



Department
for Transport

InterCity East Coast

Invitation to Tender

21 March 2014

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Department for Transport
Great Minster House
33 Horseferry Road
London SW1P 4DR
Telephone 0300 330 3000
Website www.gov.uk/dft
General email enquiries FAX9643@dft.gsi.gov.uk

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- A TSR
- B FRANCHISE AGREEMENT
- C FINANCIAL TEMPLATES
- D FUNDING DEED
- E STAKEHOLDER BRIEFING DOCUMENT
- F PASSENGER SURVEY METHODOLOGY
- G UMBRELLA DEED
- H FORM OF TENDER.

1. Section 1: Introduction

1.1 Introduction

1.1.1 This Invitation to Tender, its appendices, all documents issued with and in connection with it and all clarification questions and responses relevant thereto (together the “**ITT**”) are issued by the Department for Transport (the “**Department**”) pursuant to the functions of the Secretary of State for Transport (the “**Secretary of State**”) under the Railways Act 1993 and the Railways Act 2005, as amended. All references in this document to the Department, Network Rail or the Office of Rail Regulation (“**ORR**”) include, where appropriate and unless the context otherwise requires, references to those bodies’ predecessors and successors. References in this document to a “**Bidder**” means those entities who are defined as Applicants pursuant to the Franchise Letting Process Agreement (“**Franchise Letting Process Agreement**” or “**FLPA**”), except those entities which are “**Guarantors**” for the purposes of the InterCity East Coast Pre-Qualification Questionnaire and Pre-Qualification Process Document published on 25 October 2013.

1.2 Form of contract

1.2.1 This ITT invites Bids from Bidders in respect of a service concession contract (as that term is defined in the Public Contracts Regulations 2006 (as amended)). This ITT forms part of a competitive procurement conducted in accordance with relevant legal requirements including Regulation (EC) No 1370/2007 of the European Parliament and of the Council of 23 October 2007 on public passenger transport services by rail and by road and repealing Council Regulations (EEC) Nos 1191/69 and 1107/70 (“**Regulation (EC) 1370/2007**”). This procurement will be conducted in line with the applicable general principles of EU law and the requirements of English law. It will be awarded on the basis of the most economically advantageous tender, determined in accordance with the evaluation criteria and methodology specified in Section 7 (Evaluation criteria and methodology).

1.3 Exceeding the Department’s requirements

1.3.1 The Department is seeking ambitious and innovative Bids. The competition evaluates and values quality by offering Bidders the opportunity to meet (and,

where appropriate, exceed) the Department's minimum requirements for the ICEC franchise (“**ICEC Franchise**” or “**Franchise**”) set out in this ITT.

1.4 **Communications**

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

1.5 **Structure of this ITT**

1.5.1 This ITT provides:

- The scope, context, background and objectives of the ICEC Franchise (Section 2 (Scope, Context, Background and Objectives));
- Information and instructions to Bidders (including instructions on how to access the detailed information available regarding the ICEC Franchise and the processes for enquiries, communications, amendments and clarifications to the ITT during the Bid period) (Section 3 (Information and Instructions to Bidders));
- An explanation of the requirements for Bid submission (including the format, content and procedure and timetable for submission of Bids) and of the expected process following Bid submission (Section 4 (Explanation of Requirements for Bid Submission and Overview of Process following Bid Submission));
- Detailed Bid submission requirements – Delivery Plans (Section 5 (Detailed Bid Submission Requirements – Delivery Plans));
- Detailed Bid submission requirements – Financial (Section 6 (Detailed Bid submission requirements – Financial)); and

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

1.6 **Other documents**

- 1.6.1 For the purpose of the ICEC Franchise competition, this ITT replaces and supersedes in their entirety both the Department's documents "The Franchise Competition Guide" published on 25 June 2013 and 'Next generation – the InterCity East Coast Prospectus' published on 25 October 2013. 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 ICEC Franchise**

- 1.8.1 The Department's aim is for the new ICEC Franchise to commence operations with effect from 0200 hours on 1 March 2015.

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

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

1.10 **Defined terms**

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

2. Section 2: Scope, context, background and objectives

2.1 Scope of the ICEC Franchise

2.1.1 The ICEC Franchise comprises services connecting London with Yorkshire, the North East and Scotland, utilising the electrified East Coast Main Line and routes within Scotland.

2.1.2 A map of the ICEC Franchise area and routes is included in Appendix 2b. It includes four potential new destinations and a potential new route that Bidders may choose to serve. The four new destinations are:

- Huddersfield;
- Middlesbrough;
- Scarborough; and
- Sunderland (via Newcastle);

and the potential new route is to:

- Harrogate (via York).

2.2 Background and context for the ITT

2.2.1 This ITT has been prepared following the Government's response to the Brown Review published in July 2013¹. Accordingly, this ITT differs from those issued before the Brown Review in the following key respects:

- The Bid submission requirements detailed in Section 5 (Detailed Bid Submission Requirements – Delivery Plans) are focused on the evidence needed to differentiate between Bidders and their proposed outcomes;
- Elements of the Specification related to Bidder competence, standard industry processes or requirements already set out in the Franchise Signature Documents are not included within the ITT;
- The capital requirements for the Franchise have been reviewed and are set out clearly in Section 6 (Detailed Bid submission requirements – Financial)

¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/211639/brown-government-response.pdf

together with the bond backing required. This means that Bidders will be able to determine the capital requirements in advance of Bid submission;

- Bid evaluation, as set out in Section 7 (Evaluation criteria and methodology), now explicitly takes into account the quality of Bids, in terms of whether they meet the Specification, the benefits that will be delivered, and their robustness and resilience. The scoring of each Sub-Plan is linked, in Section 5 (Detailed Bid Submission Requirements – Delivery Plans), to the Specification; and
- Bid evaluation also includes a Financial Robustness Test as described in Section 7 (Evaluation criteria and methodology).

2.3 Franchise Objectives

2.3.1 The ICEC Prospectus sets out the Department’s vision for an ICEC Franchise that delivers excellence in service quality, enables transformation, and becomes a global benchmark for InterCity services.

2.3.2 Table 2.1 shows the Franchise Objectives as described in the ICEC Prospectus.

Table 2.1. *ICEC Franchise Objectives*

<p>1. Deliver consistently high standards in customer service, transforming the daily passenger experience. To include train and station presentation, passenger information and retail, by developing the workforce, harnessing technical innovations and investing in better solutions.</p> <p>2. Develop and exploit the full potential of the franchise. Grow new markets, spread demand, improve seat utilisation, simplify ticketing and reduce physical and transactional barriers to travel. Innovate and invest in partnerships to tackle capacity constraints and improve industry planning for demand including integration and delivery of CP5 infrastructure enhancements and ERTMS.</p> <p>3. Deliver consistently high standards in train performance and station facilities. Seamlessly introduce and maximise the benefits of the InterCity Express Programme train fleet and facilitate station transformation and investment. Manage journey disruption throughout the franchise in ways that measurably impress passengers and minimise their inconvenience.</p> <p>4. Increase the long term value to the taxpayer of the franchise businesses, their resources, staff and assets through improvements in overall management and investment. Build a strong and respected service proposition which enhances the reputation of UK rail.</p> <p>5. Achieve whole industry benefits including efficiency, better rail performance and rail industry planning by working jointly or in alliance with other industry members and stakeholders. Commit to improved transparency and contribute to reducing industry costs. Deliver high standards in health and safety management and performance.</p> <p>6. Deliver sustainable, long term socio-economic benefits for InterCity East Coast communities and the wider UK economy. Support economic growth and the delivery of wider government policies including social inclusion, accessibility for all, growth in transport integration, including sustainable door-to-door journeys. Invest in new solutions that reduce the industry’s overall energy consumption, waste, carbon emissions and other harmful environmental impacts.</p>

2.3.3 Bidders will fulfil the Franchise Objectives by meeting the requirements that the Department has articulated in Section 5 (Detailed Bid submission requirements – Delivery Plans) of this ITT.

3. Section 3: Information and instructions to Bidders

3.1 **Applicability of this document**

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

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

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

3.2.2 Neither this ITT nor AWARD purports to contain all of the information that a prospective Franchise Operator 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 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. Except as set in the Share Sale Documentation, 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 or acquisition of shares.

3.2.4 Norton Rose Fulbright LLP, PricewaterhouseCoopers LLP, and Steer, Davies & Gleave Ltd (through Parsons Brinckerhoff Ltd) are acting for the Department in relation to the award of the ICEC Franchise, and do not and will not regard any other person as their client in relation to the award of the ICEC 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 Except as set out in the Share Sale Documentation, 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, the only information 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, or which has been disclosed in the Share Sale Documentation.

3.3 **Intellectual property**

- 3.3.1 This document is subject to copyright. Neither this document, nor any part of it, nor any other information supplied in connection with it, may be published, reproduced, copied or distributed in any way or stored in any medium except with the prior written consent of the Department. All documentation supplied by the Department in relation to this ITT is and shall remain the property of the Department and must be destroyed or returned on demand, without any copies being retained.

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 HM Treasury, the ORR and Network Rail (including without limitation to the extent set out in Section 7 (Evaluation criteria and methodology)). The Department may also consult such other persons as it considers necessary or appropriate for the purposes of evaluating Bids (the entities in this paragraph 3.4.1 being collectively referred to as “**Consultees**” and each separately referred to as a “**Consultee**”).
- 3.4.2 Accordingly, the submission of a Bid will constitute permission by the Bidder and its Associated Entities for the Department to disclose to any Consultee all or any

of the information contained in, or supplied in connection with, its Bid (including in any response to any clarification query issued by the Department).

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

3.5 **Non-compliant Bids**

3.5.1 A Bid shall be non-compliant if it is submitted late, is incorrect or incomplete, or otherwise fails to meet the Department's requirements set out in this ITT, whether or not the ITT expressly states that failure to meet a particular requirement will lead to a Bid being deemed non-compliant.

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

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

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

- 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
- May also, where appropriate, adjust the value of P used in the calculation of the Final Score in accordance with subsection 7.2 (Definition of MEAT for the competition) as necessary to take into account its reasonable view of the most likely financial impact of the non-compliance on the Department;

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

3.5.5 Where the Department determines that it is not appropriate or sufficient to reject the Bid, or to evaluate the Bid and address the non-compliance through the process set out in paragraph 3.5.4, the Department will at its sole discretion take

any other action it considers necessary and appropriate in the circumstances, including:

- Disregarding the non-compliance; or
- Adjusting the requirements of this ITT, and giving all Bidders the opportunity to adjust or update their Bids to reflect the revised requirements; or
- Requiring any or all Bidders to adjust or update their Bids so that they are compliant.

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

Table 3.1. *Format of Non-Compliance Statement*

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 7.4 (Modelling Change Test) or subsection 7.9 (Delivery Plan Non-Compliance) (and, for the avoidance of doubt, this includes circumstances in which a Bid is found to be non-compliant in accordance with subsection 7.4 or subsection 7.9 as a result of the application of the process set out in paragraph 3.5.4), the Department will at its sole discretion take any other action it considers necessary and appropriate in the circumstances, including:

- Eliminating the Bidder from the competition; or
- Disregarding the non-compliance; or
- Adjusting the requirements of this ITT, and giving all Bidders the opportunity to adjust or update their Bids to reflect the revised requirements; or
- 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 issued by the Department.

3.6 **Automatic elimination**

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

Table 3.2. *Elimination events*

Elimination event
A Bidder uses MOIRA 2, its component parts or intermediate outputs for modelling revenue impacts, timetable changes, crowding or any other purpose – see subsection 3.14 (MOIRA 2).
A Bidder submits Financial Templates which do not conform with the structure as set out in the latest iteration of the templates provided or specified by the Department – see paragraph 6.3.5.2.
A Bidder is projected in its Risk Adjusted Financial Model to breach the Financial Ratios at any point during the Minimum Financial Robustness Period – see subsection 7.5.2.

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 paragraph 3.5.8 will apply) where:

- It has the right to do so under the terms of the FLPA; or
- At any time prior to the Contract Award Date (as defined in the Umbrella Deed) the Bidder is unable to satisfy the requirements for prequalification carried out as part of the ICEC pre-qualification process.

3.8 **Data Site and AWARD**

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

3.9 Bidder Clarification Questions

- 3.9.1 All clarification questions and requests for additional information relating to this ITT, the ICEC Franchise and the Franchise letting process (“**BCQs**”) must be submitted by Bidders via the AWARD website. BCQs should be accompanied by an explanation of why the relevant question has been raised so that the Department understands the context of the question. BCQs should clearly identify the Data Site folder, document and text for which clarification is being sought.
- 3.9.2 The status of all BCQs raised by each Bidder, including responses when available, will only be provided to Bidders through the AWARD website. Once Bidders have submitted BCQs on the AWARD website a unique ‘clarification question identification number’ will be generated. Bidders will be able to track the progress of each BCQ that is not designated confidential through the AWARD website, including BCQs raised by other Bidders.
- 3.9.3 The Department will transmit to all other Bidders (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 the next paragraph 3.9.4.
- 3.9.4 A Bidder may request that the Department treat a BCQ and its response as confidential. Confidential BCQs are BCQs where the questions are not made available to other Bidders and the responses will only be shared with the Bidder raising the BCQ. Any such requests must be made clear at the time of submission of the BCQ. The Department will advise the Bidder in advance of providing the answer if it considers that all or any part of the BCQ cannot be treated as confidential, at which time the Bidder may either withdraw the BCQ or accept that the question and the response will (in whole or in part, at the Department’s discretion) be treated as a non-confidential BCQ.
- 3.9.5 Bidders must ensure clarity as to the expected source, scope and format of the material requested pursuant to a BCQ (e.g. passenger count details by period, by service group for the last year).
- 3.9.6 The Department will aim to respond to BCQs expeditiously having regard to the nature, extent and availability of the information requested. The Department will endeavour to respond to BCQs within 15 working days from receipt.
- 3.9.7 Bidders should be aware that BCQs may not be accepted from 20 working days prior to the closing date for Bid submission, save in respect of new information provided after this point. Therefore the last date for the submission of BCQs for the ICEC competition will, in the absence of any extension, be 22 May 2014. Any

BCQs received after this point will only be accepted at the sole discretion of the Department.

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

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

3.10 **Transparency and Freedom of Information**

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

3.11 **Competition Matters**

3.11.1 Depending on the identity of the Bidder, the award of the Franchise may constitute a relevant merger under the Enterprise Act 2002 (“**EA02**”) (i.e. one over which the Competition and Markets Authority (“**CMA**”) would have jurisdiction), or a concentration with a European Community dimension under 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), or of a significant impediment to effective competition (under EUMR), such as would give the CMA (or EC, as appropriate) cause to subject the award of the Franchise to a substantive (second phase) investigation, this might prejudice the timing of the franchise process and/or the ability of the Bidder to operate the Franchise as Bid. The CMA and EC also have the power during a first phase

investigation to accept remedies in order to address concerns that would otherwise require a second phase investigation.

3.11.3 Generally, a transaction with a Community dimension may not be completed until clearance has been obtained under EUMR. In the context of a relevant merger under EA02 that has been completed, the CMA may require “hold separate” undertakings to be given pending conclusion of any investigation. It is therefore important for the Department to be able to understand the impact of any potential intervention, especially if such intervention may involve a second phase investigation, by the CMA or EC in scrutinising the Bids of each Bidder under merger control rules.

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

- Whether award of the Franchise to it would require notification to the EC under EUMR, and if so whether the Bidder would propose to request pursuant to Article 4(5) EUMR that the transaction is referred back to the CMA for consideration, and how it views the prospects of such a request being accepted;
- What strategy it will adopt to minimise any delay caused by the need to obtain clearance from the CMA or EC in being able to operate the Franchise if an award is made to it. In particular:
 - How the Bidder proposes to approach pre-notification discussions with the CMA or, as the case may be, the EC to ensure that the notification is complete and that all necessary supporting evidence is included;
 - That it will co-operate fully with the EC and CMA during their investigations, in particular by responding promptly to any requests for information; and
 - 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;
- The form of any derogations the Bidder would seek to the CMA’s standard form of ‘hold separate’ undertakings in the event that these are required in the context of a completed merger; and
- That it will commit to offer such undertakings or commitments as may be required by the CMA or the EC to enable it to operate the Franchise as Bid, unless and to the extent that any such undertakings or commitments given would 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.

- 3.11.5 The Bidder must keep the Department informed of the progress of its notifications to the EC and/or 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.
- 3.11.6 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.
- 3.11.7 If a Bidder is unable to or otherwise does not provide to the Department sufficient evidence to enable the Department to be satisfied that:
- There will be no second phase intervention by the CMA or EC in relation to the Bidder’s Bid for the Franchise; or
 - The impact of any intervention by the CMA or EU will likely not prejudice the ability of:
 - The Bidder to commence operation of the Franchise on the Department’s proposed start date;
 - The Bidder otherwise to operate the Franchise in accordance with its Bid; or
 - Any Affiliate of the Bidder to continue to operate any other UK rail franchise of which it is the franchisee,
- the Department reserves the right to disqualify the Bidder.
- 3.11.8 For the avoidance of doubt, the fact that a Bidder’s Bid is subject to EUMR clearance or that this may result in a longer competition clearance process will not be regarded as a negative factor in evaluating the Bid.
- 3.11.9 Bidders are required to include in their Bids in the format set out in the following Table 3.3 (Format of Statement of Competition Matters), details of any competition matters that affect their bidding position.

Table 3.3. *Format of Statement of Competition Matters*

Change	Reporting Required
Competition matters	Bidders should include details in response to the instructions contained in subsection 3.11 (Competition Matters)

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

- 3.12.1 Pursuant to Regulation (EC) 1370/2007 the Department must ensure that the Franchise Agreement to be entered into with the winning Bidder does not result in the overcompensation of the Franchise Operator for the purpose of the Regulation.
- 3.12.2 The Department will review the leading Bid(s) to ensure that such Bid(s) will not result in overcompensation for the purposes of Regulation (EC) 1370/2007. It is anticipated that this review may include, without limitation the following:
- Confirming that the relevant Financial Templates have been populated correctly;
 - Assessing whether the Bid suggests that the Franchise Operator 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
 - 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 Franchise Operator will be otherwise overcompensated.
- 3.12.3 As part of the review described in paragraph 3.12.2 the Department will also consider whether it is appropriate to make any amendment(s) to the profit share thresholds in the Franchise Agreement, or take any other steps which, in its discretion, will remove the element(s) of overcompensation identified in the leading Bid.
- 3.12.4 Bidders must provide the Department with such information as the Department may request in relation to the review described in paragraph 3.12.2.
- 3.12.5 The Department will not award a Franchise which, in its view, will involve overcompensation of the Franchise Operator, in breach of the Department's obligations under Regulation (EC) 1370/2007.

3.13 **Change to information or in Circumstances**

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

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

3.14 **MOIRA 2**

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

3.15 **Variations to the Franchise Agreement**

3.15.1 Bidders' attention is drawn to the variation provisions in paragraph 1 of Schedule 9.5 (Variations to the Franchise Agreement and Incentivising Beneficial Changes), of the Franchise Agreement and the ability of the Secretary of State to amend the contracted Train Service Requirement. The Secretary of State reserves the right to require variations to the Franchise Services and/or the manner in which Franchise Services are required to be delivered, and any consequential changes to the Franchise Agreement, acting in compliance with law. The Secretary of State may also require variations to other contracted provisions or outputs, acting in compliance with law.

3.15.2 In particular, variations may result from changes to the specification or timing of committed projects affecting the ICEC 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 ICEC 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 ICEC Franchise proposition taking into account the need to be able to vary the nature, quantity and manner of delivery of ICEC Franchise services in response to circumstances relating to the development of railway infrastructure and services and other relevant financial, economic and technical developments and the implementation of developing rail policy.

3.15.3 Given the length of the ICEC Franchise, and the strong likelihood of economic, social, budgetary and operational circumstances changing over a period of up to 9 years and 1 period, the Department believes it is likely to make variations to the Franchise Agreement during the Franchise Term. In order to provide an incentive for the Franchise Operator to develop and implement such changes, it may be appropriate for the Franchise Operator 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 Franchise Operator.

3.16 Form of Tender

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

4. Section 4: Explanation of requirements for Bid submission and overview of process following Bid submission

4.1 **Preparation of Bids**

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

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

4.2 **Franchising timetable and process**

4.2.1 The remaining stages of the process for appointing the Franchise Operator 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
Preparation of Bids	Bidders	March 2014 –June 2014
Submission of Bids	Bidders	19 June 2014
Evaluation of Bids, clarification, drafting of Committed Obligations Secretary of State consent and HMT approval to the ICEC Franchise award	The Department and Bidder(s)	From June 2014
Preparation for commencement of Franchise	Parties to Umbrella Deed	November 2014 – March 2015
Start of Franchise	Franchise Operator	1 March 2015

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
1	Main text		
	Delivery Plan 0 (Bid Summary)	As five main Delivery Plans	20 pages maximum
	Delivery Plans 1-5 as required by Section 5 (Detailed Bid Requirements – Delivery Plans)	One electronic copy submitted through AWARD One un-priced electronic copy submitted through AWARD One electronic copy submitted in CD format One un-priced electronic copy in CD format One hard copy	1,000 pages maximum including annexes and appendices
2	Financial		
	Operational Models and Financial Model as required by Section 6 (Detailed Bid Requirements –	One electronic copy submitted through	75MB maximum size

Part	Areas	Submission Requirements	Size limit
	Financial))	<p>AWARD</p> <p>One electronic copy submitted in CD format</p> <p>PDF of worksheets of Tier 1 Operational Models that directly interface with Financial Model or other Tier 1 Operational Models (note: it is only the interface worksheet of each Tier 1 Operational Model that is required); one electronic copy of these PDF files by AWARD and one in CD format.</p>	<p>per Microsoft Excel workbook (See Section 6 (Detailed Bid Requirements – Financial))</p>
	<p>Record of Assumptions, required by subsection 6.5 (Record of Assumptions);</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>Update of Financial Information to update Financial tests, required by subsection 6.10 (Updating of PQQ financial and economic standing tests (the “Tests”) and submission of updated bond provider letter(s));</p> <p>Financial Structure and Funding Plan, Financial Adviser's letter, PCS and Bonding, required by subsection 6.9.2 (Funding);</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); and</p> <p>ROSCO term sheets required by subsection 5.4.2(B) (DP2.2 Rolling Stock - Evidence that Bidders Should Provide).</p>	<p>One electronic copy submitted through AWARD</p> <p>One electronic copy submitted in CD format</p> <p>One hard copy</p>	<p>None</p>

Part	Areas	Submission Requirements	Size limit
3	Technical Data		
	<p>The following details should be submitted in support of the main text of the Bid submission:</p> <ul style="list-style-type: none"> The technical data as required by the relevant bullet of paragraph 4.10.1. 	<p>One electronic copy submitted through AWARD</p> <p>One electronic copy submitted in CD format</p> <p>One hard copy*</p>	None
4	Legal and compliance		
	<p>Versions (clean and redline mark up against the version of each agreement provided with this ITT) of each of the Franchise Agreement, the Funding Deed, the Umbrella Agreement, the Share Purchase Agreement, the Tax Deed, and any other agreements signed as part of the award of the Franchise (together the “Franchise Signature Documents”) with those parts marked 'Bidders to populate' completed.</p> <p>Non-compliance statements as required by subsection 3.5 (Non-compliant Bids)</p> <p>Competition matters as required by subsection 3.10 (Competition Matters)</p> <p>A Completed Form of Tender as required by subsection 3.16 (Form of Tender)</p> <p>Agreed Form Documents, where these are not required to be submitted as technical data, or as appendices to Sub-Plans.</p>	<p>One electronic copy submitted through AWARD</p> <p>One electronic copy submitted in CD format</p> <p>One hard copy</p>	None
5	Schedule of Initiatives (as required by subsection 4.13.3 (Contractualisation))	<p>One electronic copy submitted through the AWARD</p> <p>One electronic copy submitted in CD format</p> <p>One hard copy</p>	None

*No hard copies required of MOIRA, SPG files or PIF files

4.3.2 Table 4.3 lists the Agreed Form Documents required as part of the Delivery Plans, and states whether these documents count towards the page limit of the main text.

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

Table 4.3. *List of Agreed Form Documents that form part of the Delivery Plans*

Agreed Form Document	ITT Section (where applicable)	Included within page limit?
Access Rights Contingency Plan	Delivery Plan 2.1 (Train Services)	Yes (though the technical data required as part of this is not within the page limit)
Customer and Stakeholder Engagement Strategy	Delivery Plan 5.1 (Customer Experience)	Yes
IEP Implementation Strategy	Delivery Plan 3.1 (Implementation of IEP)	Yes
Innovation Strategy	Delivery Plan 1.4 (Innovation)	Yes
Initial Sustainable Development Plan	Delivery Plan 1.2 (Sustainability and Environment)	Yes
Passenger Charter	Delivery Plan 5.1 (Customer Experience)	No
Integrated Station Asset Management Policy	Delivery Plan 5.2 (Stations)	Yes
Integrated Station Asset Management Plan	Delivery Plan 5.2 (Stations)	Yes
Sustainable Development Strategy	Delivery Plan 1.2 (Sustainability and Environment)	Yes
Train Plan	Delivery Plan 2.2 (Rolling Stock)	No
Bid TSR2 Timetable	Section 6 and DP2.1 (Train Services)	No

4.4 Page limits, size of text, other formatting

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

4.4.2 One page constitutes one printed side of A4 with 2cm clear margins all round. For main text the minimum font size to be used will be 11pt Arial and the font type will be standard (i.e. not 'narrow') with minimum line spacing of 13pt. Double

sided printing is required where this is practicable. Bidders are encouraged to use a simple presentation style, avoiding expensive bindings, colour photographs and other high cost elements of production as this will not add value to the substance of the Bid. Minimum font size for any text in tables will be 10pt Arial (standard, not 'narrow'). It will not be acceptable to place large sections of text into tabulated format as a means of meeting the page limit requirements. There will be no minimum font size set for graphs.

