", "P&L2" and "P&L3" sheets, but are not required to populate below this line in these columns;
- c) Year 1 (Part) in column AE should be fully populated throughout the Financial Templates; and
- d) Bidders are expected to describe their opening balance sheet assumptions in the Record of Assumptions.

6.3.6.8 The Financial Ratio calculations are incorporated in the Financial Templates and are based on outputs contained in the Financial Formats. For Modified Revenue and Actual Operating Costs Bidders must be consistent with the drafting of Schedule 12 of the Franchise Agreement in completing the Financial Templates.

6.3.6.9 Bidders are permitted to expand the level of detail provided within the Models beyond the minimum requirements of the Financial Templates. In populating the Financial Templates, Bidders:

- a) Must ensure that the addition of any further information is done in such a way as to remain consistent with the format of the Financial Templates and that the level of detail provided is sufficient to give full transparency of all components of costs and revenues;
- b) Should note that the spare rows provided in the Financial Templates can be used to accommodate additional detail but deleting or inserting rows or columns to the Financial Templates is not permitted and, for the avoidance of doubt, may result in the Bid being eliminated, in accordance with subsection 6.3.6.2;
- c) 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 historical data to the Financial Model; and
- d) Must ensure that the outputs in the Financial Templates are linked to the input / calculation cells within the Financial Model where appropriate and in such a manner as to facilitate both the understanding of the Financial Model and tracing of core assumptions used in the Financial Model.

6.3.6.10 Bidders may either add worksheets to the Financial Templates or copy the Financial Templates into their own Models. In either case, Bidders are required to ensure that:

- a) The named ranges defined in the Financial Templates are preserved;
- b) The new worksheets are inserted in tabs to the left of the Financial Templates 'Templated Outputs' tab;
- c) The format of the profit and loss account, cash flow statement and balance sheet are set out in the manner stipulated by the Financial Templates;
- d) Units of measure as set out in the Financial Templates provided are used; and
- e) Any types of revenues or costs that they wish to include under a catch all heading of 'Other' do not exceed £250,000 (2019/20 prices) in any given year. Where a Bidder anticipates that such revenues or costs will exceed this amount, they must each be separately identified in a separate spare row and not listed under the heading 'Other'.

### *Revenue Model Output Template*

6.3.6.11 The Department requires that Bidders use the Revenue Model Output Template in Data Site folder 01.02 (Final ITT and Attachments) where the document is titled *EM Revenue Model Output Template*. An accompanying note to guide Bidders in populating the template is available in the same folder. Bidders must ensure they are fully populated. Bidders may choose to incorporate the Revenue Model Output Template into their Revenue Model or this may be submitted as a standalone workbook. The Revenue Model Output Template has been developed to ensure consistency of responses, in presenting all exogenous and endogenous sources of unconstrained revenue growth, in the Revenue Model. Bidders must therefore ensure that all revenue drivers - including released suppression - have been captured in the Revenue Model Output Template and for endogenous drivers, that they have been attributed to the appropriate Delivery Plan. Each source of revenue growth in the Revenue Model should be activated one-by-one with the template populated with cumulative incremental revenues. Where revenue driver line items are already defined in the Revenue Model Output Template, Bidders must populate the Revenue Model Output Template using these lines rather than allocating to alternative categories (for example, the Exogenous Growth lines on the Revenue Drivers sheet, rows 36–48 must be used for presenting revenue from those exogenous drivers rather than the Bidder defining and using an alternative blank Exogenous Factor line). If Bidders require additional revenue drivers they must use the spare rows provided within each of the templates and clearly label the revenue driver. The Operating Manual should clearly indicate which cells in the Revenue Model have been used to populate the Revenue Model Output Template.

6.3.6.12 Bids that do not conform to the structure as set out in the latest iteration of the Revenue Model Output Template provided by the Department may be eliminated from the competition as a result of the Bid being determined as non-compliant. The Department also reserves the right to adjust the Bid or require Bidders to resubmit their Bid in a compliant format within a specified timescale in accordance with subsection 3.5.

6.3.6.13 Each Bidder is required to submit with its Bid completed copies of the Revenue Model Output Templates. A list of the sheets in the Revenue Model Output Template together with a brief summary of each worksheet's content and status is set out below:



**Table 6.2 Revenue Model Output Template summary**

Sheet	Content	Status
Version	Version control	Bidder free to use/update
Revenue Drivers	Template for forecasts of revenue from exogenous and endogenous drivers	Bidder required to use and update. Use functionality but do not alter structure.

6.3.6.14 The Revenue Model Output Template shall be populated in full (which includes columns H, I, J, K, L, M, N, O, P, Q, and R in the Revenue Model Output Template labelled 'Actual' and 'Forecast' for the years 2016/2017 to 2028/2029), with outputs from the Models specified in Franchisee Years ending 31 March of each year. Bidders should also ensure that columns D, E, F and G are completed and reflect the driver of revenue and the associated Delivery Plan.

*LENNON to Flow Group and Ticket Type Mapping*

6.3.6.15 The Department requires that Bidders use the LENNON to Flow Group and Ticket Type Mapping, as set out in the workbook in Data Site folder 01.02 (Final ITT and Attachments), as well as the accompanying note, titled *LENNON mapping guidance*, as the basis of their ticket revenue modelling in the Tier 1 Revenue Model. Bidders may choose to further sub-segment the templated flow groups, providing that the sub-segmentations are simple sub-divisions of the templated flow groups, but this should be limited to a few cases only. The Mapping has been developed to ensure consistency of responses, in presenting revenue flow groups that are all based on the same underlying flows. Bidders must therefore ensure that all 40 of the templated flow groups are used to underpin the ticket revenue modelling in their Tier 1 Revenue Model.

6.3.6.16 Bids which do not base ticket revenue modelling in the Tier 1 Revenue model on the 40 templated flow groups as set out in the latest iteration of the LENNON to Flow Group and Ticket Type Mapping provided or specified by the Department may be eliminated from the competition as a result of the Bid being determined as non-compliant. The Department also reserves the right to adjust the Bid or require Bidders to resubmit their Bid in a compliant format within a specified timescale in accordance with subsection 3.5 (Non-compliant Bids).

6.3.6.17 A list of the sheets in the LENNON to Flow Group and Ticket Type Mapping workbook together with a brief summary of each worksheet's content and status is set out below:

**Table 6.3** *LENNON to Flow Group and Ticket Type Mapping summary*

Sheet	Content	Status
Version	Version control	Do not alter
Overview	Overview	Do not alter
LookupTables	Reference tables for the flow-group mapping	Do not alter
Table1_Prod.Code_to_Ticket Type	Product Code to ticket type mapping	Do not alter
Table2_NLC_to_EMRFZones	NLC to RIFF74 Mapping and zones	Do not alter
Table3.1_FlowgroupMapping	Process mapping from TLC-TLC pairs to revenue model flow-groups	Do not alter
Table3.2_Revenue Flowgroups	Flow Groups	Do not alter Bidders should use these 40 flow groups to underpin modelling of ticket revenue in their Revenue Model

### 6.3.7 Generic Model requirements

6.3.7.1 Bidders must ensure that their Models comply with the following principles:

- a) The Models must be presented in Microsoft Excel 2010 or later (but fully compatible with Microsoft Excel 2010) and 'xlsx', 'xlsb' or 'xlsm' format as shown in subsection 4.11 (Submission of Bids), with workings and formulae intact (i.e. non-input cells must not be 'hard-coded' with values);
- b) The Models must conform with the terms of the Franchise Agreement and Funding Deed unless otherwise instructed in this ITT or through BCQ responses;

- c) No rows, columns, cells or worksheets of the Models may 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;
- d) The Department wishes to receive Models that are efficient in their operation and use of memory. A maximum file size of 75MB for each Model is permitted, and smaller Microsoft Excel workbooks are encouraged. For the avoidance of doubt, any workbook taking up more than 75MB of disk space will result in the Bid being treated as non-compliant unless a derogation is granted in accordance with the process set out in subsection 6.8.3 (Derogations);
- e) The Models should be developed such that they are usable, transparent, understandable and can be run within a reasonable timescale;
- f) In order to aid model transparency Bidders should avoid the use of macros. Any use of macros must be limited to areas where their use adds to the user friendliness of the Models (e.g. print macro) or aids the achievement of other requirements of the Models (e.g. to avoid circularity or to transfer data between Models). Calculations must not be performed by a macro. Where macros are used, they must be listed and their function clearly explained within the Operating Manual;
- g) In order to aid transparency, use of the INDIRECT and OFFSET functions is prohibited, except where derogation has been granted in accordance with the process described in subsection 6.8.3 (Derogations);
- h) In order to aid traceability of inputs and assumptions through the Models, Bidders must avoid using MS Excel “array” formulae over excessively large ranges of cells. Array formulae are identified by the use of braces around the formula, i.e. “{...}”. Bidders must not use such formulae over ranges greater than 20 x 20, except where a derogation has been granted in accordance with the process described in subsection 6.8.3 (Derogations);
- i) The Models submitted by Bidders must be in line with best practice in accordance with the requirements set out in

subsection 6.8 (Reviews and audit of Models) and employ the accepted principles of “separation”, “consistency”, “integrity” and “linearity” (as described in subsection 6.8.2.5), except where a derogation has been granted in accordance with the process described in subsection 6.8.3 (Derogations);

- j) Although best practice would dictate that a consistent formula is used across columns in each row, there are a number of circumstances where a model can be made more transparent by changing the formulae across a row. Provided it is made clear (even when printed out and the formulae cannot be seen) that the calculation method is different, Bidders may use different formulae in respect of the following:
  - i) To allow a different approach to the treatment of historical information or forecasts before the Franchise commences;
  - ii) To allow units, indices, totals, NPVs and other useful modelling ‘flags’ to be included in the columns to the left of the first modelled year; and
  - iii) On sheets that do not contain a timeline, where consistency down rows may be applied instead of across columns. On sheets that contain a timeline and where vertical presentation is also desired, this should be transparent and clearly identifiable; and
- k) Bidders do not need to seek derogation from the Department should the Models deviate from best practice in the three cases described in subsection 6.3.7.1j)

6.3.7.2 Cross-links between the Models must not be formed using direct references. Rather, outputs from one Model should be copied to a dedicated paste area in the other, with the origins and destinations of transferred data clearly identified within the Models and described in the Operating Manual. All Operational Models that support the inputs to and calculations within the Financial Model are required to be submitted, and it is anticipated that the full Modelling Suite will be maintained and supplemented together, and submitted simultaneously as required to support any Change arising during the Core Franchise Term and Extension Period.

## 6.4 Assumptions

6.4.1 Bidders are to use the following assumptions in preparing their Bids:

- a) The Franchise will commence on 18 August 2019;
- b) The first Franchisee Year of the East Midlands Franchise runs for a part year from 18 August 2019 to 31 March 2020. The first full Franchisee Year commences on 1 April 2020 and ends on 31 March 2021.
- c) The Franchisee will be required to prepare audited accounts for the Franchisee Year ending 31 March for the duration of the Franchise;
- d) Annual RPI and AWE indices assumptions will be made available to Bidders on the Data Site and shall apply from the year commencing 1 April 2020 and annually thereafter. Bidders should adopt their own RPI and AWE assumptions up to and including the financial year commencing 1 April 2019, and such assumptions should be clearly stated;
- e) The real discount rate to be applied in Net Present Value calculations is 3.5 per cent per annum;
- f) The Net Present Value of Bid revenues, costs and Franchise Payments will be discounted to the start of the Franchise (18 August 2019);
- g) For the purposes of calculating Net Present Values, the template calculation assumes mid-year cashflows for full Franchisee Years from 1 April to 31 March inclusive (30 September);
- h) Bidders must use CP5 values for regulated charges and performance regimes, as determined by the ORR Periodic Review 2013, throughout the Core Franchise Term and Extension Period. Track Access Agreement Schedule 8 benchmarks and Fixed Track Access Charge (FTAC) and Schedule 4 Access Charge Supplement prices for the final year of CP5 must be used for the remainder of the Core Franchise Term and Extension Period;
- i) Bidders must assume that for Schedule 5.4 and Schedule 5.5 of the Franchise Agreement, (i) “k” = 0 for the Fare Years beginning January 2017, January 2018, January 2019, and January 2020

and that for all subsequent Fare Years “k” = 1; and (ii) “f” = 0 for the Franchise Term.

- j) With respect to any non-capital costs (and all operating (including maintenance) and project implementation costs are to be treated as non-capital costs for this purpose) arising from any asset or Scheme utilising the Residual Value Mechanism, costs arising from such asset or Scheme shall be expensed in the year in which they arise;
- k) Bidders should expense pension cash contributions but should not model actuarial gains or losses on pension assets or liabilities; and
- l) Bidders are to make their own assumptions about the Variable Usage Charge (VUC) and electricity consumption rates of any rolling stock proposed for introduction into the franchise.

## **6.5 Record of Assumptions**

6.5.1 Each Bidder is required to submit with its Bid a Record of Assumptions which:

- a) Is written in Microsoft Word ‘docx’ format in accordance with subsection 4.11 (Submission of Bids);
- b) Clearly sets out the rationale underlying the assumptions and the methodologies adopted, for example, where "bottom up" costing has been used state the basis of the assumptions or alternatively detail any quotes received where costs are related to subcontracts;
- c) Provides additional detail to enable the Department to understand how Bidder’s assumptions have been calculated and how sources of assumptions have been used;
- d) Provides a reconciliation of the revenue/cost lines impacted by initiatives (see subsection 6.5.3) back to the financial information provided in the Schedule of Initiatives.
- e) Provides detail and transparency on the costs, revenues and assumptions associated with each major timetable change, as required in subsection 5.7 (Delivery Plan 2 – Train Service and Performance);

- f) Provides detail and transparency of all indexation assumptions used;
- g) Provides detail and transparency about the calculation of phased or proportioned annual costs and revenues for example, delivery of rolling stock phased in during the year, and assumed cost/revenue proportions in part years at the start and end of the Franchise;
- h) Includes a description of the accounting principles adopted and the specific accounting policies applied, especially in relation to:
  - i) The purchase of assets with a useful life in excess of one year;
  - ii) Pensions – defined benefit scheme service costs or defined contribution scheme cash contributions and balance sheet treatment;
  - iii) Bad debts – if provisions are made, are they specific or general;
  - iv) The key assumptions used to determine the costs to be accounted for under IFRS16 – Leases including details of what have been accounted for as leases and the assumptions used to determine the depreciation of the asset and the interest cost on the liability. The assumptions in the financial model, the operating manual and Record of Assumptions should be consistent with the requirements of IFRS16 - Leases;
  - v) Rolling stock maintenance reserve – how each reserve has been accounted for; and
  - vi) Treatment of any derivatives, e.g. interest rate swaps or RPI swaps;
- i) Includes a description of the tax treatment adopted, especially in relation to:
  - i) Categorisation of operating and capital expenditure, including the capital allowance treatment of each capital asset;
  - ii) Pensions;

- iii) Leases – the tax treatment adopted and the rationale for the treatment;
  - iv) Interest costs (including capitalised interest), with specific consideration given to the current rules concerning the tax-deductibility of interest. This should include the thin capitalisation rules, the new corporate interest restriction rules effective 1 April 2017 introduced by the Finance (No2) Act (2017), and other transfer pricing and anti-avoidance provisions; and
  - v) Transfer pricing - details of the assumptions made regarding transfer pricing.
- j) Contains a level of detail and a granularity of data such that each input assumption and changes to it over time, as reflected in the Models, are properly explained;
  - k) Provides a level of usability such that linkages to the Models are clear and the narrative provides the user with sufficient information to assess the financial impact of price or volume changes within a reasonable timeframe;
  - l) Uses tables to enhance the narrative, such tables being directly traceable to the Models and to external sources where applicable (such as Network Rail charges);
  - m) Arrives at an estimate of the financial impact of a change in prices or volumes which is aided by the quality of the narrative;
  - n) Includes a section that should reconcile how any Franchise Agreement required outputs have been arrived at (including but not limited to "**AFA**" and "**DFR**"); and
  - o) Identifies the revenue/cost lines included in FRM Revenue and justifies how the inclusion of each revenue/cost line is consistent with the definition of FRM Revenue in Schedule 8.6 of the Franchise Agreement.

6.5.2 The Record of Assumptions must:

- a) Contain all financial, mobilisation and operational assumptions used in the Models and explain and discuss the inputs of each Model, including the base unit cost for each input and the cause and impact of each change over time. 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;

- b) Include a table setting out the percentage of total other revenues, other operating costs and rolling stock costs (totals in real terms over the Core Franchise Term and Extension Period) that are earned from or paid to HQ, group or other Affiliates including details of:
  - i) The services to which such revenues or costs relate; and
  - ii) The basis for determining the charges;
- c) Provide details of any financial benefits (which includes changes to both revenues and costs that impact the Bid level of Franchise Payments) included within the Bid arising from any alliance with Network Rail, or any other Industry Partners. Bidders must not include any financial benefits from any deep alliance i.e. an alliance requiring a change to the industry regulatory framework and hence third party approval that may generate savings from possessions (Schedule 4 of the Track Access Agreement) or performance (Schedule 8 of the Track Access Agreement) in their Bid. The consequences of any proposals for alliancing with Network Rail or any other Industry Partners may be subject to risk adjustment in accordance with the principles of Section 7: (Evaluation Criteria and Methodology) and Appendix 3 (Risk Adjustment Process);
- d) Include separately the costs involved and assumptions made in relation to pension contribution rates, both employer and employee;
- e) If the Bidder proposes investment with a useful economic life or period of financial return that exceeds the Core Franchise Term and Extension Period, any costs and revenues that accrue in relation to that investment must be explicitly set out in the Record of Assumptions setting out:
  - i) The period from investment until the end of the Extension Period;

- ii) The period from end of the Extension Period until end of asset life, including the basis for determining that asset's life;
- iii) The initial cost of the investment in nominal and 2019/20 prices;
- iv) The amount of cost recovered/paid off during the life of the Franchise together with the trajectory of that recovery/payment off during the Core Franchise Term and Extension Period in nominal prices; and
- v) Show the non-depreciated value (i.e. residual value) in nominal prices at the end of the Core Franchise Term and Extension Period of:
  - A) Assets to which the provisions of subsections 5.2.1 to 5.2.5 (Residual Value Mechanism) do not apply. With regard to such assets the Franchisee is on risk as to whether they are designated as Primary Franchise Assets or if a Successor Operator purchases such assets. If they are designated the standard valuation provisions of the Supplemental Agreement apply; and
  - B) Assets which the Bid proposes are acquired by a Successor Operator in accordance with the provisions contained in subsections 5.2.1 to 5.2.5 (Residual Value Mechanism) along with the other information required by those subsections;
- f) If a Bidder provides for investments in assets to be identified in the future, or a general investment fund, the Record of Assumptions must make clear the nature of the proposed investments and the process for agreeing how such funds are to be spent and must provide a cross reference to the relevant Initiative in the Bid;
- g) Where changes in the Financial Model are attributable to Initiatives, set out the reasons for such in the Record of Assumptions for each affected input to the Financial Model. An example of how such movements could be presented is shown in respect of headcount in Table 6.4 (Example of presentation of movements in Record of Assumptions) below. Bidders should

note that words and values contained within Table 6.4 (Example of presentation of movements on Record of Assumptions) are indicative only. Bidders should supplement such analysis with a detailed description of the rationale and where applicable relevant evidence behind any movements within the Record of Assumptions;

**Table 6.4** *Example of presentation of movements in Record of Assumptions\**

<b>Franchisee Year</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>
<b>Base year/ Opening FTE</b>	<b>432.5</b>	<b>392.5</b>	<b>371.5</b>	<b>369.5</b>	<b>384.5</b>	<b>414.5</b>	<b>419.5</b>	<b>416.5</b>
LFR data – baseline adjustment	(20.0)							
Initiative DP 3.4.5 (Train maintenance in house)				15.0	30.0	5.0	(3.0)	
Initiative DP 3.4.6 (Depot staff restructuring)	(15.0)	(15.0)						
Initiative DP 6.2.3 (Management/ HQ structure efficiencies)	(5.0)	(5.0)						
Initiative DP 5.2.1 (Sales channel review)	(5.0)	(3.0)	(2.0)					
Initiative DP 4.1.1 (Station welcome hosts)	5.0	2.0						
<b>Total FTE at year end</b>	<b>392.5</b>	<b>371.5</b>	<b>369.5</b>	<b>384.5</b>	<b>414.5</b>	<b>419.5</b>	<b>416.5</b>	<b>416.5</b>

\* the DP numbers and descriptors provided are for illustrative purposes only and are not intended to relate to this franchise competition.