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

4.4.4 For each 20 pages (or part thereof) used by a Bidder in excess of the permitted page limit, having taken into account any reformatting, 0.5 Quality Score points will be deducted from Q for the purpose of the calculation of the Final Score in accordance with subsection 7.2 (Definition of MEAT for the Competition). For example, a Bidder using 1024 pages will have its Q score reduced by 1.0, and a Bidder using 1056 pages will have its Q score reduced by 1.5. Bidders cannot score Q lower than 0.

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

- 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);
- The contents of the technical data part as described in Table 4.2 (Structure and format of Bids);
- The contents of the legal and compliance part as described in Table 4.2 (Structure and format of Bids); and
- Covers, section dividers and indices.

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

4.5 **Annexes and appendices**

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

4.5.2 Agreed Form Documents which form appendices to Sub-Plans, as described in Table 4.3 (List of Agreed Form Documents that form part of the Delivery Plans),

will be included within the page limit where specified in Table 4.3. These Agreed Form Documents will be evaluated as part of the relevant Sub-Plan and therefore Bidders do not need to repeat or summarise the content of these Agreed Form Documents elsewhere within the relevant Sub-Plan.

4.6 **Cross referencing**

4.6.1 The Department's evaluators will follow cross references to specifically identified components of other Sub-Plans. The Department's evaluators are not required to follow unspecific general references (for example, "further evidence on this issue is provided in our Major Projects Delivery Plan"), and Bidders should therefore endeavour to make cross references as specific as possible.

4.7 **Bid consistency**

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

4.8 **Language**

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

4.9 **Monetary amounts**

4.9.1 All financial information supplied as part of the Bid must be clearly denominated in Pounds Sterling. This requirement does not apply to any requested information which has not been created for the Bid (e.g. company financial reports), which should use the original currency. Where financial information is supplied as part of the Bid in a currency other than Pounds Sterling, and the Department wishes to convert the relevant information into Pounds Sterling, it will use the applicable exchange rate published in the Financial Times on 21 March 2014.

4.10 **Submission of Bids**

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

- Each CD shall be labelled clearly with the Bidder's name. The Department requires that an index is provided for the electronic information and that the file structure of the electronic information matches that of the hard copy documentation. Electronic information is required to be saved using the Open XML Standard format supported by Microsoft Office 2007 onwards. Specifically, spreadsheets must be saved using the Microsoft Excel 'xlsx' or 'xlsm' file extension and documents as Microsoft Word 'docx' files. The electronic copy should be packaged separately from the hard copy set;
- 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;
- 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;
- The hard copy shall be contained in ring binders suitably collated and labelled clearly with the Bidder's name and an index of the contents of each binder;
- The un-priced electronic copies shall be submitted through AWARD and in CD format clearly labelled with the Bidder's name and an index of the contents of each CD. The un-priced CD should be distinguishable from the priced electronic copy referenced above. Information is required to be saved using the Open XML Standard format supported by Microsoft Office 2007 onwards;
- The technical data shall include:
 - The proposed full working timetable (including empty coaching stock movements, pathing time and other allowances and platform numbers for stations where these are shown in the current version of the working timetable) and public timetables for a typical weekday, Saturday and Sunday, supplied in PDF format, for each timetable that Bidders are required to submit by subsection 5.4.1 part (B). Bidders must also provide the full working timetable in '.pif' format for a typical weekday, Saturday and Sunday for each timetable required by subsection 5.4.1 part (B). As a minimum these timetables should:

- Include all ICEC services, Open Access services and TSGN services on the East Coast Main Line fast lines;
- Provide sufficient information to demonstrate how the requirements for the Northern ITSS and freight services have been met; and
- Show the assumptions made in regards to other franchised services;
- A platform occupancy chart for London King’s Cross station;
- The versions of MOIRA that have been used to populate the revenue model populated with the timetables that have been included in the revenue forecast;
- A MOIRA SPG file that contains the assumed ICEC and Open Access services for each proposed timetable;
- Rolling stock diagrams in text file and PDF format, for a typical weekday, Saturday and Sunday for each timetable required by subsection 5.4.1 part (B); and
- Driver diagrams, in text file and PDF format, for a typical weekday, Saturday and Sunday for the May 2020 timetable; and
- Bidders must use the PDFH forecasting framework as set out in paragraph 6.3.4.8.

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

4.10.3 Bids (all hard copies, electronic copies and copies to be submitted through AWARD) must be received by the Department by 12.00 noon on 19 June 2014. A Bid is submitted late for the purposes of this ITT if any part of the Bid or copy in any format required by this ITT is submitted after the above deadline. For the avoidance of doubt, Bids submitted late will be treated as being non-compliant, and the provisions of subsection 3.5 (Non-compliant Bids) of this ITT shall apply.

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

“ICEC[Bidder name]Delivery Plan[2: Train Service Delivery] – File 1 of 3”

4.10.5 Hard and CD copies of Bids are to be submitted to:
Dale Ward

Document Manager
Franchising Directorate
Department for Transport
4/13 - 4/19 Great Minster House
33 Horseferry Road
London
SW1P 4DR.

- 4.10.6 No other documents or information shall be submitted with the Bid. Hard and CD copies of the Bid must be submitted in boxes marked 'CONFIDENTIAL – ICEC Franchise Bid submission in response to ITT March 2014'. 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 both the electronic and hard copy submissions from the Department at the time of the submission of their Bid. It will be the Bidder's responsibility to ensure the safe transfer of Bid submissions to the Department.

4.11 **Presentations**

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

4.12 **Validity of Bids**

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

4.13 **Process following bid submission**

4.13.1 **Bid evaluation**

- 4.13.1.1 Bids will be evaluated in accordance with the criteria and methodology contained within Section 7 (Evaluation criteria and methodology).

4.13.2 **Engagement with Bidders and evaluation clarification process**

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

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

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

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

the Department will not consider or take into account in the evaluation any such additional information or purported correction provided in the Bidder's response.

4.13.3 **Contractualisation**

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

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

4.13.3.3 Bidders must be prepared to contract all Initiatives that have contributed to the score awarded to a Sub-Plan during the evaluation process.

4.13.3.4 If elements of the Bid are dependent on factors outside of the Bidder's control for which the Bidder is unwilling to be contractually responsible ("**Contingent Initiatives**") this should be clearly expressed within the Sub-Plan. Contingent Initiatives should be avoided to the maximum extent possible. If no comment is made about whether an Initiative is a Contingent Initiative the Department will

assume that it is not, and will expect the Initiative to be contracted on an unconditional basis (i.e. absolutely and without qualification).

4.13.3.5 The Department is not likely to require Initiatives to be included as Committed Obligations where:

- They are not aligned with the requirements set out in part (A) of the relevant Sub-Plan; or
- They are purely generative of financial benefits, or the Department concludes the Franchise Operator will be commercially incentivised to deliver them under all reasonably foreseeable circumstances.

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

4.13.3.7 Bidders may offer commitments to invest a nominated sum of money to deliver the required outcome for a Sub-Plan, supported by a specimen scheme, rather than an absolute commitment to a particular scheme. When scoring Sub-Plans containing such Initiatives, the Department will review and allocate scores for the extent to which the specimen scheme will fulfil the Department's requirements in the relevant Sub-Plan. In the Franchise Agreement the Franchise Operator will be obliged to spend the nominated sum to deliver either the specimen scheme or another scheme of equal or better value than the specimen scheme. If the Department and the Franchise Operator are unable to agree such a scheme, the Department retains the right to require delivery of the specimen scheme. Any such schemes should be clearly identified as such in the Bid including the Modelling Suite.

4.13.3.8 For the avoidance of doubt, where a Bidder proposes a specimen scheme as part of an Initiative, the Bidder must state clearly if the scheme is a Contingent Initiative or not.

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

- Specify the date by which the relevant Initiative will be completed and, where applicable, commenced;
- Where it contains a commitment to spend a specified amount (an 'expenditure commitment'), clearly set out that amount and what types of expenditure may be counted towards such expenditure commitment (such as capital expenditure, operating expenditure, project management costs etc.);

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

4.13.3.10 As set out in subsection 4.3 (Structure and format of Bids), the Schedule of Initiatives shall fall outside the page limit.

4.13.3.11 Bidders should note that the Schedule of Initiatives (Table 4.4) should not contain anything which is not also set out in the relevant Sub-Plan.

Table 4.4. *Schedule of Initiatives*

Initiatives	Reporting Required
Initiatives	Bidders should include details in response to the instructions contained in paragraph 4.13.3.10.

4.13.4 **Intention to award**

4.13.4.1 Without prejudice to the Department’s rights pursuant to subsection 1.9 (Liability for costs, updates and termination), following completion of evaluation, the Department will inform the Bidder with the most economically advantageous tender (as determined in accordance with Section 7 (Evaluation criteria and methodology)) that the Department intends to award the Franchise to it. There will be no public announcement of a preferred Bidder prior to this step being taken.

4.13.5 **Signature of the Franchise Signature Documents**

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

4.13.6 Announcement to the London Stock Exchange and information to unsuccessful Bidders

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

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

4.13.7 Voluntary standstill period

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

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

5.1 Introduction

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

- Bid Summary
- Franchise Management
- Train Service and Performance
- Major Projects
- Revenue
- Customer Experience and Stations

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

Table 5.1. *Delivery Plans and Sub-Plans*

Delivery Plan	Sub-Plan
0. Bid Summary	Not applicable
1. Franchise Management	1.1 Leadership
	1.2 Sustainability and Environment
	1.3 Industry and Stakeholder Partnering
	1.4 Innovation
	1.5 Security
2. Train Service and Performance	2.1 Train Services
	2.2 Rolling Stock
	2.3 Performance
3. Major Projects	3.1 Implementation of IEP
	3.2 ERTMS
4. Revenue	4.1 Marketing and Fares
	4.2 Ticketing and revenue protection

Delivery Plan	Sub-Plan
5. Customer Experience and Stations	5.1 Customer Experience
	5.2 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**”):

- The Initiatives that the Bidder proposes to undertake in order to deliver each of the requirements set out in part (A) under each Sub-Plan. Bidders should note subsection 4.13.3 (Contractualisation);
- 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;
- A statement of the PVs and annual values of revenues and operating and capital costs associated with each Initiative in respect of which any of these elements exceeds £1,000,000 in 2014/15 prices in any Franchise Year, along with cross references to the relevant sections of the RoA;
- Full supporting evidence of how those Initiatives will be resourced, delivered, and quality assured, including a project plan, as appropriate;
- Details of the risks pertaining to the delivery of those Initiatives, and how these risks will be mitigated; and
- A statement or letter setting out the commitment (and, if relevant, any qualifications on that commitment), views or comments of any third party that the Bidder is relying on in delivering or exceeding these requirements.

5.1.5 The Department cannot and does not wish to be prescriptive in all areas about how Bidders may seek to exceed the Department’s requirements by generating additional benefits for passengers, reducing whole-industry costs, and/or increasing the long term value of the Franchise to the Department. A tightly prescribed approach could have the twin effects of inhibiting innovation and

conditioning Bidder responses. However, without seeking to constrain innovation in any way, the Department has set out in **part (C)** under most Sub-Plans, examples of what it considers may generate additional benefits for passengers, reduce whole-industry costs, or increase the long term value of the Franchise to the Department. However, these examples are illustrative only and therefore not exhaustive. Where no examples are given, Bidders may still provide additional Initiatives (but note paragraph 5.1.6 below). Bidders should note, where additional Initiatives are proposed, that each one of them must align with the relevant requirements for the Sub-Plan and be supported by credible implementation plans.

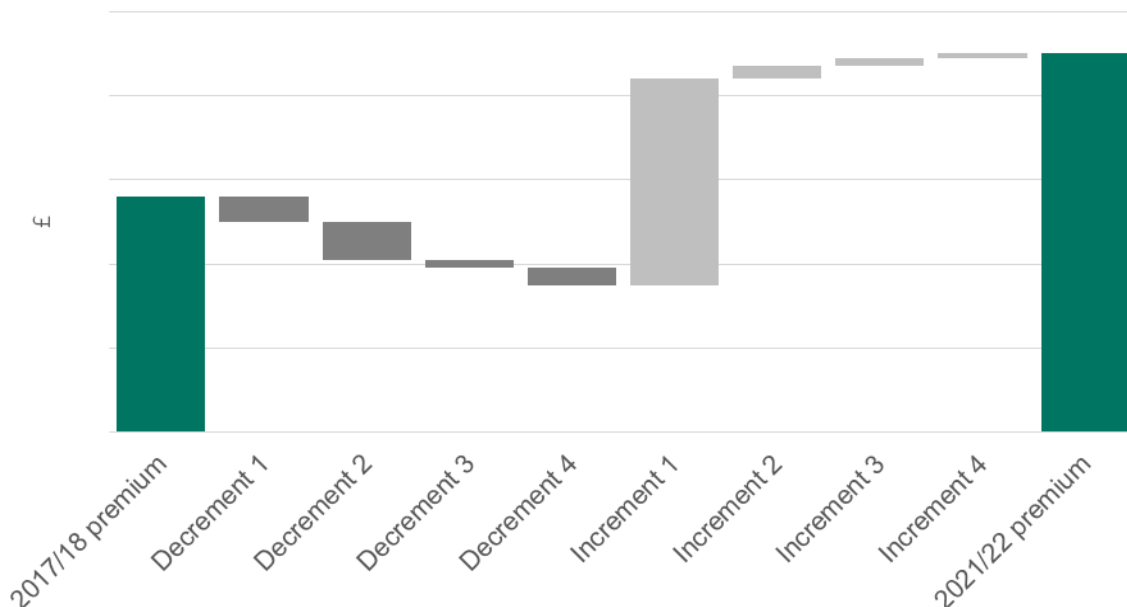
- 5.1.6 Bidders should note that certain specific Sub-Plans may score an 8 only on the basis of being a particularly robust response that provides excellent confidence overall that the specific requirements of the Sub-Plan will be met. For the avoidance of doubt, such Sub-Plans may not score an 8 on the basis that they provide good confidence overall that the requirements of the specification will be exceeded. The basis on which such sub-plans may score between a 6 and an 8 (in accordance with paragraphs 7.3.6.12 - 7.3.6.13 (Intermediate scores)) should be construed accordingly. Such Sub-Plans may not score an evaluation score higher than 8. Such Sub-Plans are identified in their respective part (C)s .
- 5.1.7 Details of how each Sub-Plan will be evaluated (including Table 7.3 (ICEC marking framework and guidance)) are set out in subsection 7.3.6 (Scoring Methodology).
- 5.1.8 Bidders must also read the contents of the Franchise Signature Documents provided with this ITT which contain provisions relevant to meeting the requirements specified in this Section 5. (Detailed Bid Submission Requirements – Delivery Plans). As part of this procurement, Bidders are not permitted to mark up the Franchise Signature Documents other than to fill gaps denoted by the drafting note ‘Bidders to populate’. It is an overarching requirement that Bidders’ proposals set out in each Delivery Plan and Sub-Plan are compliant with the Franchise Signature Documents. For the avoidance of doubt, any Initiative contained within a Bidder’s response to this Section 5 (Detailed Bid Submission Requirements – Delivery Plans) which is non-compliant with the Franchise Signature Documents will not meet the Department’s requirements, and will result in a Bid being treated as non-compliant. In addition such Initiatives, and any other Initiatives which are contingent on them, will not attract evaluation credit.
- 5.1.9 Bidders’ attention is drawn to subsection 4.6 (Cross Referencing) of this ITT.

5.2 Delivery Plan 0 – Bid Summary

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

- The Bidder's overarching strategy and objectives for the ICEC Franchise;
- The Bidder's view of the market, its opportunities and challenges;
- A programme summarising key business activities, including a delivery schedule which shows the date of:
 - Key actions which the Franchise Operator needs to take in order to deliver the principal Initiatives included in the Delivery Plans;
 - Any significant events that will affect the operations, costs or revenues of the Franchise; and
 - Key risks and how they will be mitigated; and
- A waterfall chart summarising the changes in revenue and cost (and consequently Franchise premia) between 2017/18 and 2021/22, such that the impact of the introduction of the Class 800/801 fleet can be understood easily. The chart shall only disaggregate factors greater than £5m, and shall be in 2014/15 prices. An example waterfall chart is shown below.

Figure 5.1. Example waterfall chart



5.2.2 Bidders should be aware that the Bid Summary will not be scored, but, subject to paragraph 4.4.6, that all evaluators will be provided with a copy of it to aid their understanding of the Sub-Plans that they will evaluate.

5.3 Delivery Plan 1 - Franchise Management

5.3.1 DP1.1 Leadership

(A) REQUIREMENT

5.3.1.1 The Department requires a smooth and safe transition of the business, on time, and with no disruption to passenger services.

5.3.1.2 The Department requires a Franchise Operator who will maintain a responsive, constructive and collaborative partnership with the Department and manage its organisation to deliver the aims and objectives of the business, and who will:

- Minimise disruption to staff and services when making any changes to the business;
- Manage the organisation through effective corporate management systems and/or models of excellence; and
- Improve the cost-efficiency of the business.

5.3.1.3 The Department requires a Franchise Operator who has the overall capability to deliver all aspects of the business, including by:

- Developing management and leadership skills throughout the organisation;
- Understanding and improving the skills and competence of its own staff and the staff of organisations in its supply chain, where it relies on such organisations to deliver or support key aspects of the business;
- Monitoring, managing and improving the level of staff engagement, morale, diversity, equality, health and wellbeing;
- Managing contractors and sub-contractors proactively, where it relies on such organisations to deliver or support key aspects of the business; and
- Attracting and recruiting new people to the rail industry, including through apprenticeships, traineeships and graduate schemes.

(B) EVIDENCE BIDDERS SHALL PROVIDE

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

- (i) How the Franchise Operator will develop the organisation and its people throughout the Franchise Term, including how it will address key challenges such as IEP and the implementation of ERTMS (detailed plans for ERTMS implementation and IEP transition should be set out in DP3);

- (ii) Where the Bidder is suggesting any material change in staff headcount, details of the reasons for that change and the way in which it will be managed, highlighting any impacts on operations;
- (iii) Details of full time equivalent staff numbers (split between employees and agency staff) by category (i.e. grade), activity (i.e. role), location and average salary level for each grade at the Start Date and at the end of each Franchise Operator Year. Bidders must provide supporting organisation charts to illustrate change;
- (iv) Their approach to managing vacancy gaps including through the use of outsourcing and agency staff;
- (v) Their approach to competence management; and
- (vi) Their approach to monitoring, managing and improving the level of staff engagement, morale, diversity, equality, health and wellbeing.

(C) SCORING

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

- (i) Proposals which will deliver sustainable improvements in the skills and competence of the Franchise workforce beyond the Franchise Term.
- (ii) Proposals which will build skills and competence beyond the Franchise Term in the supply chain and/or wider UK rail industry.
- (iii) Proposals which will deliver sustainable improvements to cost-efficiency beyond the Franchise Term.

5.3.2 DP1.2 Sustainability and Environment

(A) REQUIREMENT

5.3.2.1 The Department requires a Franchise Operator who will embed the Rail Industry's Sustainable Development Principles in its business.

5.3.2.2 The Department requires a Franchise Operator who will set targets for improvement in the measures and in the manner specified in paragraph 18 of Schedule 13 (Information and Industry Initiatives) of the Franchise Agreement.

5.3.2.3 The Department requires a Franchise Operator who will implement a systematic approach to managing environmental and energy issues across the business.

(B) EVIDENCE BIDDERS SHALL PROVIDE

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

- (i) Their Sustainable Development Strategy. This shall include as a minimum:
 - The key aims, priorities and risks with respect to sustainable development;
 - How it will provide governance, leadership and accountability for sustainable development;
 - How sustainable development will be embedded in operations, asset management, procurement and investment decisions;
 - The Franchise Operator's approach to identifying and adopting best practice and actively seeking appropriate independent review and advice; and
 - The Franchise Operator's approach to ensuring that staff have the skills and knowledge required to deliver a sustainable Franchise;
- (ii) Their Initial Sustainable Development Plan to support the implementation of the Sustainable Development Strategy (in line with the terms of the Franchise Agreement), which shall include:
 - Proposals for using the rail industry's Sustainable Development Self-Assessment Framework (or suitable alternative framework) to benchmark current sustainability performance and identify areas for improvement;
 - Details of priority sustainable development areas with indicative targets for each area; and
 - Proposals for engagement with RSSB and other relevant stakeholders identified by the Bidder, and how independent review and advice will be assimilated and used;
- (iii) Their approach to setting environmental targets, which shall include the approach to establishing a baseline, understanding current performance and practices on the Franchise, proposing metrics, identifying risks and opportunities, and independent review;

- (iv) Their environmental management systems, including how the Franchise Operator will:
 - Review, prioritise and manage environmental issues;
 - Assess and implement opportunities to minimise environmental impacts; and
 - Monitor, report and verify data requirements set out in the Franchise Agreement, including details of resources, engagement, accountabilities and governance; and
- (v) Details of how their approach will minimise the environmental impact of the operation of the Franchise.

(C) SCORING

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

- (i) Demonstration of a sustainable procurement strategy, in accordance with BS8903, that has been verified by an appropriate third party.
- (ii) Initiatives that will deliver environmental benefits beyond the Franchise Term.
- (iii) Specific environmental commitments in areas not covered by the targets and reporting requirements in the Franchise Agreement.
- (iv) Initiatives for sustainable energy generation.

5.3.3 **DP1.3 Industry and Stakeholder Partnering**

5.3.3.1 **NOTE:** For the purposes of this Sub-Plan 'stakeholders' include without limitation: Network Rail, ORR, the Department, Transport for London, Transport Scotland, RSSB, NSARE, other train operators, freight operators, ROSCOs, ATOC/Rail Settlement Plan, BTP, Rail Delivery Group, trade unions, National Rail Enquiries, cross-industry bodies, Community Rail Partnerships, Local Authorities, Local Transport Authorities and Passenger Transport Executives, Combined Authorities and the Franchise Operator's wider supply chain including SMEs.

(A) REQUIREMENT

- 5.3.3.2 The Department requires a Franchise Operator who will work proactively in partnership with industry stakeholders to develop and deliver Initiatives to improve whole-industry cost-efficiency, and to support wider industry strategies, including better strategic planning at industry level and between operators.
- 5.3.3.3 The Department requires a Franchise Operator who will collaborate with Network Rail to improve performance and continue to support and further develop ongoing joint projects, further details of which are on the Data Site.

(B) EVIDENCE BIDDERS SHALL PROVIDE

- 5.3.3.4 In addition to the Minimum Evidential Requirements, Bidders' responses shall cover as a minimum:
- (i) Their approach to engagement with stakeholders (making reference where necessary to the Customer and Stakeholder Engagement Strategy) including how the Bidder has understood stakeholder priorities for future improvement, and how feedback will be acted upon; and
 - (ii) A draft alliance agreement with Network Rail, setting out clear objectives for an alliance, proposed areas for joint working, the agreed behaviours, and how costs and benefits are to be shared. In addition, Bidders shall include a letter from Network Rail setting out their support for this approach.

(C) SCORING

- 5.3.3.5 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (ICEC marking framework and guidance). Without prejudice to the generality of subsection 7.3.6 (Scoring methodology), specific examples of how the above requirements may be exceeded are set out below.
- (i) An approach to stakeholder engagement that will deliver wider rail network benefits beyond the geographic scope of the Franchise.
 - (ii) Proposals for collaborative working including achieving accreditation to BS 11000 'Collaborative Business Relationships'.
 - (iii) Proposals for support of Community Rail Partnerships over and above the requirements of the Franchise Agreement.

5.3.4 **DP1.4 Innovation**

(A) REQUIREMENT

5.3.4.1 The Department requires a Franchise Operator who will support and embed innovation throughout the business in order to improve customer service and operational performance, deliver efficiency, and reduce industry costs.

5.3.4.2 Bidders' attention is drawn to Franchise Agreement Schedule 13 paragraph 19 (Innovation Account) which sets out the requirements regarding the Innovation Account. For the avoidance of doubt, no Initiatives proposed in the Bid shall be financed from the Innovation Account.

(B) EVIDENCE BIDDERS SHALL PROVIDE

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

- (i) Their Innovation Strategy, which should set out how the Franchise Operator will encourage the development of innovative products, services and processes that promote better customer service and operational performance, the efficient operation of the Franchise and industry cost reduction. This shall include, without limitation:
 - How the Franchise Operator will share innovation concepts within its business and across the wider industry;
 - Techniques for capturing creative ideas from employees, passengers and other stakeholders;
 - Details of how innovation projects are to be selected and managed and how their success will be measured (including, but not limited to, the proposed approach to schemes utilising the Innovation Account in Franchise life);
 - Details of how the Franchise Operator will work with the industry in developing innovation proposals;
 - How the themes of the Rail Technical Strategy (RTS) will be supported; and
 - How the Franchise Operator will collaborate with the supply chain and third parties, where appropriate, to assist in bringing new technologies, processes, business models and products to the market.