- h) Bidders should set out any monetary values so that the Department should easily be able to trace specific and discretely identifiable figures included in the Delivery Plans through to the Schedule of Initiatives, Record of Assumptions and the Modelling Suite. Bidders are to ensure that monetary values are reconcilable throughout their Bid submissions;

- i) Bidders should provide a credible forecast for total opening revenue with their Bids, and provide full evidence for this in the Record of Assumptions. This total opening passenger revenue forecast should be for the full year 2019/20 with a detailed explanation in the Record of Assumptions of how the values for the first stub year of the franchise have been forecast. A bridge showing how the forecast revenue for the full year 2019/20 is derived from the actual revenue reported in East Midlands Trains Limited management accounts for the 2017/18 full year and 2018/19 Periods 1 to 3 should be provided, setting out the impact of each revenue driver. The management accounts for 2018/19 Periods 1 to 3 will be made available on the Data Site during the Bidding period; and
- j) Bidders must fully explain how the Minimum Marketing Spend and Minimum Marketing Team Spend figures in Appendix 1 to Schedule 6.3 of the Franchise Agreement are derived, and include a reconciliation to marketing spend included in the Delivery Plans and marketing spend as set out in the Financial Templates consistent with the requirements of section 6.3.6.5.

6.5.3 Bidders are required to fully evidence the details behind their Initiatives in their response to Section 5: (Detailed Bid submission requirements - Delivery Plans). Using the above table as guidance, Bidders shall, in their Record of Assumptions, provide details of the impact that Initiatives have on each cost, revenue or other input to the submitted Financial and Operational Models. A brief narrative explaining why the cost or revenue is so impacted by the relevant Initiatives must accompany each table. The wording of the narrative or cross references used and the values shown must make it reasonably determinable that the Initiative is the same as its correspondingly numbered Initiative in the Bidder's response to Section 5: (Detailed Bid submission requirements - Delivery Plans).

6.5.4 In addition, each Bidder is required to submit with its Bid a copy of its modelled timetable (which has been developed within MOIRA1 (as per the instructions set out in subsection 6.3.4.10) and any other revenue or timetable development software) to calculate the likely passenger revenues that will be earned from the timetable submitted with its Bid and that have been utilised in the population of the Bidder's revenue model. This information must be provided electronically in raw format as an Appendix to the Bidder's Record of Assumptions.

6.5.5 The Department reserves the right to require the leading Bidder to include additional detail (for the purpose of clarifying and confirming

information already provided in other sections of the Bid) in the Record of Assumptions before contractualisation takes place and the Record of Assumptions is placed in escrow.

## **6.6 Operating Manual**

6.6.1 Each Bidder is required to submit with its Bid an Operating Manual which:

- a) Is in Microsoft Word 'docx' format in accordance with subsection 4.11 (Submission of Bids);
- b) Is an accurate and plain English document that facilitates a reasonable level of understanding of the functionality of the Bidder's "Models", including how each interfaces and interacts with other Models;
- c) Includes an explanation of the flow of data through the Financial Model and the interfaces with the Operational Models submitted. This may be presented diagrammatically with supporting narrative as appropriate. This must also describe how any interface spreadsheets are used in the flow of data between models, if applicable;
- d) Includes a description of each Model, its structure and capability;
- e) Includes a description of the purpose and operational characteristics of each worksheet and how it interacts with the Models;
- f) Includes instructions on how to input data, select scenarios/options and calculate the financial outputs;
- g) Clearly explains the method by which the Bidder's Models are able to carry out the tests described in subsections 6.3.4.2 and 6.3.4.4; and
- h) Where macros (or other visual basic functions) have been used, includes a description of the macros used in the operation of the Models, the reason for their use and how they are used to generate model outputs.

6.6.2 The use of screen shots and narratives is encouraged to provide the user with sufficient information to assess the content, purpose and functionality of the Models.

6.6.3 The Department reserves the right to require the leading Bidder to include additional detail (for the purpose of clarifying and confirming information already provided in other sections of the Bidder's Bid) in the Operating Manual before contractualisation takes place and the Operating Manual is placed in escrow.

## 6.7 Change

6.7.1 Matters to be addressed in the Operating Manual:

6.7.1.1 The Bidder's approach to Change must demonstrate to the Department that the Modelling Suite will result in a transparent and efficient contracting of future Changes.

6.7.1.2 In addition to the requirements and content set out in subsection 6.6 (Operating Manual), the Operating Manual shall also include the worked examples of Change ("**Worked Examples**") set out below. These Worked Examples have been designed to demonstrate the ability of the Modelling Suite to facilitate a variety of hypothetical potential Changes. For the avoidance of doubt, the scenarios in the Worked Examples below have been selected simply to allow the Modelling Suite to be thoroughly tested and are not indicative of any planned or likely Changes to policy or infrastructure delivery. The Worked Examples will be evaluated in accordance with Section 7: (Evaluation Criteria and Methodology). The Financial Model is not required to include a switch to allow these examples to be selected. The Worked Examples to be included are:

- a) Worked Example (A) - the maximum regulated Fares Basket increase for the 2021 calendar year reduces from RPI+1% to RPI+0%, for the industry as a whole. All other policies remain the same including caps on individual prices within Fares Baskets and Fare rises for other years (Bidders should include the impact of the price change - on fares that are constrained by regulated fares, on levels of demand and crowding as well as on revenue and any affected costs);
- b) Worked Example (B) – after a Charging Review, the following changes are made to the regulated charges from 1 April 2019 onwards:
  - i) The capacity charge for Service Code 222150000 on weekdays is doubled;
  - ii) The Variable Usage Charge as set by Network Rail for Vehicle Type 222/M is halved;

- iii) The Network Rail Schedule 8 payment rate for service group EM04 doubles in the peak and the benchmark changes to 1.0 minute;
- iv) The Long Term Charge for Nottingham on the Network Rail price list is increased to £750,000 in 2019/20 prices; and
- v) All other regulated charges remain at CP5 rates as instructed in subsection 6.4.1 h)

6.7.1.3 The Bidder must ensure that the Worked Examples:

- a) Provide a clear and detailed account of the assumptions and processes employed in pricing the Change, including:
  - i) Details of the individual steps to be followed to make the Change (this should be in sufficient detail to enable evaluators to follow the flow of calculations through the Modelling Suite rather than rely on “switching on” pre-populated inputs);
  - ii) Individual steps can be processed in an expeditious manner;
  - iii) Identification of the Models impacted by the Change (i.e. financial, revenue, crowding, fares etc.), including a process flow diagram; and
  - iv) The net output results of the change in Franchise Payments and Target Revenue.
- b) Trace the effect of a revised input through the Models, providing an audit trail from output Franchise Payments back to input changes;
- c) Include a commentary on the rationale for the inclusion/exclusion of each variable within the scope of the Change, demonstrating the reasonableness of the revisions; and
- d) Demonstrate that the level of change in the Financial Model outputs, including but not limited to Franchise Payments and Target Revenue, is commensurate with the level of input changes e.g. by reconciling the movement in Franchise Payments and/or other key variables impacted by the Worked Example.

## 6.7.2 Modelling Change

6.7.2.1 In order for the Department to satisfy itself as to the suitability of the entire Bid to price Change, the Department requires the Bidder to submit with its Bid the items described in Table 6.5 (Modelling Change submission requirements) below and will as part of its evaluation, as described in subsection 7.5 (Modelling Change tests), assess whether the Bidder has complied with the requirements specified in the column headed “Requirements” for each of the four items listed in that Table.

**Table 6.5** *Modelling Change submission requirements*

No.	Item	Requirements
1.	Worked Examples and approach to Change	Each Bidder will include within the Operating Manual submitted with its Bid, the Worked Examples and details of its approach to Change prepared in accordance with the requirements described in subsection 6.7 (Change) of this ITT.
2.	Record of Assumptions and Operating Manual	Each Bidder will include within its Bid, a Record of Assumptions prepared in accordance with the requirements described in subsection 6.5 (Record of Assumptions) of this ITT (and those assumptions are reasonable in respect of the approach to Change described in subsection 6.7 (Change) of this ITT) and an Operating Manual prepared in accordance with the requirements described in subsection 6.6 (Operating Manual) of this ITT.
3.	Suitability of Financial Model for implementing Changes	Each Bidder will include within its Bid, a Financial Model prepared in accordance with the requirements described in subsections 6.3 (Financial and Operational Model requirements) and 6.4 (Assumptions) of this ITT, which shall be consistent with the approach to Change described in subsection 6.7(Change) of this ITT.
4.	Suitability of Operational Models (including integrity of the Modelling Suite) for implementing Changes	Each Bidder will include within its Bid, Operational Models prepared in accordance with the requirements described in subsections 6.3 (Financial and Operational Model requirements) and 6.4 (Assumptions) of this ITT, which shall be consistent with the approach to Change described in subsection 6.7 (Change) of this ITT.

6.7.2.2 The Department recognises that there are considerable time, costs and resources often deployed by the Department and Franchisees in the contracting and management of Change throughout the Core Franchise



Term and Extension Period. The contracting of a suitable Modelling Suite will support endeavours to improve the efficiencies around contracting Change.

6.7.2.3 The Bidder’s approach to the pricing of any Change must demonstrate to the Department that the Modelling Suite will result in a transparent and efficient contracting of future Changes, based on clear and reasonable methodology and assumptions. Non-compliance with this subsection 6.7 (Change) will be managed in accordance with subsection 3.5 (Non-compliant Bids).

6.7.2.4 The Department reserves the right to engage with one or more Bidders, prior to signing of the Franchise Agreement, to improve the transparency, granularity and usability of the Modelling Suite in areas which it believes would be beneficial to the management of the Franchise as outlined above. This will not impact on the ranking of the Bids.

**6.8 Reviews and audit of Models**

**6.8.1 Introduction**

6.8.1.1 Bidders must note that the Models submitted with their Bids will have been, or during evaluation will be, reviewed or audited in accordance with the following requirements:

**Table 6.6** *Model review and audit requirements*

	<b>Modelling Best Practice Confirmation</b>	<b>Model Audit</b>	<b>Calculation Review</b>	<b>Review by the Department’s Technical and Financial Advisers</b>
<b>Financial Model</b>	✓	✓		✓
<b>Tier 1 Operational Models</b>	✓		✓	✓
<b>Tier 2 Operational Models</b>	✓		✓*	✓
<b>Supplementary Material</b>			✓*	✓

	<b>Modelling Best Practice Confirmation</b>	<b>Model Audit</b>	<b>Calculation Review</b>	<b>Review by the Department's Technical and Financial Advisers</b>
<b>Timescales and Requirements</b>	Confirmation provided at Bid Submission	Model Audit Report following the Department's instruction	Completed in parallel with Financial Model Audit following the Department's instruction	Completed by the Department as part of its evaluation process

*\*The Department reserves the right to include some or all of the Tier 2 Operational Models and/or Supplementary Material as part of the Calculation Review.*

6.8.1.2 The Financial Model and Operational Models of all Bidders must have been subject to Modelling Best Practice Confirmation. Details of the process are set out in subsection 6.8.2 (Modelling Best Practice Confirmation). The Financial Model of one or more Bidders will be subject to a full Model Audit. Details of the process are provided in subsection 6.8.4 (Model Audit).

6.8.1.3 Bidders are required to satisfy themselves as to the technical accuracy of all Models prior to submission, noting the allocation of risk with respect to errors within the Models described in subsection 6.2 (Errors in Models and/or Record of Assumptions).

## 6.8.2 Modelling Best Practice Confirmation

6.8.2.1 Each Bidder must provide with its Bid an independent Modelling Best Practice Confirmation report on all sections of the Models. The report and any engagement letter between the Bidder and the report writer, must:

- a) Be co-addressed to the Department and that Bidder (prior to Bid submission the Department is prepared to co-sign the engagement letter, if required);
- b) Permit the Department to review and rely on the report;
- c) Acknowledge that the Department gives no warranty or representation with regards to the sufficiency of services provided by the report writer, the report itself or the scope of any terms of engagement relating to the report; and
- d) Exclude all liability however arising on the part of the Department connected in any way with the report.

6.8.2.2 The report must take account of any derogations obtained in accordance with the process described in subsection 6.8.3 (Derogations). The Modelling Best Practice Confirmation is not considered to be an audit of the Models.

6.8.2.3 The Financial Templates should be included in the Modelling Best Practice Confirmation. Where the Financial Templates issued by the Department deviate from Modelling Best Practice, these deviations should not be raised as issues in the Modelling Best Practice Confirmation. However, Bidders must otherwise adhere to Modelling Best Practice in populating the Financial Templates.

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

6.8.2.5 The Modelling Best Practice Confirmation must provide confirmation that the Models have or provide for:

- a) Separation of inputs, calculations and outputs:
  - i) Inputs: should include data and assumptions but no calculations;
  - ii) 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;
  - iii) Outputs: should not include any hard-coded input cells or calculations except for sums and check totals; and
  - iv) 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.
  
- b) **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:

- i) Columns: the same column should be used for the same period in each worksheet (although it should be noted that the time periods across columns in the Bidder's Model may be different from the columns in the Financial Templates); and
  - ii) Rows: a row will contain only one formula, copied across all columns.
- c) **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;
- d) **Linearity** of calculation flow (e.g. that there are no circular references);
- e) **Macros**, where required, their function should be clearly explained; and
- f) **No hard coded values in formulae**, other than the following, if required: 1, -1, 0, TRUE, FALSE.

6.8.2.6 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 detailed as a Model Audit, each individual formula is not checked).

6.8.2.7 The Modelling Best Practice Confirmation must also provide confirmation that the 75MB size limit has been adhered to, that array formulae have not been used across ranges of cells greater than 20 x 20 and that the INDIRECT and OFFSET functions are not used except where derogations have been obtained in accordance with the process described in subsection 6.8.3 (Derogations).

### 6.8.3 Derogations

6.8.3.1 The Department may grant derogations from the modelling requirements including in the following four areas:

- a) Model size;
- b) Array formulae across ranges of cells greater than 20 x 20.
- c) Use of INDIRECT and OFFSET functions; and
- d) Modelling Best Practice Confirmation,

6.8.3.2 Applications must be made in writing to the Department within 40 working days of the publication of the ITT. Applications must be made via the AWARD website as outlined in subsection 3.9 (Bidder Clarification Questions). Responses will be provided via AWARD. Applications should set out clearly why the derogation is required and the benefit to the Department and the evaluation process of granting such a derogation. It is not expected that derogations will be necessary.

#### *Model size*

6.8.3.3 The Department will consider applications to exceed the 75MB workbook size limit where it is demonstrated that adherence to this limit generates significant inefficiencies, or materially reduces the level of confidence in the resulting forecasts.

#### *Array Formulae*

6.8.3.4 The Department will consider applications for the use of array formulae greater than 20 x 20 for labelling or checking purposes only, i.e. where they do not form part of the main model calculations.

#### *Use of prohibited functions*

6.8.3.5 The Department will consider applications for use of the OFFSET and INDIRECT functions where Bidders can demonstrate:

- a) 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
- b) The use of these functions is clearly explained and documented in the Operating Manual and Record of Assumptions

### *Modelling Best Practice Confirmation*

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

#### **6.8.4 Model Audit**

6.8.4.1 Following Bid submission and prior to contract award the Department will request one or more Bidders obtain an independent audit of all sections of the Financial Model (the “**Model Audit**”). The Model Audit shall be prepared for the benefit of the Department and the Bidder; shall be co-addressed to them, and the level of liability must be agreed by the Department, and will be a minimum of £1 million (2019/20 Prices). All costs associated with the preparation of the Model Audit are for the Bidders’ account only. Bidders must obtain the Department’s acceptance (not to be unreasonably withheld) of their choice of independent model auditor, the scope of the Model Audit and the Department’s agreement to what constitutes the Financial Model for determining the scope of the audit. The Department will expect to receive the audit report within 15 working days of it being requested of the Bidder.

6.8.4.2 The Department requires the Model Audit to confirm:

- a) Whether the Financial Model has been constructed appropriately so as to materially achieve the objective that it was designed to meet, insofar as its logical integrity under the Bid assumptions and input data is concerned, including the conversion of nominal values to real values;
- b) Whether the Financial Model correctly reflects the changes which have been agreed with the Department as part of the CQ process including those related to subsection 6.2 (Errors in Models and/or Record of Assumptions) and subsection 6.7.2 (Modelling Change);
- c) Whether the tax charge, liabilities and payments calculated by the Financial Model, on the basis of the assumptions made in the Operating Manual and Record of Assumptions appear materially consistent with current understanding of existing UK tax legislation, identifying any risks associated with the underlying tax assumptions;

- d) That the proposed tax treatment in the Financial Model is appropriate, and is consistent with the accounting treatment adopted in the Financial Model, and that the accounting treatment is valid for tax purposes;
- e) Whether the Bidder has applied FRS101 or IFRS accounting policies and rules applicable as at the date of issue of this ITT, with the exception of the adoption of IFRS 16 – Leases, (which is dealt with separately in paragraph 6.8.4.2f)) and whether the key accounting assumptions in the Financial Model and the Operating Manual and Record of Assumptions are materially consistent with current understanding of FRS101, or IFRS (whichever is relevant);
- f) Whether the Bidder has applied IFRS16 - Leases to the relevant assets, using reasonable assumptions and judgement and whether the key account assumptions in the Financial Model and the Operating Manual and Record of Assumptions are consistent with IFRS16 - Leases.
- g) Whether the calculation of the Annual Franchise Payments is in accordance with the terms of the Franchise Agreement;
- h) Whether the calculation of the Financial Ratio complies with the requirements in subsection 6.3.3.1 and is consistent with the definition of Modified Revenue and Actual Operating Costs in accordance with Schedule 12 of the Franchise Agreement;
- i) Whether the Financial Model has been developed in a well-structured manner to best practice standards;
- j) 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;
- k) Whether any issues identified through the Model Audit process remain outstanding and the process undertaken to address and correct issues identified during the Model Audit process; and
- l) Whether the modelling requirements for the Financial Robustness Test are met such that the Financial Model accurately performs the calculations as required in subsection 6.3.1.1, subsection 7.6 (Evaluation of Financial Robustness) and to ensure compliance with the Funding Deed. The Department will define with the model

auditor the inputs and parameters, as appropriate, to meet this requirement in the Model Audit.

6.8.4.3 For the Model Audit, the Department may provide one or more Bidders with no more than five tests for the purposes of understanding robustness of the Financial Model. The Model Audit will test the logical integrity of the arithmetical operations in the Financial Model formulae and calculations under the assumptions and input data for the specified test(s). A robustness test is defined as a change in one or more input variables through the models with the Bid Franchise Payments and Agreed Funding Commitment held constant i.e. “frozen”.

6.8.4.4 The Department recognises that the finance, accounting and taxation elements of the Model Audit are not relevant to the Tier 1 and 2 Operational Models, and therefore requires a review of the calculations only, to be conducted by the same party that undertakes the Model Audit, in accordance with the process described in subsection 6.8.5 (Calculation Review).

#### 6.8.5 **Calculation Review**

6.8.5.1 As part of the Model Audit the independent party conducting the Model Audit must also conduct a review of the calculations employed in the Tier 1 Operational Models (a “**Calculation Review**”). The Department reserves the right to include some or all of the Tier 2 Operational Models and/or Supplementary Material in the Calculation Review and reference below to Tier 1 Operational Models shall be interpreted accordingly. The Calculation Review will be conducted to the same standard as the Model Audit, but will exclude the technical elements of this process relating to taxation and accounting practices. The Department requires the review to confirm:

- a) Whether the Tier 1 Operational Models have been constructed appropriately so as to materially achieve the objectives that each of them were designed to meet, insofar as its logical integrity under the Bid assumptions and input data is concerned;
- b) Whether the Tier 1 Operational Models have been developed in a well-structured manner to best practice standards; and
- c) Whether assumptions and input data in the Operating Manual and Record of Assumptions have in all material respects been consistently reflected in the Tier 1 Operational Models.



## **6.9 Financial Structure and Funding Plan**

### **6.9.1 Bid requirements**

6.9.1.1 Each Bidder is required to submit with its Bid a Financial Structure and Funding Plan which:

- a) Details the total investment plan for all funding of infrastructure, other works and schemes that support its proposals, including explaining its linkage with the Financial Model. The capital expenditure covered by this plan must be clearly reconciled to amounts contained in the Capital Expenditure Model or sheet(s) contained in the Financial Model or cost model and any capital expenditure or investment amounts presented in Delivery Plan 0;
- b) Shows that the PCS has been calculated and provided in accordance with the requirements set out in subsection 6.9.2.4 to 6.9.2.7;
- c) Provides precise details of its funding arrangements, the exact nature of relationships with any funding partner(s) or underlying financial securities provided by third parties, including the extent of dialogue and nature of any commitment, risks to its ability to meet its funding commitments and how risks will be mitigated;
- d) Provides a schedule, reconciled to the worksheet "Funding" rows 47 - 50 in the Financial Templates, which details, for each element of AFC funding, amounts of equity, debt or other funding provided and repayment profiles where relevant. This schedule should be supported by sufficient narrative for the Department to understand the Bidder's plans and rationale;
- e) Provides details of the providers of the Performance Bond, Season Ticket Bond, Bonded PCS or other security including term sheets from the Bond Provider(s) in order to demonstrate that the requirements of the Franchise Agreement and Funding Deed have been or will be met, including confirmation that the relevant Bond Provider meets the Relevant Credit Rating as set out in the Franchise Agreement;
- f) Includes a statement from the relevant Bond Provider confirming the amount of this bond and accepting the form of the Performance Bond as set out in the Franchise Agreement (as an Annex if appropriate);

- g) Includes a statement from the relevant Bond Provider confirming the amount of this bond and accepting the form of the Season Ticket Bond as set out in the Franchise Agreement (as an Annex if appropriate);
- h) Includes a statement from the relevant Bond Provider(s), confirming the amount of the bond being provided under the Funding Deed, accepting the form of the Bonded PCS as set out in the Funding Deed (as an Annex if appropriate) and addressing all other matters associated with the Department updating its tests of financial and economic standing as set out in section 6.10 (Updating of EoI financial and economic standing tests (the “Tests”) and submission of updated Bond Provider letter(s));
- i) Includes a statement from the Guarantor(s) confirming the amount, timing and profile of AFC and amount of PCS it is guaranteeing and accepting the form of the Funding Deed and its terms, and that they will be prepared to enter into the Funding Deed in that form on the date of execution of the Franchise Agreement;
- j) Demonstrates how on-going working capital requirements, as forecast in the Financial Model, will be funded;
- k) Includes for each Initiative which has a funding source outside of working capital (or multiple sources of funding if appropriate), a funding plan with full details of its linkage with the Financial Model, details of each source of funding (each source of third party funding must be separately identified), including rights and obligations of each type of funding and details of agreements with the organisation(s) (including any Affiliate(s)) providing funding. For each source, a letter of support and term sheet must be provided from the relevant financial institution, Affiliate and/or organisation setting out the terms and conditions (including all condition precedents, fees, repayment profile, basis of interest rate calculation) of the finance;
- l) If relevant, includes an explanation of the basis under which the Bidder proposes to procure additional and/or replacement rolling stock from the ROSCOs or extend existing leases;
- m) Sets out the detailed basis of the accounting treatment of leasing and associated charges for all rolling stock and the detailed tax treatment of these charges (explaining in particular the application

if relevant of the long funding lease rules contained in Chapters 6 and 6A of Part 2 of the Capital Allowances Act 2001) (“**Long Funding Lease Rules**”);

- n) Provides details and assumptions for interest earned on cash deposits;
- o) Includes a statement of funding available to the Franchisee from the Start Date including any assumptions around cash held previously by the incumbent operator relating to season ticket or advance ticket purchases at the Start Date; and
- p) Includes a letter from its financial adviser(s) (as an Annex if appropriate):
  - i) 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;
  - ii) Confirming that financial adviser support of the funding proposition has been provided in the knowledge of the terms and conditions set out in the term sheets of the finance providers;
  - iii) Confirming that the funding plans, including term sheets and financing assumptions, are accurately reflected in the Financial Model;
  - iv) Confirming that the Financial Model has been prepared following FRS101 or IFRS accounting standards;
  - v) Confirming that the assumptions used in respect of applying IFRS16 - Leases are reasonable and are consistent with the underlying accounting standards;
  - vi) Confirming that risks to the Bidder’s ability to meet its funding commitments are identified and mitigated in the Financial Structure and Funding Plan;
  - vii) Confirming that relief for, or transfer of losses is clearly stated within the Financial Model and confirming that such relief will be supported by the Bidder’s owning group, as per subsection 6.3.3.1;

- viii) Confirming that they have given consideration to the deductibility of any interest expense in light of thin capitalisation rules, tax rules on interest deductibility, etc. as per subsection 6.3.3.1 e);
- ix) Setting out the calculated ratios in respect of the Guarantor(s) as set out in subsection 6.10 (Updating of Eol financial and economic standing tests (the “Tests”) and submission of updated Bond Provider letter(s)), together with details of the data used and its source, and details of the calculations undertaken and confirming, to the best of its knowledge, that the ratios have been calculated in accordance with the parameters defined in the Eol documents; and
- x) Confirming the interest rates and contractual terms of any inter-company or third party debt funding, subordinated loans or other funding arrangements between, or to be between, the Franchisee and any Affiliate (as defined in the Franchise Agreement) or third party.

## 6.9.2 Funding

6.9.2.1 Bids will need to be supported by two sources of funding which will be contractualised in the Funding Deed:

- a) Agreed Funding Commitment; and
- b) The Parent Company Support.

### *Agreed Funding Commitment*

6.9.2.2 This is the amount and timing of funding incorporated in a Bid Financial Model to support the working capital and investment requirements of the Franchisee. It includes funding provided by group companies and third parties. Such Agreed Funding Commitment must be incorporated in the Bidder’s Financial Model to enable the Bidder to demonstrate that its Bid complies with the Financial Ratio tests in subsection 6.3.3.1. The amount and timing of any Agreed Funding Commitment made available to the Franchisee must not lead to a Financial Ratio of 1.070:1 being exceeded. It is permissible for a Financial Ratio of 1.070:1 to be exceeded where this is a result of the cash generated by the Franchisee not being distributed due to the Franchisee not having sufficient distributable reserves.

6.9.2.3 Bidders should note that the Funding Deed requires that the Guarantor will procure the provision of any third party funding included within the Funding Plan as defined in the Funding Deed. For the avoidance of doubt if the third party funding is not committed at Bid submission, this will be taken into account by the Department as described in subsection 7.9.2.

#### *Parent Company Support*

6.9.2.4 Bids for the East Midlands Franchise must be supported by a level of Parent Company Support ("**PCS**"). Such support must come from the Guarantor (as defined in the East Midlands Franchise Pre-Qualification Process Document).

6.9.2.5 The PCS consists of the Required PCS and the Additional PCS (together, the "**Actual Parent Company Support**" or "**Actual PCS**"). The Required PCS is that calculated in accordance with subsection 6.9.2.7 (Required Parent Company Support). The Additional PCS may be proposed by Bidders in accordance with subsection 6.9.2.8 (Additional Parent Company Support). The Actual PCS is defined in the Funding Deed as 'the PCS Facility'.

6.9.2.6 The Guarantor(s) of the successful Bidder as provider(s) of the PCS will be required to enter into the Funding Deed with the Secretary of State. The Funding Deed will set out the Guarantor(s)' obligation to make the PCS available. The Guarantor(s) entering into the Funding Deed with the Secretary of State will be subject to the updated tests of financial and economic standing described in subsection 6.10 (Updating of EoI financial and economic standing tests (the "Tests") and submission of updated Bond Provider letter(s)).

#### *Required Parent Company Support*

6.9.2.7 The amount of the PCS which the Department requires Bidders to provide under the Funding Deed will be calculable by Bidders by reference to their Financial Model ("**Required PCS**"). The method of calculation is set out in the Financial Templates and is as follows:

$$\text{Required PCS} = \text{£}25,000,000 + 12\% \times \sum_{y=1}^{10} (\text{BFP}_y - \text{FP}_y)$$

Where:

$BFP_y$  equals the Department's Baseline Franchise Payments provided to the Bidders, stated in the Financial Templates sheet 'Funding' row 20 for each Franchisee Year "y" of the Core Franchise Term and the Extension Period.

The Department reserves the right to update the Baseline Franchise Payments to reflect any revisions to the Forecasts of Exogenous Factors, up to 8 weeks prior to the closure of the Bid window, pursuant to subsection 7.14 (Revisions during the Bid window) of this ITT.

$FP_y$  equals the Franchise Payments as calculated by the Bidder's Financial Model and output in the Financial Templates sheet 'Funding' row 21 for each Franchisee Year "y" of the Core Franchise Term and the Extension Period, and which are expressed in nominal terms. For the avoidance of doubt, these Franchise Payments are without any regard for payments by way of profit share payments due to the Department pursuant to paragraph 3 of Schedule 8.1 of the Franchise Agreement.

Where  $(BFP_y - FP_y)$  for any given Franchisee Year "y" is negative,  $(BFP_y - FP_y)$  shall be deemed to be equal to zero for that given Franchisee Year "y". For the avoidance of doubt, the fixed element of the Required PCS amount is £25 million.

Franchise Payments can be expressed as positive or negative. Negative Franchise Payments are payments from the Franchisee to the Department. Positive Franchise Payments are payments from the Department to the Franchisee.

#### *Additional Parent Company Support*

6.9.2.8 Bidders may propose Parent Company Support in excess of the Required Parent Company Support ("**Additional Parent Company Support or Additional PCS**") for the purpose of providing additional financial robustness in the Bid. However, Additional PCS is not a requirement. The amount of Additional PCS must not exceed £20 million. The Additional PCS must be advanced by the Guarantor(s) in accordance with the terms of the Funding Deed i.e. it must be provided under terms identical to the Required PCS, including meeting the Bonding Requirements.

### *Bonding of Parent Company Support*

6.9.2.9 Bidders will be required to procure, in accordance with the Funding Deed, a bond(s) from third party financial institution(s) with a Relevant Credit Rating in an amount equal to the Bonding Requirement which, for the avoidance of doubt, must be at least 50% of the Actual PCS ("**Bonded PCS**").

## **6.10 Updating of EoI financial and economic standing tests (the "Tests") and submission of updated Bond Provider letter(s)**

6.10.1 Bidders should refer to the Franchise EoI and Franchise PPD for information relating to how the Tests will be updated.

6.10.2 As set out in the passage of Section 4.3 Part C of the Franchise PPD entitled "Re-calculation upon receipt of bids", the Department will re-calculate the results of the Tests once the Bid has been submitted, both in light of the Actual PCS (as determined by the requirements set out in subsection 6.9.2 (Funding)), and to take account of any audited annual accounts or credit rating updates issued during the letting process, or any material event disclosed or which ought to have been disclosed under Section C1.3 of the Franchise EoI.

6.10.3 As explained above, the Bidder should note that the Bonded PCS will need to reflect the Actual PCS. The Franchise PPD sets out the Department's requirements in relation to Bonded PCS in excess of £12.5 million (referred to in the Franchise PPD as the "**Additional Bonding Requirement**"). Bidders must return with their Bid an updated letter from their Bond Provider(s), which reflects both the requirements of the Franchise EoI and Franchise PPD and the level of Bonded PCS.

6.10.4 Bidders should be aware that the Funding Deed, along with the bond for the Bonded PCS and Performance Bond will be signed when the Franchise is awarded and on the same date as the Franchise Agreement.

## **Section 7: Evaluation Criteria and Methodology**

### **7.1 Introduction**

7.1.1 Subject to the terms of the ITT including without limitation:

- a) The Department's rights set out in subsections 3.5 (Non-compliant Bids) to 3.7 (Right to disqualify Bidders);
- b) The Department's rights to terminate or amend the terms of the procurement as set out at subsection 1.9 (Liability for costs, updates and termination); and
- c) In accordance with Regulation (EC) 1370/2007,

The East Midlands Franchise will be awarded to the Bidder who submits the most economically advantageous tender ("**MEAT**").

### **7.2 Definition of MEAT for the Competition**

#### **7.2.1 General rules**

7.2.1.1 The Bidder submitting the most economically advantageous tender shall be determined by reference to the criteria and principles set out in Section 7: (Evaluation Criteria and Methodology).

7.2.1.2 Subject to subsection 7.1 (Introduction), the most economically advantageous tender will be the Bid which achieves the highest Final Score (which, for the avoidance of doubt, would be the highest positive Final Score or where there are no positive Final Scores would be the negative Final Score closest to zero), as described below, except where the difference between such Final Score and the Final Score of any other Bid(s) is less than 20 points. In such a case, the principles set out in subsection 7.2.2 (Supplementary rules) will apply for the purposes of determining the most economically advantageous tender.

7.2.1.3 The Final Score for each Bid shall be calculated as follows:

$$\text{Final Score} = P + (n \times Q)$$

Where

P is the Bidder's Risk Adjusted NPV, as defined in subsection 7.6.3 (Calculation of Risk Adjusted NPV) multiplied by minus one.



P will be measured in millions rounded to two decimal places, with the midpoint always rounded up (for example, 225,524,999 will be rounded to 225.52 and 225,525,000 will be rounded to 225.53). P will be a positive number in the event of an overall forecast payment to the Department and a negative number in the event of an overall forecast payment from the Department;

Q equals the Quality Score described in subsection 7.10 (Conversion of evaluation scores into Quality Scores), expressed as a score out of 13. This will be rounded to two decimal places using the standard mathematical rules (for example, 10.1234 will be rounded down to 10.12 and 10.3850 will be rounded up to 10.39); and

n equals 30.

7.2.1.4 The maximum Quality Score is 13 and therefore the maximum value of (n\*Q) is 390. This is the maximum score that a Bid can obtain in relation to quality, whatever the Risk Adjusted NPV of that Bid or the winning Bid. Since the size of P is not known until Bids are received, it is not possible to specify in the ITT a fixed weighting in percentage terms between price and quality.

**Table 7.1** *Illustrative example of calculating the Final Score using the General Rules*

n = 30 for this example.
Bidder 1: P = 2,000; Q = 11
Bidder 2: P = 2,100; Q = 5
The Final Score for each Bidder will be:
Bidder 1: $2,000 + (30 \times 11) = 2,330$
Bidder 2: $2,100 + (30 \times 5) = 2,250$
The winning Bidder would be Bidder 1 as it achieves the highest Final Score.

7.2.1.5 If:

- a) A Bid is found to be non-compliant in accordance with subsection 3.5 (Non-compliant Bids);

- b) The Department decides not to exercise its right to reject the Bid and disqualify the Bidder who has submitted that Bid from the competition; and
- c) The effects of the non-compliance include a likely financial impact on the Department (in the Department's reasonable view),

the Department may adjust the Modelling Suite and re-run the Financial Robustness Test in accordance with subsection 7.6 (Evaluation of Financial Robustness) to take into account its reasonable view of the most likely financial impact of the non-compliance on the Department, provided that this shall only reduce the value of P used in the calculation of the Final Score for that Bid.

## 7.2.2 Supplementary rules

7.2.2.1 In the event that the difference between the highest Final Score and the total Final Score of any other Bid is less than 20 points, the following rules shall apply for the purposes of identifying the winning Bid:

- a) **Stage 1:** Any Bid with a Final Score that is 20 points or more away from the leading Final Score will be excluded from this part of the process. The remaining Bids will be deemed "Stage 2 Bids".
- b) **Stage 2:** If the difference between the highest quality component of the Final Score, (which for the avoidance of doubt is  $n*Q$ ) and the quality component of the Final Score of the other Bid(s):
  - i) Is at least 8 points, the winning Bid will be the Stage 1 Bid that achieved the highest quality component of the Final Score; or
  - ii) Is less than 8 points, the remaining Bids will be deemed "Stage 3 Bids" and
- c) **Stage 3:** The winning Bid will be the Stage 2 Bid that achieved the highest value for P (without reference to  $n*Q$ ), which for the avoidance of doubt, would be the highest positive P in the event of a premium or where there is no positive P would be the negative P closest to zero.

### 7.3 Quality and deliverability evaluation

#### 7.3.1 Sub-Plan weightings

7.3.1.1 The Department will evaluate the Sub-Plans against the evaluation criteria set out in subsection 7.3.5 (Scoring Methodology) and assign each Sub-Plan an evaluation score in accordance with subsection 7.3.5 (Scoring Methodology). The Sub-Plan evaluation scores will be converted into Sub-Plan Quality Scores in accordance with subsection 7.10 (Conversion of evaluation scores into Quality Scores).

7.3.1.2 The Department will use the weightings shown in the column of Table titled Sub-Plan Weighting to determine each Bid’s overall score for quality and deliverability (the “**Quality Score**”), and to determine each Bid’s overall Evaluation Score for the purpose described in subsection 3.5 (Non-compliant Bids).

**Table 7.2** *Sub-Plan weightings*

Delivery Plan	Sub-Plan	Delivery Plan Weighting	Sub-Plan Weighting
Delivery Plan 0 Bid Summary			N/A
Delivery Plan 1 – Franchise Management	Sub-Plan 1.1 – Leadership and Sustainability	12%	5%
	Sub-Plan 1.2 – Partnering		7%
Delivery Plan 2 – Train Service and Performance	Sub-Plan 2.1 – Train Services	52.5%	22.5%
	Sub-Plan 2.2 – Rolling Stock		20%
	Sub-Plan 2.3 – Performance		10%
Delivery Plan 3 – Revenue	Sub-Plan 3.1 – Marketing and Branding	14%	4%
	Sub-Plan 3.2 – Fares, Ticketing and Revenue Protection		10%
Delivery Plan 4 – Customer Experience and Stations	Sub-Plan 4.1 – Customer Experience	21.5%	12.5%
	Sub-Plan 4.2 – Stations		9%

7.3.1.3 For the avoidance of doubt, Delivery Plan 0 (Bid Summary) will not be scored.

### **7.3.2 Specialist reports**

7.3.2.1 The Department may commission specialist reports from within the Department and, if appropriate, from its technical, legal and financial advisers. In addition it may commission external specialist reports from Consultees on Sub-Plans or other aspects of Bidder submissions.

7.3.2.2 In each case, the relevant organisation will be asked to look at the appropriate Sub-Plan, supporting technical data and/or Modelling Suite where appropriate and comment on their strengths and weaknesses in the context of the requirements of the ITT. Selected reports will be shared with evaluators before they have completed their evaluation of the relevant Sub-Plan to inform their evaluation of that Sub-Plan. If any one or more of the specialist reports are not ready in time for the evaluation, the Department reserves the right to proceed with the evaluation without taking them into account.

7.3.2.3 Where Sub-Plans are being supplied to the providers of specialist reports, they will be circulated as the entire Sub-Plan. However, where Bidders' responses to the Department's requirements are included in other Sub-Plans, through the use of cross-referencing (as described in subsection 4.7 (Cross referencing)), these relevant Sub-Plans may also be provided to the relevant organisation to enable their report to be completed.