(C) SCORING

5.3.4.4 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (ICEC marking framework and guidance). In determining whether to allocate an evaluation score higher than 6 in accordance with subsection 7.3.6 (Scoring methodology), the evaluators will assess only the extent to which the Sub-Plan is supported by particularly robust evidence which is in line with the evidential requirements in part (B) and which provides excellent confidence that the requirements of the specification will be met. For the avoidance of doubt, no additional credit will be given for Initiatives which will generate improved outcomes so that the requirements of the specification will be exceeded. Bidders may therefore not score an evaluation score higher than 8 for this Sub-Plan.

5.3.5 **DP1.5 Security**

(A) REQUIREMENT

5.3.5.1 The Department requires a Franchise Operator who will safeguard the security of passengers and staff, including by:

- Implementing systems (including staff training) to control and minimise crime and security incidents on trains and at stations, including the theft of passenger property;
- Providing a proportionate level of counter-terrorism protective security;
- Deterring and addressing instances of vandalism and graffiti in relation to trains, property, stations and car parks; and
- Managing anti-social behaviour on trains and at stations.

(B) EVIDENCE BIDDERS SHALL PROVIDE

5.3.5.2 There are no additional evidential requirements for this Sub-Plan over and above the Minimum Evidential Requirements.

(C) SCORING

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

- (i) Evidence of engagement, and where appropriate proposals for working, with Local Authorities, passenger representative groups, community groups, and other stakeholders to understand security concerns, and Initiatives focussed on the issues that are identified as being the most prevalent through this engagement process.

5.4 Delivery Plan 2 - Train Service and Performance

5.4.1 DP2.1 Train Services

(A) REQUIREMENT

- 5.4.1.1 The Department requires a Franchise Operator who will meet the minimum requirements set out in the Train Service Requirement (“**TSR**”) set out in Attachment A (Train Service Requirement) to this ITT, which include:
- Until May 2020, operating services in accordance with the minimum requirements set out in TSR1; and
 - From May 2020 onwards, operating services in accordance with the minimum requirements set out in TSR2, including by fulfilling the additional requirements relating to the introduction of the full Class 800/801 fleet and TSGN service changes, and a requirement for an increase in quantum, both peak and off-peak, to and from London King’s Cross (TSR2).
- 5.4.1.2 The Department requires a Franchise Operator who will enhance services between December 2018 and May 2020 as the new Class 800/801 trains are accepted into service, in order to deliver, to the extent possible, the benefits of the TSR2 timetable in advance of May 2020.
- 5.4.1.3 The Department requires a Franchise Operator whose Train Plans and timetables will target the available capacity of the fleet where and when it is needed most, in order to minimise the extent of crowding and to avoid it being unduly concentrated on particular services or routes. For the avoidance of doubt, meeting this requirement does not oblige the Franchise Operator to lease additional units of rolling stock beyond what is needed to deliver the Train Service Requirement and the other requirements of this Sub-Plan.
- 5.4.1.4 The Department requires a Franchise Operator whose train services will meet passenger needs within the different market segments served by the Franchise, including by:
- Maintaining direct journey opportunities that are important to passengers (including both direct links to London King’s Cross and non-London journey opportunities);
 - Providing services that are timed, as far as practicable, to meet the particular needs of stakeholders, such as journeys to and from work or school, particularly where there is no reasonable rail alternative, and

otherwise to provide passengers with services that are well-spaced rather than services that meet the TSR requirements but are tightly bunched; and

- Offering journey times that are not unnecessarily extended. In particular, timing allowances for performance, pathing and engineering time and differentials between public and working timetables must be kept to a reasonable minimum.

5.4.1.5 The Department requires a Franchise Operator whose train services are compatible with the overall capacity of the rail network, taking into account the infrastructure enhancements delivered by Network Rail during CP4 and those to be delivered in CP5, and in particular which are deliverable alongside the TSGN, open access, freight and other service patterns described in Table 5.2 (Other passenger and freight services to be accommodated alongside Bidders' train service proposals) below.

5.4.1.6 Bidders should note that Table 5.2 (Other passenger and freight services to be accommodated alongside Bidders' train service proposals) provides only minimum assumptions for the other services to be accommodated alongside Bidders' proposals. Bidders' proposals should be consistent with these minimum assumptions but Bidders should also make their own assessment as to what other services, over and above those shown in Table 5.2, may operate.

5.4.1.7 The Department requires a Franchise Operator who will develop and deliver a train service that is compliant with the Timetable Planning Rules and Sectional Running Times (both as published and/or defined by Network Rail as at the date of this ITT) unless the Bidder can justify any proposed departures from the published Timetable Planning Rules and/or Sectional Running Times, and that its proposals are endorsed by Network Rail.

5.4.1.8 The Department requires a Franchise Operator who will successfully administer and implement all future Timetable changes, including changes arising from any Thameslink Programme configuration states which interact with the Franchise train service, so as to provide a seamless transition that is appropriately developed, communicated with passengers and stakeholders, managed, resourced and executed.

5.4.1.9 The Department requires a Franchise Operator who will monitor the level of demand and crowding on individual services and will:

- Identify opportunities to improve the train service proposals included in their Bid, so that they better meet the needs, priorities and aspirations of their passengers and other stakeholders (as identified through their ongoing customer and stakeholder engagement processes);

- Minimise the number of trains that run in short formation;
- Adapt their train service to address crowding pressures that emerge during the Franchise Term, seasonal variations in demand, and unusual demand due to special events; and
- Use reasonable endeavours to implement the improvements that they have identified, and make proposals to the Department where contract changes are necessary in order to do this.

Table 5.2. *Other passenger and freight services to be accommodated alongside Bidders' train service proposals*

<p>Bidders' proposed train services must be deliverable alongside the following patterns of services.</p> <p><i>TSGN – before January 2018</i></p> <p>Bidders should assume that the current timetable for TSGN continues to operate.</p> <p><i>TSGN – from January 2018</i></p> <p>Bidders should assume that the TSGN franchisee will be able to operate direct services from the Thameslink core to the East Coast Main Line (achieving 4tph from January 2018) all of which will run on the fast lines south of Digswell Junction, and an additional 4tph (some of which will operate entirely on the slow lines) no later than the December 2018 timetable change.</p> <p>In addition to any services which operate entirely on the slow lines, the TSGN franchisee must be able to operate the following services on the East Coast Main Line:</p> <p>A) 12tph over Welwyn Viaduct southbound in each hour 0700 to 0859 (measured at King's Cross or St Pancras). Of these 12 tph:</p> <ul style="list-style-type: none"> • 4tph (2 from each of Peterborough and Cambridge) run to the Thameslink core, running fast line from Woolmer Green Junction to Finsbury Park non-stop; • 2tph Cambridge Express to King's Cross, running fast line, non-stop, from Hitchin to King's Cross; • 2tph Peterborough to King's Cross, running fast line, non-stop, from Hitchin to King's Cross; and • 4tph Cambridge Line to King's Cross, running fast line from Woolmer Green Junction to Finsbury Park non-stop. <p>Two trains per hour must be able to call at Welwyn North, approximately 30 minutes apart.</p> <p>B) 10tph over Welwyn Viaduct in the hour southbound in the hour 0900 to 0959 (measured at King's Cross or St Pancras):</p> <ul style="list-style-type: none"> • All the above trains but with only 2tph rather than 4tph Cambridge Line to King's Cross. <p>C) 8tph over Welwyn Viaduct southbound in each hour 1000 to 2159 (measured at King's Cross or St Pancras).</p> <ul style="list-style-type: none"> • 4tph (2 from each of Peterborough and Cambridge) run to and from the Thameslink core, running slow line to call at Stevenage but fast line from Woolmer Green Junction to Finsbury Park non-stop; • 2tph Cambridge Express to King's Cross, running fast line, non-stop, from Hitchin to King's Cross; and • 2tph Cambridge line to Thameslink core, running fast line only from Woolmer Green Junction to Digswell Junction (calling at Welwyn North).
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D) 8tph over Welwyn Viaduct northbound in each hour 0700 to 1559 and from 1900 to 2159 with 1tph additional 1900 to 1959 (measured at King's Cross or St Pancras)

- 4tph (2 each to Peterborough and to Cambridge) run from the Thameslink core, running fast line from Finsbury Park to Woolmer Green Junction non-stop;
- 1tph from Kings Cross to Peterborough, in the 1900 to 1959 hour only;
- 2tph Cambridge Express, running fast line, non-stop, from King's Cross to Hitchin Flyover; and
- 2tph to Cambridge line from Thameslink core, running fast line only from Finsbury Park to Potters Bar, and then from Digswell Junction to Woolmer Green Junction (calling at Welwyn North).

E) 10tph over Welwyn Viaduct northbound in each hour 1600 to 1859 with 1 tph fewer 1600 to 1659 (measured at King's Cross or St Pancras)

- 4tph (2 to Peterborough at 30-minute intervals and 2 to Cambridge also at 30-minute intervals) run from the Thameslink core, running fast line from Finsbury Park to Woolmer Green Junction non-stop;
- 2tph King's Cross to Peterborough running fast line from King's Cross to Woolmer Green Junction non-stop (except that only 1tph to Peterborough is required in the 1600 to 1659 period);
- 2tph Cambridge Express, running fast line, non-stop, from King's Cross to Hitchin Flyover; and
- 2tph to the Cambridge line from either King's Cross or the Thameslink core, running on the fast line only from Finsbury Park to Potters Bar, and then from Digswell Junction to Woolmer Green Junction.

Two trains per hour must be able to call at Welwyn North, approximately 30 minutes apart.

F) Saturdays as Mon-Fri off-peak service patterns from 0700 to 2159 (with reduced services before and after those times).

G) Sundays as Mon-Fri off-peak service patterns from 0900 to 2159 (with reduced services before and after those times).

In addition:

- All paths to and from the Thameslink core shall be timed for Class 700 EMUs; all paths to and from King's Cross shall be timed for Class 365s;
- Where a 2tph service to/from the Thameslink core is specified, the trains should be assumed to operate at exactly 30 minute intervals, and where a 4tph service to/from the Thameslink core is specified, two trains should be assumed within each 30 minute period and these should operate at exactly 30 minute intervals from two equivalent trains in the next 30 minute period;
- All Thameslink trains not listed above will be confined to the slow lines and will run no further north than Welwyn Garden City;
- Pathing time (up to 2 minutes) allowed in northbound trains running from the slow line onto Welwyn Viaduct at Digswell Junction;
- Pathing time (up to 2 minutes) allowed in southbound trains running from the slow line onto Welwyn Viaduct at Woolmer Green Junction;
- Pathing time (up to 3 minutes) allowed in northbound trains running from the slow line at Huntingdon to the Down Main at Holme Junction; and
- Pathing time (up to 3 minutes) allowed in southbound trains running from Peterborough via the slow line to the Up Main at Fletton Junction OR between Huntingdon North Junction and Woolmer Green Junction.

Bids will be deemed to meet these requirements if the timetable is consistent with the illustrative TSGN East Coast Main Line timetable provided on the Data Site, but it is open to Bidders to

demonstrate that an alternative approach meets these requirements. If a Bidder uses this illustrative timetable, it may assume that all TSGN services which serve intermediate stations between Finsbury Park and Welwyn Garden City will operate on the slow lines between Finsbury Park and Digswell Junction.

Northern ITSS – from December 2018

The train service pattern described in the Northern ITSS (available on the Data Site) should be assumed to be implemented at the December 2018 timetable change date.

Freight – full franchise term

One class 4 freight path per hour (in both directions) must also be assumed to be necessary between Stevenage and Peterborough, except in peak hours in the peak direction. However there is no requirement to protect capacity for freight over the two track section between Digswell and Woolmer Green Junctions after January 2018.

Open Access – full franchise term

Open Access services should be assumed to operate at current levels, with no significant worsening of journey times or turnaround times that affect the efficiency of stock working.

(B) EVIDENCE BIDDERS SHALL PROVIDE

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

- (i) The Bidder's timetable for December 2015, including weekends, which as a minimum shall meet the requirements of TSR1. Bidders shall highlight any changes that they plan to implement compared to the December 2013 timetable. Bids must make clear which changes they propose would take effect from which Timetable Change Dates;
- (ii) The Bidder's timetable for May 2020, including weekends, which as a minimum shall meet the requirements of TSR2 (note that this comprises the Agreed Form Document 'Bid TSR2 Timetable');
- (iii) A plan for the period between January 2018 and May 2020, covering the changes that the Franchise Operator will make to the train service in order to:
 - o Accommodate the stepping-up of TSGN services through the core Thameslink route, which will include 20 trains per hour no later than May 2018 and 24 trains per hour no later than December 2018; and
 - o From December 2018, step up services as new Class 800/801 trains are accepted into service, and deliver the full requirements of TSR2 no later than May 2020, in particular the requirement for a minimum off-peak service frequency of 6 trains per hour to/from King's Cross Monday-Fridays, and the requirement to achieve faster average journey times between London King's Cross, Leeds and Edinburgh;

- (iv) In respect of the plan referred to in (iii) above, a full timetable, which need cover Monday-Fridays only, which as a minimum shall meet the requirements of TSR1, for May 2019 following the implementation of the full TSGN timetable;
- (v) Rolling stock diagrams for the timetables the Bidder is required to submit, which must take into account reasonably foreseeable non-availability of stock (e.g. for maintenance and driver training);
- (vi) A full description of the Bidder's strategies for train crew and platform despatch staff, including the approach to overtime and rest day working, with evidence to show that this will be sufficient to deliver the proposed timetables, which must include driver diagrams for, as a minimum, the May 2020 timetable;
- (vii) A description of any service or rolling stock changes proposed during the Franchise Term, not reflected in the timetables provided. Bidders are not necessarily required to provide full timetables or rolling stock diagrams to reflect such changes, but will need to describe their proposals and their anticipated impacts in sufficient detail and provide sufficient evidence to assure the Department and Network Rail that they are deliverable, and this shall include provision of revised timetables or train diagrams for the most immediately impacted times or routes where necessary;
- (viii) A plan detailing the approach the Franchise Operator will take to obtain the access rights necessary to enable the Franchise Operator to operate the services necessary to meet the requirements of the TSR, and any other services that the Bidder proposes in its Bid;
- (ix) A Train Plan, including all day train-by-train forecasts of passenger loadings on weekdays, and specific train-by-train forecasts for any periods of the week for which crowding is materially worse (including as a minimum Friday afternoon trains from London King's Cross and Sunday afternoon trains to and from London King's Cross), covering as a minimum 2017, 2019, 2022, and other years if the Bidder proposes other significant changes to the train service or rolling stock; the rolling stock formation assumed in each case; and how forecast loadings compare with the level of capacity the Bidder proposes to provide on each service;
- (x) A plan to deliver any associated projects proposed by the Bidder to enable their proposed train service to be delivered, including infrastructure enhancements such as line-speed enhancements, or clearance for Class

800/801 trains to operate on routes not included in the East Coast IEP Network as defined in the TARA; and

- (xi) Bidders' assumed timings for services specified in Table 5.2 (Other passenger and freight services to be accommodated alongside Bidders' train service proposals).

5.4.1.11 Bidders should note the requirements regarding technical data as set out in paragraph 4.10.1.

5.4.1.12 Bidders must also submit a contingency plan for a scenario in which the Franchise Operator does not obtain all of the access rights necessary to deliver TSR2 (the 'Access Rights Contingency Plan'). The assumptions for the contingency plan are provided in Table 5.3 (Access Rights Contingency Plan assumptions). The Access Rights Contingency Plan should set out:

- A proposal for the services that the Franchise Operator would be able to operate. This should comply as far as possible with the provisions described in paragraph 3.6 of schedule 9.3 of the Franchise Agreement;
- A timetable for the services that the Franchise Operator would be able to operate on weekdays from May 2020. Bidders do not need to submit revised timetables for Saturdays and Sundays but should provide a description of any changes to the timetable that it would be necessary to make;
- Any consequent impacts on other Initiatives set out in the Bid, including an identification of any Initiatives that would not be implemented;
- An identification of the costs that could be avoided as a result of the Change;
- Actions that the Franchise Operator would take to mitigate the impact of the Change on its revenue;
- A price for the Change, calculated in accordance with schedule 9.1 (Financial and Other Consequence of Change) of the Franchise Agreement (Bidders are referred in particular to paragraph 9 of appendix 2 of schedule 9.1 of the Franchise Agreement);
- A clear and detailed account of the assumptions and processes employed in pricing the Change, which must meet the criteria for worked examples defined in subsection 6.7.1 (Matters to be addressed in the Operating Manual); and

- Supporting files and data used for the calculation of the Change, which must include a MOIRA SPG file that contains the assumed ICEC and Open Access services, and the MOIRA output files which input revenue, journeys and passenger miles to the revenue model..

Table 5.3. *Access Rights Contingency Plan assumptions*

In developing the Access Rights Contingency Plan, Bidders should assume that:

- An open access operator is granted paths for 1 train per hour between 0700 and 1959 Mondays to Saturdays (13 trains per day in each direction), and between 0900 and 1959 on Sundays (11 trains per day in each direction) between London King’s Cross and Edinburgh, with calls at York and Newcastle only;
- The paths are timed for conventional (non-tilting) 125mph rolling stock; and
- The service commences in May 2020.

5.4.1.13 For the avoidance of doubt, the Access Rights Contingency Plan will be evaluated as part of this Sub-Plan 2.1, and not as part of the Modelling Change requirement. Nonetheless, the Department reserves the right to take into account the suitability of the Record of Assumptions, Financial Model, and Operating Models for the pricing of this Change in its assessment of whether the Bidder has met all of the requirements in subsection 7.4 (Modelling Change tests).

(C) SCORING

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

- (i) Bids that, taking the train service proposition as a whole, generate additional passenger benefits by addressing the needs, priorities and aspirations of passengers and other stakeholders that the Bidder has identified through consultation and other research, for example because:
 - They provide additional train services (which could include more early morning or late evening services, or proposals to meet evidenced demand for additional services on bank holidays);
 - They provide new or enhanced direct services between locations within the Franchise geographic scope as defined in Schedule 1.6 (Franchise Services) of the Franchise Agreement, which have no such services or where the current direct service is limited;

- They provide faster journey times between London and Leeds, Newcastle and Edinburgh; or
- They provide an increase in passenger capacity in advance of the deployment of the Class 800/801 fleet, in particular where this reduces crowding during busy periods such as Friday and Sunday afternoons.

5.4.1.15 For the avoidance of doubt, any proposals for new or enhanced services between locations which have no service or for which the current service is limited may be considered to exceed the above requirements only if, in the Department's reasonable opinion:

- There is sufficient demand to justify such services; and
- They materially increase rail passenger volumes, rather than primarily abstracting revenue from other train operators (whether franchised or open access).

(D) FURTHER INFORMATION: CONTRACTUALISATION OF BIDDERS' TRAIN SERVICE PROPOSALS

5.4.1.16 The provisions of this subsection apply in addition to the provisions of subsection 4.13.3 (Contractualisation) and subsection 7.6 (Evaluation impact of contractual treatment of Bidders' Initiatives).

5.4.1.17 Except where paragraph 5.4.1.20 applies, at its sole discretion the Department may seek to reflect any feature of the successful Bidder's train service proposals in an amended or expanded version of the TSR or in a Committed Obligation. However, as a guide (depending on the Bidder's specific train service proposals) the Department may seek to contract some or all of the following through a Committed Obligation:

- An associated project necessary to deliver the Bidder's proposed train service;
- A proposal to increase the passenger capacity of the fleet; and
- A proposal to provide an increase in services to/from London King's Cross over and above the level specified in Tables 2A and 2B of TSR2.

5.4.1.18 As a guide, the Department may seek to contract some or all of the following through an amended or expanded version of the TSR:

- The actual number of train services the Bidder proposes to operate to and from key stations, where this exceeds the requirements of the TSR that forms part of this ITT;

- Any new and enhanced direct services between London King's Cross and locations which have no such services or where the current direct service is limited;
- Times for early and late trains proposed by the Bidder; and
- Maximum average journey times between key stations.

5.4.1.19 Without limitation, Bidders may propose to deliver any of the above through enhancements to weekend services or delivery of certain aspects of TSR2 in advance of May 2020.

5.4.1.20 A Bidder may specify in DP2.1 (Train Services) that it wishes to retain flexibility with respect to a specific aspect of its proposed train service and therefore not to contract it (a 'Non-Committed Initiative'). In scoring DP2.1 (Train Services), the Department will disregard Non-Committed Initiatives, except to the extent specified in paragraph 5.4.1.21 and 5.4.1.22 below.

5.4.1.21 Notwithstanding paragraph 5.4.1.20, to the extent that the Department has any concerns about a Non-Committed Initiative (including, without limitation, concerns about the credibility of the Non-Committed Initiative or the credibility of the plan to deliver the Non-Committed Initiative), and as a result it has concerns about any Initiative that is not a Non-Committed Initiative, the Department will take into account these concerns in the overall scoring of the Train Service Sub-Plan.

5.4.1.22 For the avoidance of doubt, the Department will take into account any Non-Committed Initiatives for the purposes of the Financial Robustness Test.

5.4.2 **DP2.2 Rolling Stock**

5.4.2.1 **Note.** The Department has procured the Class 800/801 fleet as part of the InterCity Express Programme, and requires the Franchise Operator to introduce this fleet into service. This Delivery Plan covers the deployment, maintenance, stabling and cascading of rolling stock throughout the Franchise Term, before, during and after the transition to Class 800/801 operation. However it does not cover aspects of Transition (as defined in the MARA) or the testing and introduction of the Class 800/801 fleet as these are addressed in Delivery Plan 3.

(A) REQUIREMENT

5.4.2.2 The Department requires a Franchise Operator who will deliver consistently high standards of rolling stock performance and presentation through effective management of rolling stock assets, and who will deploy rolling stock of a quality

consistent with achieving the NRPS benchmarks specified in Schedule 7.2 of the Franchise Agreement.

5.4.2.3 The Department requires a Franchise Operator who will:

- Implement a rolling stock, depot and stabling solution that:
 - Is compatible with the technical and operational constraints of the infrastructure;
 - Is consistent with achieving the operational performance benchmarks in the Franchise Agreement;
 - Is consistent with the Bidder's other proposals, in particular its train service proposals set out in DP2.1 (Train Services) and its IEP Implementation Strategy set out in DP3.1 (Implementation of IEP); and
 - Minimises the impact of network disruption and other operational challenges; and
- Work with Network Rail and other stakeholders to improve whole-industry cost-efficiency (e.g. reducing the impact of rolling stock on infrastructure, introducing train borne monitoring of infrastructure condition).

(B) EVIDENCE BIDDERS SHALL PROVIDE

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

- (i) How the Franchise Operator will maintain, clean and (if proposed) refurbish the Train Fleet;
- (ii) A fleet plan showing numbers of vehicles of each class accompanied by a populated version of Schedule 1.7 of the draft Franchise Agreement with details of the rolling stock fleet (including how the composition of the fleet will change over the Franchise Term, and details of any rolling stock other than the Class 800/801 fleet to be operated after full IEP implementation);
- (iii) Term Sheets (i.e. offer letters) for any additional or replacement rolling stock forming part of the Bidder's proposed train fleet within the first year of the Franchise;
- (iv) Details of any modifications to vehicles in the Bidder's intended rolling stock fleet (e.g. changes to internal layout, any changes to the balance of provision of first and standard class), including the seated and standing capacity of the modified vehicles, and plans for how these modifications will

be delivered (any consequent impacts on passenger services should be detailed in DP2.1 (Train Services) and cross-referenced here);

- (v) Where modifications are proposed under (iv) to the design of the Class 800/801 fleet, Bidders should seek prior approval from the Department in accordance with part (D);
- (vi) Details of how the Franchise Operator 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);
- (vii) A depot, stabling and train maintenance solution covering the Franchise Term to deliver their proposals in DP2.1 (Train Services), including:
 - Plans for the delivery of maintenance that are, as a minimum, consistent with meeting the performance benchmarks specified in Schedule 7.1 of the Franchise Agreement;
 - Fleet cleaning arrangements;
 - Management, staffing and quality assurance arrangements;
 - An explanation of how the train maintenance and stabling proposals deal with Challenging Circumstances;
 - How maintenance activities will be optimised and distributed across depots; and
 - Any depot enhancements that may be required, and how any resulting disruption will be minimised; and

(Note. The management of any temporary variations from the proposed approach above, required to deliver the train service alongside the IEP Implementation Strategy, should be detailed in DP3.1 and cross-referenced here.)

- (viii) Evidence that the depot, stabling and train maintenance solution is aligned with the provisions of the IEP Agreements.

(C) SCORING

- 5.4.2.5 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (ICEC marking framework and guidance). Without prejudice to the generality of subsection 7.3.6 (Scoring methodology),

specific examples of how the above requirements may be exceeded are set out below.