### **7.3.3 External evaluator organisations**

7.3.3.1 The Department reserves the right to select Sub-Plan evaluators from within the Department and externally. External evaluators may include, without limitation, the Department's technical, financial and legal advisers.

### **7.3.4 Evidence**

7.3.4.1 In evaluating Sub-Plans, the Department may take into account any relevant information submitted with the Bid including, without limitation, the Operational Models, the Record of Assumptions, and technical data such as the working timetable.

7.3.4.2 The Department's evaluation will take into account the credibility of the Initiatives in the Sub-Plans as a whole. This may include, without limitation:

- a) The quality of research and analysis supporting the Initiatives;

- b) The commitment (and, if relevant, any qualifications on that commitment), views or comments of any third party that the Bidder is relying on in delivering the Initiatives;
- c) Evidence and relevant examples of Initiatives within the Sub-Plans being successfully introduced elsewhere;
- d) Any cross references to other Sub-Plans made in accordance with subsection 4.7 (Cross referencing);
- e) The robustness and resilience of its plans for delivery, including an assessment of the risk to its ability to deliver in Challenging Circumstances;
- f) The quality or appropriateness of any Initiative or the proposed outcomes;
- g) The description of the resources to be employed and delivery timescales;
- h) The extent of the availability of funding or financing assessed in accordance with subsection 7.9 (Impact of review of financing and funding proposals);
- i) The extent to which the Bidder is willing to enter into an absolute obligation to deliver the Initiatives in accordance with subsection 4.14.3 (Contractualisation);
- j) The extent and nature of any relevant Franchise Agreement obligation; and
- k) The timing of Initiatives and the period over which the benefits they generate are realised.

### **7.3.5 Scoring Methodology**

7.3.5.1 Delivery Plans will be assessed at a Sub-Plan level in accordance with subsection 7.3.4 (Evidence), and awarded an evaluation score by taking into account:

- a) The extent to which the Initiatives are relevant, appropriate and sufficient means of meeting, or where appropriate exceeding, the requirements defined in Part (A) of the relevant Sub-Plan; and

- b) The credibility of the plan to deliver the Initiatives, including the appropriateness of the resources to be employed and the delivery timescales.

Where the RV Mechanism has been used in line with the provisions of subsection 5.2 (Residual Value Mechanism), evaluation scores will take into account the Initiatives which the assets or Schemes support and not the value of the asset or Scheme to a Successor Operator.

7.3.5.2 For the avoidance of any doubt, the Department's assessment of the Initiatives and the credibility of the plans for their delivery may be affected by the extent to which Bidders support their responses with relevant and credible evidence as required by Part (B) of the relevant Sub-Plan.

7.3.5.3 Evaluation scores will be awarded, in the judgement of the evaluators, by reference to the marking framework in Table 7.3 (East Midlands marking framework and guidance) below and should be read in conjunction with the explanatory text which follows.

**Table 7.3** *East Midlands marking framework and guidance*

Score	Evaluation
0	No response or fundamentally unacceptable response.
2	Unacceptable response with material concerns overall about whether the requirements of the specification will be met.
4	Mostly acceptable response with minor concerns overall about whether the requirements of the specification will be met.
6	Acceptable response that provides good confidence overall that the requirements of the specification will be met.
8	Particularly robust response that provides excellent confidence overall that the requirements of the specification will be met, or good confidence overall that the requirements of the specification will be exceeded.
10	Outstanding response that provides excellent confidence overall that the requirements of the specification will be met, and good confidence overall that the requirements of the specification will be greatly exceeded.

7.3.5.4 An evaluation score of 8 will be awarded where the criteria for the award of an evaluation score of 6 are met, and, in addition:

- a) The Sub-Plan is supported by particularly robust evidence which is in line with the evidential requirements in Part (B) of the relevant Sub-Plan and which provides excellent confidence overall that the requirements of the specification will be met; or
- b) The Sub-Plan proposes additional Initiatives (aligned with the relevant requirements for the Sub-Plan) which are supported by implementation plans, where both the Initiatives and the supporting implementation plans provide good confidence overall that the Initiatives will generate improved outcomes (which could without limitation include additional benefits for passengers, reduction in whole-industry costs, or an increase in the long-term value of the Franchise to the Department) so that the requirements of the specification will be exceeded.

7.3.5.5 An evaluation score of 10 will be awarded where:

- a) The Sub-Plan is supported by particularly robust evidence which is in line with the evidential requirements in Part (B) of the relevant Sub-Plan and which provides excellent confidence overall that the requirements of the specification will be met; and
- b) The Sub-Plan proposes additional Initiatives (aligned with the relevant requirements for the Sub-Plan) which are supported by implementation plans, where both the Initiatives and the supporting implementation plans provide good confidence overall that the Initiatives will generate greatly improved outcomes (which could without limitation include significant additional benefits to passengers, reductions in whole-industry costs or greatly increase the long-term value of the Franchise to the Department), so that the requirements of the specification will be greatly exceeded.

#### *Scoring in the round*

7.3.5.6 The Department will evaluate each of the Sub-Plans in the round. So, for example, although there will be a single overall score for each Sub-Plan, each Sub-Plan involves a number of elements and the evaluation score for each Sub-Plan will reflect the overall score for those elements taken together, in each case in the judgement of the evaluators.

7.3.5.7 Table 7.3 (East Midlands marking framework and guidance) sets out guidelines on the basis of which the evaluators will determine whether a particular Sub-Plan merits a score of 0, 2, 4, 6, 8 or 10.

7.3.5.8 Where the evaluators conclude that there are elements of a Sub-Plan that meet the conditions for a particular score described in Table 7.3 (East Midlands marking framework and guidance), but that there are also other elements of the same Sub-Plan that meet the conditions for a lower or higher score, the overall score for that Sub-Plan would reflect that assessment.

7.3.5.9 Where the evaluators have minor concerns in relation to certain aspects of a Sub-Plan so that those aspects of the Sub-Plan, if scored in isolation, would be scored as 4, but at the same time the evaluators conclude that other aspects of the same Sub-Plan exceed the Department's requirements and therefore, if scored in isolation, would be scored as 8, they will take into account both the areas of concerns and the areas where requirements have been exceeded so as to arrive at an overall score for that Sub-Plan. In those circumstances, this might mean that the overall score for that Sub-Plan could be higher than it would have been had the evaluators only taken into account the minor concerns raised by certain aspects of the Sub-Plan in isolation (that is to say, without also taking into account aspects of the same Sub-Plan where the Department's requirements have been exceeded). It follows that, on the same basis, the overall score of a Sub-Plan might be lower than it would have been had the evaluators only taken into account the aspects of the Sub-Plan where the Department's requirements have been exceeded.

7.3.5.10 Accordingly, the award of a particular score to a Sub-Plan may reflect the fact that:

- a) All elements in that Sub-Plan, each individually, would merit the same score so that when taken together, that Sub-Plan as a whole merits that score; or
- b) Certain elements in that Sub-Plan would merit individually a higher and/or a lower score than the score which the Sub-Plan, taking all its elements together, merits as a whole.

#### *Intermediate scores*

7.3.5.11 In addition to the scores set out in Table 7.3 (East Midlands marking framework and guidance) and in accordance with the subsection 7.3.5 (Scoring Methodology), an intermediate score of 1, 3, 5, 7 or 9 (the "**full intermediate scores**") may be awarded where the Sub-Plan exceeds the guidance for the award of a particular score set out in Table 7.3 (East Midlands marking framework and guidance) but at the same time fails to meet fully the guidelines for the award of the next higher score set out in



Table 7.3 (East Midlands marking framework and guidance). For example, where the Sub-Plan exceeds the guidance for a score of 6 but falls short of meeting fully the guidance for a score of 8, a score of 7 might be awarded.

7.3.5.12 In addition to the possibility of awarding one of the scores set out in Table 7.3 (East Midlands marking framework and guidance) or one of the full intermediate scores, the evaluators may also award half scores (e.g. 6.5, 7.5 etc. but not any other intermediate scores such as 6.4 or 7.6) where they consider this necessary and appropriate in order to reflect the extent to which the Sub-Plan exceeds or falls short of a particular score. For example, where the Sub-Plan exceeds substantially the guidance for the score of 6 but still falls short of meeting fully the guidance for a score of 8, a score of 7.5 would be awarded. Equally, where the Sub-Plan exceeds only to a limited extent guidance for a score of 6, a score of 6.5 would be awarded.

### **7.3.6 Process for moderation of, and reaching consensus on, Sub-Plan evaluation scores**

7.3.6.1 The Department will carry out a process for the purposes of moderating and reaching consensus on evaluation scores.

7.3.6.2 Each evaluator will undertake an evaluation of the relevant Sub-Plans, and allocate evaluation scores by reference to the scoring methodology described in subsection 7.3.5 (Scoring Methodology). These individual scores and a narrative explaining each one of these scores will be entered into AWARD.

7.3.6.3 These evaluators will then agree a consensus evaluation score for each of the Sub-Plans they have scored which will then be moderated.

7.3.6.4 Where consensus is not possible, the evaluation score to be awarded to a Sub-Plan will be the score which in the reasonable view of the East Midlands project director, or their nominee, is appropriate by reference to the scoring methodology described in subsection 7.3.5 (Scoring Methodology).

7.3.6.5 The East Midlands project director will appoint a facilitator and a record keeper to manage this process.

## **7.4 Evaluation impact of Inconsistent Initiatives**

7.4.1 Where the Department considers that a Bidder proposes in the same Sub-Plan or in different Sub-Plans Initiatives which may be inconsistent with each other in that the proposed delivery of one Initiative

may conflict with the proposed delivery of another Initiative so that if the inconsistency were confirmed it would not be possible for the Bidder to deliver both of the Initiatives which conflict (together the “Inconsistent Initiatives” and each an “Inconsistent Initiative”) during the life of the Franchise in the manner set out in the Inconsistent Initiatives the Department may (but is not obliged to) seek additional information or clarification from the relevant Bidder in accordance with subsection 4.14.2 (Engagement with Bidders and evaluation clarification process).

7.4.2 Where the inconsistency of two Initiatives each of which is set out in a different Sub-Plan is confirmed the Department will:

- a) Treat the Inconsistent Initiative which is set out in the Sub-Plan with the highest weighting in accordance with Table 7.2 (Sub-Plan weightings) as having been submitted;
- b) Treat the Inconsistent Initiative which is set out in the Sub-Plan with the lowest weighting in accordance with Table 7.2 (Sub-Plan weightings) as not having been submitted; and
- c) Decide which Inconsistent Initiative it will treat as having been submitted and which Inconsistent Initiative it will treat as not having been submitted where both Inconsistent Initiatives are set out in Sub-Plans which carry the same weighting by reference to which Inconsistent Initiative in the Department’s reasonable view will be more beneficial to the delivery of efficient Franchise Services.

7.4.3 Where the inconsistency of two Initiatives both of which are set out in the same Sub-Plan is confirmed the Department will decide which Inconsistent Initiative it will treat as having been submitted and which Inconsistent Initiative it will treat as not having been submitted by reference to which Inconsistent Initiative in the Department’s reasonable view will be more beneficial to the delivery of efficient Franchise Services.

7.4.4 Where the Department treats an Inconsistent Initiative as not having been submitted it will revise any previous evaluation so as to:

- a) Take into account the effect of the non-submission of that Initiative in all relevant elements of the evaluation (including, without limitation, in the allocation of evaluation scores and in the Financial Robustness Test); and
- b) Where appropriate, correct the Modelling Suite for the purposes of running the FRT and calculation of the Bidder’s Risk Adjusted

NPV used in the calculation of the Final Score in accordance with subsection 7.2 (Definition of MEAT for the Competition) as necessary to take into account its reasonable view of the most likely financial impact of the non-submission of that Initiative on the Department in accordance with subsection 7.6 (Evaluation of Financial Robustness) except that the scoring of the Bid (including both P and Q as defined in subsection 7.2 - Definition of MEAT for the Competition) may not be improved as a result of the process set out in this subsection.

7.4.5 Where the Department treats an Inconsistent Initiative as not having been submitted in line with subsections 7.4.2 to 7.4.4 it may also at its own discretion require the Bidder to submit a revised Initiative which is consistent with all other Initiatives in all other Sub-Plans that the Bidder has submitted.

7.4.6 Where the Department exercises its discretion described in subsection 7.4.5 the revised Initiative will not be taken into account in the evaluation in any way so that for the purposes of the evaluation the Department will continue to evaluate the Bid as if the Bidder has not submitted the Inconsistent Initiative in line with subsection 7.4.4.

7.4.7 If the Bidder refuses to submit a revised Initiative or if it submits a revised Initiative which is inconsistent with another Initiative in the same or any other Sub-Plan the Department will treat the Bid as non-compliant in line with subsection 3.5 (Non-compliant Bids) and the Department will at its own discretion take any action it considers necessary and appropriate in the circumstances, including eliminating the Bidder from the Bidding process.

## **7.5 Modelling Change tests**

7.5.1 As described in subsection 6.7.2 (Modelling Change), Bidders must submit the items in the column headed 'Item' in Table 6.3 (Modelling Change submission requirements) in accordance with the requirements in the column headed 'Requirements' in Table 6.3 (Modelling Change submission requirements) in order to be compliant with this ITT.

7.5.2 For the avoidance of doubt:

- a) Assessment of item 2 in Table 6.3 (Modelling Change submission requirements), relating to the suitability of a Bidder's Record of Assumptions and Operating Manual, will not be limited to consideration of the suitability of these documents when applied

to Worked Examples but, rather, will consider the suitability of these documents across the entirety of the Bid; and

- b) Assessment of items 3 and 4 in Table 6.3 (Modelling Change submission requirements), relating to the suitability of the Models, will not be limited to consideration of the suitability of the Financial and Operational Models when applied to Worked Examples but, rather, will consider the suitability of the Models across the entirety of the Bid.

## **7.6 Evaluation of Financial Robustness**

### **7.6.1 Financial Robustness Test**

7.6.1.1 The Department will undertake a financial robustness test (“**Financial Robustness Test**”) in accordance with this subsection 7.6.1 (Financial Robustness Test) and the following subsections 7.6.2 (Assessment of acceptability of financial risk), 7.6.3 (Calculation of Risk Adjusted NPV), and 7.6.4 (Consequences of forecast Financial Ratio Breach on evaluation) on each Bidder’s Models. For the avoidance of doubt, any adjustments that the Department may make to the Modelling Suite pursuant to subsection 3.5.4 b), 6.2.1, 7.2.1.5, 7.4.4 b) or otherwise in accordance with this ITT shall be made prior to undertaking the re-run of the Financial Robustness Test in accordance with this subsection 7.6 (Evaluation of Financial Robustness). The purpose of this process is to enable the Department to assess the level of financial risk in the Bids and reflect this in its assessment of the Most Economically Advantageous Tender. There are two stages to the test: the assessment of whether the level of financial risk is acceptable (pass/fail), and the reflection of the level of risk in the “P” score.

7.6.1.2 Following, and as a result of the completion of this test, the Department will calculate the Risk Adjusted NPV, which is multiplied by minus one to give the component “P” in the formula at subsection 7.2 (Definition of MEAT for the Competition). The process used to calculate the Risk Adjusted NPV is set out in subsection 7.6.3 (Calculation of Risk Adjusted NPV).

### **7.6.2 Assessment of acceptability of financial risk**

7.6.2.1 In order to enable it to undertake the Financial Robustness Test, the Department will undertake a risk adjustment process which will include an assessment of the deliverability of the revenues and costs set out in Bids. The process for the determination of risk adjustments and the

calculation of the impact of these adjustments is described in Appendix 3 (Risk Adjustment Process).

7.6.2.2 Further to the evaluation of the Bids and the development of risk adjustments, reflecting the Department's reasonable view of the most credible financial outcome for each risk, the Department will produce a “**Central Risk Adjusted Financial Model**” in respect of each Bidder. The process to derive the risk adjustments is described in Appendix 3 (Risk Adjustment Process). The forecasts in the Central Risk Adjusted Financial Model will reflect the combined risk adjustments and therefore this model will contain the Department's reasonable view of the most credible financial outcome for the Bidder (the “**Central Risk Adjusted Scenario**”).

7.6.2.3 The Department may elect not to risk adjust one or more Bids if it considers that adjusting them would not change the identity of the winning Bidder. It may also elect to only carry out part of the process set out in Appendix 3 (Risk Adjustment Process) or a simplified process, if it considers that undertaking additional steps would not change the identity of the winning Bidder. In making this decision, the Department may take into account the maximum "P" score that each Bidder could achieve, which will be calculated using the process set out in this subsection 7.6 (Evaluation of Financial Robustness), but with the Financial Model submitted by the Bidder used in place of the Central Risk Adjusted Financial Model.

7.6.2.4 For Bids which are identified to be subject to subsection 7.6.2.3 and therefore not risk adjusted, the Financial Model submitted by the Bidder will be used in place of the Central Risk Adjusted Financial Model, for the purpose of calculating the Risk Adjusted NPV. If, after other Bids are risk adjusted, the Bidder with the highest  $P + (n \times Q)$  score is one which was previously not risk adjusted, or only part of the process was carried out, in accordance with subsection 7.6.2.3, that Bid will be risk adjusted and the Financial Robustness Test (including all steps outlined in this subsection 7.6.2 (Assessment of acceptability of financial risk) and subsections 7.6.3 (Calculation of Risk Adjusted NPV) and 7.6.4 (Consequences of forecast Financial Ratio Breach on evaluation), if applicable) will then be undertaken for that Bidder before the identity of the winning Bidder is determined.

7.6.2.5 If a Bidder is projected in its Central Risk Adjusted Financial Model to have a Financial Ratio Breach at any point during the Core Franchise Term, the Bid will be deemed to have unacceptable financial risk, except as described in 7.6.2.11 below. Otherwise, the Bid will be deemed to have acceptable financial risk. If the Bid has acceptable financial risk but

in the Central Risk Adjusted Financial Model is projected to have a Financial Ratio Breach at any point during the Extension Period, subsection 7.6.4 (Consequences of forecast Financial Ratio Breach on evaluation) will apply.

7.6.2.6 For the purpose of making this assessment, the Department will:

- a) In accordance with the functionality described in subsection 6.3.3 (The Financial Model), assume that the Bidder will pay out all available funds as dividends in each Franchisee Year, provided that such amounts are restricted to distributable profits and do not cause the Financial Ratio to be reduced below 1.070:1 in the relevant Franchisee Year; and
- b) Take into account the Actual PCS committed in the Bid which the Bidder would be able to draw on in order to avoid a Financial Ratio Breach.

7.6.2.7 There will be no opportunity for the Bidder to amend its Bid, including by making available additional finance.

7.6.2.8 In making its assessment of projected PCS drawdown and hence acceptability of financial risk, the Department will take into account the impact on the Bidder's projected cashflow of forecast payments to/from the Department in the Central Risk Adjusted Financial Model under regimes and mechanisms set out in the Franchise Agreement, calculated in accordance with the formulae in the Franchise Agreement. These include the Forecast Revenue Mechanism (Revenue Share and Revenue Support), and performance and incentive regimes (including the impacts of Contractual Incentive Mitigations on these, in years in which the Central Risk Adjusted Scenario includes projected net Revenue Support or Revenue Share payments to/from the Department).

7.6.2.9 For the avoidance of doubt:

- a) For the purpose of the Financial Robustness Test, it will be assumed that Contractual Incentive Mitigations are in place in each Franchisee Year in which net Revenue Share payments are projected, as well as each Franchisee Year in which net Revenue Support payments are projected, in the Central Risk Adjusted Scenario: and,
- b) No financial implications of the Contractual Incentive Mitigations other than the Ticketless Travel Payment Adjustment (in paragraph 6.3 of Schedule 6.3), the CIM Service Quality Regime (in Schedule 7.3F) and the alternative payment rates in the

operational performance regimes as set out in Schedule 6.3 of the Franchise Agreement will be reflected in the Financial Robustness Test.