- (i) Proposals which identify, quantify and deliver measurable efficiencies in train fleet deployment, train maintenance and operations.
- (ii) Initiatives which improve whole-industry cost-efficiency through, for example, reducing the impact of rolling stock on infrastructure or introducing train-borne remote condition monitoring enabling Network Rail to better plan its maintenance and renewal operations.
- (iii) Proposals which improve the presentation of the existing rolling stock fleet prior to the introduction of the Class 800/801 fleet.
- (iv) Rolling stock plans which improve operational resilience.

(D) FURTHER INFORMATION: PROPOSING VARIATIONS TO THE CLASS 800/801 FLEET

- 5.4.2.6 Where Bidders are proposing, as part of their Bid, variations to the Class 800/801 fleet, these should be discussed and approved by the Department prior to inclusion in the Bid. This should be done through raising a confidential CQ on or before 5 May 2014. The CQ should contain, as a minimum, the following for each variation:
- The details of the variation from the base design;
 - The rationale for the variation and the impact it would have on passenger experience;
 - Evidence of support from the TSP for the proposed variation, including robust costings and the cost for returning the train to the design state; and
 - Any other impacts the variation would have on operating costs and revenue.
- 5.4.2.7 Where a business case is built from several variations together, these should be submitted as a single CQ to allow the proposal to be considered in the round.
- 5.4.2.8 The types of modifications the Department will approve are set out on the Data Site. Where a Bidder is uncertain whether a variation is permitted or not, it should seek clarity from the Department in the first instance.
- 5.4.2.9 If a proposed variation is submitted at Bid having either been rejected by the Department or not shared with the Department, the variation will be deemed not acceptable. The Department will adopt the following approach:
- (i) The Department will not provide delegated authority to allow the Franchise Operator to vary the MARA and/or TARA;

- (ii) The Department will disregard the proposed variation, except to the extent specified in (iii) and (iv) below;
- (iii) Notwithstanding (ii) above, if, as a result the Department has concerns about any other Initiative, the Department will take into account these concerns in the overall scoring of the relevant Sub-Plan(s);
- (iv) For the avoidance of doubt, the Department will take into account the proposed variation for the purposes of the Financial Robustness Test.

5.4.3 **DP2.3 Performance**

(A) REQUIREMENT

5.4.3.1 The Department requires a Franchise Operator who will, as a minimum, deliver the performance benchmarks in Schedule 7.1 of the Franchise Agreement.

5.4.3.2 The Department requires a Franchise Operator who will:

- Design and implement business continuity processes for the operational aspects of the business consistent with the requirements of schedule 10.4 of the Franchise Agreement, setting out how they will engage with stakeholders and how delay and disruption for passengers will be minimised;
- Manage its business to deliver operational performance in a way that improves whole-industry cost-effectiveness and efficiency; and
- Put in place systems for working with industry stakeholders (including Network Rail, ROSCOs, train service providers and train maintainers) that are necessary to deliver the performance benchmarks, minimise delay and disruption for passengers, and support the achievement of whole-industry performance objectives including right time railway initiatives.

(B) EVIDENCE BIDDERS SHALL PROVIDE

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

- (i) Their overall strategy for operational planning and management, covering issues such as: how they will manage and organise their operational control functions, performance management and business continuity arrangements, and how performance against the benchmarks will be maintained while major changes such as the IEP implementation strategy and ERTMS are being implemented;

- (ii) Details of how the Franchise Operator will monitor performance data, how results will be analysed, and how this information will be used to make decisions on the priorities for improvement;
- (iii) For each performance Initiative proposed, how the Initiative will contribute to the Franchise Operator delivering or exceeding the performance benchmarks in Schedule 7.1 of the Franchise Agreement, including:
 - Problem identification;
 - The approach to the proposed solution; and
 - Evidence of the scale of the impact on performance.
- (iv) How their train crew strategy supports the delivery of the requirements of part (A);
- (v) How the Franchise Operator will minimise the impact of engineering work and Challenging Circumstances on the provision of train services, including by:
 - Maintaining the provision of rail services (for example by working with Network Rail to maximise the scope for trains to continue running while engineering work is taking place, and/or by using suitable diversionary routes where available); and
 - Developing and implementing appropriate arrangements to ensure the continued safety and welfare of passengers.

(C) SCORING

- 5.4.3.4 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (ICEC marking framework and guidance). Without prejudice to the generality of subsection 7.3.6 (Scoring methodology), specific examples of how the above requirements may be exceeded are set out below.
- (i) Proposals, including trial schemes or demonstrator projects, that are intended to deliver whole-industry benefits, or benefits to the Franchise beyond the Franchise Term.
- 5.4.3.5 For the avoidance of doubt, a proposal to exceed the performance benchmarks defined in Schedule 7.1 will not be considered sufficient to exceed the above requirements.

5.5 Delivery Plan 3 - Major Projects

5.5.1 DP3.1 Implementation of the Intercity Express Programme (IEP)

(A) REQUIREMENT

5.5.1.1 The Department requires a Franchise Operator who will deliver the Franchise Operator's obligations under the TARA, RODA and Schedule 6.3 of the Franchise Agreement (which includes obligations to deliver obligations set out in the MARA).

5.5.1.2 The Department requires a Franchise Operator who will minimise the disruption to passengers resulting from IEP implementation. Accordingly, the Department requires a Franchise Operator who will develop and implement a plan for Transition (as defined in the MARA), which minimises disruption from depot enabling works and staff transfer, whilst enabling IEP implementation to the proposed schedule, which details plans for:

- The maintenance and operational performance of the existing fleet;
- How the Franchise Operator will test and introduce the Class 800/801 fleet into service, including how it will work with Network Rail and the TSP;
- How the Franchise Operator will manage changes in depot capacity during depot enabling and enhancement works; and
- The transfer and training of staff.

5.5.1.3 The Department requires a Franchise Operator who will:

- Collaborate with the TSP to deliver the IEP;
- Proactively manage the interface with the TSP through the contractual mechanisms included in the TARA and RODA, in order to deliver the improvement in service enabled by the IEP;
- Work with the TSP and the Great Western franchisee to identify and take into account emerging issues from the introduction of the Class 800/801 fleet elsewhere on the network;
- Retain rolling stock for a suitable period so as to provide resilience for the Franchise's operations during the introduction of the new fleet; and
- Lead the integration of operations between the Class 800/801 fleet and operational control to deliver the required services.

(B) EVIDENCE BIDDERS SHALL PROVIDE

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

- (i) Their IEP Implementation Strategy setting out, as a minimum:
 - Key milestones for changes in DFO and DAA status at depots, including proposals for Aberdeen Clayhills depot;
 - Proposals for staff TUPE transfer to the TSP, including the profile of transfer during IEP implementation;
 - An assessment of the impact on operations of the depot enabling works programme and how these will be mitigated;
 - A programme of, and arrangements for, driver, crew and other staff training;
 - How, if necessary, the maintenance and stabling arrangements described in DP2.2 (Rolling Stock) will be adapted during the period of depot enhancement, transition and fleet introduction, including:
 - Plans for the delivery of maintenance of the existing fleet to maintain at least the current levels of existing rolling stock performance;
 - Management, staffing and quality assurance arrangements;
 - An explanation of how the train maintenance proposals allow for Challenging Circumstances;
 - How maintenance activities will be optimised and distributed across depots, taking into account any reduced capacity at depots as a result of the enhancement works; and
 - A stabling strategy, including plans for dealing with Challenging Circumstances;
 - How train service resilience will be ensured during this period;
 - The Franchise Operator's strategy for engaging with industry (e.g. RSSB and ORR) to develop appropriate operating rules and secure relevant approvals;
 - Evidence that this IEP Implementation Strategy is aligned to the details of Transition, as defined in the MARA, or, where there is variation, evidence of support from the TSP;

- An outline of the approach the Franchise Operator will take to agreeing a detailed plan for Transition, as defined in the MARA, with the TSP during the Franchise Term in line with its IEP implementation strategy; and
- How the Franchise Operator’s organisation will be structured to deliver their obligations under the TARA, RODA and MARA (the last in line with Schedule 6.3 of the Franchise Agreement), including:
 - Their management structure and approach to delivering depot enhancements, depot transition, staff transfer and fleet introduction under IEP;
 - How the organisation will change over the Franchise Term;
 - How the contracts with the TSP will be managed; and
 - How the organisation will interface with the Department and other stakeholders.

(C) SCORING

5.5.1.5 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (ICEC marking framework and guidance). In determining whether to allocate an evaluation score higher than 6 in accordance with subsection 7.3.6 (Scoring methodology), the evaluators will assess only the extent to which the Sub-Plan is supported by particularly robust evidence which is in line with the evidential requirements in part (B) and which provides excellent confidence that the requirements of the specification will be met. For the avoidance of doubt, no additional credit will be given for Initiatives which will generate improved outcomes so that the requirements of the specification will be exceeded. Bidders may therefore not score an evaluation score higher than 8 for this Sub-Plan.

5.5.2 DP3.2 European Rail Traffic Management System

(A) REQUIREMENT

5.5.2.1 The Department requires a Franchise Operator who will:

- (i) Deliver its rolling stock ready to operate under European Rail Traffic Management System (ERTMS) control, and fitted with ERTMS train-borne equipment in accordance with Network Rail’s Proposed ERTMS Implementation Plan;

- (ii) Be responsible for the supply, installation, testing, staff training, commissioning, approvals, maintenance and warranty support for European Train Control System (ETCS) train-borne equipment; and
- (iii) Work with Network Rail and other industry stakeholders to implement operation under ERTMS on the route to maximise the operational benefits of the system whilst minimising disruptions.

5.5.2.2 **Note.** As set out in the Data Site document “ECML ERTMS Overlay Data Room Project Summary”, and for the avoidance of doubt, the above does not require the Franchise Operator to retrofit the existing East Coast fleet with ETCS for operation under ETCS Level 2 (retaining line-side signalling).

(B) EVIDENCE BIDDERS SHALL PROVIDE

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

- (i) Their approach to implementing ERTMS on the ICEC Franchise, including:
 - Their approach to testing, commissioning and approvals for train-borne and, in collaboration with Network Rail, line-side equipment;
 - How the Franchise Operator will work collaboratively with Network Rail and other industry stakeholders to deliver cost efficiencies and operational benefits from ERTMS implementation;
 - How the Franchise Operator has considered, and factored into its plans, lessons learnt from pilot deployments of ERTMS on the UK network and deployments of ERTMS on other networks;
 - Plans for driver and other staff training, including arrangements for cover staff if required;
 - The Franchise Operator’s management structure and approach to delivering ERTMS;
 - The Bidder’s understanding of the operational risks to the Franchise from the ERMTS implementation, including how these will be mitigated in life;
 - If the Bidder proposes to use rolling stock other than Class 800/801 under ETCS Level 2 (without line-side signalling), a plan to retrofit ETCS train-borne equipment to this rolling stock, including proposals for cover stock and testing equipment if required; and

- How the Franchise Operator will work with Network Rail to facilitate the transition from ETCS Level 2 (retaining line-side signalling) to ETCS Level 2 (without line-side signalling), at the latest, on the type acceptance of the final Class 800/801 vehicle into service.
- (ii) Details of how the Franchise Operator will record and communicate to other industry parties lessons learnt from the implementation of ERTMS.

(C) SCORING

5.5.2.4 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (ICEC marking framework and guidance). In determining whether to allocate an evaluation score higher than 6 in accordance with subsection 7.3.6 (Scoring methodology), the evaluators will assess only the extent to which the Sub-Plan is supported by particularly robust evidence which is in line with the evidential requirements in part (B) and which provides excellent confidence that the requirements of the specification will be met. For the avoidance of doubt, no additional credit will be given for Initiatives which will generate improved outcomes so that the requirements of the specification will be exceeded. Bidders may therefore not score an evaluation score higher than 8 for this Sub-Plan.

5.6 Delivery Plan 4 - Revenue

5.6.1 DP4.1 Marketing and Fares

(A) REQUIREMENT

5.6.1.1 The Department requires a Franchise Operator who will:

- Grow the business, and generate growth in revenue (farebox and non-farebox) and passenger travel;
- Develop and implement effective marketing strategies and plans to promote services;
- Maximise the opportunity provided by the investments in infrastructure and the introduction of the Class 800/801 fleet;
- Use branding to maximise the value of the Franchise whilst having regard to the overall costs and benefits of branding, including limiting the costs of de-branding at the end of the Franchise;
- Take into account the connection between its fares policy and the need to manage potential overcrowding, in particular avoiding exacerbating overcrowding through large step-changes in fares between services;
- Adapt its fares strategy in the event of changes to regulated fares, in order to minimise any resulting reduction in revenue and maximise any resulting increase; and
- Deploy appropriate revenue management techniques to manage demand and increase revenue.

(B) EVIDENCE BIDDERS SHALL PROVIDE

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

- (i) Details of their approach to growing different market segments of the Franchise, showing returns on investment in marketing activities, including specific plans to maximise the benefits of the Class 800/801 fleet, and other planned investments in the Franchise;
- (ii) A clear, quantified description of the planned fares structure, including details of any changes planned to the availability of specific fares, and the

approach to determining the level of regulated and unregulated fares (in line with the Department's fares policy);

- (iii) Details of how their fares strategy would vary in the event of changes to fares regulation, and the methodology and assumptions that would be used to calculate any resulting Change. This should include the assumptions for:
 - Fares elasticities, which should be consistent with PDFH v4 unless there is evidence to justify use of alternative assumptions; and
 - The impact of quasi-regulation (the impact of regulated fares changes on the price of unregulated fares), which should be supported by evidence;
- (iv) Details of their proposed revenue management techniques, including the tools the Franchise Operator intends to use for this purpose; and
- (v) Their strategy for branding the Franchise.

(C) SCORING

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

- (i) Particularly strong proposals for fares which are consistent with the Department's aspirations for long distance fares as set out in Rail Fares and Ticketing: Next Steps, and which align with the requirements of the Sub-Plan.
- (ii) Proposals to grow the business which deliver benefits beyond the Franchise Term.
- (iii) Plans to work with third parties to grow farebox and non-farebox revenue.

5.6.2 **DP4.2 Ticketing and Revenue Protection**

(A) REQUIREMENT

5.6.2.1 The Department requires a Franchise Operator who will:

- Maintain a consistently high standard of ticket retailing service;
- Ensure that passengers are provided with widespread and easy access to the full range of tickets, and a range of ticket retail opportunities that meets

their needs. This shall include the continuation of the facility for passengers to print tickets remotely;

- Exploit partnerships and new technology in relation to ticket retailing to benefit passengers, drive efficiencies, and support sustainable growth of the business;
- Ensure that information about ticket products and solutions is communicated in a clear and transparent fashion which enables passengers to access the information they need to choose confidently the best ticket for their journey, and to understand the terms, conditions and any restrictions on the ticket purchased, across all ticket retailing solutions and fulfilment media; and
- Manage ticketless travel, and travel with incorrect tickets.

(B) EVIDENCE BIDDERS SHALL PROVIDE

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

- (i) A clear description of the ticket retailing opportunities and experience that the Franchise Operator will deliver; and
- (ii) Their proposals to manage ticketless travel and travel with an incorrect ticket, including their approach to the use of existing automatic ticket gates and their proposed approach to working with other Operators to agree hours of operation for such ticket gates.

(C) SCORING

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

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

- (ii) 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.

5.7 Delivery Plan 5 - Customer Experience and Stations

5.7.1 DP5.1 Customer Experience

5.7.1.1 **Note.** Bidders' proposals in relation to ticket retail should be set out in DP4.2 (Ticketing and Revenue Protection).

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

(A) REQUIREMENT

5.7.1.3 The Department requires a Franchise Operator who will deliver a high standard of customer services, including by:

- Meeting the NRPS benchmarks in the Franchise Agreement;
- Maintaining a high standard of cleanliness, presentation and quality of facilities and services, including in Challenging Circumstances;
- Training staff to deliver high standards of customer service;
- Providing appropriate and timely information to all customers before and during their journeys, including at times of disruption;
- Participating in cross-industry initiatives to enable customers to make informed travel choices at times of disruption or when special events cause unusually high demand;
- Providing appropriate on-board catering services, which meet the needs of passengers; and
- Working with Network Rail, the rail industry and/or telecoms service providers, to improve mobile communication services (data and voice) for passengers (including without limitation by taking advantage of improvements by third parties of mobile coverage on the rail infrastructure).

5.7.1.4 The Department requires a Franchise Operator whose Passenger Charter will provide at least the same passenger benefits as the current Passenger Charter and meet the requirements of the Franchise Agreement.

5.7.1.5 The Department requires a Franchise Operator who will engage with customers and stakeholders to improve its services.

- 5.7.1.6 The Department requires a Franchise Operator who will improve the door-to-door journey experience for its customers, in line with the DfT's door-to-door strategy.
- 5.7.1.7 The Department requires a Franchise Operator who will develop stations travel plans for all stations for which it is SFO (in accordance with ATOC guidance).

(B) EVIDENCE BIDDERS SHALL PROVIDE

- 5.7.1.8 In addition to the Minimum Evidential Requirements, Bidders' responses shall cover as a minimum:
- (i) Details of the Initiatives and actions to deliver a high standard of customer service in all areas of the business, and how these will contribute towards achieving the NRPS benchmarks defined in the Franchise Agreement;
 - (ii) Their approach to providing on-board catering services, including on Class 800/801-operated services; and
 - (iii) Their Customer and Stakeholder Engagement Strategy, including:
 - How the Franchise Operator will engage with customers, potential customers and other stakeholders on an ongoing basis to understand their experiences and perceptions of the Franchise, and their priorities for future improvement;
 - How the Franchise Operator will use the results of customer and stakeholder engagement to inform business decisions and to improve customer services;
 - How the Franchise Operator will use the CCIF (Customer and Communities Improvement Fund) in view of stakeholder aspirations;
 - The initial draft Customer Report setting out the key commitments the Franchise Operator will make to its customers, including commitments that relate to day-to-day services, how it will act to address problems and how it intends to improve services and/or facilities. It should provide sufficient information to allow customers to assess and understand the performance of the Franchise;
 - How the Franchise Operator will update, communicate and publish future Customer Reports, and improve the transparency of performance and customer satisfaction information; and
 - Details of any proposed improvements to the Passenger Charter and how these will be implemented.

(C) SCORING

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

- (i) Proposals for defining and measuring the quality of customer service in addition to the measures used in NRPS.
- (ii) Proposals that, compared to current standards, will improve the ability of customers to make informed choices about their journey or potential journey, potentially by exploiting technology to provide information in innovative ways.
- (iii) Proposals to improve the consistency and/or availability of the ICEC on-board catering offer for all customers for the duration of their journeys especially in Challenging Circumstances.
- (iv) Proposals for the publication of Customer Reports that are particularly effective in giving customers tailored information (for example demographically or geographically) directly relevant to the particular issues that matter most to them, for example in relation to crowding and train service performance.
- (v) Proposals to share the Franchise Operator's data with third parties (including without limitation data on performance, customer satisfaction, crowding, etc.), where this would secure benefits for customers, the Franchise or the UK rail industry.
- (vi) Initiatives to improve access and facilities for people with reduced mobility.
- (vii) Proposals for commercial or technical innovations which improve customer satisfaction and engagement.

5.7.2 **DP5.2 Station Management and Development**

(A) REQUIREMENT

5.7.2.1 The Department requires a Franchise Operator who will enhance the station environment for passengers, identifying opportunities for and delivering new investment across the stations portfolio, and delivering improvements in the planning and delivery of asset management and maintenance. Accordingly, the Department requires a Franchise Operator who will:

- Enter into 99-year station leases for all stations except York, Newcastle and Dunbar within four months of the Franchise Start Date, in accordance with the requirements of the Franchise Agreement;
- Support Network Rail in developing plans for the transfer of York and Newcastle stations as set out in the Franchise Agreement;
- Work with relevant stakeholders in preparing for the transfer of Dunbar station to ScotRail as set out in the Franchise Agreement;
- Realise the commercial potential of the stations and their surroundings;
- Develop the social amenity of stations' space and facilities for the benefit of local communities;
- Use integrated planning to improve the efficiency and effectiveness of station maintenance, renewal, operations and project delivery, as a minimum by identifying and implementing best-practice asset management and utilisation;
- Manage the maintenance and renewal of the stations such that station condition does not fall below levels specified in the Franchise Agreement; and
- Calculate the Station Stewardship Measure (SSM) currently defined by NR/ARM/M17PR for each station (available on the Data Site), provide validated SSM scores to Network Rail annually, and contribute to any future development of the measure.

(B) EVIDENCE BIDDERS SHALL PROVIDE

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

- (i) Details of how the Franchise Operator will consider the needs of passengers when developing plans for station maintenance and renewals activities, major improvements, or redevelopment projects;
- (ii) Their approach to working with relevant third parties to attract and facilitate investment at stations;
- (iii) Details of any proposed station enhancements and how they will be delivered;
- (iv) Their Integrated Station Asset Management Policy which takes into account whole-life costs that includes:

- Clear rules for when interventions will be made, specified in terms of asset condition and/or user satisfaction; and
 - Their approach to dealing with exceptional station asset renewals, such as those arising from latent defects or exceptional adverse weather, environmental contamination or third party damage;
- (v) Their Integrated Station Asset Management Plan that includes:
- A priced station maintenance and renewal plan year-by-year for the Franchise Term, distinguishing between reactive and planned maintenance;
 - An estimate of how delivery of the integrated asset management plan will affect the condition of each station, by year;
 - An assessment of the expected cost efficiencies through the integrated delivery of maintenance and renewals;
 - Details of how the Franchise Operator will maintain, update and report asset data (including condition measures);
 - Details of how any proposed enhancements will be delivered, with milestones and a breakdown of costs;
 - Details of how station footfall will inform the development and ongoing revision of its integrated asset management plan; and
 - Details of their approach to embedding the principles of inclusive design in any station development;
- (vi) The resources and competencies proposed and the organisational and collaborative arrangements to secure the effective development and delivery of the responsibilities required in this Sub-Plan.

(C) SCORING

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

- (i) Schemes which may not have a commercial return in the Franchise Term, but which deliver a commercial return beyond the Franchise Term.

6. Section 6: Detailed Bid submission requirements – Financial

6.1 Introduction

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

- A Financial Model prepared in accordance with the requirements set out in subsections 6.3.1 (General) – 6.3.3 (The Financial Model) and 6.3.6 (Generic Model Requirements);
- 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 6.3.6 (Generic Model Requirements);

the Financial Model and Operating Models being collectively the “**Models**”. General modelling assumptions are set out in subsection 6.4.1 (General assumptions to be made) and assumptions surrounding the GDP indexation mechanism are set out in subsection 6.4.2 (GDP indexation mechanism assumptions);

- Financial Templates populated in accordance with the requirements described in subsection 6.3.5 (Financial Templates);
- A Record of Assumptions prepared in accordance with the requirements set out in subsection 6.5 (Record of Assumptions);
- An Operating Manual prepared in accordance with the requirements described in subsection 6.6 (Operating Manual);

the Models, the Record of Assumptions and the Operating Manual being collectively the “**Modelling Suite**”;

- Responses to all of the requirements surrounding Change as set out in subsection 6.7 (Change);
- Evidence that the Models have been reviewed in accordance with the requirements described in subsection 6.8 (Model review and audit);
- A paper 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

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

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

6.2 **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 prior to submission. Where any element of the Modelling Suite is found to contain an error or errors, the Department reserves the right to:

- 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);
- Correct the error or errors either itself or through clarification from the Bidder in accordance with subsection 4.13 (Process following Bid submission), and then evaluate that element of the Modelling Suite in accordance with Section 7 (Evaluation criteria and methodology); or
- 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 and all Operational Models which support that Financial Model. 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 in accordance with the evaluation

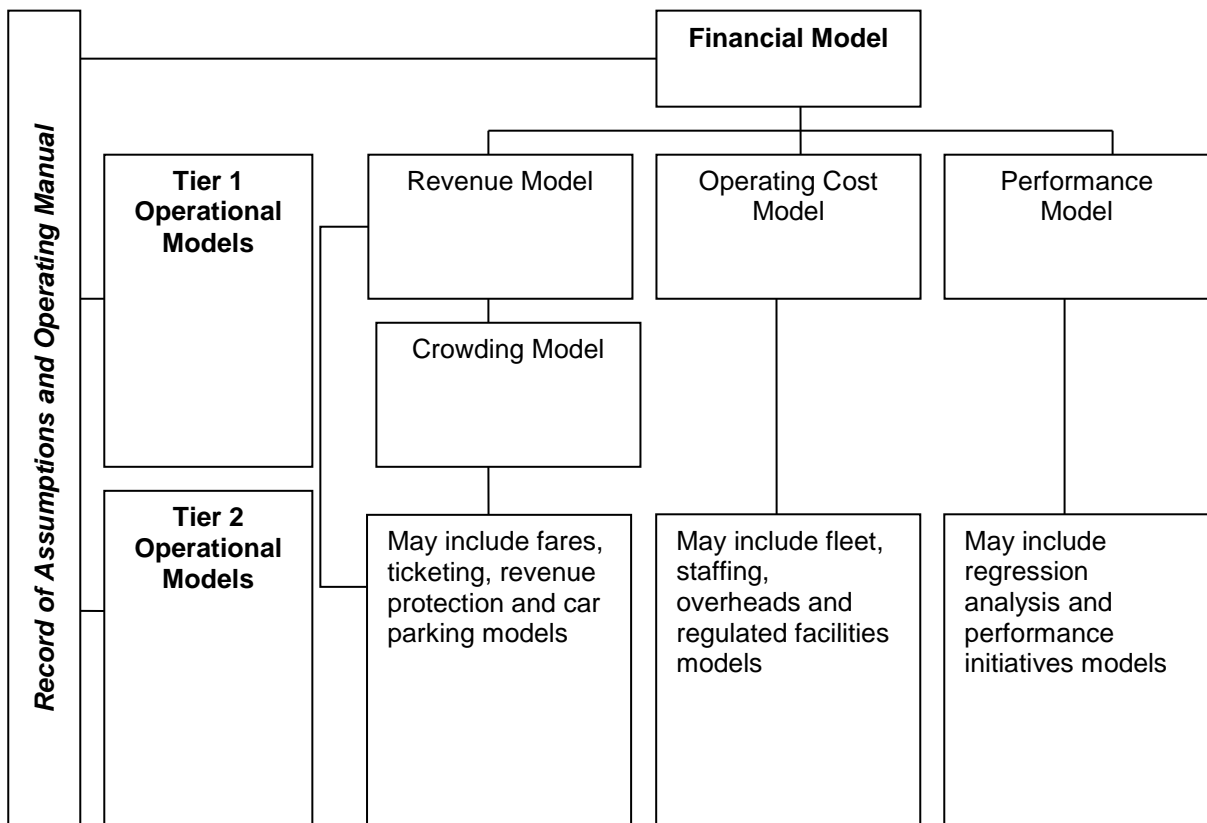
criteria and methodology described in Section 7 (Evaluation criteria and methodology).

6.3.1.2 Any changes to the Models after Bid submission as a result of the clarification process described in subsection 4.13 (Process following Bid submission) or otherwise, will need to be clearly logged and traceable, including an audit trail in the relevant model itself, using the template version control sheet.

6.3.2 Structure of the Models

6.3.2.1 An example of how the Department anticipates that Models will be structured is illustrated below.

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 to aid the Department’s understanding.

6.3.3 **The Financial Model**

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

General

- Includes the calculations that are required to produce outputs for inclusion in the Franchise Agreement and Funding Deed (as set out in the financial templates provided to Bidders through the Data Site and listed at paragraph 6.3.5.4 and for use in accordance with Section 7 (Evaluation criteria and methodology). Outputs from the Financial Templates will be used:
 - To populate the Franchise Payments (the Appendix to Schedule 8.2 (Annual Franchise Payments) of the Franchise Agreement). The Franchise Payment table set out in the Appendix to Schedule 8.2 (Figures for Calculation of Franchise Payments) of the Franchise Agreement should be completed in 2014/15 prices;
 - To populate the Season Ticket Bond value (Season Ticket Bond);
 - To populate the profit share thresholds in appendix 1 to schedule 8.1 of the Franchise Agreement;
 - To populate the AFA and DFR in schedule 8.1 of the Franchise Agreement;
 - To identify and track funding made available to the Franchisee as Agreed Funding Commitment or PCS and populate the Funding Deed; and
 - To populate the PCS value and the Bonded PCS value in the Funding Deed.
- Applies consistently on an annual basis, in accordance with the Franchise Agreement, the methodology required for calculating Franchise Payments;

- Shows how the Franchise will be funded over the Core Franchise Term and the Extension Period;
- Includes all tax computations. Financial forecasts are to include calculations of the tax liabilities of the subject company in accordance any applicable tax law. Complete integrated tax computations should be included in the Financial Model. To the extent that any group, consortium or other form of relief or sale of losses is anticipated this should be clearly stated within the Financial Model. Capital and revenue expenditure should be clearly identified along with capital expenditure not qualifying for capital allowances;
- Properly reflects the accounting rules under which the Franchisee will report its financial information. Bidders are to adopt either UK GAAP (incorporating any relevant transitional arrangements to FRS101 or FRS102 should the Bidder not choose to early adopt) or IFRS but the accounting basis chosen must be disclosed, consistent and once selected cannot be changed;
- States default prices in nominal terms and when viewed in real terms, outputs should be deflated to 2014/15 prices;
- Calculates the GDP Adjustment Payments in accordance with schedule 8.5 of the Franchise Agreement;
- Properly reflects the profit sharing mechanism, including the thresholds and shares, as set out in the Franchise Agreement (Schedule 8.1 (Franchise Payments));
- Provides output schedules in the format of the Financial Templates;

Financial robustness

- Includes functionality to allow the Department to undertake the Department's Financial Robustness Test by:
 - Freezing Annual Franchise Payments such that these do not change when undertaking the Financial Robustness Test;
 - Allowing the amount of Additional PCS available to be changed for the purposes of assessing financial risk; and
 - Including a switch to pay out all available funds as dividends throughout the Franchise Term provided that such amounts are restricted to distributable profits and are capped by the ability of the Franchise Operator to pass the Financial Ratio test set out in Schedule 12 of the Franchise Agreement at the 1.070 level.

- Allows risk adjustments and sensitivities to be applied to all assumptions as described in this Section 6 (Detailed Bid submission requirements – Financial) and Section 7 (Evaluation criteria and methodology);
- Allows the Department to simulate drawdowns of certain of the Parent Company Support as required by the Financial Robustness Test described in subsection 7.5 (Evaluation of Financial Robustness). In particular:
 - Where, after the application of risk adjustments in each year of the Franchise as part of the Financial Robustness Test, the Financial Ratio is breached, the Financial Model must allow the Department to simulate drawdowns of any outstanding Agreed Funding Commitment and the PCS either in full (i.e. where, despite drawdown of the full amount of the PCS, such Financial Ratio is still breached) or to the extent required to ensure that such Financial Ratio is no longer breached (in accordance with the process described in subsection 7.5 (Evaluation of Financial Robustness). This dynamic funding calculation (“DFC”) functionality must be transparent in the way it is modelled and documented in the Operating Manual and will be evaluated in accordance with Section 7 (Evaluation criteria and methodology);
 - The DFC must simulate the drawdown and repayment (as appropriate) of Agreed Funding Commitment and PCS committed under the terms of the Funding Deed in circumstances where risk adjustments are applied to the Financial Model in accordance with Section 7 (Evaluation criteria and methodology);
 - The DFC must work in conjunction with the requirement to freeze Annual Franchise Payments and profit share thresholds as outlined above; and
 - The DFC must demonstrate that PCS is repaid in accordance with the terms of the Funding Deed and the Franchise Agreement;

Addressing Franchise Change

- Accurately executes the calculations as designed, and provides confidence in its robustness and ability to price Change;
- Provides a sufficient level of usability to allow Change scenarios to be run in a reasonable timescale;
- Provides an appropriate level of granularity for populating template outputs, and is sufficiently transparent to show Changes clearly; and

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

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

- Adopt an absolute sign convention in constructing their Financial Model, such that all revenues and assets are positive and all costs and liabilities are negative;
- Provide a switch in their Financial Model to allow the Financial Templates to be presented in real or nominal terms (where real terms means nominal values deflated by RPI to 2014/15 prices); and
- Ensure that their Financial Model is self-contained within a single Microsoft Excel workbook. The Financial Model should be presented in annual terms, with year-ends coinciding with the Department's 31 March accounting year end (as demonstrated within the Financial Templates), except in the case of the part-year period identified in paragraph 6.3.5.6.

6.3.4 **Operational Models**

6.3.4.1 The Operational Models are all those models that contain calculations generating inputs to the Financial Model either directly or indirectly. Each Operational Model should be coherent, in that the different Models, including the Financial Model, interface and work together effectively.

6.3.4.2 Each Operational Model should:

Change

- Provide an appropriate level of granularity for generating Financial Model inputs, and be sufficiently transparent to show Changes clearly;
- Be sufficiently flexible to allow the pricing of Change;
- Accurately execute the calculations as designed, and provide confidence in their robustness and ability to price Change;
- Provide a sufficient level of usability to allow Change scenarios to be run in a reasonable timescale;
- Clearly identify incremental costs and revenues associated with the introduction of the new Class 800/801 rolling stock in a manner that facilitates the pricing of Change. For the avoidance of doubt, only incremental revenues and new costs attributable to the introduction of Class 800/801 rolling stock should be separately identified. Revenue relating to a

timetable change facilitated by Class 800/801 rolling stock should be attributed to that timetable change; and

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

Revenue model

6.3.4.4 This demand and passenger revenue forecasting model must at least disaggregate demand and revenue into the ticket types and Service Groups contained in the Financial Templates, and in addition must disaggregate demand and revenue into Mondays-Fridays, Saturdays and Sundays.

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

- Macro-economic factors, including competition with coach services and car (disaggregated into individual factors where appropriate);
- Timetable changes;
- Fare proposals and policy that demonstrates compliance with Schedule 5 of the Franchise Agreement;
- Operating performance;
- Service quality;
- Marketing;
- Revenue protection Initiatives;
- Revenue / yield management Initiatives; and
- Other investments or Initiatives (such as station or rolling stock improvements or any proposed Class 800/801 variations).

6.3.4.6 The revenue model must take inputs from MOIRA for revenue and journeys disaggregated into Mondays-Fridays, Saturdays and Sundays, and must use these appropriately to calculate the impact on total revenue and journeys of timetable changes which have different impacts on Mondays-Fridays, Saturdays and/or Sundays.

6.3.4.7 Bidders must also submit:

- The versions of MOIRA that have been used to populate the revenue model populated with the timetables that have been included in the revenue forecast, and the SPG files containing the assumed Franchise Services and Open Access services, as required by the relevant bullet in paragraph 4.10.1; and
- The MOIRA output files (and any intermediate files which process these output files) which input revenue, journeys and passenger miles to the revenue model.

6.3.4.8 Bidders must use techniques or models traditionally used in the rail industry and comprising MOIRA (for clarity, this means MOIRA1 and not MOIRA 2) and bespoke revenue and crowding models for constructing their Bids. The techniques must be consistent with the approaches adopted by the Passenger Demand Forecasting Handbook (PDFH). For clarity, Bidders are not required to use PDFH recommended elasticities, but fares elasticities should be consistent with PDFH v 4 unless evidence is provided to justify the use of alternative assumptions.

6.3.4.9 The submitted models must comply with the requirements of paragraph 5.6.1.2(iii) with respect to calculating the impact of changes to fares regulation. Bidders may choose to provide this capability within the revenue model or within a Tier 2 fares model. The Department accepts that the models cannot have the capability to calculate the impact of all possible changes to fares regulation, but will deem the models to meet this requirement if they can:

- Model a rate of change in regulated fares up to two percentage points higher or lower per year than the base assumption; and
- Disaggregate what, if any, revenue is attributable to the ability to 'flex' the rate of growth of individual fares within the baskets.

6.3.4.10 The submitted 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).

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

Crowding model

6.3.4.12 The crowding model should be clearly linked to the revenue model. This shall include a schedule of daily services and stops, with the relevant headcode, diagram and seat and standing capacity, covering individually each service for which crowding could have a material impact. The model must show average daily loadings along the line of route for each of these services, in each year of the Franchise. To the extent that crowding is on average materially different on particular days of the week (for example Friday and Sunday afternoons), the model should calculate crowding at these times separately.

Operating cost model(s)

6.3.4.13 The operating cost model(s) should produce inputs to the Financial Model to the level of disaggregation required by the Financial Templates. Any further disaggregation is at the discretion of the Bidder.

Performance model

6.3.4.14 The performance model should produce the following inputs to the Financial Model:

- Annual payments to and from Network Rail in relation to Schedule 8 of the Track Access Agreement; and
- Annual payments in relation to TOC-on-Self performance relative to the benchmarks defined in Schedule 7.1 of the Franchise Agreement.

6.3.4.15 The model should be capable of calculating the following:

- Forecast average minutes lateness by Service Group;
- Attribution of average rail minutes lateness between the Franchise Operator and Network Rail;
- Forecast TOC-on-Self delays;
- Forecast cancellations and significant lateness (CaSL);
- Forecast short formations (if applicable);

- The impact on the Public Performance Measure MAA; and
- The basis upon which any performance receipts and payments are calculated. Performance receipts and payments between the Franchise Operator and Network Rail should be shown separately.

Capital expenditure model

6.3.4.16 Information on capital expenditure may be provided in a standalone model or incorporated in another model e.g. the cost model or Financial Model. However presented the relevant model or part of a model should be prepared to reflect the detailed investment plan for each incidence of funding of infrastructure, other works and schemes that support the Bidder's proposals with a value in excess of £250,000 (2014/15 prices) in any forecast year or £500,000 (2014/15 prices) for a project. The information provided should be clearly linked to the funding provisions (timings, sources, uses, repayments) and asset value calculations contained in the Financial Model and be fully documented in the Financial Structure and Funding Plan and Record of Assumptions.

6.3.4.17 There should be a clear trail (expressed in terms of Initiative references, descriptions and values) between each planned item of expenditure in the capital expenditure model, the Sub-Plan and Initiative to which it relates, and the Record of Assumptions.

6.3.5 Financial Templates

6.3.5.1 The Department requires that the output from the Models follow the Financial Templates that will be made available in the Data Site and Bidders should incorporate these Financial Templates into their Financial Model. The Financial Templates have been developed to be consistent, where possible, with the information detailed in the Long Form Report. This is to assist Bidders in using that information and to ensure comparability of responses. The Bidders should therefore use the relevant revenue and/or costs captions within the templates provided. If Bidders require to use additional revenue and/or cost captions they should use the spare rows provided within each of the templates and clearly label the costs and revenues which have been included in any spare rows within the Financial Templates.

6.3.5.2 Bids incorporating financial templates which do not conform with the structure as set out in the latest iteration of the Financial Templates provided or specified by the Department will be eliminated from the competition.

- 6.3.5.3 The populated Financial Templates should also be submitted in PDF format. Bidders are required to integrate the Financial Templates into their Financial Model as the template outputs will form the basis for financial evaluation. No hard copies of Models are required, however Bidders should ensure that all sheets can print in a readable manner without any additional formatting being required and with consistent page breaks being applied across each sheet.
- 6.3.5.4 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
Template Inputs		
Timeline	Define Franchise timeline and part year adjustments	Populate but do not alter structure
Indices & Rates	Repository of indices and rates	Populate but do not alter structure
Line Items	Master definition of line items	Bidder may populate spare line items denoted by square brackets
Template Outputs		
Pax Revenue	Template for forecasts of selected option	Populate but do not alter structure
Other Revenue	Template for forecasts of selected option	Populate but do not alter structure
Staff	Template for forecasts of selected option	Populate but do not alter structure
Other Opex	Template for forecasts of selected option	Populate but do not alter structure
RS Charges	Template for forecasts of selected option	Populate but do not alter structure
Infrastructure	Template for forecasts of selected option	Populate but do not alter structure
Performance	Template for forecasts of selected option	Populate but do not alter structure

Sheet	Content	Status
TOC Capex	Template for forecasts of selected option	Populate but do not alter structure
Financial Statements		
P&L1	Template for forecasts of selected option	Populate highlighted cells but do not alter structure
P&L2	Template for forecasts of selected option	Contains formulae, do not alter
P&L3	Template for forecasts of selected option	Contains formulae, do not alter
CF	Template for forecasts of selected option	Populate highlighted cells but do not alter structure
BS	Template for forecasts of selected option	Populate including Opening Balance in column AF, but do not alter structure
Output Calculations		
FAA	Production of tables and values to populate the Franchise Agreement including the Appendix to Schedule 8.2, Profit Share Thresholds (feed from Financial Statements and Bidder model)	Populate (highlighted cells only) but do not alter structure
NPV	NPV of Franchise Payments calculation (feed from Financial Statements)	Contains formulae, do not alter
FO&C	Schedule 12 Financial Ratio, Performance & Season Ticket Bond calculations (feed from Financial Statements)	Populate (highlighted 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 (highlighted cells only) but do not alter structure

- 6.3.5.5 The Financial Templates shall be populated in full, with outputs from the Models specified in years ending 31 March of each year.
- 6.3.5.6 The first Franchise Year of the ICEC Franchise is expected to run part year from 1 March 2015 to 31 March 2015 (i.e. for 1 full Reporting Period). In order to accommodate that this is a part year, the relevant worksheets in the Financial Templates provide an extra column where Bidders should derive the part year element from the full year column.
- 6.3.5.7 The Financial Ratio calculations are incorporated in the Financial Templates and are based on outputs contained in the template financial statements. Bidders

should take note of the drafting of Schedule 12 (Financial Obligations and Covenants) of the Franchise Agreement in completing the Financial Templates.

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

- 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;
- Should note that the spare rows provided in the Financial Templates can be used to accommodate additional detail but deleting or inserting rows or columns to the Financial Templates is not permitted and, for the avoidance of doubt, will result in the Bid being eliminated, in accordance with paragraph 6.3.5.2;
- May use the two blank columns inserted between the flag / labelling columns and the first modelled year as they see fit. The intention is that these columns will assist in the transfer of historic data to the Financial Model;
- Must ensure that the outputs in the Financial Templates are linked to the input / calculation cells where appropriate and in such a manner as to facilitate both the understanding of the Financial Model and tracing of core assumptions used in the Financial Model;
- 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:
 - The named ranges defined in the Financial Templates are preserved;
 - The new worksheets are inserted in Tabs to the left of the Financial Templates Templated Outputs tab;
- Must ensure that the format of the profit and loss account, cash flow statement and balance sheet are set out in the manner stipulated by the Financial Templates;
- Must use the units of measure as set out in the Financial Templates provided; and
- Should note that any types of revenues or costs that it wishes to include under a catch all heading of 'Other' should not exceed £250,000 (2014/15

prices) in any given year. Where a Bidder anticipates that such revenues or costs will exceed this amount, they should each be separately identified in a separate spare row and not listed under the heading 'Other'.

6.3.6 **Generic Model requirements**

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

- The Models should be presented in Microsoft Excel 'xlsx' or 'xlsm' format as shown in subsection 4.10 (Submission of Bids), with workings and formulae intact (i.e. non input cells should not be 'hard-coded' with values);
- No rows, columns, cells or worksheets of the Models should be hidden or password protected. Protecting worksheets without passwords to avoid accidental changes to inputs or calculations is allowed, provided it does not reduce the transparency or usability of the Models. Grouping rows or columns is permissible, but hiding rows, columns or worksheets is not permissible;
- The Department wishes to receive models that are efficient in their operation and use of memory. A maximum file size of 75MB for each model is permitted, and smaller Microsoft Excel workbooks are encouraged. For the avoidance of doubt, any workbook taking up more than 75MB of disk space will result in the Bid being treated as non-compliant unless a derogation is granted in accordance with the process set out in subsection 6.3.7 (Derogations);
- Bidders should avoid the use of macros in order to aid model transparency. Any use of macros should 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). No calculations should be performed by a macro. Where macros are used, their function should be clearly explained within the Operating Manual;
- In order to aid transparency, use of the INDIRECT and OFFSET functions is prohibited, except where derogation has been granted in accordance with the process described in subsection 6.3.7 (Derogations) below;
- The Models submitted by Bidders must be in line with best practice in accordance with the requirements set out in subsection 6.8 (Model review and audit) and employ the accepted principles of "separation", "consistency", "integrity" and "linearity" (as described in paragraph 6.8.2.4),

except where a derogation has been granted in accordance with the process described in subsection 6.3.7 (Derogations);

- 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 an array. Provided it is made clear (even when printed out and the formulae cannot be seen) that the calculation method is different, Bidders may use different formulae in respect of the following:
 - To allow a different approach to the treatment of forecasts before the Franchise commences (i.e. 1 March 2015), part years and the Extension Period as laid out in the Financial Templates;
 - To allow units, indices and other useful modelling 'flags' to be included in the columns to the left of the first modelled year; and
 - On sheets that do not contain a timeline, where consistency down rows may be applied instead of across columns.

Bidders do not need to seek derogation from the Department should the Models deviate from best practice in the three cases described above.

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

6.3.7 **Derogations**

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

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

6.3.7.2 Applications must be made in writing to the Department within 20 working days of publication of the ITT. It is not expected that derogations will be necessary.

Model size

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

Use of prohibited functions

- 6.3.7.4 The Department will consider applications for use of the OFFSET and INDIRECT functions where Bidders can demonstrate:
- 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
 - The use of these functions is clearly explained and documented in the Operating Manual and Record of Assumptions.

Modelling Best Practice

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

6.4 **Assumptions**

6.4.1 **General assumptions to be made**

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

- The Franchise will commence on 1 March 2015;
- The ICEC Franchise financial year commences on 1 April of each year. For the avoidance of doubt the Franchise Operator will be required to prepare audited accounts for the years ending 31 March for the duration of the Franchise;
- Annual RPI and AWE indices assumptions will be made available to Bidders in the Data Site and shall apply from the year commencing 1 April 2015 and annually thereafter. Bidders should adopt their own RPI and AWE assumptions up to the year commencing 1 April 2015, and such assumptions should be clearly stated;

- The real discount rate to be applied in present value calculations is 3.5 per cent per annum;
- The net present values of Bid revenues, costs and Franchise Payments will be discounted to the Franchise Start Date (1 March 2015);
- For the purposes of calculating net present values, the template calculation assumes the following timings for cashflows:
 - Mid-period cashflows for the part year 1 March 2015 to 31 March 2015 (16 March 2015); and
 - Mid-year cashflows for full Franchise financial years from 1 April to 31 March inclusive (30 September);
- Bidders should 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;
- Bidders should assume maximum annual regulated fares increases of RPI+1% for the life of the franchise; and
- Bidders should make their own assumptions in respect of payments under any Efficiency Benefit Share Mechanism.

6.4.2 **GDP indexation mechanism assumptions**

- 6.4.2.1 The Financial Model should reflect the GDP indexation mechanism as set out in Schedule 8.5 of the Franchise Agreement.

6.5 **Record of Assumptions**

- 6.5.1 Each Bidder is required to submit with its Bid a Record of Assumptions which:
- Is written in Microsoft Word 'docx' format in accordance with subsection 4.10 (Submission of Bids);
 - Clearly set out the rationale underlying the assumptions and the methodologies adopted;
 - Provides detail and transparency on the costs, revenues and assumptions associated with both the introduction of the new Class 800/801 rolling stock and each major timetable change;
 - Makes clear where a timetable change is dependent on the delivery of Class 800/801 rolling stock;

- Includes a description of accounting policies, especially in relation to capital investment, pensions, and taxation assumptions. This description should include details on capital and revenue expenditure as well as any capital allowance assumptions;
- 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;
- 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;
- Uses tables to enhance the narrative, such tables being directly traceable to the Models; and
- Arrives at an estimate of the financial impact of a change in prices or volumes which is aided by the quality of the narrative.

6.5.2 The Record of Assumptions should:

- Contain all financial and operational assumptions used in the Models and explain and discuss the inputs of each Model, including the base unit cost for each input. Where contracted variable unit costs have the potential to change as a result of Change (e.g. maintenance contract charges which vary between mileage bands), Bidders are required to include the full range of potential unit costs of their anticipated contracted agreements within the Record of Assumptions;
- 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) that are earned from or paid to HQ, group or other affiliates (as defined in the Franchise Agreement) including details of (a) the services to which such revenues or costs relate; and (b) the basis for determining the charges;
- Provide details of any financial benefits (which includes changes to both revenues and costs that impact the Bid level of Franchise Payments) included within the Bid arising from any alliance with Network Rail. Bidders are not to 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) within their Bid. The technical consequences of any proposals for alliancing with Network Rail may be subject to risk adjustment

in accordance with the principles of Section 7 (Evaluation criteria and methodology) and Appendix 3 (Risk Adjustment Process);

- Include separately the costs involved and assumptions made in relation to pension contribution rates, both employer and employee;
- If the Bidder proposes investment with a useful economic life or period of financial return that exceeds the Core Franchise Term, any costs and revenues that accrue in relation to that investment should be explicitly set out in the Record of Assumptions setting out:
 - The period from investment until Franchise end;
 - The period from Franchise end until end of asset life, including the basis for determining that asset's life;
 - The initial cost of the investment;
 - The amount of cost recovered/ paid off during the life of the Franchise; and
 - The outstanding cost which has not been recovered the end of the Franchise (for the avoidance of doubt, Bidders are solely responsible for any residual value assumed in their Bids).
- Where changes in the Financial Model are attributable to Initiatives, set out the reasons for such in the Record of Assumptions for each effected input to the Financial Model. An example of how such movements could be presented is shown in respect of headcount in Table 6.2 (Example of presentation of movements in Record of Assumptions) below. Bidders should note that words and values contained within Table 6.2 are indicative only.

Table 6.2. *Example of presentation of movements in Record of Assumptions*

Franchise Year	1	2	3	4	5	6	7	8
Base year/ Opening FTE	432.5	392.5	376.5	374.5	389.5	419.5	424.5	421.5
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	(5.0)	(5.0)						

Franchise Year	1	2	3	4	5	6	7	8
(Management/ HQ structure efficiencies)								
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						
Total FTE at the year end	392.5	376.5	374.5	389.5	419.5	424.5	421.5	421.5

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 detail of the impact that initiatives have on each cost, revenue or other input to the submitted Financial and Operational Models. A brief narrative explaining why the cost or revenue is so impacted by the relevant initiatives should accompany each table. The wording of the narrative or cross-references used and the values shown should 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 Bidders are required to describe Initiatives that are dependent upon TSR2 and the extent to which those Initiatives vary in the event that TSR2 is not delivered within the timescales anticipated.