7.6.2.10 In making its assessment of projected PCS drawdown and hence acceptability of financial risk, the Department will take into account the impact on the Bidder's projected cash flow of forecast profit share payments to the Department, calculated in accordance with the formulae in Schedule 8.2 of the Franchise Agreement. This will include taking into account whether or not net Revenue Support payments are projected in each Franchisee Year in determining the profit share thresholds to apply in the calculation for that year.

7.6.2.11 If a Bidder is projected in its Central Risk Adjusted Financial Model to have a Financial Ratio Breach at any point during the Core Franchise Term, the Bid will nonetheless be deemed to have acceptable financial risk if the Central Risk Adjusted Financial Model indicates that the total amount of PCS, over and above the Actual PCS committed in the Bid, that would be required during the Core Franchise Term in order to avoid the Financial Ratio Breach (the "**Notional PCS**") is less than the "**Materiality Threshold**". The Materiality Threshold will be £15 million (nominal).

### 7.6.3 Calculation of Risk Adjusted NPV

7.6.3.1 For each Bid deemed to have acceptable financial risk, the Department will construct a "Downside Risk Adjusted Financial Model" containing a "Downside Risk Adjusted Scenario". The starting point for this scenario will be the Central Risk Adjusted Scenario, but a downwards adjustment will be made to the forecast of FRM Revenue in the Central Risk Adjusted Financial Model (where FRM Revenue is as defined in Schedule 8.6 of the Franchise Agreement). This will be input to the Downside Risk Adjusted Financial Model as a single absolute reduction to passenger revenue in each Franchisee Year in the Financial Model input price base. No adjustment will be made to the forecasts in the Central Risk Adjusted Financial Model of non-passenger revenue, or operating or capital costs. The application of the downwards adjustment and the construction of the Downside Risk Adjusted Scenario are described in Appendix 3 (Risk Adjustment Process).

7.6.3.2 For each Bid deemed to have acceptable financial risk, the Department will calculate a "**Risk Adjusted NPV**". The Risk Adjusted NPV, "NPVRA", is calculated using the following formula:

$$NPVRA = (NPV1 \times 0.5) + (NPV2 \times 0.5)$$

Where:

*NPV1* is the “**Central Risk Adjusted NPV**”; and

*NPV2* is the “**Downside Risk Adjusted NPV**”.

7.6.3.3 The Central and Downside Risk Adjusted NPVs, *NPV1* and *NPV2*, are the Net Present Value of the Adjusted Evaluated Payments in the Central and Downside Risk Adjusted Financial Models respectively. *NPV1* and *NPV2* shall each be expressed as a positive figure if the net forecast payment is from the Department and as a negative figure if the net forecast payment is to the Department.

7.6.3.4 The NPV of Adjusted Evaluated Payments will be for both the Core Franchise Term and the Extension Period, calculated as the NPV of Adjusted Evaluated Payments for the Core Franchise Term, plus 50% of the NPV of Adjusted Evaluated Payments for the Extension Period.

7.6.3.5 The **Evaluated Payments** in each of the Central Risk Adjusted Scenario and the Downside Risk Adjusted Scenario will be the sum of the Bidder’s Annual Franchise Payments and the Department’s projection of net Revenue Support payments to the Bidder under the Forecast Revenue Mechanism in the respective scenario. In this calculation, premium payments to the Department will be expressed as negative figures, and subsidy payments from the Department and projected Revenue Support payments under the Forecast Revenue Mechanism shall be expressed as positive figures.

7.6.3.6 Evaluated Payments will not include other potential payments to/from the Department during the Franchise Term, including:

- a) Any payments to the Department that may be made under the profit share/cap arrangements in the Franchise Agreement;
- b) Any Revenue Share payments to the Department that may be made under the Forecast Revenue Mechanism; or
- c) Any payments to/from the Department that may be made under any of the performance or incentive regimes in the Franchise Agreement.

7.6.3.7 Although these payments will not be included in Evaluated Payments, they will be reflected in the Financial Robustness Test in accordance with subsections 7.6.2.8 and 7.6.3.11.



7.6.3.8 The **Adjusted Evaluated Payments** in each of the Central Risk Adjusted Scenario and the Downside Risk Adjusted Scenario will be the Evaluated Payments in the respective scenario, adjusted if applicable in accordance with subsections 7.6.4 (Consequences of forecast Financial Ratio Breach on evaluation) and 6.2.1.

7.6.3.9 If a Bidder, in the Central Risk Adjusted Financial Model, is projected not to have a Financial Ratio Breach during the Core Franchise Term, but is projected to have a Financial Ratio Breach at any point during the Extension Period, the Adjusted Evaluated Payments used in the calculation of the Bidder's Central Risk Adjusted NPV, will be calculated as set out in subsection 7.6.4 (Consequences of forecast Financial Ratio Breach on evaluation). Otherwise they will be equal to the Evaluated Payments in the Central Risk Adjusted Financial Model.

7.6.3.10 If a Bidder, in the Downside Risk Adjusted Financial Model, is projected to have a Financial Ratio Breach at any point during the Core Franchise Term or the Extension Period, the Adjusted Evaluated Payments used in the calculation of the Bidder's Downside Risk Adjusted NPV will be calculated as set out in subsection 7.6.4 (Consequences of forecast Financial Ratio Breach on evaluation). Otherwise they will be equal to the Evaluated Payments in the Downside Risk Adjusted Financial Model.

7.6.3.11 In making its assessment of projected PCS drawdown and hence whether and when a Financial Ratio Breach is forecast, the Department will take into account the impact on the Bidder's projected cashflow of forecast payments to/from the Department in the Central or Downside Risk Adjusted Financial Model under regimes and mechanisms set out in the Franchise Agreement, calculated in accordance with the formulae in the Franchise Agreement. These include the Forecast Revenue Mechanism (Revenue Share and Revenue Support), and performance and incentive regimes (including the impacts of Contractual Incentive Mitigations on these, in years in which the Central Risk Adjusted Scenario includes projected net Revenue Support or Revenue Share payments to/from the Department) in accordance with subsection 7.6.3.12 c)).

7.6.3.12 For the avoidance of doubt:

- a) For the purpose of the calculation of the Central Risk Adjusted NPV, it will be assumed that Contractual Incentive Mitigations are place in each Franchisee Year in which net Revenue Share payments are projected, as well as each Franchisee Year in which net Revenue Support payments are projected, in the Central Risk Adjusted Scenario;

- b) No financial implications of the Contractual Incentive Mitigations other than on the Ticketless Travel Payment Adjustment (in paragraph 6.3 of Schedule 6.3), the CIM Service Quality Regime (in Schedule 7.3F) and application of the alternative payment rates in the operational performance regimes as set out in Schedule 6.3 of the Franchise Agreement will be reflected in the calculation of the Risk Adjusted NPV; and
- c) In the Downside Risk Adjusted Financial Model the modelled Ticketless Travel Payment Adjustment (in paragraph 6.3 of Schedule 6.3), the CIM Service Quality Regime (in Schedule 7.3F) and alternative payment rates in the operational performance regimes as set out in Schedule 6.3 of the Franchise Agreement will be identical to those in the Central Risk Adjusted Financial Model, regardless of whether or not net Revenue Support or Revenue Share payments under the Forecast Revenue Mechanism are projected in each Franchisee Year in the Downside Risk Adjusted Scenario.

7.6.3.13 In making its assessment of projected PCS drawdown and hence whether and when a Financial Ratio Breach is forecast in each Risk Adjusted Scenario, the Department will take into account the impact on the Bidder's projected cashflow of forecast profit share payments to the Department, calculated in accordance with the formulae in Schedule 8.2 of the Franchise Agreement. This will include taking into account whether or not net Revenue Support payments are projected in the respective Risk Adjusted Scenario in each Franchisee Year in determining the profit share thresholds to apply in the calculation for that year.

#### **7.6.4 Consequences of forecast Financial Ratio Breach on evaluation**

7.6.4.1 If a Bidder is projected in the Central Risk Adjusted Financial Model to have a Financial Ratio Breach at any point during the Core Franchise Term, except as described in 7.6.2.11, and therefore the Bid is deemed to have unacceptable financial risk, the Bidder will be eliminated from the competition, as described in subsection 3.6 (Automatic elimination).

7.6.4.2 If a Bidder is projected in the Central Risk Adjusted Financial Model not to have a Financial Ratio Breach during the Core Franchise Term, but is projected to have a Financial Ratio Breach at any other point during the Extension Period, the Evaluated Payments used in the

calculation of the Central Risk Adjusted NPV will be adjusted to reflect the point of forecast Financial Ratio Breach as set out in subsection 7.6.4.3.

7.6.4.3 If the Bidder is projected in the Downside Risk Adjusted Financial Model to have a Financial Ratio Breach at any point during the Core Franchise Term or Extension Period, or is projected in the Central Risk Adjusted Financial Model to have a Financial Model Breach during the Extension Period, the Evaluated Payments will be adjusted to reflect the point of the first forecast Financial Ratio Breach as set out in subsection 7.6.4.4, in order to derive the Adjusted Evaluated Payments used in the calculation of the Downside Risk Adjusted NPV or Central Risk Adjusted NPV (as applicable):

- a) In respect of each Franchisee Year from the Start Date to the end of the Franchisee Year immediately prior to the first Franchisee Year in which the Bidder is projected to have a Financial Ratio Breach in the Central or Downside Risk Adjusted Financial Model (the Franchisee Year of forecast Financial Ratio Breach being the “**Year of Breach**”), the Adjusted Evaluated Payments will equal the Evaluated Payments in Sheet NPV row 40 of the Financial Templates in the respective Risk Adjusted Financial Model, when expressed in nominal terms;
- b) In respect of the Year of Breach, the Adjusted Evaluated Payments will be equal to X% of the Evaluated Payments in Sheet NPV row 40 of the Financial Templates in the Central or Downside Risk Adjusted Financial Model (when expressed in nominal terms), where X% is the proportion of the Year of Breach before the first Financial Ratio Breach is projected, plus (100-X)% of whichever is the lower in terms of net income to the Department (or higher in terms of net payments by the Department) of:
  - i) The Evaluated Payments in respect of the Year of Breach in Sheet NPV row 40 of the Central or Downside Risk Adjusted Financial Model, when expressed in nominal terms; and
  - ii) The Department’s Baseline Payments (see Table 7.4) in respect of the Year of Breach; plus
- c) In respect of each Franchisee Year from and including the Franchisee Year immediately following the Year of Breach until the end of the Extension Period, the Adjusted Evaluated Payments will be equal to the lower in terms of net income to the

Department (or higher in terms of net payments by the Department) in that Franchisee Year of:

- i) The Evaluated Payments in respect of that Franchisee Year in Sheet NPV row 40 of the Central or Downside Risk Adjusted Financial Model, when expressed in nominal terms; and
- ii) The Department's Baseline Payments (see Table 7.4) in respect of that Franchisee Year.

**Table 7.4 Department's Baseline Payments**

<b>Franchisee Year</b>	<b>Date Range</b>	<b>Department's Baseline Payments (expressed as nominal prices, £000s)</b>
Year 1 (Part Year)	18/8/19 to 31/3/20	(24,519)
Year 2	1/4/20 to 31/3/21	(35,445)
Year 3	1/4/21 to 31/3/22	(42,240)
Year 4	1/4/22 to 31/3/23	(27,975)
Year 5	1/4/23 to 31/3/24	(28,569)
Year 6	1/4/24 to 31/3/25	(48,376)
Year 7	1/4/25 to 31/3/26	(63,692)
Year 8	1/4/26 to 31/3/27	(81,236)
Year 9	1/4/27 to 31/3/28	(96,527)
Year 10	1/4/28 to 31/3/29	(107,104)
Year 11 (Part Year)	1/4/29 to 18/8/29	(39,863)

7.6.4.4 The point of forecast Financial Ratio Breach will be determined as follows:

- a) If a Bidder is projected in the Central or Downside Risk Adjusted Financial Model not to have a Financial Ratio Breach at any point during the Core Period, but the projected PCS requirement over the Extension Period exceeds the Bidder's PCS facility by more than the Materiality Threshold, the point of forecast Financial Ratio Breach for the purposes of calculating the Bidder's Central or Downside Risk Adjusted NPV respectively will be determined without taking into account the Materiality Threshold.

- b) If a Bidder is projected in the Central or Downside Risk Adjusted Financial Model to have a Financial Ratio Breach at any point during the Core Period, and both:
  - i) The projected PCS requirement over the Extension Period exceeds the Bidder's PCS facility by more than the Materiality Threshold; and
  - ii) The projected PCS requirement over the Core Franchise Term exceeds the Bidder's PCS facility by less than the Materiality Threshold,

then the point of forecast Financial Ratio Breach for the purposes of calculating the Bidder's Central or Downside Risk Adjusted NPV respectively will be set as as the start of the Extension Period.

7.6.4.5 For the avoidance of doubt:

- a) Franchise Payments, Target Revenue and other relevant financial amounts contractualised in the Franchise Agreement and the Funding Deed will be based upon the winning Bidder's Modelling Suite;
- b) The Central Risk Adjusted Financial Model, the Downside Risk Adjusted Financial Model and the Risk Adjusted NPV will only be used for the purpose of the Financial Robustness Test (including the calculation of the Risk Adjusted NPV) and accordingly calculating the Final Score as defined in subsection 7.2 (Definition of MEAT for the Competition);
- c) In assessing whether or when a Financial Ratio Breach is projected in each of the Central Risk Adjusted Financial Model and Downside Risk Adjusted Financial Model, the Department shall take into account the same factors as set out in subsection 7.6.2.6;
- d) The provisions of this subsection 7.6.4 (Consequences of forecast Financial Ratio Breach on evaluation) will not apply to the Central Risk Adjusted NPV where a Bidder is projected in its Central Risk Adjusted Financial Model to have a Financial Ratio Breach during the Core Franchise Term or the Extension Period but the amount of Notional PCS required to avoid the Financial Ratio Breach is less than the Materiality Threshold described in 7.6.2.11; and.

- e) The provisions of this subsection 7.6.4 (Consequences of forecast Financial Ratio Breach on evaluation) will not apply to the Downside Risk Adjusted NPV where a Bidder is projected in its Downside Risk Adjusted Financial Model to have a Financial Ratio Breach during the Core Franchise Term or the Extension Period but the amount of Notional PCS required to avoid a Financial Ratio Breach is less than the Materiality Threshold described in subsection 7.6.2.11.

## **7.7 Evaluation impact of contractual treatment of Bidders' Initiatives**

7.7.1 The following will apply in relation to the contracting of Initiatives included in a Bidder's Sub-Plans:

- a) As set out in subsection 4.14 (Process following Bid submission), the Department may require any Initiative to be included as a Committed Obligation in the Franchise Agreement. The Department may exercise this right in relation to some or all of the Initiatives included in a Bid;
- b) Where a Bidder has stated that an Initiative is a Contingent Initiative it may impact on the Department's evaluation of the credibility of the plan to deliver the Initiative, and the Financial Robustness Test;
- c) The Department reserves the right to provide only one or more of the Bidders with its contractual drafting of the Committed Obligations the Department requires in relation to some or all of the Initiatives contained in the relevant Bidder's Bid. The Department will provide Bidders with an opportunity to comment on whether this drafting accurately reflects the Initiatives contained in their Bid. Bidders will have 5 working days (or such longer period as the Department may specify) to respond. Bidders' comments must be restricted to confirming that the drafting reflects the Initiatives within their Bid, or indicating where the drafting does not reflect the Initiatives contained within their Bid, giving the reasons why. Bidders must not submit alternative drafting of Committed Obligations, unless requested to do so by the Department. If, by a date specified by the Department, the Bidder is not prepared to enter into the contractual terms prepared by the Department (if appropriate, as clarified with the Bidder), in its sole discretion the Department may revise:

- i) The evaluation score attributed to the relevant Sub-Plan; and
- ii) Any other element of the evaluation (including without limitation the Financial Robustness Test),

such that such evaluation score or element does not take the relevant Initiative into account, provided that no revision will be made pursuant to this subsection 7.7 (Evaluation impact of contractual treatment of Bidders' Initiatives):

- A) To any evaluation score, where such revision would result in an increase in such evaluation score; and
- B) To the Financial Robustness Test, where such revision would result in the Bid moving from being deemed to have unacceptable financial risk to being deemed to have low financial risk.

7.7.2 For the avoidance of doubt, this contractualisation process may result in a reduction in a Bidder's evaluation score and Quality Score and therefore the Bidder's Final Score and may therefore affect the ranking of Bidders and ultimately the selection of the winning Bidder.

## **7.8 Interaction between evaluation scores and the Financial Robustness Tests**

7.8.1 The assessment of financial robustness described in subsection 7.6 (Evaluation of Financial Robustness) will be informed by the review of Bidders' Sub-Plans, and any other information available to the Department, in accordance with the guidance provided in Appendix 3 (Risk Adjustment Process).

7.8.2 There is no automatic link between the scoring of Sub-Plans and the financial risk adjustments. The Department may take into account any risk to the delivery of the Bidder's Initiatives in the scoring of the Sub-Plans as described in subsection 7.3 (Quality and deliverability evaluation). However, if further to the review of the Sub-Plans, the Department has concerns about the quality or deliverability of an aspect of one or more of that Bidder's Initiatives, and believes that as a result there is a material risk of a materially different financial outcome from the Bidder's financial projections, the Department may make a financial risk adjustment as described in subsection 7.6 (Evaluation of Financial Robustness) to reflect

any risk to the achievement of the Bidder's financial projections. The Department may also adjust the scoring of Sub-Plans as described in subsection 3.5 (Non-compliant Bids), subsection 7.7 (Evaluation impact of contractual treatment of Bidders' Initiatives) and as provided for elsewhere in this ITT.

## **7.9 Impact of review of financing and funding proposals**

7.9.1 Bidders' financing and funding proposals, as described in their Financial Structure and Funding plan (described at subsection 6.9 (Financial Structure and Funding Plan)), and their financial implications as reflected in the Bidders' Modelling Suites, will be reviewed in order to assess their robustness, deliverability and credibility.

7.9.2 Where the available evidence fails to provide the Department with adequate confidence that the funding or financing will be available:

- a) In sufficient quantum (for example, letters of support and term sheets from third party financiers do not provide reasonable confidence that the funding will be made available to the Franchisee to the extent reasonably required to substantially deliver an Initiative and/or are inconsistent with the values contained in the Bidder's Modelling Suite or other Bid documentation); or
- b) At the right time (for example, letters of support and term sheets from third party financiers do not provide reasonable confidence that the funding will be made available to the Franchisee at the time proposed by the Bidder in its Modelling Suite or other Bid documentation to enable the Initiative to be delivered on or by a certain date and in the manner described),

The Department may:

- i) Take this into account in determining the evaluation score for any Sub-Plan which includes any such Initiative, to reflect the risk to delivery of that Initiative; and
- ii) Make a financial risk adjustment (in accordance with Appendix 3 (Risk Adjustment Process)) to reflect any resulting risk to the financial robustness of the Bid.



## 7.10 Conversion of evaluation scores into Quality Scores

7.10.1 The Department will convert Sub-Plan evaluation scores into Sub-Plan Quality Scores on the basis of Table 7.5 (Conversion of evaluation scores into Quality Scores).

**Table 7.5** *Conversion of evaluation scores into Quality Scores*

<b>Evaluation Score</b>	<b>Quality Score</b>
0 – 3.5	0
4	1
4.5	2
5	3
5.5	4
6	5
6.5	6
7	7
7.5	8
8	9
8.5	10
9	11
9.5	12
10	13

7.10.2 The allocation of a Quality Score of 0 to a Sub-Plan will not prejudice any right that the Department has under subsection 3.5 (Non-compliant Bids) to deem the Bid non-compliant.

7.10.3 The overall Quality Score will be the aggregate of the Quality Scores for each Sub-Plan, weighted in accordance with the column of Table 7.2 titled Sub-Plan Weighting. This Quality Score is component Q in the formula set out at subsection 7.2 (Definition of MEAT for the Competition).