6.5.5 In addition, each Bidder is required to submit with its Bid:

- A copy of its modelled timetable (which has been developed within MOIRA (not MOIRA2 as per the instruction set out in paragraph 6.3.4.8) or any other revenue or timetable development software) to calculate the likely passenger revenues that will be earned from the timetable submitted with their Bids and that have been utilised in the population of the Bidder's revenue model. This information should be provided electronically in raw format as an appendix to a Bidder's Record of Assumptions; and
- As described above, the Operational Models should have the capability to forecast the Other Revenue section of the Financial Model, to the level of disaggregation required by the Financial Templates. Bidders may choose to provide this capability within the Financial Model, employ an additional Tier 1 Operational Model, or develop an alternative methodology. Bidders are

requested to detail the approach adopted in their Operating Manual or the Record of Assumptions.

6.6 **Operating Manual**

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

- Is in Microsoft Word 'docx' format in accordance with subsection 4.10(Submission of Bids);
- Is an accurate and plain English document that facilitates a reasonable level of understanding of the functionality of the Bidder's Models, including how they interface and interact with other Models;
- 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;
- Includes a description of each Model, its structure and capability;
- Includes a description of the purpose and operational characteristics of each worksheet and how it interacts with the Models;
- Includes instructions on how to input data, select scenarios/options and calculate the financial outputs;
- Clearly explains the method by which the Bidder's Models are able to carry out the tests described in paragraph 6.3.4.2; and
- 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.

6.6.1.1 Screen shots and narrative may be used to provide the user with sufficient information to assess the content, purpose and functionality of the Models.

6.7 **Change**

6.7.1 **Matters to be addressed in the Operating Manual**

6.7.1.1 In addition to the requirements and content set out in subsection 6.6 (Operating Manual), the Operating Manual shall also include the worked examples of Change ("**Worked Examples**") set out below. The Worked Examples will be evaluated in accordance with subsection 7.4 (Modelling Change tests) and section 7 (Evaluation criteria and methodology). The Financial Model is **not**

required to include a switch to allow these examples to be selected. The Worked Examples to be included are:

- Worked Example (A) - maximum regulated fare basket increases for 2015 and all subsequent years in the franchise term reduce from RPI+1% to RPI+0%. All other policies remain the same including caps on individual prices within baskets and fare rises for other years. (Bidders should include the impact of the price change on levels of demand); and
- Worked Example (B) – the delivery of each IEP set is delayed by six months (the depots having been delivered on time) with the leases for the existing fleet being extended for six months at the existing rates.
- Worked Example (C) – all Network Rail charges set by the ORR are assumed to be equal in real terms to the charges as per the last year of CP4 for CP6.

6.7.1.2 The Bidder must ensure that the Worked Examples:

- Provide a clear and detailed account of the assumptions and processes employed in pricing the Change, including:
 - Details of the individual steps to be followed to make the Change; and
 - Identification of the Models impacted by the Change (i.e. financial, revenue, crowding, fares etc.), including a process flow diagram;
- Trace the effect of a revised input through the Models, providing an audit trail from output Franchise Payments back to input changes;
- 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
- Demonstrate that the level of change in the Financial Model outputs, including but not limited to Franchise Payments, is commensurate with the level of input changes.

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

6.7.2 **Modelling Change**

6.7.2.1 The Department requires each Bidder to submit with its Bid the following items:

Table 6.3. 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 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 subsection 6.3 (Financial and Operational Model requirements) 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 subsection 6.3 (Financial and Operational Model requirements) of this ITT.

- 6.7.2.2 The Department will, as part of the evaluation carried out pursuant to subsection 7.4 (Modelling Change tests), assess whether the Bidder has met all of the requirements as specified in the column headed 'Requirements' in Table 6.3 (Modelling Change submission requirements), in respect of each of these four items.
- 6.7.2.3 The Department recognises that there are considerable time, cost and resources often deployed by the Department and Franchisees in the contracting and management of Change throughout the Franchise Term. The contracting of a suitable Modelling Suite will support endeavours to improve the efficiencies around contracting Change.
- 6.7.2.4 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 Model review and audit

6.8.1 Introduction

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

Table 6.4. *Model review and audit requirements*

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

6.8.1.2 The Financial Model and Operational Models of all Bidders will be subject to Independent Modelling Best Practice Confirmation. Details of the process are set out in subsection 6.8.2 (Modelling Best Practice Confirmation). The Financial Model of certain Bidders will be subject to a full Model Audit. Details of which Bidders and the process are described in subsection 6.8.3 (Model Audit).

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

6.8.2 Modelling Best Practice Confirmation

6.8.2.1 The Department will not be responsible for agreeing the scope or costs of the Modelling Best Practice Confirmation and expects relevant letters of engagement to reflect this.

6.8.2.2 Each Bidder must provide with its Bid an independent Modelling Best Practice Confirmation report on all sections of the Models, co-addressed to the Department and that Bidder, taking account of any derogations obtained in

accordance with the process described in subsection 6.3.7 (Derogations) above. The Modelling Best Practice Confirmation is not considered to be an audit of the Models.

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

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

- **Separation** of inputs, calculations and outputs;
 - Inputs: should include data and assumptions but no calculations;
 - Calculations: should include individual calculations that support each line of all outputs and reports. There should be no duplication of calculations nor should input cells be hard-coded in the calculation sheets;
 - Outputs: should not include any hard-coded input cells or calculations except for sums and check totals;
 - Data inputs, calculations and output areas should be completely separate and clearly labelled. The Modelling Best Practice Confirmation must document the high level patterns of data flow within the Models and include a flow chart of the main data flows between worksheets and workbooks;
- **Consistency** of formulae across rows and down columns and across worksheets. The Models should have time periods across the columns and calculations down the rows. This should be consistent in all worksheets. There are two areas where consistency is most important:
 - Columns: the same column should be used for the same period in each worksheet;
 - Rows: a row will contain only one formula, copied across all columns;
- **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;
- **Linearity** of calculation flow (e.g. that there are no circular references); and
- **Macros**, where required, their function should be clearly explained.

- 6.8.2.5 The Modelling Best Practice Confirmation must provide a review of the Models' structures by means of spreadsheet maps, which give a visual representation of the worksheet structure and layout, highlighting elements of the worksheet layout that warrant further investigation (however, as this is not as detailed as a Model Audit, each individual formula is not checked).
- 6.8.2.6 The Modelling Best Practice Confirmation must also provide confirmation that the 75MB size limit has been adhered to, and that the INDIRECT and OFFSET functions are not used except where derogations have been obtained in accordance with the process described in subsection 6.3.7 (Derogations).

6.8.3 **Model Audit**

- 6.8.3.1 Following Bid submission and prior to contract award the Department will request one or more Bidders to obtain an independent audit of all sections of the Financial Model (the "**Model Audit**"). The Model Audit shall be prepared for the benefit of the Department and the Bidder and shall be co-addressed to them. 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 and the Department's agreement to the definition of the Financial Model for determining the scope of the audit. The Department will expect to receive the audit report within ten working days of it being requested of the Bidder.
- 6.8.3.2 The Department requires the Model Audit to confirm:
- Whether the Financial Model has been constructed appropriately so as to materially achieve the objective that it was designed to meet, insofar as its logical integrity under the Bid assumptions and input data is concerned, including the conversion of nominal values to real values;
 - Whether the tax charge, liabilities and payments calculated by the Financial Model, on the basis of the assumptions made in the Operating Manual and Record of Assumptions appear materially consistent with current understanding of existing UK tax legislation, identifying any risks associated with the underlying tax assumptions;
 - State whether the Bidder has applied UK GAAP (incorporating any relevant transitional arrangements to FRS101 or FRS102 should the Bidder not choose to early adopt) or IFRS (full IFRS or FRS 101) accounting policies and whether the key accounting assumptions in the Financial Model and the Operating Manual and Record of Assumptions appear materially consistent with current understanding of UK GAAP/ IFRS (whichever is relevant);

- Whether the calculation of the Annual Franchise Payments is in accordance with the terms of the Franchise Agreement;
- Whether the calculation of the Financial Ratios is in accordance with Schedule 12 (Financial Obligations and Covenants) of the Franchise Agreement;
- Whether the Financial Model has been developed in a well-structured manner to best practice standards;
- Whether assumptions and input data in the Operating Manual and Record of Assumptions have in all material respects been consistently reflected in the Financial Model; and
- Whether the DFC accurately performs the calculations as required in this ITT and as set out in the Funding Deed. The Department will define with the Model Auditor the inputs and parameters, as appropriate, to meet this requirement in the Model Audit.

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

6.8.3.4 The Department recognises that the finance, accounting and taxation elements of the Model Audit are not relevant to the Tier 1 Operational Models, and therefore requires a review of the calculations only, to be conducted by the same party that undertakes the Model Audit, in accordance with the process described in subsection 6.8.4 (Calculation Review).

6.8.4 **Calculation Review**

6.8.4.1 The independent party conducting the Model Audit will also conduct a review of the calculations employed in the Tier 1 Operational Models (a “**Calculation Review**”). The Calculation Review will be conducted to the same standard as the Model Audit, but will exclude the technical elements of this process relating to taxation and accounting practices. The Department requires the review to confirm:

- Whether the Tier 1 Operational Models have been constructed appropriately so as to materially achieve the objectives that each of them

were designed to meet, insofar as its logical integrity under the Bid assumptions and input data is concerned;

- Whether the Tier 1 Operational Models have been developed in a well-structured manner to best practice standards; and
- 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:

- 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;
- Shows that the PCS has been calculated and provided in accordance with the requirements set out in paragraphs 6.9.2.3 to 6.9.2.8 (Parent Company Support);
- 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, risks to its ability to meet its funding commitments and how risks will be mitigated;
- Provides a schedule, reconciled to the Funding sheet (row 47) in the Financial Templates, which details, for each element of AFC funding, amounts of equity and debt provided and repayment profiles where relevant. This schedule should be supported by sufficient narrative for the Department to understand the Bidders' plans and rationale;
- Provides details of the providers of the Performance Bond, Season Ticket Bond, PCS Bond, Angel Guarantee 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;
- Includes a statement from the relevant bond provider accepting the form of the Performance Bond as set out in the Franchise Agreement (as an Annex if appropriate);

- Includes a statement from the relevant bond provider accepting the form of the Season Ticket Bond as set out in the Franchise Agreement (as an Annex if appropriate);
- Includes a statement from the relevant bond provider(s) accepting the form of the PCS Bond as set out in the Funding Deed (as an Annex if appropriate);
- Includes a statement from the relevant provider of the Angel Guarantee or other security confirming that it will stand behind the guarantee;
- Includes a statement from the Guarantor(s) 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;
- Demonstrates how ongoing working capital requirements, as forecast in the Financial Model, will be funded;
- Includes for each Initiative which has a funding source outside of working capital (or groups of commitments if appropriate), a funding plan with full details of its linkage with the Financial Model, each source of funding, including rights and obligations of each type of funding and details of agreements with the organisations providing funding (including intra-group or intra-company funding). For each source, a letter of support and term sheet must be provided from the underwriting financial institution setting out the terms and conditions (including all condition precedents, fees, repayment profile, basis of interest rate calculation) of the finance;
- Includes an explanation of the basis under which the Bidder proposes to procure additional rolling stock from the ROSCOs or extend existing leases;
- Sets out the detailed basis of the accounting treatment of leasing and associated charges for all rolling stock (explaining in particular whether charges for the use of rolling stock are treated as operating, finance leases or otherwise and why) and the detailed tax treatment of these charges (explaining in particular the application if relevant of the long funding lease rules contained in Chapters 6 and 6A of Part 2 of the Capital Allowances Act 2001);
- Provides details and assumptions for interest earned on cash deposits;
- Includes a statement of funding available to the Franchise Operator (i.e. assumed to be in the East Coast Mainline Limited business) from the Start Date including any assumptions around cash held by East Coast Mainline

Limited relating to season ticket or advance ticket purchases at the Start Date;

- Includes a letter from its financial adviser(s) (as an Annex if appropriate):
 - Confirming that the funding plans for all aspects of the Bid have been developed to a stage that will allow funding to be made available to the Franchise Operator on execution of the Franchise Agreement;
 - Confirming that financial adviser support of the funding proposition has been provided in the knowledge of the terms and conditions set out in the term sheets of the finance providers;
 - Confirming that the funding plans, including term sheets and financing assumptions, are accurately reflected in the Financial Model;
 - Confirming that the Financial Model has been prepared following Generally Accepted Accounting Practices;
 - Confirming that risks to the Bidder's ability to meet its funding commitments have been identified and mitigated;
 - Setting out the calculated ratios in respect of the Guarantor(s) as set out in subsection 6.10 (Updating of PQQ financial and economic standing tests and submission of updated bond provider letter(s)), together with details of the data used and its source, and details of the calculations undertaken and confirming, to the best of its knowledge, that the ratios have been calculated in accordance with the parameters defined in the PQQ documents; and
 - Confirms 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 Franchise Operator 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:

- Agreed Funding Commitment; and
- 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 Franchise Operator. It includes funding provided by group companies and third parties and may include debt, equity or a combination of both. Such funding will be incorporated in the Bidder's Financial Model at Bid to enable the Bidder to demonstrate that its Bid complies with the Financial Ratio tests set out in Schedule 12 (Financial Obligations and Covenants) of the Franchise Agreement.

Parent Company Support

- 6.9.2.3 Bids for the ICEC Franchise must be supported by a level of parent company support ("**Parent Company Support**"). Such support must come from the Guarantor (as defined in the Pre-Qualification documentation).
- 6.9.2.4 Parent Company Support consists of Required Parent Company Support and Additional Parent Company Support as explained below. The amount of Parent Company Support is defined in the Funding Deed as 'PCS Facility'.
- 6.9.2.5 The Guarantor(s) of the successful Bidder and provider(s) of Parent Company Support will be required to enter into the Funding Deed with the Secretary of State. The Funding Deed will set out the Guarantor(s)' obligation to make the Parent Company Support available. The Guarantor(s) entering into the Funding Deed with the Secretary of State will be subject to the updated tests of financial and economic standing described in subsection 6.10 (Updating of PQQ financial and economic standing tests and submission of updated bond provider letter(s)).

Required Parent Company Support²

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

$$\text{Required PCS} = \text{£}50,000,000 + 7\% \times \sum_{y=1}^{10} (BFP_y - FP_y)$$

Where:

² Please note that the reference line for the Parent Company Support calculation will be updated in early April 2014 to reflect new information, including updated forecasts from the Office for Budget Responsibility (OBR).

BFP_y equals the Department's Baseline Franchise Payments provided to the Bidders, stated in the Financial Templates sheet 'Funding' row 20 for each year "y" of the Franchise, including the Extension Period.

FP_y equals the Franchise Payments as calculated by the Bidder financial model and output in the Financial Templates sheet 'Funding' row 21 for each year "y" of the Franchise, including the Extension Period, and which are expressed in nominal terms. For the avoidance of doubt, these Franchise Payments are without any regard for payments by way of profit share or GDP support/share payments due to/from the Department pursuant to paragraph 3 of Schedule 8.1 and Schedule 8.5 of the Franchise Agreement.

Where (BFP_y – FP_y) for any given year "y" is negative, (BFP_y – FP_y) shall be deemed to be equal to zero for that given year "y". For the avoidance of doubt, the minimum Required Parent Company Support amount is £50,000,000.

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

Additional Parent Company Support

6.9.2.7 Bidders may propose Parent Company Support in excess of Required Parent Company Support ("**Additional Parent Company Support**" or "**Additional PCS**") for the purpose of providing additional financial robustness in the Bid. Additional Parent Company Support must be advanced by the Guarantor(s) in accordance with the terms of the Funding Deed i.e. it should be provided under terms identical to the Required Parent Company Support, including meeting the Bonding Requirement.

6.9.2.8 Actual Parent Company support is the sum of Required Parent Company Support and Additional Parent Company Support.

Bonding of Parent Company Support

6.9.2.9 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 for the aggregate of the Required PCS and any Additional PCS ("**Bonded PCS**"). For the purpose of this paragraph 6.9.2.9, "**relevant credit rating**" means either a credit rating of:

- A- (or better) by Standard and Poor's Corporation or Fitch Ratings Limited in respect of long term senior debt; or
- A3 (or better) by Moody's Investors Service Inc. in respect of long term senior debt.

6.10 Updating of PQQ financial and economic standing tests (the “Tests”) and submission of updated bond provider letter(s)

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

6.10.2 As set out in the passage of Section 5.3 of the PPD entitled “Re-calculation upon receipt of tenders”, the Department will re-calculate the results of the Tests once the Bid has been submitted, both in light of the Actual Parent Company Support (as determined by the requirements set out in subsection 6.9.2 (Funding)), and to take account of any audited annual accounts or credit rating updates issued during the letting process, or any material event disclosed under Section E1.2 of the PQQ.

6.10.3 As explained above, the Bidder should note that the Bonded PCS will need to reflect the Actual Parent Company Support. The PPD sets out the Department’s requirements in relation to Bonded PCS in excess of £25 million (referred to in the PPD as the Additional Bonding Requirement). Bidders must return with their Bid an updated letter from their bond provider(s), which reflects both the requirements of the PQQ and PPD and the level of Bonded PCS.

6.10.4 Bidders should be aware that the Funding Deed and accompanying bond(s) will be signed when the Franchise is awarded and on the same date as the Franchise Agreement, albeit that the obligation to provide Parent Company Support (or call on the bond(s)) arises only on the date that the winning Bidder commences the operation of the Franchise Services.

7. Section 7: Evaluation criteria and methodology

7.1 Introduction

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

- The Department's rights set out in subsections 3.5 to 3.7;
- 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
- Subsection 3.12 (Regulation (EC) 1370/2007);

the ICEC Franchise will be awarded to the Bidder who submits the most economically advantageous tender ("MEAT").

7.2 Definition of MEAT for the Competition

7.2.1 General rules

7.2.1.1 The Bidder submitting the most economically advantageous tender shall be determined by reference to the criteria and principles set out in this Section 7.

7.2.1.2 Subject to subsection 7.1 (Introduction), the most economically advantageous tender will be the Bid which achieves the highest Final Score, as described below, except where the difference between the highest Final Score and the Final Score of any other Bid(s) is less than 25 points. In such a case, the principles set out in subsection 7.2.2 (Supplementary rules) will apply for the purposes of determining the most economically advantageous tender.

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

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

Where

P is a score equivalent to the Bidder's Risk Adjusted NPV calculated in accordance with subsection 7.5 (Evaluation of Financial Robustness), adjusted, if applicable, in accordance with paragraph 7.2.1.7. P will be measured in millions rounded to two decimal places, with the midpoint

always rounded up (for example, 225,524,999 will be rounded to 225.52, and 225,525,000 will be rounded to 225.53);

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 25.

7.2.1.4 The Risk Adjusted NPV will be for the Core Franchise Term plus the Extension Period. In calculating the Risk Adjusted NPV, Franchise Payments for the Extension Period will be subject to a weighting of 50%.

7.2.1.5 For the avoidance of doubt, no adjustment will be made to the Risk Adjusted NPV used in the determination of P to reflect:

- Any payments to the Department that may be made under the profit share/cap arrangements in the Franchise Agreement;
- Any payments to/from the Department that may be made under the GDP risk sharing arrangements in the Franchise Agreement; or
- To the extent included by Bidders in their calculation of Annual Franchise Payments, any payments to/from the Department that may be made under any of the performance or incentive regimes in the Franchise Agreement.

7.2.1.6 The maximum Quality Score is 12.12 (this is less than 13 because the evaluation score for certain Sub-Plans is capped at 8) and therefore the maximum value of (n*Q) is 303. This is the maximum score that a Bid can obtain in relation to quality, whatever the NPV of that Bid or the winning Bid. Since the size of P is not known until Bids are received, it is not possible to specify in the ITT a fixed weighting in percentage terms between price and quality.

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

n = 25 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: $2,000 + (25 \times 11) = 2,275$

Bidder 2: $2,100 + (25 \times 5) = 2,225$

The winning Bidder would be Bidder 1 as it achieves the highest Final Score.

7.2.1.7 If:

- A Bid is found to be non-compliant in accordance with subsection 3.5 (Non-compliant Bids); and
- 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
- The effects of the non-compliance include a likely financial impact on the Department;

the Department may reduce the value of P used in the calculation of the Final Score for that Bid to take into account its reasonable view of the most likely financial impact of the non-compliance on the Department.

7.2.2 **Supplementary rules**

7.2.2.1 In the event that the difference between the highest Final Score and the total Final Score of any other Bid is less than 25 points, the following rules shall apply for the purposes of identifying the winning Bid:

- **Stage 1:** Any Bid with a Final Score that is 25 points or more below the highest Final Score will be excluded from this part of the process. The remaining Bids will be deemed “**Stage 2 Bids**”;
- **Stage 2:** If the difference between the highest quality score and the second-highest quality score on Sub-Plan 2.1 amongst the Stage 2 Bids:
 - Is at least 4 quality score points, the winning Bid will be the Stage 2 Bid that achieved the highest quality score on Sub-Plan 2.1; or
 - Is less than 4 quality score points, any Stage 2 Bid(s) with a quality score of 4 or more below the highest Stage 2 Bid quality score on Sub-Plan 2.1 will be excluded. The remaining Bids will be deemed “**Stage 3 Bids**”.
- **Stage 3:** The winning Bid will be the Stage 3 Bid that achieved the highest value for P (without reference to $n*Q$).

7.3 **Quality and deliverability evaluation**

7.3.1 **Sub-Plan weightings**

7.3.1.1 The Department will evaluate the Sub-Plans against the evaluation criteria set out in subsection 7.3.6 (Scoring methodology) and assign each Sub-Plan an evaluation score in accordance with subsection 7.3.6 (Scoring methodology).

The Sub-Plan evaluation scores will be converted into Sub-Plan quality scores in accordance with subsection 7.10 (Conversion of evaluation scores into quality scores).

- 7.3.1.2 The Department will use the weightings in column (C) of Table 7.2 (Sub-Plan weightings) to determine each Bid’s overall score for quality and deliverability (the “**Quality Score**”), and to determine each Bid’s overall Evaluation Score for the purpose described in subsection 7.9 (Delivery Plan non-compliance).

Table 7.2. *Sub-Plan weightings*

(A) Delivery Plan	(B) Sub-Plan	(C) Weighting
Delivery Plan 0: Bid Summary		N/A
Delivery Plan 1: Franchise Management	DP1.1: Leadership	3.5%
	DP1.2: Sustainability and Environment	2.0%
	DP1.3 Industry and Stakeholder Partnering	2.0%
	DP1.4: Innovation	2.0%
	DP1.5: Security	3.0%
Delivery Plan 2: Train service and performance	DP2.1: Train service	25.0%
	DP2.2: Rolling stock	10.0%
	DP2.3: Performance	5.0%
Delivery Plan 3: Major projects	DP3.1: Implementation of the Intercity Express Programme	15.0%
	DP3.2: European Rail Traffic Management System	5.0%
Delivery Plan 4: Revenue	DP4.1: Marketing and fares	5.0%
	DP4.2: Ticketing and revenue protection	2.5%
Delivery Plan 5: Customer experience and stations	DP5.1: Customer experience	12.5%
	DP5.2: Stations	7.5%

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

7.3.2 **Specialist reports**

- 7.3.2.1 The Department may commission specialist reports from within the Department and, if appropriate, from its technical, legal and financial advisors. In addition it

may commission external specialist reports from Consultees on Sub-Plans or other aspects of Bidder submissions.

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

7.3.2.3 Where Sub-Plans are being circulated, they will be circulated as the entire Sub-Plan. However, where Bidders' responses to the Department's requirements are included in other Sub-Plans, through the use of cross-referencing (as described in subsection 4.6 (Cross Referencing)), these relevant Sub-Plans may also be provided to the relevant organisation to enable their report to be completed.

7.3.3 **External evaluator organisations**

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

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:

- The quality of research and analysis supporting the Initiatives;
- 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;
- Evidence and relevant examples of Initiatives within the Sub-Plans being successfully introduced elsewhere;
- Any cross references to other Sub-Plans made in accordance subsection 4.6 (Cross Referencing);

- The outcomes that the Bidder will deliver, which could include without limitation additional benefits for passengers, reduction in whole-industry costs, or an increase in the long-term value of the Franchise to the Department;
- The robustness and resilience of its plans for delivery, including an assessment of the risk to its ability to deliver in Challenging Circumstances;
- The quality or appropriateness of any Initiative or the proposed outcomes;
- The description of the resources to be employed and delivery timescales;
- The extent of the availability of funding or financing assessed in accordance with subsection 7.8 (Impact of review of Financing and Funding Proposals);
- The extent to which the Bidder is willing to enter into an absolute obligation to deliver the Initiative in accordance with subsection 4.13.3 (Contractualisation);
- The extent and nature of any relevant Franchise obligation; and
- The timing of Initiatives and the period over which the benefits they generate are realised.