## 7.11 Rebid

7.11.1 The Department reserves the right at any time prior to notification of the preferred Bidder, to require one, some or all Bidders to submit revised Bids in the following circumstances:

- a) Where all Bidders have failed the Financial Robustness Test (i.e. all Bids are deemed to have unacceptable financial risk, as referred to in subsection 7.6.1); or
- b) In the event that the Department at its sole discretion considers that it would be appropriate in the circumstances to do so, for any reason. The reason for requiring re-bids may include for example, but without limitation, changes to macro-economic forecasting data, developments concerning infrastructure and rolling stock which impact the Franchise, changes to the financial budget that is available to the Department in respect of the Franchise or updates in policy (either for the Franchise or for rail franchising generally).

7.11.2 In the event that the Department does decide to require the submission of revised Bids it shall afford all Bidders the opportunity to do so in accordance with subsection 7.11.3.

7.11.3 Where Bidders are required to submit revised Bids then:

- a) The Department will provide the Bidders with revised ITT instructions at that time, which may include revisions to the Department's requirements;
- b) The Department will provide the Bidders with a suitable period to be specified at the time in which to submit a revised Bid, with the specific timescales included in the revised ITT instructions at that time;
- c) The Bidders shall only be entitled to revise their Bids in accordance with the revised instructions; and
- d) The Department shall set out within the revised instructions any assumptions that the Bidders are entitled to make, in revising and resubmitting their Bid.

## **7.12 Delivery Plan Negotiation**

7.12.1 Following the initial evaluation of Delivery Sub-plan 1.2 (Partnering), Delivery Sub-plan 2.1 (Train Services) and Delivery Sub-plan 2.2 (Rolling Stock) described in subsection 7.3.6 (Process for moderation of, and reaching consensus on, Sub-Plan evaluation scores), if the Department decides to negotiate any element of the Bids, it will produce a feedback briefing for Bidders setting out the areas that each Bidder may wish to amend as a result of negotiation. This briefing will consist of areas

identified by the Department through any or all of the processes described in the following subsections, as appropriate to each Bid:

- a) Subsection 3.5 (Non-compliant Bids);
- b) Subsection 4.14.2 (Engagement with Bidders and evaluation clarification process); and
- c) Subsection 7.3 (Quality and deliverability evaluation).

The Department reserves the right at its sole discretion to negotiate on one, some or all of these areas with one, some or all Bidders, except that, where this subsection 7.12 is triggered the Department will offer the opportunity to negotiate to all Bidders on such areas as are pertinent to their Bid.

7.12.2 The Department also reserves the right to determine that it does not wish to use negotiation phases and to progress to contract award without negotiation.

7.12.3 The Department will provide the feedback briefing to individual Bidders via AWARD. Bidders are required to meet with the Department to discuss the content of the feedback briefing on a working day specified by the Department no more than 7 days after the publication of the document on AWARD. The sole purpose of these meetings is to assist the Bidder to understand the feedback provided by the Department, and not to discuss any aspects of a Bidder's revised proposals. The Department reserves the right to hold additional meetings in advance of revised Bid submission, with all Bidders, in line with subsection 3.9 (Bidder Clarification Questions).

7.12.4 AWARD will be re-opened to permit Bidders to ask additional Bidder Clarification Questions, following the process set out in subsection 3.9 (Bidder Clarification Questions). Bidders should be aware that BCQs may not be accepted from 15 working days prior to the closing date for revised Bid submission, save in respect of new information provided after this point.

7.12.5 Following the feedback briefing the Department will require all Bidders to submit revised Bids and will provide revised ITT submission instructions at that time. These instructions will not include any revisions to the Department's requirements. If any changes to the Department's requirements are required to be made for the reasons set out in subsection 7.11 (Rebid), such changes will be managed according to subsection 7.11 (Rebid), and, where these relate to areas covered by this subsection 7.12, the Department will endeavour to issue such changes, at

the same time as the revised ITT submission instructions issued under this subsection 7.12.

7.12.6 The Department will provide the Bidders with a suitable period in which to submit a revised Bid, with the specific timescales included in the revised ITT instructions referred to in this subsection 7.12 at that time.

7.12.7 The Bidders shall only be entitled to revise their Bids in accordance with the revised instructions. These instructions shall include permitted changes to the Financial Models in connection with the evaluation of Delivery Sub-plan 1.2 (Partnering), Delivery Sub-plan 2.1 (Train Services) and Delivery Sub-plan 2.2 (Rolling Stock).

7.12.8 The Department shall set out within the revised instructions any assumptions that the Bidders are entitled to make, in revising and resubmitting their Bid.

7.12.9 The Department reserves the right to use the process described in subsections 7.12.1 - 7.12.8 for more than one iteration, as required.

7.12.10 Following the completion of the process described in subsections 7.12.1 - 7.12.8 the Department will re-evaluate revised Bids as described in Section 7: (Evaluation Criteria and Methodology).

### **7.13 Bid Optimisation**

7.13.1 In addition to the Department's rights under subsection 7.11 (Rebid) and subsection 7.12 (Delivery Plan Negotiation) the Department reserves the right at its sole discretion to negotiate with one, some or all Bidders prior to contract award to the extent that such negotiations are consistent with the parameters of applicable procurement law. Bidders should note that such negotiations may lead to the amendment of previously submitted Bids.

### **7.14 Revisions during the Bid window**

7.14.1 The Department has calculated  $BFP_y$  (the Department's Baseline Franchise Payments) as defined in subsection 6.9.2.7 and Table 7.4 (Department's Baseline Payments) and of the Franchise Agreement, on the basis of the Forecasts of Exogenous Factors at the date of release of this ITT. Bidders should note that the Department reserves the right to update these figures to reflect any revisions to the Forecasts of Exogenous Factors up to 8 weeks prior to the closure of the Bid window, without any extension to the Bid window.



## A1. Appendix 1: Glossary

Note: all references to paragraphs and schedules in the following Glossary are references to paragraphs and schedules of the Franchise Agreement, unless the context otherwise requires.

Term	Meaning
<b>Actual Parent Company Support or Actual PCS</b>	has the meaning given to it in subsection 6.9.2.5
<b>Additional Parent Company Support or Additional PCS</b>	has the meaning given to it in subsection 6.9.2.8;
<b>Additional Rolling Stock</b>	means Specified Additional Rolling Stock and Unspecified Additional Rolling Stock;
<b>Adjusted Evaluated Payments</b>	has the meaning given to it in subsection 7.6.3.8;
<b>AFC Plan</b>	has the meaning given to it in the Funding Deed;
<b>Agreed Documents</b>	means those documents listed in Table 4.3 (List of Agreed Documents) of the ITT;
<b>Agreed Funding Commitment or AFC</b>	has the meaning given to it in the Funding Deed;
<b>Alliance Objectives</b>	has the meaning given to it in subsection 5.6.4;
<b>Associated Entity</b>	has the meaning given to it in subsection 1.4 (Communications);
<b>ATOC</b>	Association of Train Operating Companies;
<b>AWARD</b>	has the meaning given to it in subsection 3.8 (Data Site and AWARD);
<b>AWE</b>	for the purpose of the ITT only, means the index of Average Weekly Earnings
<b>BAME</b>	means Black and Minority Ethnic
<b>Baseline Payments</b>	means the figures included in Table 7.4 (Department's Baseline Payments);
<b>BCQ</b>	has the meaning given to it in subsection 3.8 (Date Site and AWARD);

<b>Term</b>	<b>Meaning</b>
<b>Bid</b>	a tender submitted by a Bidder in response to this ITT;
<b>Bidder</b>	has the meaning given to it in subsection 1.1.1;
<b>Bonded PCS</b>	has the meaning given to it in subsection 6.9.2.9;
<b>Bonding Requirements</b>	where the Guarantor(s) of an amount of Guarantee pass the economic and financial standing tests referred to in subsection 6.10 (Updating of EoI financial and economic standing tests (the "Tests") and submission of updated Bond Provider letter(s)), this is 50% of the relevant Guarantee amount. Where the Guarantor(s) of an amount of Guarantee do not pass the economic and financial standing tests referred to in subsection 6.10 (Updating of EoI financial and economic standing tests (the "Tests") and submission of updated Bond Provider letter(s)), this is 100% of the relevant Guarantee amount;
<b>Calculation Review</b>	the review conducted in accordance with subsection 6.8.5 (Calculation Review);
<b>CAPEX</b>	capital expenditure;
<b>Capital Expenditure</b>	the expression "Capital Expenditure" refers to the nature of the expenditure incurred by the Franchisee and, accordingly, does not include expenditure incurred under operating leases.
<b>Capital Expenditure Model</b>	Has the meaning given in subsection 6.3.4.34;
<b>Cascaded Rolling Stock</b>	means rolling stock proposed to be used by the Franchisee in the provision of the Passenger Services the availability of which is, in the opinion of the Secretary of State, directly or indirectly dependent upon the successful introduction into service of any Relevant Rolling Stock by any other Train Operator
<b>Central Risk Adjusted Financial Model</b>	has the meaning given in subsection 7.6.2.2;
<b>Central Risk Adjusted NPV</b>	has the meaning given in subsection 7.6.3.4;
<b>Central Risk Adjusted Scenario</b>	has the meaning given in subsection 7.6.2.2;
<b>Challenging Circumstances</b>	circumstances such as extreme weather, industrial action or line closures;
<b>CMA</b>	means the Competition and Markets Authority;

<b>Term</b>	<b>Meaning</b>
<b>CMS Passengers</b>	the forecasting software known as 'CMS Passengers' used to forecast redistribution of passengers amongst individual services on particular routes;
<b>Committed Obligations or COs</b>	means any of the Franchisee's obligations listed in Part 1 (Committed Obligations) of Schedule 6.2 of the Franchise Agreement;
<b>Conditions Precedent Agreement</b>	means the version of the East Midlands Condition Precedent Agreement which the Department supplies to Bidders as the "Final Bid version" for the purposes of this ITT;
<b>Constrained Central Risk Adjusted FRM Revenue/ Passenger Revenue Forecast</b>	has the meaning given to it in subsection A3.8.3 of Appendix 3 (Risk Adjustment Process);
<b>Consultee</b>	has the meaning given to it in subsection 3.4 (Industry consultation and disclosure of information in Bids);
<b>Contingent Initiative</b>	has the meaning given to it in subsection 4.14.3 (Contractualisation);
<b>Contractual Incentive Mitigations or CIMs</b>	the additional and amended obligations imposed upon the Franchisee pursuant to the operation of Schedule 6.3 of the Franchise Agreement;
<b>Core Franchise Term</b>	the core term of the Franchise Agreement (excluding any extension that may be called under clause 5.2);
<b>Critical Load</b>	a train's passenger load at the Critical Load Point;
<b>Critical Load Point</b>	the geographic location at which a train's passenger load is at its greatest;
<b>Crowding Model</b>	Has the meaning given to it in subsections 6.3.4.20 to 6.3.4.27;
<b>Data Site</b>	has the meaning given to it in subsection 3.8 (Data Site and AWARD);
<b>Delay Repay</b>	means compensation arrangements which include a commitment to provide following receipt of a valid claim, at least the following compensation to holders of any type of ticket, whatever the cause of the delay which at the Start Date are:



Term	Meaning
	<p>a) 25% of the cost of the single ticket or 25% of the cost of the relevant portion* of the return ticket for delays of between 15 and 29 minutes;</p> <p>b) 50% of the cost of the single ticket or 50% of the cost of the relevant portion* of the return ticket for delays of between 30 and 59 minutes;</p> <p>c) 100% of the cost of the single ticket or 100% of the cost of the relevant portion* of the return ticket for delays of between 60 and 119 minutes; and</p> <p>100% of the cost of the single ticket or 100% of the cost of the return ticket (i.e. both ways) for delays of 120 minutes or longer</p>
<b>Delivery Plan</b>	<p>means a Delivery Plan described in section 5 (Detailed Bid submission requirements – Delivery Plans), being:</p> <p>Delivery Plan 0 – Bid Summary;</p> <p>Delivery Plan 1 – Franchise Management;</p> <p>Delivery Plan 2 – Train Service and Performance;</p> <p>Delivery Plan 3 – Revenue;</p> <p>Delivery Plan 4 – Customer Experience and Stations;</p> <p>and ‘<b>Delivery Plans</b>’ shall mean more than one of them;</p>
<b>Demand Driver Generators or DDGs</b>	<p>means the standard set of exogenous inputs produced by the Department for rail elasticity based forecasting;</p>
<b>Department</b>	<p>has the meaning given to it in subsection 1.1.1;</p>
<b>Digital Rail Proposal</b>	<p>has the meaning given to it in subsection 5.10.4;</p>
<b>Downside Risk Adjusted Financial Model</b>	<p>has the meaning given to it in subsection 7.6.3.1;</p>
<b>Downside Risk Adjusted NPV</b>	<p>has the meaning given to it in subsection 7.6.3.2;</p>
<b>Downside Risk Adjusted Scenario</b>	<p>has the meaning given to it in subsection 7.6.3.1;</p>
<b>EA02</b>	<p>Enterprise Act 2002;</p>
<b>EC</b>	<p>European Commission;</p>

<b>Term</b>	<b>Meaning</b>
<b>EIR</b>	Environmental Information Regulations;
<b>Escrow Agreement</b>	means the version of the East Midlands Escrow Agreement which the Department supplies to Bidders as the “Final Bid Version” for the purposes of this ITT;
<b>ETCS</b>	has the meaning given to it in subsection 5.9.10
<b>EU</b>	European Union;
<b>EUMR</b>	Council Regulation (EC) No. 139/2004;
<b>Evaluated Payments</b>	has the meaning given to it in subsection 7.6.3.5;
<b>Overall Evaluation Score</b>	has the meaning given to it in subsection 3.5.11;
<b>Exogenous Forecasts</b>	means the Department’s central view of exogenous forecasts of demand drivers at the time of publication of this ITT, provided in Data Site folder 01.02 (Final ITT and attachments);
<b>Expiry date</b>	means the later of: <ul style="list-style-type: none"> <li>(a) 01:59 on 22 August 2027; or</li> <li>(b) any such later date that is specified by the Secretary of State pursuant to clause 5.3 (Duration of the Franchise Agreement); or</li> <li>(c) any such later date to which the Franchise Agreement is continued in accordance with clause 5 (Duration of the Franchise Agreement);</li> </ul>
<b>Extension Period</b>	means any extension which is called under clause 5.2 of the Franchise Agreement. Where Bidders are asked to provide information for the Extension Period, this should be provided for the maximum Extension Period provided for in clause 5 (Duration of the Franchise Agreement);
<b>Fares Basket</b>	means the East Midlands Commuter Fares Basket, or the Protected Fares Basket which contains those fares which are regulated;
<b>Fares Model</b>	Has the meaning given to it in subsections 6.3.4.16 to 6.3.4.19
<b>Financial Formats or FF</b>	means the Franchisee's financial formats in the agreed terms marked <b>FF</b> ;
<b>Final Risk Adjustments</b>	has the meaning given to it in subsection A3.2 (Overview of process to derive the Central Risk Adjusted Scenario);

<b>Term</b>	<b>Meaning</b>
<b>Final Score</b>	has the meaning given to it in subsection 7.2.1.3;
<b>Financial Model or FM</b>	a financial model prepared in accordance with subsection 6.3 (Financial and Operational Model requirements);
<b>Financial Ratio</b>	means the ratio of Modified Revenue to Actual Operating Costs for the Franchisee year in accordance with row 136 of worksheet “FO&C” of the Financial Templates;
<b>Financial Ratio Breach</b>	means any point at which the Financial Ratio is below 1.050
<b>Financial Robustness Test</b>	has the meaning given to it in subsection 7.6 (Evaluation of Financial Robustness);
<b>Financial Structure and Funding Plan</b>	has the meaning given to it in subsection 6.9(Financial Structure and Funding Plan);
<b>Financial Templates</b>	has the meaning given to it in subsection 6.3.6 (Financial Templates);
<b>FLPA</b>	has the meaning given to it in subsection 1.4.1;
<b>FOIA</b>	Freedom of Information Act 2000;
<b>Forecast Revenue Mechanism or FRM</b>	means the mechanism contained in Schedule 8.6 of the Franchise Agreement under which the Secretary of State may receive Revenue Share payments from the Franchisee or the Franchisee may receive Revenue Support payments from the Secretary of State;
<b>Form of Tender</b>	means the version of the East Midlands Form of Tender which the Department supplies to Bidders as the “Final Bid Version” for the purposes of this ITT;
<b>Franchise</b>	means the rights tendered by the Secretary of State on 7 <sup>th</sup> June 2018 to operate railway passenger services over the Routes prescribed in paragraph 2.1 of Part 1 (Franchise Services) of Schedule 1.1 of the Franchise Agreement;
<b>Franchise Agreement</b>	means the version of the East Midlands Franchise Agreement which the Department supplies to Bidders as the “Final Bid Version” for the purposes of this ITT;
<b>Franchise Competition Guide</b>	has the meaning given to it in subsection 1.6 (Other documents);
<b>Franchise Expression of Interest, Expression of</b>	means the Expression of Interest issued on 20 December 2016 and reissued on 20 July 2017 in relation to the Franchise;

Term	Meaning
<b>Interest, Franchise Eol, or Eol</b>	
<b>Franchise Pre-Qualification Process Document or Franchise PPD</b>	means the pre-qualification process document that accompanied the Franchise Eol;
<b>Franchise Signature Documents</b>	has the meaning given to it in Table 4.3 (Structure and Format of Bids);
<b>FRM Revenue</b>	has the meaning given to it in Schedule 8.6 of the Franchise Agreement;
<b>Funding Deed</b>	means the version of the East Midlands Funding Deed which the Department supplies to Bidders as the “Final Bid Version” for the purposes of this ITT;
<b>GDP</b>	means Gross Domestic Product;
<b>HMT</b>	Her Majesty’s Treasury;
<b>IFRS</b>	International Financial Reporting Standards;
<b>Inconsistent Initiative</b>	has the meaning given to it in subsection 7.4.1;
<b>Industry Partners</b>	include without limitation: Network Rail, ORR, Transport Focus, relevant devolved and local government bodies, other train operators, freight operators, ROSCOs and the wider supply chain including SMEs;
<b>Initiatives</b>	proposals and commitments included in a Bidder’s Sub-Plans;
<b>Interest Rate</b>	means a rate equivalent to two per cent (2%) per annum above the base lending rate published by Royal Bank of Scotland plc (or such other bank as the Secretary of State may, after consultation with the Franchisee, determine from time to time) during any period in which an amount payable under the Franchise Agreement remains unpaid;
<b>Invitation to Tender</b>	means the Invitation to Tender issued by the Secretary of State on 7 <sup>th</sup> June 2018 as part of the procurement process pursuant to which the Franchise Agreement was entered into;
<b>Key Performance Indicator or KPI</b>	has the meaning given to it in paragraph 5.6.6f)
<b>Key Sub-Plans</b>	has the meaning given to it in subsection 3.5.10;

<b>Term</b>	<b>Meaning</b>
<b>Letters of Support</b>	means letters written by a third party which support elements of a Bidders' proposal;
<b>Living Wage</b>	means the wage rate calculated by the Living Wage Foundation from time to time on <a href="https://www.livingwage.org.uk">https://www.livingwage.org.uk</a> ;
<b>Long Form Report</b>	the historical summary of the financial and operational performance of each element of the East Midlands Franchise, together with explanations of any movements in such financial and operational performance (including any addendums to such report);
<b>Long Funding Lease Rules</b>	has the meaning given to it in subsection 6.9.1.1 m);
<b>Market Segments</b>	means the distinct market segments in the franchise being: <p>(a) from the Start Date until the December 2021 Passenger Change Date:</p> <p>(i) the Midland Main Line;</p> <p>(ii) the Norwich – Liverpool inter urban Route; and</p> <p>(iii) the local Routes</p> <p>and</p> <p>(b) from the December 2021 Passenger Change Date:</p> <p>(i) the Midland Main Line</p> <p>(ii) the local Routes.</p>
<b>Materiality Threshold</b>	has the meaning given to it in subsection 7.6.2.11;
<b>MEAT</b>	most economically advantageous tender;
<b>Minimum Evidential Requirements</b>	evidential requirements for Sub-Plans specified in subsection 5.1.4;
<b>Model Audit</b>	has the meaning given to it in subsection 6.8.4 (Model Audit);
<b>Modelling Best Practice Confirmation</b>	the confirmation that the Models have been prepared in accordance with best practice as required by subsection 6.8.2 (Modelling Best Practice Confirmation), subject to any derogations granted pursuant to subsection 6.8.3 (Derogations);
<b>Model Changes</b>	has the meaning given in paragraph 4.3 of Schedule 9.1 of the Franchise Agreement;

Term	Meaning
<b>Modelling Suite</b>	has the meaning given to it in subsection 6.1.2;
<b>Models</b>	has the meaning given to it in subsection 6.1.1;
<b>Modified Revenue</b>	<p>means:</p> <ul style="list-style-type: none"> <li>(a) the sum of: <ul style="list-style-type: none"> <li>(i) the Franchisee's total revenue for the period being reviewed as stated in its profit and loss account: <ul style="list-style-type: none"> <li>(A) including any amounts receivable from the Secretary of State, Network Rail and any interest; but</li> <li>(B) excluding the proportion of income recognised in the profit and loss account in relation to grants received in respect of capital expenditure; and</li> </ul> </li> <li>(ii) the opening cash balance for the period being reviewed excluding: <ul style="list-style-type: none"> <li>(A) any cash held for the exclusive purpose of the provision of the Performance Bond; and</li> <li>(B) the amount equivalent to: <ul style="list-style-type: none"> <li>(1) any cash that is held pursuant to any restrictive terms under any agreement and that, consequently, cannot be used for general operating purposes;</li> <li>(2) any cash capable of being drawn down but not actually received,</li> </ul> </li> </ul> </li> </ul> </li> </ul> <p>including, in both cases, under any loan or funding agreement or arrangements (including the Funding Deed) entered into with an Affiliate of the Franchisee; and</p> <ul style="list-style-type: none"> <li>(C) the amount of the opening season ticket liabilities which relate to Passenger Services yet to be delivered; and</li> </ul> <li>(b) either: <ul style="list-style-type: none"> <li>(i) plus any reduction in total debtors over that period; or</li> <li>(ii) less any increase in total debtors over that period,</li> </ul> </li>

<b>Term</b>	<b>Meaning</b>
<b>MOIRA or MOIRA1</b>	the timetabling software known as 'MOIRA' used to forecast the impact of timetables on passenger demand and revenue but not MOIRA2, MOIRA 2.1 or MOIRA2.2;
<b>MOIRA2, MOIRA 2.1 or MOIRA2.2</b>	a model which comprises the timetable/revenue tool used to provide inputs into the revenue model;
<b>Neutral Branding</b>	has the meaning in Schedule 14.1 of the Franchise Agreement;
<b>Notional PCS</b>	has the meaning given to it in subsection 7.6.2.11;
<b>NPV of Adjusted Evaluated Payments</b>	NPV of Adjusted Evaluated Payments over the Core Franchise Term plus 50% of the NPV of Adjusted Evaluated Payments over the Extension Period, as calculated in cell F98 of sheet NPV of the Financial Templates;
<b>NPV or Net Present Value</b>	net present value, calculated as the aggregation of the present value of relevant future cash flows;
<b>NRPS Benchmark</b>	means, in respect of a relevant Franchisee Year, the benchmark for each NRPS Measure and for each NRPS Service Group as set out in the NRPS Benchmark Table;
<b>Off-Peak</b>	means, in relation to any Passenger Service, the period of time outside of the Peak;
<b>Operating Cost Model</b>	Has the meaning given to it in subsection 6.3.4.28;
<b>Operating Manual</b>	a manual prepared in accordance with subsection 6.6 (Operating Manual);
<b>Operational Models</b>	Has the meaning given to it in subsection 6.3.4;
<b>ORR</b>	means the Office of Rail and Road established by Section 15 of the Railways and Transport Safety Act 2003 and having duties and obligations as set out in the Act;
<b>Other Revenue</b>	as set out in the Financial Templates;
<b>Other Supplementary Material</b>	has the meaning given to it in subsection 6.3.5 (Supplementary Material);
<b>Page Count</b>	means the limit on the number of pages Bidders may submit as described in Table 4.2;
<b>Parent Company Support or PCS</b>	has the meaning given to it in subsections 6.9.2.4 to 6.9.2.5;
<b>Passport</b>	means the confirmation awarded by the Secretary of State to a successful applicant that their application meets the requirements

Term	Meaning
	set out in the documentation relating to the OJEU Notice (reference no: 2015/S 189-34364);
<b>PDFH</b>	Passenger Demand Forecasting Handbook;
<b>Performance Model</b>	Has the meaning given to it in subsections 6.3.4.29 to 6.3.4.33;
<b>PPM or Public Performance Measure</b>	means the public performance measure as produced and/or published by Network Rail;
<b>PPM Figures</b>	means the moving annual average percentage published by Network Rail in respect of PPM, rounded to one (1) decimal place;
<b>PRM-TSI Compliant</b>	means rolling stock that complies with the requirements in Regulation 45 of the Railways (Interoperability) Regulations 2011 (SI 2011/3066);
<b>Price</b>	means, in respect of any Fare, the price of such Fare before the deduction of any applicable discount to which a purchaser may be entitled, as notified to RSP in accordance with Schedule 5 to the Ticketing and Settlement Agreement;
<b>Proposed Risk Adjustments</b>	has the meaning given to it in subsection A3.2 (Overview of process to derive the Central Risk Adjusted Scenario);
<b>Quality Score</b>	the score awarded to a Bidder in accordance with subsection 7.10 (Conversion of evaluation scores into Quality Scores);
<b>Rail Franchise</b>	means any passenger rail franchise awarded pursuant to the Act in respect of which a franchisee or its wholly owned subsidiary provides franchised services
<b>Record of Assumptions or RoA</b>	means a record of assumptions prepared in accordance with subsection 6.5 (Record of Assumptions);
<b>Redactions</b>	means any provisions of the Franchise Documents or any such variation which the Department believes are exempt from disclosure in accordance with the provisions of the Freedom of Information Act, the Environmental Information Regulations and/or Section 73(3) of the Act
<b>Regulations</b>	means the Travel Concession Schemes Regulations 1986 (SI 1986/77)
<b>Regulation (EC) 1370/2007 (as amended)</b>	has the meaning given to it in subsection 3.12 (Regulation (EC) 1370/2007);



<b>Term</b>	<b>Meaning</b>
<b>Relevant Operator</b>	means any person who operates rail passenger services within England, Scotland or Wales under contract to a public authority (or any successor operator to that person);
<b>Required Parent Company Support or Required PCS</b>	has the meaning given to it in subsection 6.9.2.7;
<b>Required Supplementary Material</b>	has the meaning given to it in subsection 6.3.5.1;
<b>Residual Value Mechanism or RV Mechanism</b>	has the meaning given to it in subsection 5.2 (Residual Value Mechanism);
<b>Revenue Model</b>	Has the meaning given to it in subsections 6.3.4.6 to 6.3.4.15;
<b>Revenue Share</b>	means amounts that may be payable to the Secretary of State by the Franchisee pursuant to the Forecast Revenue Mechanism;
<b>Revenue Support</b>	means amounts that may be payable by the Secretary of State to the Franchisee pursuant to the Forecast Revenue Mechanism;
<b>Risk Adjusted Financial Model</b>	means either the Central Risk Adjusted Financial Model or the Downside Risk Adjusted Financial Model;
<b>Risk Adjusted NPV</b>	has the meaning given to it in subsection 7.6.3 (Calculation of Risk Adjusted NPV);
<b>Risk Adjusted Scenario</b>	means either the Central Risk Adjusted Scenario or the Downside Risk Adjusted Scenario;
<b>RPI</b>	for the purpose of the ITT only means the Retail Prices Index;
<b>Schedule of Initiatives</b>	means the template schedule outlined at Table 4.4 (Schedule of Initiatives);
<b>Scheme</b>	has the meaning given to it in subsection 5.2.1 a);
<b>Secretary of State</b>	has the meaning given to it in subsection 1.1.1;
<b>Sectional Running Times or SRTs</b>	means the sectional running times used in the preparation of Bidder's timetables;
<b>SO</b>	means Saturday timetable;
<b>Specification</b>	the requirements of the Delivery Plans and Sub-Plans as set out in Section 5 (Detailed Bid submission requirements - Delivery Plans) (as applicable), or the relevant parts thereof (as the context may require);

Term	Meaning
<b>Stage 2 Bids</b>	has the meaning given to it in subsection 7.2.2 (Supplementary Rules);
<b>Stakeholders</b>	include without limitation: Network Rail, ORR, the Department, Transport for London, RSSB, NSARE, other train operators, freight operators, ROSCOs, ATOC/Rail Settlement Plan, BTP, Rail Delivery Group, trade unions, Great Eastern Main Line Task Force, West Anglia Task Force, National Rail Enquiries, cross-industry bodies, charities, Community Rail Partnerships, Transport Focus, Local Authorities, Local Transport Authorities and the wider supply chain including SMEs;
<b>Start Date</b>	means the time and date stated in the Certificate of Commencement as being the time at and date on which the Franchisee is to commence operating the Franchise Services, which shall either be: <ul style="list-style-type: none"> <li>(a) 02:00 on 18 August 2019; or</li> <li>(b) such later time and date as may be notified to the Franchisee by the Secretary of State pursuant to: <ul style="list-style-type: none"> <li>(i) Clause 4.2 of the Conditions Precedent Agreement; or</li> <li>(ii) Clause 4.3 of the Conditions Precedent Agreement;</li> </ul> </li> </ul>
<b>Station Social and Commercial Development Plan or SCDP</b>	means the Franchisee's station social and commercial development plan in the agreed terms marked SCDP, as such plan may be updated in accordance with the provisions of paragraph 7 of Schedule 1.7 of the Franchise Agreement;
<b>Sub-Plan</b>	those plans as set out in the column headed 'Sub-Plan' in Table 5.1 (Delivery Plans and Sub-Plans);
<b>SuO</b>	means Sunday timetable;
<b>Supplementary Material</b>	means any and all items of Required Supplementary Material or Other Supplementary Material provided with the Bid as those expressions are defined in subsections 6.3.5.1 and 6.3.5.2 of the Franchise Agreement, respectively;
<b>Sustainable Development Strategy or SDS</b>	means the Franchisee's strategy for sustainable development for the Franchise as agreed or determined pursuant to paragraph 10.1(b) of Schedule 13.1 of the Franchise Agreement including as a minimum: the matters listed in paragraph 10.1(a) of Schedule 13.1 of the Franchise Agreement, key aims, resources, risks and details of how sustainable development will be embedded in the governance of the Franchise and investment decisions (as revised from time to time);
<b>SX</b>	Monday to Friday timetable

Term	Meaning
<b>Target Revenue</b>	means the amount of Target Revenue for each Franchisee Year specified in Appendix 1 to Schedule 8.6 of the Franchise Agreement;
<b>Taxation</b>	means any kind of tax, duty, levy or other charge whether or not similar to any in force at the date of the Franchise Agreement and whether imposed by a local, governmental or other competent authority in the United Kingdom or elsewhere;
<b>Tests</b>	has the meaning given to it in subsection 6.10 (Updating of EoI financial and economic standing tests (the “Tests”) and submission of updated Bond Provider letter(s));
<b>Tier 1 Operational Models</b>	means the: <ul style="list-style-type: none"> <li>a) Revenue Model;</li> <li>b) Fares Model (which may be included in the Revenue Model);</li> <li>c) Crowding Model;</li> <li>d) Operating Cost Model (which may be included in the Financial Model);</li> <li>e) Performance Model; and</li> <li>f) Capital Expenditure Model (which may be included in the Financial Model or the Operating Cost Model);</li> </ul>
<b>Tier 2 Operational Models</b>	means any additional or sub-models submitted as part of the Modelling Suite which are not Tier 1 Operational Models;
<b>Timetable Planning Rules</b>	has the meaning given to it in the Network Code;
<b>Total Capacity</b>	The number of seats plus the number of passengers standing;
<b>Train Operating Company or TOC</b>	means train operating company;
<b>Train Plan or TP</b>	means the plan or diagram (including sub-plans or sub-diagrams) prepared by the Franchisee for the operation of trains and train formations under the Timetable that best matches available capacity to Forecast Passenger Demand as amended from time to time during the Franchise Term in accordance with the Franchise Agreement;
<b>Transport Focus</b>	the independent public body known as both ‘Transport Focus’ and the ‘Rail Passenger Council’ created by Government to safeguard the interests of passengers;

Term	Meaning
<b>Typical Autumn Weekday</b>	A Thursday in Autumn (excluding half term week) with no disruption to services, no special events generating abnormal demand and no Challenging Circumstances;
<b>WebTAG</b>	means the Department's published Web-Based Transport Analysis Guidance;
<b>Worked Examples</b>	has the meaning given to it in subsection 6.7.1.2;
<b>Year of Breach</b>	has the meaning given to it in subsection 7.6.4.3a).

## **A2. Appendix 2: Not used**

## **A3. Appendix 3: Risk Adjustment Process**

### **A3.1 Introduction**

A3.1.1 This Appendix 3 summarises the approach that the Department will adopt in Bid risk adjustment. Sections A3.2-A3.7 set out the approach taken in deriving the Central Risk Adjusted Scenario, while the derivation of the Downside Risk Adjusted Scenario is described in Section A3.8.

A3.1.2 The Department may elect not to risk adjust one or more Bids if it considers that adjusting them would not change the identity of the winning Bidder. It may also elect to only carry out part of the process set out in this Appendix 3, or a simplified process, if it considers that undertaking additional steps would not change the identity of the winning Bidder. In making this decision, the Department may take into account the maximum "P" score that each Bidder could achieve, which will be calculated using the process set out in subsection 7.6 (Evaluation of Financial Robustness), but with the Financial Model submitted by the Bidder used in place of the Central Risk Adjusted Financial Model.

A3.1.3 For Bids which are identified to be subject to subsection A3.1.2 above and therefore not risk adjusted, the Financial Model submitted by the Bidder will be used in place of the Central Risk Adjusted Financial Model, for the purpose of calculating the Risk Adjusted NPV. If, after other Bids are risk adjusted, the Bidder with the highest  $P + (n \times Q)$  score is one which was previously not risk adjusted, or only part of the process was carried out, in accordance with subsection A3.1.2 above, that Bid will be risk adjusted and the Financial Robustness Test (including all steps outlined in subsection 7.6.2 (Assessment of acceptability of financial risk) and subsections 7.6.3 (Calculation of Risk Adjusted NPV) and 7.6.4 (Consequences of forecast breach on evaluation), if applicable) will then be undertaken for that Bidder before the identity of the winning Bidder is determined, subject to A3.2.2.

A3.1.4 All risk adjustments will be made on the basis of the Department's reasonable view of the most credible financial outcome taking into account all relevant information available to it, including new information released after the issue of the ITT, existing industry/Department guidance and research, new research and other evidence put forward by Bidders in

associated Delivery Plans or Sub-Plans, the Record of Assumptions, or any other relevant information submitted with Bids. For clarity, risk adjustments may use evidence from the Passenger Demand Forecasting Handbook and this may involve all or part of the latest released version at the time of risk adjustment as well as previous versions. The process for deriving such risk adjustments is set out in subsections A3.4 to A3.6.

A3.1.5 The information set out in this Appendix is intended to provide Bidders with as much guidance as possible in relation to how risk adjustments will be made. However, it should be recognised that such guidance can never be complete or apply to all possible situations, as it is not possible to predict in advance of Bid submission how Bidders will construct their Bids and what issues and risks may be identified with each Bid. Ultimately, the key factor in making risk adjustments will be the Department's reasonable view of what constitutes the most credible financial outcome, taking into account all relevant information available to it.

## A3.2 **Overview of process to derive the Central Risk Adjusted Scenario**

A3.2.1 Subject to subsections A3.1.2 - A3.1.5, A3.2.2 and A3.2.3, the approach that will be followed is:

A3.2.1.1 The Bidders' Modelling Suites will be reviewed (including by reference to the Department's Comparator Model), to identify any issues in the methodology or assumptions used for the cost, revenue or other modelling which in the Department's reasonable view might generate a material risk of a materially different financial outcome from that projected in the Bidders' Modelling Suites (upside or downside).

A3.2.1.2 In addition to reviewing the Delivery Plans, Franchise Agreement, Modelling Suite and Financial Structure and Funding Plan to assess the overall deliverability and quality of the Bid, the Department will identify whether it has concerns that any of the plans generate a material risk of a materially different financial outcome. Circumstances where these could arise include, without limitation, where:

- i. There are concerns about the operational, commercial or management arrangements set out, and therefore concerns as to whether the Franchise will require additional costs in order to

deliver the Initiative, or whether it will generate the revenue that has been forecast;

- ii. There are concerns about the implementation strategy for a particular Initiative, and therefore there is a risk that higher costs or lower revenue will arise than forecast; or
- iii. There are concerns about whether the revenue or cost attributed to an Initiative is achievable, even if the Initiative is implemented successfully, because of concerns about the methodology or assumptions used in the modelling of the impact of the Initiative.

A3.2.1.3 If necessary and appropriate the Department may seek clarification under the clarification process described in subsection 4.14.2 (Engagement with Bidders and evaluation clarification process).

A3.2.1.4 Further to the reviews described above, the Department will determine the values for exogenous revenue factors that it will use in the risk-adjusted forecasts for all Bidders, in accordance with subsection A3.4 (Revenue – exogenous). It will also identify any evidence or analysis provided by a Bidder with its Bid which may be relevant to the risk adjustment of another Bid, in accordance with subsections A3.5 (Revenue - excluding exogenous) and A3.6 (Cost).

A3.2.1.5 The Department will then identify the risk adjustment(s) it intends to make to each Bidder's Models ("**Proposed Risk Adjustments**"). The Department will apply any exogenous risk adjustments prior to any endogenous risk adjustments. The basis for such risk adjustments is described below.

A3.2.1.6 The Department will review the consistency of the Proposed Risk Adjustments individually and in aggregate and if necessary it will revise the Proposed Risk Adjustments.

A3.2.1.7 Before finally determining any risk adjustment(s), the Department shall inform the Bidder of the Proposed Risk Adjustments, and its rationale for the Proposed Risk Adjustments. The Department reserves the right not to follow the process referred to in this subsection A3.2.1.7 and subsection A3.2.1.8 in respect of that Bidder unless either of the following applies:



- i. After taking into account the Parent Company Support and the Materiality Threshold in accordance with subsection 7.6 (Evaluation of Financial Robustness), the Proposed Risk Adjustments would result in the Bidder being projected in its Central Risk Adjusted Financial Model to have a Financial Ratio Breach at any point during the Core Franchise Term.
- ii. The Financial Robustness Test would result in that Bidder's ranking in terms of  $P + (n \times Q)$  changing from first place based on the maximum "P" score each Bidder could achieve to a lower final ranking, due to forecast Financial Ratio Breach in the Central Risk Adjusted Financial Model during the Extension Period, due to forecast Financial Ratio Breach in the Downside Risk Adjusted Scenario, due to forecast Revenue Support payments under the Forecast Revenue Mechanism in either or both the Central or Downside Risk Adjusted Financial Models, or due to a combination of the above. The maximum "P" score each Bidder could achieve will be calculated as set out in subsection A3.1.2.

A3.2.1.8 Where the Department informs a Bidder of the Proposed Risk Adjustments:

- It may also raise further questions in relation to the Proposed Risk Adjustments;
- The Bidder will have 5 working days (or such longer period as the Department may specify) to respond to any such questions and comment on the Department's rationale behind the Proposed Risk Adjustments; and
- The Department will determine the risk adjustments ("**Final Risk Adjustments**") after receipt of responses or, where no responses are provided, after the date by which responses were to be provided.