7.3.5 Impact of Financial Robustness Test on Sub-Plan evaluation scores

7.3.5.1 In accordance with subsection 7.5 (Evaluation of Financial Robustness), a Financial Robustness Test will be carried out on each Bidder's Models as part of the evaluation process. Where, in accordance with subsection 7.5.1 (Financial Robustness Test), a Bidder is projected, in its Risk Adjusted Financial Model, to breach the Financial Ratios (having taken into account the Materiality Threshold in paragraph 7.5.1.7) at any point during the Core Franchise Term or the Extension Period but after the end of the Minimum Financial Robustness Period defined in subsection 7.5.2 (Consequences of high financial risk):

- The evaluation score for any Sub-Plans which include a Relevant Initiative will, subject to the principles set out in paragraph 7.3.5.2, be reviewed and may be revised so that the evaluation score takes no account of the impact of such Relevant Initiative, provided that no revision will be made to any such evaluation score pursuant to this subsection 7.3.5 where such revision would result in an increase in such evaluation score;
- For the avoidance of doubt revision to the evaluation score for any Sub-Plan pursuant to this subsection 7.3.5 shall not cause any Sub-Plan to be deemed non-compliant.

- 7.3.5.2 Where an Initiative includes multiple specified milestones for committed deliverables, and some of these milestones would occur after the Year of Breach, Sub-Plan evaluation scores will be reviewed and may be revised so that they take no account of the impact of those deliverables relating to milestones which fall after the projected Year of Breach.
- 7.3.5.3 The following principles shall apply for the purpose of this subsection 7.3.5 (Impact of Financial Robustness Test on Sub-Plan evaluation scores):
- No further adjustment will be made to the Bidder's Risk Adjusted NPV pursuant to this subsection 7.3.5 (Impact of Financial Robustness Test on Sub-Plan evaluation scores); and
 - In accordance with this Section 7 (Evaluation criteria and methodology), and notwithstanding the adjustments described here, Bidders will be expected to contract the Initiatives proposed in their Bids.
- 7.3.5.4 For the purpose of this subsection 7.3.5 (Impact of Financial Robustness Test on Sub-Plan evaluation scores):
- A "**Relevant Initiative**" means an Initiative for which the Completion Date falls at any time after the Year of Breach (as defined in subsection 7.5 (Evaluation of Financial Robustness)); and
 - "**Completion Date**" means the earlier of (i) the date specified for the Relevant Initiative in the relevant Sub-Plan pursuant to subsection 5.1 (Introduction); and (ii) any date specified for the Relevant Initiative in the Franchise Agreement, in each case as the date by which the Relevant Initiative will be completed.
- 7.3.5.5 Bidders should note, therefore, that the outcome of the process described in this subsection 7.3.5 (Impact of Financial Robustness Test on Sub-Plan evaluation scores) may result in adjustment to a Bid's evaluation score and may therefore affect the ranking of Bids and ultimately the selection of the winning Bid.
- 7.3.6 **Scoring methodology**
- 7.3.6.1 Delivery Plans will be assessed at a Sub-Plan level in accordance with subsection 7.3.4 (Evidence), and awarded an evaluation score by taking into account:
- 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

- The credibility of the plan to deliver the Initiatives, including the appropriateness of the resources to be employed and the delivery timescales.

7.3.6.2 For the avoidance of any doubt, the Department’s assessment of the Initiatives and the credibility of the plans for their delivery may be affected by the extent to which Bidders support their responses with relevant and credible evidence as required by part (B) of the relevant Sub-Plan.

7.3.6.3 Evaluation scores will be awarded, in the judgement of the evaluators, by reference to the marking framework in Table 7.3 (ICEC marking framework and guidance) below and should be read in conjunction with the explanatory text which follows.

Table 7.3. ICEC 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.

7.3.6.4 An evaluation score of 8 will be awarded (subject to paragraph 5.1.6) where the criteria for the award of an evaluation score of 6 are met, and, in addition:

- 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
- The Sub-Plan proposes one or more Initiatives (aligned with the relevant requirements for the Sub-Plan) which are supported by implementation plans, where both the Initiative(s) and the supporting implementation plans provide good confidence overall that the Initiative(s) will generate improved outcomes (which could without limitation include additional benefits for passengers, reduction in whole-industry costs, or an increase in the long-

term value of the Franchise to the Department) so that the requirements of the specification will be exceeded.

- 7.3.6.5 An evaluation score of 10 will be awarded (subject to paragraph 5.1.6) where;
- 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
 - The Sub-Plan proposes one or more Initiatives (aligned with the relevant requirements for the Sub-Plan) which are supported by implementation plans, where both the Initiative(s) and the supporting implementation plans provide good confidence overall that the Initiative(s) will generate greatly improved outcomes (which could without limitation include significant additional benefits to passengers, reductions in whole-industry costs or greatly increase the long-term value of the Franchise to the Department), so that the requirements of the specification will be greatly exceeded.

Scoring in the round

- 7.3.6.6 The Department will evaluate each of the Sub-Plans in the round. So, for example, although there will be a single overall score for each Sub-Plan, each Sub-Plan involves a number of elements and the evaluation score for each Sub-Plan will reflect the overall score for those elements taken together, in each case in the judgement of the evaluators.
- 7.3.6.7 Table 7.3 (ICEC marking framework and guidance) sets out guidelines on the basis of which the evaluators will determine whether a particular Sub-Plan merits a score of 0, 2, 4, 6, 8 or 10.
- 7.3.6.8 Where the evaluators conclude that there are elements of a Sub-Plan that meet the conditions for a particular score described in Table 7.3 (ICEC marking framework and guidance) above, but that there are also other elements of the same Sub-Plan that meet the conditions for a lower or higher score, the overall score for that Sub-Plan would reflect that assessment.
- 7.3.6.9 For example, where the evaluators have minor concerns in relation to certain aspects of a Sub-Plan so that those aspects of the Sub-Plan, if scored in isolation, would be scored as 4, but at the same time the evaluators conclude that other aspects of the same Sub-Plan exceed the Department's requirements and therefore, if scored in isolation, would be scored as 8, they will take into account both the areas of concerns and the areas where requirements have been exceeded so as to arrive at an overall score for that Sub-Plan. In those

circumstances, this might mean that the overall score for that Sub-Plan could be higher than it would have been had the evaluators only taken into account the minor concerns raised by certain aspects of the Sub-Plan in isolation (that is to say, without also taking into account aspects of the same Sub-Plan where the Department's requirements have been exceeded). It follows that, on the same basis, the overall score of a Sub-Plan might be lower than it would have been had the evaluators only taken into account the aspects of the Sub-Plan where the Department's requirements have been exceeded.

7.3.6.10 Accordingly, the award of a particular score to a Sub-Plan may reflect the fact that:

- 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
- 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.

7.3.6.11 Notwithstanding the guidance set out above, a Sub-Plan will not receive a score of more than 6 if the evaluators have more than minor concerns about whether any material element of the requirements of the specification for the Sub-Plan will be met, and therefore that element of the Sub-Plan, if it had been scored in isolation, would have scored less than 4.

Intermediate scores

7.3.6.12 In addition to the scores set out in Table 7.3 (ICEC marking framework and guidance) and in accordance with the subsection above ("Scoring in the round"), an intermediate score of 1, 3, 5, 7 or 9 (the "**full intermediate scores**") may be awarded where the Sub-Plan exceeds the guidance for the award of a particular score set out in Table 7.3 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. For example, where the Sub-Plan exceeds the guidance for a score of 6 but falls short of meeting fully the guidance for a score of 8, a score of 7 might be awarded.

7.3.6.13 In addition to the possibility of awarding one of the scores set out in Table 7.3 (ICEC marking framework and guidance) or one of the full intermediate scores, the evaluators may also award half scores (e.g. 6.5, 7.5 etc. but not any other intermediate scores such as 6.4 or 7.6) where they consider this necessary and appropriate in order to reflect the extent to which the Sub-Plan exceeds or falls short of a particular score. For example, where the Sub-Plan exceeds substantially the guidance for the score of 6 but still falls short of meeting fully

the guidance for a score of 8, a score of 7.5 would be awarded. Equally, where the Sub-Plan exceeds only to a limited extent guidance for a score of 6, a score of 6.5 would be awarded.

7.3.7 Process for moderation of, and reaching consensus on, Sub-Plan evaluation scores

- 7.3.7.1 The Department will carry out a process for the purposes of moderating and reaching consensus on evaluation scores.
- 7.3.7.2 Each evaluator will undertake an evaluation of the relevant Sub-Plans, and allocate evaluation scores by reference to the scoring methodology described in subsection 7.3.6 (Scoring methodology). These individual scores and a narrative explaining each one of these scores will be entered into AWARD.
- 7.3.7.3 These evaluators will then agree a consensus evaluation score for each of the Sub-Plans they have scored.
- 7.3.7.4 Where consensus is not possible, the evaluation score to be awarded to a Sub-Plan will be the score which in the reasonable view of the ICEC project director or their nominee is appropriate by reference to the scoring methodology described in subsection 7.3.6 (Scoring methodology).
- 7.3.7.5 The ICEC project director will appoint a facilitator and a record keeper to manage this process.
- 7.3.7.6 The outcomes of this process, and the rationale for the evaluation scores, will be recorded and uploaded onto AWARD.

7.4 Modelling Change tests

- 7.4.1 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.
- 7.4.2 For the avoidance of doubt:
 - 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;

- 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.

7.5 Evaluation of Financial Robustness

7.5.1 Financial Robustness Test

- 7.5.1.1 The Department will undertake a financial robustness test (“**Financial Robustness Test**”) in accordance with this subsection 7.5.1 (Financial Robustness Test) on each Bidder’s Models, except as described in paragraph 7.5.1.9. Following and as a result of the completion of this test, the Department will calculate the “**Risk Adjusted NPV**”, which is component “P” in the formula at subsection 7.2 (Definition of MEAT for the Competition).
- 7.5.1.2 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 credibility of the costs and revenues 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 Criteria and Process).
- 7.5.1.3 Further to the evaluation of the Bids and the development of risk adjustments, the Department will produce a “**Risk Adjusted Financial Model**” in respect of Bidders whose Bids have been risk adjusted, based on its reasonable view of the most credible financial outcome. The Department will not risk adjust a Bid and will deem the Bid to have low financial risk if, by taking into account all relevant information available to it, it concludes that the evidence that is presented in the Bid is sufficiently credible so that there is not a material risk of a materially different financial outcome.
- 7.5.1.4 If, at any point during the Core Franchise Term or the Extension Period, the ratio calculated in Sheet FO&C Row 152 of the Financial Templates (‘the Financial Ratios’) is projected to breach 1.050, the Bid will be deemed to have high financial risk and subsection 7.5.2 (Consequences of high financial risk) will apply, except as described in paragraph 7.5.1.7. If a Bid is projected in its Risk Adjusted Financial Model not to breach the Financial Ratios it will be deemed to have low financial risk.
- 7.5.1.5 For the purpose of making this assessment, the Department will:

- 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 Franchise Operator Year, provided that such amounts are restricted to distributable profits and do not cause the Financial Ratios to be reduced below 1.070 in the relevant Franchise Operator Year; and
- Take into account the total Parent Company Support committed in the Bid which the Bidder would be able to draw on in order to avoid breaching the Financial Ratios.

7.5.1.6 There will be no opportunity for the Bidder to amend its Bid, including by making available additional finance.

7.5.1.7 A Bid will nonetheless be deemed to have low financial risk if the total amount of additional PCS, over and above the PCS committed in the Bid, that the Department estimates would be required during the Core Franchise Term and the Extension Period in order to avoid breaching the Financial Ratios is less than a “**Materiality Threshold**”. The Materiality Threshold will be £35 million (nominal).

7.5.1.8 If a Bid is deemed to have low financial risk, the Risk Adjusted Financial Model will be the Financial Model as bid, and the Risk Adjusted NPV will be the As Bid NPV, as calculated in Sheet NPV Cell F59 of the Financial Model.

7.5.1.9 The Department reserves the right to undertake aspects of the Financial Robustness Test only on one or more leading Bid(s), as described in Appendix 3 (Risk Adjustment Criteria and Process), if it determines that undertaking those aspects of the Financial Robustness Test on one or more other Bid(s) will have no impact on the selection of the winning Bid.

7.5.2 **Consequences of high financial risk**

7.5.2.1 If a Bidder is projected in its Risk Adjusted Financial Model to breach the Financial Ratios at any point during the Minimum Financial Robustness Period, the Bidder will be eliminated from the competition. The Minimum Financial Robustness Period will be the period from the Start Date to 31 March 2021 (inclusive).

7.5.2.2 If a Bidder is projected not to breach the Financial Ratios during the Minimum Financial Robustness Period, but is projected to breach the Financial Ratios at any other point during the Core Franchise Term, or during the Extension Period, the Bidder’s Risk Adjusted NPV will be equal to the sum of the following:

- The NPV of the As Bid Franchise Payments, calculated in Sheet NPV Row 43 of the Financial Templates, in respect of each Franchise Operator Year from the Start Date to the end of the Franchise Operator Year immediately prior to the first Franchise Operator Year in which the Bidder is projected to breach the Financial Ratios (the Franchise Operator Year of projected breach being the “**Year of Breach**”); plus
- X% of the NPV of the As Bid Franchise Payments in respect of the Year of Breach, where X is the proportion of the Year of Breach before the Financial Ratios are projected to be breached, calculated in Sheet F&OC Row 178 of the Financial Templates; plus
- (100-X)% of whichever is the lower of:
 - The NPV of the As Bid Franchise Payments in respect of the Year of Breach; and
 - The Department’s Base Line in respect of the Year of Breach;
 plus:
- The aggregate of the relevant amounts in respect of any Franchise Operator Year from and including the Franchise Operator Year immediately following the Year of Breach until the end of the Core Franchise Term plus the Extension Period. For the purpose of this bullet only, the “relevant amount” in respect of any Franchise Operator Year shall be the lower of:
 - The NPV of the As Bid Franchise Payments in respect of that Franchise Operator Year; and
 - The Department’s Base Line in respect of that Franchise Operator Year.

7.5.2.3 The calculation of the Risk Adjusted NPV will also be subject to the weighting for the Extension Period defined in subsection 7.2 (Definition of MEAT for the Competition).

Table 7.4. Department’s Base Line

Franchise Operator Year	Department’s Base Line (expressed as £’000s) ³
Franchise Operator Year 8	(173,263)
Franchise Operator Year 9	(185,256)

³ Please note that the Department’s Base Line will be updated in early April 2014 to reflect new information, including updated forecasts from the Office for Budget Responsibility (OBR).

Franchise Operator Year	Department's Base Line (expressed as £'000s) ³
Franchise Operator Year 10 (extension)	(206,865)

7.5.2.4 For the avoidance of doubt:

- Franchise Payments and other relevant financial amounts shown in the Franchise Agreement will be based upon the winning Bidder's Modelling Suite;
- The Bidder's Risk Adjusted Financial Model and Risk Adjusted NPV will only be used for the purpose of the Financial Robustness Test and accordingly calculating the Final Score as defined in subsection 7.2 (Definition of MEAT for the Competition);
- The evaluation scores may be adjusted as described in subsection 7.3.5 (Impact of Financial Robustness Test on Sub-Plan evaluation scores); and
- The provisions of this subsection 7.5.2 (Consequences of high financial risk) will not apply where a Bidder is projected in its Risk Adjusted Financial Model to breach the Financial Ratios but the amount of additional PCS required to avoid the breach is less than the Materiality Threshold described in paragraph 7.5.1.7.

7.6 Evaluation impact of contractual treatment of Bidders' Initiatives

7.6.1 The following will apply in relation to the contracting of Initiatives included in a Bidder's Sub-Plans:

- As set out in subsection 4.13 (Process following Bid submission), the Department may require any Initiative to be included as a Committed Obligation in the Franchise Agreement. The Department may exercise this right in relation to some or all of the Initiatives included in a Bid;
- 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;
- The Department will provide some or all of the Bidders with its contractual drafting of the Committed Obligations the Department requires in relation to some or all of the Initiatives contained in the relevant Bidder's Bid. The Department will provide Bidders with an opportunity to comment on whether this drafting accurately reflects the Initiatives contained in their Bid. Bidders

will have five working days (or such longer period as the Department may specify) to respond. Bidders' comments must be restricted to confirming that the drafting reflects the Initiatives within their Bid, or indicating where the drafting does not reflect the Initiatives contained within their Bid, giving the reasons why. Bidders must not submit alternative drafting of Committed Obligations. If, by a date specified by the Department, the Bidder is not prepared to enter into the contractual terms prepared by the Department (if appropriate, as clarified with the Bidder), in its sole discretion the Department may revise:

- The evaluation score attributed to the relevant Sub-Plan; and
- Any other element of the evaluation (including without limitation the Financial Robustness Test);

such that such evaluation score or element does not take the relevant Initiative into account, provided that no revision will be made pursuant to this subsection 7.6:

- To any evaluation score, where such revision would result in an increase in such evaluation score; and
- To the Financial Robustness Test, where such revision would result in the Bid being deemed to have low financial risk, or where it would improve the Risk Adjusted NPV.

7.6.2 For the avoidance of doubt:

- Any reduction in the Bidder's Evaluation Score or any Key Sub-Plan evaluation score pursuant to this subsection 7.6 may lead to the Bid being treated as non-compliant; and
- This process may also affect the ranking of Bids and ultimately the selection of the winning Bidder.

7.7 **Interaction between evaluation scores and the Financial Robustness Tests**

7.7.1 The assessment of financial robustness described in subsection 7.5 (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 Criteria and Process).

7.7.2 There is no automatic link between the scoring of Sub-Plans and the financial risk adjustments except as described in subsection 7.3.5 (Impact of Financial Robustness Test on Sub-Plan evaluation scores). However, if further to the

review of the Sub-Plans, the Department has concerns about the quality or deliverability of an aspect of one or more of that Bidder's Initiatives, and believes that as a result there is a material risk of a materially different financial outcome from the Bidder's financial projections, the Department may both:

- Take into account any risk to the delivery of the Bidder's Initiatives in the scoring of the Sub-Plans as described in subsection 7.3 (Quality and Deliverability Evaluation); and
- Make a financial risk adjustment as described in subsection 7.5 (Evaluation of Financial Robustness) to reflect any risk to the achievement of the Bidder's financial projections.

7.8 Impact of review of financing and funding proposals

7.8.1 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.

7.8.2 Where the available evidence fails to provide the Department with adequate confidence that the funding or financing will be available:

- 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 Franchise Operator 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
- 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 Franchise Operator 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:

- 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

- Make a financial risk adjustment (in accordance with Appendix 3 (Risk Adjustment Criteria and Process)) to reflect any resulting risk to the financial robustness of the Bid.

7.9 Delivery Plan non-compliance

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

- 2.1 Train service;
- 2.2 Rolling stock;
- 2.3 Performance; and
- 3.1 Intercity Express Programme.

together the “**Key Sub-Plans**”.

7.9.2 In addition, the Department will calculate an overall “**Evaluation Score**” for each Bid, which will be the aggregate of the evaluation scores for each Sub-Plan, weighted in accordance with column (C) of Table 7.2 (Sub-Plan weightings). A Bid will be treated as non-compliant if it receives an overall Evaluation Score of less than 4. For the avoidance of doubt, the overall Evaluation Score will be used only for the purpose described in this subsection 7.9, and it will not be used in the calculation of the overall Quality Score, which will be determined in accordance with subsection 7.10 (Conversion of evaluation scores into quality scores).

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

Evaluation score	Quality score
0 – 3.5	0
4	1
4.5	2
5	3
5.5	4
6	5
6.5	6

Evaluation score	Quality score
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 7.9 (Delivery Plan non-compliance) 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 column (C) of Table 7.2 (Sub-Plan weightings). This Quality Score is component Q in the formula set out at subsection 7.2 (Definition of MEAT for the Competition).

A1. Appendix 1. Glossary of Terms

Term	Meaning
Additional Parent Company Support or Additional PCS	has the meaning given to it in paragraph 6.9.2.7;
Agreed Form Documents	means documents in the agreed terms, referred to in clause 1.1(f) of the Franchise Agreement;
Agreed Funding Commitment	has the meaning given to it in the Funding Deed;
Angel Guarantee	has the meaning given to it in the Umbrella Deed;
Associated Entity	has the meaning given to it in subsection 1.4 (Communications);
As Bid Franchise Payments	in respect of any Franchise Operator Year the value of Franchise Payments (excluding any amounts excluded in accordance with paragraph 7.2.1.5) for that Franchise Operator Year as shown in the Bidder's Financial Model;
As Bid NPV	has the meaning given to it in paragraph 7.5.1.8;
ATOC	Association of Train Operating Companies;
AWARD	has the meaning given to it in subsection 3.8 (Data Site and AWARD);
BCQ	has the meaning given to it in subsection 3.9 (Bidder Clarification Questions);
Bid	a tender submitted by a Bidder in response to this ITT;
Bidder	has the meaning given to it in subsection 1.1 (Introduction);
Bonded PCS	has the meaning given to it in paragraph 6.9.2.9;
Bonding Requirements	where the Guarantor(s) of an amount of PCS pass the economic and financial standing tests referred to in subsection 6.10, this is 50% of the relevant PCS amount. Where the Guarantor(s) of an amount of PCS do not pass the economic and financial standing tests referred to in subsection 6.10, this is 100% of the relevant PCS amount;
BTP	British Transport Police;
Calculation Review	the review conducted in accordance with subsection 6.8.4 (Calculation Review);
CAPEX	capital expenditure;
CaSL	Cancellations and Significant Lateness;
CCIF	Customer and Communities Improvement Fund;
Challenging Circumstances	circumstances such as extreme weather, industrial action or line closures;
Class 800/801 rolling stock	is the rolling stock referred to in table 4 of schedule 1.7 of the Franchise Agreement;
CMA	means the Competition and Markets Authority;
Completion Date	has the meaning given to it in subsection 7.3.5 (Impact of Financial Robustness Test on Sub-Plan evaluation scores);
Consultee	has the meaning given to it in subsection 3.4 (Industry consultation and disclosure of information in Bids);

Term	Meaning
Contingent Initiative	has the meaning given to it in subsection 4.13.3 (Contractualisation);
Core Franchise Term	the core term of the Franchise Agreement (excluding any extension that may be called under Schedule 18 of the Franchise Agreement);
CP4	Network Rail's Control Period 4;
CP5	Network Rail's Control Period 5;
DAA	means Depot Access Agreement;
Data Site	has the meaning given to it in subsection 3.8 (Data Site and AWARD);
Delivery Plan	means a Delivery Plan described in Section 5 (Detailed Bid requirements – Delivery Plans), being: (a) Delivery Plan 0 – Bid Summary; (b) Delivery Plan 1 – Franchise Management; (c) Delivery Plan 2 – Train Service and Performance; (d) Delivery Plan 3 – Major Projects; (e) Delivery Plan 4 – Revenue; (f) Delivery Plan 5 – Customer Experience and Stations; and ' Delivery Plans ' shall mean more than one of them;
Department	has the meaning given to it in subsection 1.1 (Introduction);
Department's Base Line	the amount shown in Table 7.4 (Department's Base Line);
Depot Facility Owner or DFO	the facility owner (as such term is defined under the Railways Act) in respect of alight maintenance depot;
DFC	has the meaning given to it in the 'Financial Robustness' part of paragraph 6.3.3.1;
EA02	Enterprise Act 2002;
EC	European Commission;
EEC	European Economic Community;
ERTMS	European Rail Traffic Management System;
ETCS	European Train Control System;
EU	European Union;
EUMR	Council Regulation (EC) No. 139/2004;
Evaluation Score	has the meaning given to it in subsection 7.9 (Delivery Plan non-compliance);
Extension Period	any extension which is called under schedule 18 of the Franchise Agreement;
Final Risk Adjustments	has the meaning given to it in subsection A3.2 (Overview of Process) of Appendix 3 (Risk Adjustment Process);
Final Score	has the meaning given to it in paragraph 7.2.1.3;
Financial Model	a financial model prepared in accordance with subsection 6.3 (Financial and Operational Model requirements);
Financial Ratio(s)	has the meaning given to it in subsection 7.5.1 (Financial Robustness Test);
Financial Robustness Test	has the meaning given to it in subsection 7.5.1 (Financial Robustness Test);
Financial Structure and Funding Plan	has the meaning given to it in subsection 6.9 (Financial Structure and Funding Plan)

Term	Meaning
Financial Templates	has the meaning given to it in subsection 6.3.5 (Financial Templates);
FOIA	Freedom of Information Act 2000;
Form of Tender	is the document attached at Attachment H;
Franchise Agreement	the ICEC Franchise Agreement attached at Attachment B;
Franchise Letting Process Agreement or FLPA	has the meaning given to it in subsection 1.1 (Introduction);
Franchise Signature Documents	has the meaning given to it in Table 4.2 (Structure and Format of Bids);
HMT	HM Treasury;
IEP	Intercity Express Programme;
ICEC	InterCity East Coast;
IFRS	International Financial Reporting Standards;
Initiatives	proposals and commitments included in a Bidder's Sub-Plans;
ITPS	Network Rail's Integrated Train Planning System;
ITT	has the meaning given to it in paragraph 1.1 (Introduction);
Key Sub-Plans	has the meaning given to it in paragraph 7.9.1;
MAA	moving annual average;
MARA	East Coast IEP Network Master Availability and Reliability Agreement between the Department and Agility;
Materiality Threshold	has the meaning given to it in paragraph 7.5.1.7;
Minimum Evidential Requirements	evidential requirements for Sub-Plans specified in paragraph 5.1.4;
Minimum Financial Robustness Period	has the meaning given to it in subsection 7.5.2 (Consequences of high financial risk);
MEAT	most economically advantageous tender;
Model Audit	has the meaning given to it in subsection 6.8.3 (Model Audit);
Modelling Best Practice Confirmation	the confirmation that the Models have been prepared in accordance with best practice as required by subsection 6.8.2 (Modelling Best Practice Confirmation), subject to any derogations granted pursuant to subsection 6.3.7 (Derogations);
Modelling Suite	has the meaning given to it in paragraph 6.1.1;
Models	has the meaning given to it in paragraph 6.1.1;
Non-Committed Initiative	has the meaning given to it in paragraph 5.4.1.20;
NPV	net present value, calculated in accordance with paragraph 6.4.1.1;
NRPS	National Rail Passenger Survey (previously National Passenger Survey (NPS));
Open Access	a passenger rail operator that does not have a franchise agreement with the Secretary of State or an equivalent agreement with another authority;
Operating Manual	a manual prepared in accordance with paragraph 6.6 (Operating Manual);