The Final Risk Adjustments will then be applied to each Bidder's Models as appropriate to produce each Bidder's Central Risk Adjusted Financial Model.

A3.2.2 The Department reserves the right to undertake none, some or all of the stages referred to in subsections A3.2.1.5 to A3.2.1.8 with respect to one

or more leading Bidder(s), if it determines that undertaking those other stages of the process as described above will have no impact on the selection of the winning Bid.

A3.2.3 The Department reserves the right to develop its own models in order to assist with the calculation or aggregation of risk adjustments.

### A3.3 **Approach to determining adjustments**

A3.3.1 Subject to subsections A3.1.2 to A3.1.4, this subsection describes the approach to determining risk adjustments to factors such as:

- i. Revenue forecasts from Initiatives;
- ii. Exogenous revenue forecasts; and
- iii. Operating, financing and capital cost forecasts.

A3.3.2 Where the Department identifies in its reasonable view a material risk of a materially different financial outcome from that projected in the Bidder's Modelling Suite, whether with respect to cost or revenue, it may risk adjust either revenue, cost, or both, as appropriate in order to reflect its reasonable view of the most credible financial outcome.

A3.3.3 Risk adjustment will take into account any risk mitigations already identified by Bidders in their forecasts and reported in the Delivery Plans and Record of Assumptions.

A3.3.4 Where a Bidder includes contingency costs and/or revenues in its Financial Model, for the purpose of the risk adjustment process, the Department will assume that the cost will not be incurred and/or that the revenue will not be received (except if the Department considers it appropriate to include contingency cost given the nature of a specific Initiative, for example a capital project).

A3.3.5 Where appropriate, to reflect the Department's reasonable view of the nature of the potential financial impact of a risk, the risk adjustment applied may be profiled by year to allow for delivery of an Initiative later in the Core Franchise Term than envisaged in the Bid, or for 'ramp-up' of the Initiative (to allow for a different initial profile of the impacts of the Initiative).

A3.3.6 Risk adjustments may be either positive or negative, both individually and in aggregate.

A3.3.7 The Department would not generally make a risk adjustment if it expected that the impact of the adjustment would be no more than £1,000,000 (2019/20 prices) in any given Franchisee Year or no more than £5,000,000 (2019/20 prices) in total over the Core Franchise Term. However, the Department reserves the right to do so, particularly if there are a number of potential risk adjustments individually below this threshold, but which, in aggregate, would exceed it.

A3.3.8 To demonstrate risk adjustment, examples of risk adjustment are provided in subsection A3.7 (Examples of risk adjustments).

#### A3.4 **Revenue – exogenous**

A3.4.1 Exogenous revenue projections refer to those factors which are predominantly outside of the control of the franchisee such as factors relating to the economy, population, employment, land use and competition from other operators or other modes of transport. Risk adjustments may be made in respect of any of a Bidder's exogenous revenue (i.e. those factors which are outside the control of the Bidder) projections (i.e. the resultant predicted outcome of the methodology, assumptions and values used by the Bidder) where the Department's reasonable view of the most credible outcome is different to that set out in a Bidder's Modelling Suite For exogenous revenue factors, equivalent values will be used in the risk adjusted forecasts for all Bidders.

A3.4.2 For exogenous revenue factors, the Department's assessment of the most credible outcome of these factors will take into account all relevant information available to the Department. This will be based on the Department's comparator model assumptions, and it may also include emerging outturn data, existing industry/Department guidance and research, new research and other evidence put forward by Bidders in associated Delivery Plans or Sub-Plans, the Record of Assumptions, or any other relevant information submitted with Bids.

- A3.4.3 In determining any risk adjustment, the factors that the Department will take into account may include, but shall not necessarily be limited to:
- i. The demand forecasting guidance in PDFH as specified in section 6.3.4.10;
  - ii. Rail demand forecasting guidance recommended by WebTAG as specified in section 6.3.4.10;
  - iii. Other published analysis;
  - iv. Departmental commissioned analysis;
  - v. Any analysis provided by the Bidder to justify the methodology and assumptions that it has used;
  - vi. Any analysis provided by another Bidder with its Bid, to the extent that it is relevant and credible. and
  - vii. Forecasts of Exogenous Factors
- A3.4.4 The Exogenous Forecasts include (without limitation): GDP, employment, population, non-car ownership, fuel cost, car time, bus cost, bus time, bus headway, air passengers for airport flows only.
- A3.4.5 Bidders should bid their own views of the Exogenous Forecasts and other relevant exogenous revenue factors and the impact of the same on their Modelling Suites. However, the Department will use the Exogenous Forecasts for the purposes of risk adjustment unless the Department's reasonable view of the most credible outcome as regards the Exogenous Forecasts changes, taking into account all of the information available to it including compelling evidence submitted by Bidders(s) or new data released after the issue of the ITT. Consequently, the Department reserves the right to update the Exogenous Forecasts at any time.
- A3.4.6 The Department will consider the credibility of the opening 2019/20 revenue forecast provided by the Bidder and evidenced in the Record of Assumptions (taking into account the latest management accounts data available and the bridge provided) prior to determining if any risk adjustment for total opening revenue is required.

### A3.5 **Revenue – excluding exogenous**

A3.5.1 Risk adjustments may be made in respect of any of a Bidder's endogenous revenue projections (i.e. the resultant predicted outcome of the methodology, assumptions and values used by the Bidder). For these purposes, endogenous revenue includes revenue from Initiatives, non-farebox revenue, and any other element of its revenue projections other than exogenous.

A3.5.2 Subject to subsection A3.1.4, in determining any risk adjustment, the factors that the Department will take into account may include, but shall not necessarily be limited to:

- i. The demand forecasting guidance in PDFH as specified in section 6.3.4.10;
- ii. WebTAG Rail Passenger Demand Forecasting Methodology;
- iii. Departmental commissioned analysis;
- iv. Other published analysis;
- v. The credibility of the delivery proposals, including resources and delivery timescales;
- vi. Any analysis provided by the Bidder to justify the methodology and assumptions that it has used;
- vii. Any analysis provided by another Bidder with its Bid, to the extent that it is relevant and credible; and,
- viii. An assessment of whether total projected revenue growth is credible (taking into account the aggregated impact of different factors and Initiatives proposed).

### A3.6 **Cost**

A3.6.1 Risk adjustments may be made in respect of any of a Bidder's operating, financing or capital cost projections (i.e. the resultant predicted outcome of the methodology, assumptions and values used by the Bidder).

- A3.6.2 Subject to subsection A3.1.4, in determining any risk adjustment, the approach which will be adopted will be as follows:
- i. Where costs do not depend on Bidder Initiatives or management action (for example, EC4T or diesel unit rates), equivalent values will be used in the risk-adjusted forecasts for all Bidders, unless a Bidder provides credible evidence to convince the Department, in its reasonable view, that it will achieve a different financial outcome. Where relevant, the common values may be based on the Department's comparator model assumptions, unless the Department determines that there is more credible alternative evidence available (which, for example, may include Departmental or industry commissioned analysis or analysis provided by the Bidder or another Bidder), in which case it will revise its assumptions accordingly; and
  - ii. Where costs depend on Bidder Initiatives or management action, the Department will make an assessment in accordance with subsection A3.6.3.
- A3.6.3 Bidder's Financial Models should include their assumptions for payments that they may need to make to the Department, or expect to receive from the Department. Bidders should provide credible evidence to support their assumptions about payments or receipts in their Record of Assumptions (with reference to the Delivery Plans where appropriate).
- A3.6.4 Risk adjustments may be made in respect of a Bidder's projections for such payments or receipts.
- A3.6.5 The factors that the Department will take into account may include, but shall not necessarily be limited to:
- i. The credibility of the delivery proposals, including resources and delivery timescales;
  - ii. Any analysis provided by the Bidder to justify the methodology and assumptions that it has used;
  - iii. Any analysis provided by another Bidder with its Bid, to the extent that it is relevant and credible; and

- iv. An assessment of whether the overall cost projections are credible (taking into account the aggregated impact of different factors and Initiatives proposed).

### A3.7 **Examples of risk adjustments**

A3.7.1 This subsection A3.7 (Examples of risk adjustments) provides examples of risk adjustments. Both the nature of the Initiatives described, and the types of adjustments set out, should be considered as illustrative only. The Department will undertake risk adjustments in accordance with the principles described in this Appendix 3 (Risk Adjustment Process) and these examples should not be taken to limit how the Department will undertake this.

A3.7.2 A revenue protection Initiative is proposed in order to increase passenger revenue. This Initiative includes purchase of new equipment which, together with additional revenue protection staff and improved processes such as revised deployment of revenue protection officers, is projected to achieve a reduction in ticketless travel and therefore an on-going increase in revenue with no change to the quantum of passengers actually travelling. Risk adjustment could be appropriate, for example:

- i. The timing of implementation could be considered to be unrealistically ambitious, for example if there is insufficient time to recruit and train new staff or to install new equipment, and therefore risk adjustment(s) may be applied to delay the timing of revenue, benefits and operating costs;
- ii. The additional revenue expected to be earned by deploying such staff may be considered unrealistic, and therefore risk adjustment(s) may be applied to reduce the revenue claimed or to increase these costs accordingly;
- iii. The scale of ongoing costs for the additional staff could be considered unrealistically low, or resources may be deployed inefficiently, and therefore risk adjustment(s) may be applied to increase these costs accordingly; or
- iv. One-off transition costs may have been overlooked, for example staff recruitment and training costs, and therefore risk

adjustment(s) may be applied to add in cost provision for these one-off items.

A3.7.3 A station enhancement investment programme Initiative is proposed, to improve passenger satisfaction at a portfolio of stations, and therefore increase passenger revenue. The scope of the programme includes augmenting ticket offices, mobility impaired access, enhanced security, car parking, shelters, waiting rooms and toilet facilities at these stations. Risk adjustment could be appropriate if, for example:

- i. The timing of implementation could be considered to be unrealistically ambitious, for example if there is not adequate time to achieve any planning/highway consents, and risk adjustment could be applied to delay the realisation of benefits and costs;
- ii. The capital investment assumed for the station works could be considered unrealistically low and therefore risk adjustment could be applied to increase the capital investment required to deliver the works;
- iii. The scale, timing, build-up and/or trend in any passenger revenue benefits could be considered over-ambitious, or inconsistent with PDFH and/or WebTAG guidance, and risk adjustment(s) could be applied to scale back or increase the revenue benefits claimed;
- iv. One-off transition costs may have been overlooked, for example costs of provision of temporary facilities during the period when the works are being carried out (such as temporary ticket office and access arrangements), and therefore risk adjustment(s) could be applied to add in cost for provision of these one-off items; or
- v. Any additional annual operating and maintenance costs relating to these additional station facilities may have been excluded from the forecast, and risk adjustment(s) could be applied to add in some cost provision for this.

A3.7.4 A Bidder proposes enhancements to the customer proposition, in order to generate additional revenue. Examples could include revised branding, refreshment of rolling stock, or provision of enhanced passenger information systems. Risk adjustment could be appropriate if, for example:



- i. The timing of implementation could be considered to be unrealistically ambitious, for example there could be inadequate time to implement the enhancement, and therefore risk adjustment(s) could be applied to delay the timing of revenue and costs associated with the Initiative;
- ii. The costs assumed to implement the enhancements could be considered unrealistically low, and risk adjustment(s) could be applied to increase the costs assumed accordingly;
- iii. The scale, timing, build-up or trend of passenger revenue resulting from the enhancements could be considered over-ambitious, for example if the assumptions used are not consistent with PDFH and/or WebTAG or, for example, if proposed revenue uplifts were double counted or overestimated when compared to industry specific market research, and risk adjustment(s) could be applied to scale back the revenue benefits claimed; or
- iv. Transition impacts may have been overlooked, for example any staff training, or loss of rolling stock availability whilst modifications are being carried out. Risk adjustment(s) could be applied to take account of any impacts during transition.

A3.7.5 A Bidder proposes marketing campaigns that represent a significant increase in expenditure from previous levels on this Franchise in order to generate additional revenue. The Bidder provides case studies detailing historical returns from marketing and references evidence, for example, from the PDFH/Passenger Marketing Handbook. The Bidder also details the historical return on investment for the Franchise from the incumbent Franchisee's marketing activities, setting out the return on investment by campaign type and Market Segment. Risk adjustment could be appropriate if, for example, the Department considers, in its reasonable view, that the anticipated returns on investment are too high because:

- i. the Bidder has not provided credible evidence detailing the specifics of how the proposed marketing campaigns using different media will generate the anticipated volume of additional journeys; or

- ii. the Bidder has not provided credible evidence from appropriate case studies and campaigns to demonstrate the effectiveness of its proposed marketing campaigns.

In these circumstances, risk adjustment(s) may be applied to reduce the passenger revenue benefits claimed, potentially limiting returns from marketing investment to, or close to, recently achieved levels of returns for similar campaigns for comparable market segments and railways.

A3.7.6 A Bidder proposes to sell a greater proportion of tickets via new ticketing technology, equipment and media including increased usage of internet and mobile ticket sales channels and investment in Ticket Vending Machines. It is also proposing a programme of ticket office closures. Risk adjustment could be appropriate if, for example:

- i. The timing of implementation could be considered to be unrealistically ambitious, for example there could be inadequate time to establish the new ticket selling channels and therefore risk adjustment(s) could be applied to delay the timing of revenue benefits and the reduction of staff costs associated with the Initiative; or
- ii. The costs assumed to implement the Initiative could be considered unrealistically low, and risk adjustment(s) could be applied to increase the costs assumed accordingly.

A3.7.7 A Bidder assumes low rates of wage increases which are below historical levels of wage growth for similar train operating companies including the incumbent operator. The Bidder does not provide evidence that its assumed wage increases are consistent with market expectations of wage increases and does not demonstrate an effective and credible approach that will enable it to recruit and retain staff with this level of wage increase. Risk adjustment(s) may be applied to increase staff costs in line with forecast economic indicators and market trends.

A3.7.8 A Bidder proposes to reduce levels of staffing to such an extent that this is considered to represent a risk to on-going deliverability of the Bidder's commitments in one or more area of the Franchise. Risk adjustment could be applied to add in additional staff (including head office, management and supervisory and operational staff) and associated employment and

other on-costs. If appropriate, the revenue forecast could also be subject to risk adjustment to reflect the impact of reductions in staffing levels on passenger and other revenues.

- A3.7.9 A Bidder assumes growth in EC4T unit rates materially lower than is considered realistic. A risk adjustment could be applied to increase these costs, for example by developing credible estimates for how each of the components of the unit rate would inflate over time or to reflect more credible alternative forecasts of the trend in energy costs provided by government agencies or independent forecasting bodies.
- A3.7.10 A Bidder assumes significant benefits from alliancing that are not adequately justified. Risk adjustment(s) may be applied to reduce any claimed benefits or cost savings to the extent that these are considered over-ambitious.
- A3.7.11 A Bidder proposes replacing a portion of the existing rolling stock fleet with new trains. The new trains will have higher quality interior standards, enjoy new facilities such as real time customer information and improved security, have enhanced ride quality and contain features such as air conditioning and Wi-Fi. Risk adjustment could be appropriate if, for example:
- i. The costs assumed to bring the new trains into passenger service, including transition costs could be considered unrealistically low, and risk adjustment(s) could be applied to increase the costs assumed accordingly; or
  - ii. The timing of implementation could be considered to be unrealistically ambitious, for example there may be insufficient time allowed to build, test and accept the trains and risk adjustment(s) could be applied to increase the costs assumed accordingly and/or delay the timing of any associated revenue; or
  - iii. The scale, timing, build-up or trend of passenger revenue resulting from the new trains could be considered over-ambitious, for example if the assumptions used are not consistent with PDFH and/or WebTAG. The Bidder may have claimed, for example, an uplift in revenue based on the current rolling stock being considered poor when the existing fleet is in a good condition or

may have claimed revenue uplifts for features already available on the existing fleet. The Bidder may also have double counted or overestimated revenues when compared to industry specific market research, and risk adjustment(s) could be applied to reduce the revenue benefits claimed;

A3.7.12 A Bidder proposes a timetable change to operate additional train services either within or beyond the geographic scope of the franchise. The timetable change may abstract passenger revenue from other train operators. The proposed timetable change could also lead to a competitor response from other train operators who propose new or enhanced services to compete with the Bidder for market share. Risk adjustment could be appropriate if, for example:

- i. The scale, build up and timing of assumed passenger revenue arising from the timetable change including revenue abstracted from other train operators is considered over ambitious; or The scale, build up and timing of passenger revenue arising from the timetable change is considered over ambitious once the competitor response has been assessed.

### A3.8 **Overview of process to derive the Downside Risk Adjusted Scenario**

A3.8.1 The Downside Risk Adjusted Scenario will be constructed at an aggregate level in each relevant year using the generalised methodology described below.

A3.8.2 The forecast FRM Revenue in the Downside Risk Adjusted Scenario will be derived from the forecast of FRM Revenue in the Central Risk Adjusted Scenario, as set out in subsections A3.8.3 - A3.8.5 below. All such calculations will be carried out in real prices.

A3.8.3 First, the lower of the forecast FRM Revenue in the Bid and in the Central Risk Adjusted Scenario in each full forecast year from 2018/19 and each part year will be selected, to give the “**Constrained Central Risk Adjusted FRM Revenue Forecast**”.

A3.8.4 Two variants of the Constrained Central Risk Adjusted FRM Revenue Forecast will be constructed as follows:

- i. *1% reduction in year-on-year growth*: where, for each year from and including 2019/20 onwards, the year-on-year growth in the Constrained Central Risk Adjusted FRM Revenue forecast is reduced by 1%; and
- ii. *Risk adjustment magnitude increase*: where, in each year from and including 2019/20 onwards, the difference between the Bid forecast of FRM Revenue and the Constrained Central Risk Adjusted FRM Revenue Forecast is multiplied by 1.5.

For each full Franchisee Year in the Core Franchise Term and the Extension Period, the forecast of FRM Revenue in the Downside Risk Adjusted Scenario will be the lower of that in these two variants.

A3.8.5 The forecast of FRM Revenue in the Downside Risk Adjusted Scenario for part years will be derived using the process above for the equivalent full years, with the part year forecast derived using the same part/full year ratio of FRM Revenue as in the Central Risk Adjusted Scenario.

A3.8.6 The difference in the forecast of FRM Revenue between the Central Risk Adjusted Scenario and the Downside Risk Adjusted Scenario in each Franchisee Year will be input into a copy of the Central Risk Adjusted Financial Model as an absolute annual reduction to passenger revenue (i.e. assuming that all of the difference in FRM Revenue is accounted for by passenger revenue) in the Financial Model input price base, in order to create the Downside Risk Adjusted Financial Model. The forecast of FRM Revenue in the Downside Risk Adjusted Scenario will then be used to calculate a forecast of Revenue Support payments in the Downside Risk Adjusted Financial Model, which will be accounted for in the calculation of the Downside Risk Adjusted NPV.

A3.8.7 The forecasts for non-passenger revenue, operating costs and capital costs in the Downside Risk Adjusted Scenario shall be equal to those in the Central Risk Adjusted Scenario, regardless of any dependencies in the Central Risk Adjusted Financial Model between any such revenue or cost items and passenger revenue. In particular, the modelled Ticketless Travel Payment Adjustment (in paragraph 6.3 of Schedule 6.3), the CIM Service Quality Regime (in Schedule 7.3F) and application of the alternative payment rates in the operational performance regimes (in Schedule 6.3 of the Franchise Agreement) will be identical to those in the

Central Risk Adjusted Financial Model, regardless of whether or not net Revenue Support or Revenue Share payments under the Forecast Revenue Mechanism are projected in each Franchisee Year in the Downside Risk Adjusted Scenario.