Term	Meaning
Operational Model(s)	models prepared in accordance with paragraph 6.3.4 (Operational Models);
ORR	the UK Office of Rail Regulation;
Parent Company Support or PCS	has the meaning given to it in paragraphs 6.9.2.3 to 6.9.2.9;
Passenger Focus	the independent public body known as both 'Passenger Focus' and the 'Rail Passenger Council' created by Government to safeguard the interests of passengers;
PDFH	Passenger Demand Forecasting Handbook;
PQQ	pre-qualification questionnaire for the InterCity East Coast Franchise published on 25 October 2013;
PPD	the pre-qualification process document that accompanied the PQQ;
Proposed Risk Adjustments	has the meaning given to it in subsection A3.2 of Appendix 3 (Risk Adjustment Process);
Public Performance Measure or PPM	Network Rail's measure showing the percentage of trains which arrive at the destination on time;
PV	Present Value, calculated in accordance with paragraph 6.4.1.1;
Quality Score	the score awarded to a Bidder in accordance with subsection 7.10 (Conversion of evaluation scores into quality scores);
Rail Technical Strategy or RTS	the document in the Data Site of the same name;
Record of Assumptions or RoA	a record of assumptions prepared in accordance with subsection 6.5 (Record of Assumptions);
Regulation (EC) 1370/2007	has the meaning given to it in paragraph 1.2.1;
Relevant Initiative	has the meaning given to it in subsection 7.3.5 (Impact of Financial Robustness Test on Sub-Plan evaluation scores);
Required PCS	has the meaning given to it in paragraph 6.9.2.6;
Risk Adjusted Financial Model	has the meaning given to it in paragraph 7.5.1.3;
Risk Adjusted NPV	has the meaning given to it in subsection 7.5 (Evaluation of Financial Robustness);
RODA	Means Relevant Operator Direct Agreement, as described in the MARA;
ROSCO	Rolling Stock Company;
RSSB	Rail Safety and Standards Board Ltd;
Secretary of State	has the meaning given to it in subsection 1.1 (Introduction);
Secretary of State Risk Assumptions	the assumptions specified in Schedule 9.3 (Secretary of State Risk Assumptions) of the Franchise Agreement;
Sectional Running Times	has the meaning given to it in paragraph 5.4.1.7;
Share Sale Documentation	means the Agreement for the Sale and Purchase of the entire issued share capital of the East Coast Main Line Company Limited and the accompanying Disclosure Letter;
SMEs	small and medium-sized enterprises;

Term	Meaning																		
Specification	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);																		
Sub-Plan	those plans as set out in the column headed 'Sub-Plan' in Table 5.1 (Delivery Plans and Sub-Plans);																		
Sustainable Rail Programme	the sustainable rail programme developed by the Rail Safety and Standards Board Ltd;																		
TARA	East Coast IEP Network Train Availability and Reliability Agreement between the Franchise Operator and Agility;																		
Tests	has the meaning given to it in subsection 6.10 (Updating of PQQ financial and economic standing tests (the "Tests") and submission of updated bond provider letter(s));																		
Thameslink Core	the stations between St Pancras International and London Blackfriars inclusive;																		
Thameslink Programme Configuration States	<table border="1"> <thead> <tr> <th>Configuration State</th> <th>Definition</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>Key Output 0 timetable achieved</td> </tr> <tr> <td>1</td> <td>Key Output 1 timetable achieved</td> </tr> <tr> <td>2</td> <td>First Class 700 rolling stock deployed into passenger service on the Thameslink routes.</td> </tr> <tr> <td>3</td> <td>First Class 700 rolling stock deployed into passenger service on the GN routes.</td> </tr> <tr> <td>4</td> <td>First Class 700 rolling stock placed into passenger service operation using ETCS (Level 2) in the Core Area.</td> </tr> <tr> <td>5</td> <td>First Class 700 rolling stock placed into passenger service operation using ATO in the Core Area.</td> </tr> <tr> <td>6</td> <td>20tph timetable achieved through the Core Area.</td> </tr> <tr> <td>7</td> <td>24tph timetable achieved through the Core Area.</td> </tr> </tbody> </table>	Configuration State	Definition	0	Key Output 0 timetable achieved	1	Key Output 1 timetable achieved	2	First Class 700 rolling stock deployed into passenger service on the Thameslink routes.	3	First Class 700 rolling stock deployed into passenger service on the GN routes.	4	First Class 700 rolling stock placed into passenger service operation using ETCS (Level 2) in the Core Area.	5	First Class 700 rolling stock placed into passenger service operation using ATO in the Core Area.	6	20tph timetable achieved through the Core Area.	7	24tph timetable achieved through the Core Area.
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7	24tph timetable achieved through the Core Area.																		
TOC	Train Operating Company;																		
Train Service Requirements or TSR	the requirements set out in Attachment A;																		
TSP	Train Service Provider;																		
TUPE	the Transfer of Undertakings (Protection of Employment) Regulations 2006;																		
VfM	Value for Money;																		
Worked Examples	has the meaning given to it in 6.7.1.1;																		
Year of Breach	has the meaning given to it in paragraph 7.5.2.2.																		

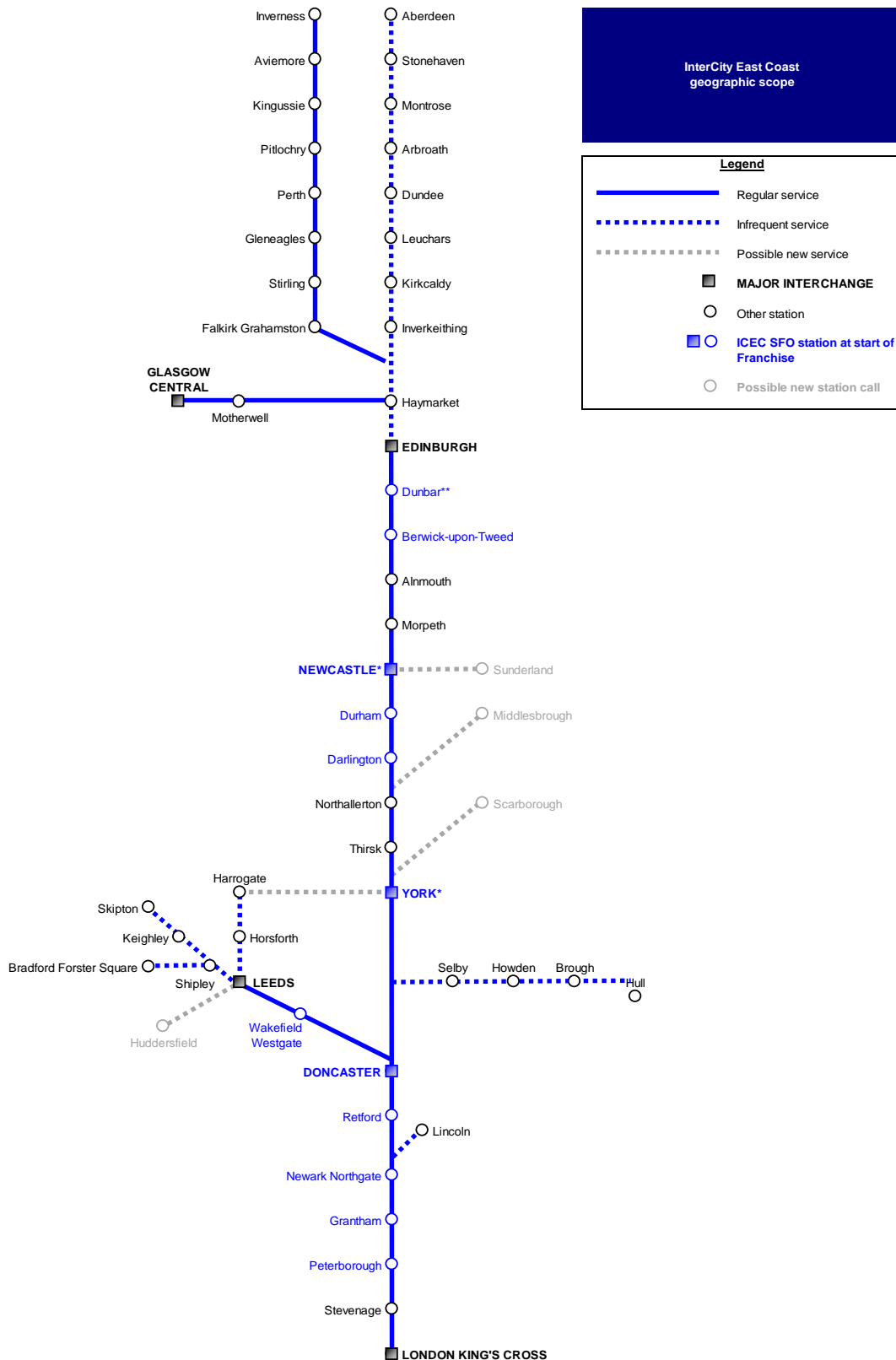
A2a. ICEC stations

- Peterborough
- Grantham
- Newark Northgate
- Retford
- Doncaster
- Wakefield Westgate
- York*
- Darlington
- Durham
- Newcastle*
- Berwick-upon-Tweed
- Dunbar**

*To transfer to Network Rail during the Franchise Term

**To transfer to ScotRail during the Franchise Term

A2b. Map of the Franchise Geographic Scope



*To transfer to Network Rail during the Franchise Term
 **To transfer to ScotRail during the Franchise Term

A3. Appendix 3: Risk Adjustment Process

A3.1 Introduction

- A3.1.1 This Appendix 3 summarises the approach that the Department will adopt in Bid risk adjustment.
- A3.1.2 All Department risk adjustments will be made on the basis of the Department's reasonable view of the most credible financial outcome, taking into account all relevant information available to it, including existing industry / Department guidance and research, new research and other evidence put forward by Bidders in associated Delivery Plans or Sub-Plans, the Record of Assumptions, or any other relevant information submitted with Bids.
- A3.1.3 The Department will not risk adjust a Bid if, by taking into account all relevant information available to it, it concludes that the evidence that is presented in the Bid is sufficiently credible to convince it that there is not a material risk of a materially different financial outcome.
- A3.1.4 The information set out in this Appendix is intended to provide Bidders with as much guidance as possible in relation to how risk adjustments will be made. However, it should be recognised that such guidance can never be complete or apply to all possible situations, as it is not possible to predict in advance of Bid submission how Bidders will construct their Bids and so what issues and risks may be identified with each Bid. Ultimately, the key factor in making risk adjustments will be the Department's reasonable view of what constitutes the most credible financial outcome, taking into account all relevant information available to it.

A3.2 Overview of process

- A3.2.1 Subject to paragraphs A3.1.2-A3.1.4, A3.2.2 and A3.2.3, the approach that will be followed is:
- (i) Bidders' Modelling Suites will be reviewed (including by reference to the Department's comparator model), to identify any issues in the methodology or assumptions used for the cost, revenue or other modelling which in the Department's reasonable view might generate a material risk of a materially different financial outcome from that projected in the Bidder's Modelling Suites (upside or downside).

- (ii) In addition to reviewing the Delivery Plans to assess the overall deliverability and quality of the Bid, the Department will identify whether it has concerns that any of the plans generate a material risk of a materially different financial outcome. Circumstances where these could arise include, without limitation, where:
- There are concerns about the operational, commercial or management arrangements set out, and therefore concerns as to whether the Franchise will require additional costs in order to deliver the Initiative, or whether it will generate the revenue that has been forecast;
 - There are concerns about the implementation strategy for a particular Initiative, and therefore there is a risk that higher costs or lower revenue will arise than forecast; or
 - There are concerns about whether the revenue or cost attributed to an Initiative is achievable, even if the Initiative is implemented successfully, because of concerns about the methodology or assumptions used in the modelling of the impact of the Initiative.
- (iii) If necessary and appropriate the Department may seek clarification under the clarification process described in subsection 4.13.2 (Engagement with Bidders and Evaluation Clarification Process).
- (iv) 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 paragraphs A3.5 and A3.6.
- (v) The Department will then identify the risk adjustment(s) it intends to make to each Bidder's Models ("**Proposed Risk Adjustments**"). The basis for such risk adjustments is described below.
- (vi) 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.
- (vii) Before finally determining any risk adjustment(s), the Department shall inform the Bidder of the Proposed Risk Adjustments, and its rationale for the Proposed Risk Adjustments, provided that, the Department reserves the right not to follow the process referred to in this sub-paragraph A3.2.1(vii) and sub-paragraph A3.2.1(viii) in respect of that Bidder if, after taking into

account the Parent Company Support and Materiality Threshold in accordance with subsection 7.5.1 (Financial Robustness Test):

- The Proposed Risk Adjustments would not result in the Bidder being projected in its Risk Adjusted Financial Model to breach the Financial Ratios at any point during the Core Franchise Term or the Extension Period (on the basis that, in such circumstances, the risk adjustment process will have no impact on the outcome of the evaluation of the relevant Bidder's Bid); or
- The Proposed Risk Adjustments would not result in the Bidder being projected in its Risk Adjusted Financial Model to breach the Financial Ratios at any point during the Minimum Financial Robustness Period, but would result in it being projected to breach the Financial Ratios at any subsequent point during the Core Franchise Term or during the Extension Period, and that further to the process described in subsection 7.5.1 (Financial Robustness Test) and subsection 7.3.5 of (Impact of financial robustness test on evaluation scores), the Department determines that this will not result in any change to the ranking of Bidders.

(viii) 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;
- The Bidder's response must be confined to providing answers to the specific questions raised by the Department; 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.

(ix) The Final Risk Adjustments will then be applied to each Bidder's Models as appropriate to produce each Bidder's Risk Adjusted Financial Model.

A3.2.2 The Department reserves the right only to undertake some or all of the stages referred to in sub-paragraphs A3.2.1(v) to A3.2.1(ix) 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 paragraphs A3.1.2 to A3.1.4, this subsection describes the approach to determining risk adjustments to factors such as:

- Revenue forecasts from Initiatives;
- Exogenous revenue forecasts; and
- Operating, financing and capital cost forecasts.

A3.3.2 Where the Department identifies in its reasonable view a material risk of a materially different financial outcome from that projected in the Bidder's Modelling Suite, whether with respect to cost or revenue, it may either risk adjust revenue, cost or both, as appropriate in order to reflect its reasonable view of the most credible financial outcome.

A3.3.3 Risk adjustment will take into account any risk mitigations already identified by Bidders in their forecasts and reported in the Delivery Plans and Record of Assumptions.

A3.3.4 Except with respect to Contingent Initiatives, where a Bidder includes contingency costs and/or revenues in its Financial Model, for the purpose of the risk adjustment process, the Department will assume that the cost will not be incurred and/or that the revenue will not be received (except if the Department considers it appropriate to include contingency cost given the nature of a specific Initiative, for example a capital project).

A3.3.5 For the purpose of risk adjustment, the Department will assume that:

- The Franchise Operator will obtain the additional access rights necessary to enable it to operate the increased frequency to/from London King's Cross required by TSR2; and
- There will be no financial benefits to the Franchise Operator during the Franchise Term from expenditure financed through the Innovation Account.

A3.3.6 Where appropriate, to reflect the Department's reasonable view of the nature of the potential financial impact of a risk, the risk adjustment applied may be profiled by year to allow for delivery of an Initiative later in the Franchise Term than envisaged in the Bid, or for 'ramp-up' of the Initiative (to allow for a different initial profile of the impacts of the Initiative).

A3.3.7 Risk adjustments may be either positive or negative, both individually and in aggregate.

A3.3.8 To demonstrate risk adjustment, examples of risk adjustment are provided in subsection A3.7.

A3.4 **Revenue – exogenous**

A3.4.1 Risk adjustments may be made in respect of any of a Bidder's exogenous revenue projections (i.e. the resultant predicted outcome of the methodology, assumptions and values used by the Bidder). For these purposes, exogenous revenue is revenue which is dependent on factors that are outside the control of the Franchise Operator, including, without limitation:

- Economic and demographic factors such as GDP, employment and population; and
- Competition with other modes of transport and other rail operators, except that, to the extent that the Bidder provides credible evidence to convince the Department that its proposed Initiatives will impact such competition, this will be treated as endogenous revenue growth.

A3.4.2 For exogenous revenue factors, equivalent values will be used in the risk-adjusted forecasts for all Bidders. Where relevant, the common values will be based on the Department's comparator model assumptions, unless the Department determines that there is credible evidence that it should revise these assumptions.

A3.4.3 In determining any risk adjustment, the factors that the Department will take into account may include, but shall not necessarily be limited to:

- The demand forecasting guidance in PDFH v5 (except for fares, for which PDFH v4 will be used);
- WebTAG Rail Passenger Demand Forecasting Methodology;
- Other published analysis;
- Any analysis provided by the Bidder to justify the methodology and assumptions that it has used; and
- Any analysis provided by another Bidder with its Bid, to the extent that it is relevant and credible.

A3.4.4 In determining any risk adjustment to assumptions for local, regional or national GDP growth included in Bidders' Models, the Department will seek to ensure consistency with the national GDP forecast included in the Franchise Agreement.

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 paragraph A3.1.4, in determining any risk adjustment, the factors that the Department will take into account may include, but shall not necessarily be limited to:

- The demand forecasting guidance in PDFH v5 (except for fares, for which PDFH v4 will be used);
- WebTAG Rail Passenger Demand Forecasting Methodology;
- Other published analysis;
- The credibility of the delivery proposals, including resources and delivery timescales;
- Any analysis provided by the Bidder to justify the methodology and assumptions that it has used;
- Any analysis provided by another Bidder with its Bid, to the extent that it is relevant and credible; and
- An assessment of whether total projected revenue growth is credible (taking into account the aggregated impact of different factors and Initiatives proposed).

A3.6 **Cost**

A3.6.1 Risk adjustments may be made in respect of any of a Bidder's operating, financing or capital cost projections (i.e. the resultant predicted outcome of the methodology, assumptions and values used by the Bidder).

A3.6.2 Subject to paragraph A3.1.4, in determining any risk adjustment, the approach which will be adopted will be as follows:

- Where costs do not depend on Bidder Initiatives or management action (for example, EC4T unit rates), equivalent values will be used in the risk-adjusted forecasts for all Bidders, unless a Bidder provides credible evidence to convince the Department, in its reasonable view, that it will achieve a different financial outcome. Where relevant, the common values will be

based on the Department's comparator model assumptions, unless the Department determines that there is more credible alternative evidence available, in which case it will revise its assumptions accordingly; and

- Where costs depend on Bidder Initiatives or management action, the Department will make an assessment in accordance with paragraph A3.6.3.

A3.6.3 The factors that the Department will take into account may include, but shall not necessarily be limited to:

- The credibility of the delivery proposals, including resources and delivery timescales;
- Any analysis provided by the Bidder to justify the methodology and assumptions that it has used; and
- Any analysis provided by another Bidder with its Bid, to the extent that it is relevant and credible.

A3.7 **Examples of risk adjustments**

A3.7.1 This subsection A3.7 provides examples of risk adjustments. Both the nature of the Initiatives described, and the types of adjustments set out, should be considered as illustrative only. The Department will undertake risk adjustments in accordance with the principles described in this Appendix 3 and these examples should not be taken to limit how the Department will undertake this.

A3.7.2 A revenue protection Initiative is proposed in order to increase passenger revenue. This Initiative includes purchase of new equipment which, together with additional revenue protection staff and improved processes such as revised deployment of revenue protection officers, is projected to achieve a reduction in ticketless travel and therefore an ongoing increase in revenue with no change to the quantum of passengers actually travelling. Risk adjustment could be appropriate, for example:

- The timing of implementation could be considered to be unrealistically ambitious, for example if there is insufficient time to recruit and train new staff, and therefore risk adjustment(s) may be applied to delay the timing of benefits and operating costs;
- The scale of ongoing costs for the additional staff could be considered unrealistically low, and therefore risk adjustment(s) may be applied to increase these costs accordingly;

- The scale of the ongoing revenue gain could be considered over-ambitious, and therefore risk adjustment(s) may be applied to scale back the additional revenue claimed; or
- One-off transition costs may have been overlooked, for example staff recruitment and training costs, and therefore risk adjustment(s) may be applied to add in cost provision for these one-off items.

A3.7.3 A station enhancement investment programme Initiative is proposed, to improve passenger satisfaction at a portfolio of stations, and therefore to increase passenger revenue. The scope of the programme includes augmenting ticket offices, mobility impaired access, car parking, waiting room and toilet facilities at these stations. Risk adjustment could be appropriate, for example:

- The timing of implementation could be considered to be unrealistically ambitious, for example if there is not adequate time to achieve any planning/highway consents, and risk adjustment could be applied to delay the realisation of benefits and costs;
- The capital investment assumed for the station works could be considered unrealistically low and therefore risk adjustment could be applied to increase the capital investment required to deliver the works;
- The scale, timing, build-up and/or trend in any passenger revenue benefits could be considered over-ambitious, and risk adjustment(s) could be applied to scale back the revenue benefits claimed;
- One-off transition costs may have been overlooked, for example costs of provision of temporary facilities during the period when the works are being carried out (such as temporary ticket office and access arrangements), and therefore risk adjustment(s) could be applied to add in cost for provision of these one-off items; or
- Any additional annual operating and maintenance costs relating to these additional station facilities may have been excluded from the forecast, and risk adjustment(s) could be applied to add in some cost provision for this.

A3.7.4 A Bidder proposes enhancements to the customer proposition, in order to generate additional revenue. Examples could include revised branding, refreshment of rolling stock, or provision of enhanced passenger information systems. Risk adjustment could be appropriate, for example:

- The timing of implementation could be considered to be unrealistically ambitious, for example there could be inadequate time to implement the

enhancement, and therefore risk adjustment(s) could be applied to delay the timing of revenue and costs associated with the Initiative;

- The costs assumed to implement the enhancements could be considered unrealistically low, and risk adjustment(s) could be applied to increase the costs assumed accordingly;
- The scale, timing, build-up or trend of passenger revenue resulting from the enhancements could be considered over-ambitious, for example if the assumptions used are not consistent with PDFHv5.0, and risk adjustment(s) could be applied to scale back the revenue benefits claimed; or
- Transition impacts may have been overlooked, for example any staff training, or loss of rolling stock availability whilst modifications are being carried out. Risk adjustment(s) could be applied to take account of any impacts during transition.

A3.7.5 A Bidder forecasts that revenue on London-Scotland flows will increase due to an increase in the Franchise Operator's share of the air plus rail travel market. Risk adjustment could be applied to reduce the forecast increase in revenue if it were not adequately supported by evidence, or not consistent with other proposals in the Bid. This could occur, for example, if:

- The Bidder was also proposing significant changes to unregulated fares which would make rail travel less attractive relative to air travel, but it had not taken this into account in its forecast of changes to market share; or
- The Bidder's forecast did not take into account specific characteristics of the market (for example that a proportion of air passengers connect onto other flights).

A3.7.6 A Bidder proposes marketing campaigns that represent a significant increase from the previous levels on this Franchise, but the claimed rate of return is abnormally high and not supported with sufficient evidence. Risk adjustment(s) may be applied to scale back the passenger revenue benefits claimed.

A3.7.7 A Bidder proposes ticket office closures, to be enabled by new ticketing technology and equipment, but the rate of deployment is considered to be too ambitious. Risk adjustment(s) may be applied to delay the envisaged level of staff reductions and add back staff costs accordingly. Any revenue benefits associated with the new ticketing technology would also be scaled back.

A3.7.8 A Bidder assumes low rates of wage increases and does not provide evidence that this is consistent with market rates and therefore that it will be able to recruit and

retain staff with this level of wage increase. Risk adjustment(s) may be applied to increase staff costs in line with forecast economic indicators and market trends.

A3.7.9 A Bidder proposes to reduce levels of staffing to such an extent that this is considered to represent a risk to ongoing deliverability of the Bidder's commitments in one or more area of the business. Risk adjustment could be applied to add in additional staff and associated costs. If appropriate the revenue forecast could also be subject to risk adjustment to reflect the impact of reductions in staffing levels on passenger revenue.

A3.7.10A Bidder assumes growth in EC4T unit rates materially lower than is considered realistic. A risk adjustment could be applied to increase these costs to reflect alternative forecasts of the trend in energy costs.

A3.7.11A 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.