



Essex Thameside Franchise

Invitation to Tender

2 July 2012

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- C GUIDANCE ON STATION ASSET STEWARDSHIP
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- F ESSEX THAMESIDE FINANCIAL TEMPLATES
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- I DELIVERY PLANS – SCORING MATRIX
- J PARENT COMPANY GUARANTEE – STATIONS LIABILITY
- K PASSENGER SURVEY METHODOLOGY

IMPORTANT NOTICE

This document is issued by the Department for Transport (the “Department”) pursuant to the functions of the Secretary of State for Transport (the “Secretary of State”) under the Railways Act 1993 and the Railways Act 2005, as amended. All references in this document to the Department, Network Rail or Office of Rail Regulation include, where appropriate and unless the context otherwise requires, references to those bodies’ predecessors and successor(s).

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

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

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

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

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

The Department will not be responsible for the costs or expenses of any Bidder in relation to any matter referred to in this document howsoever incurred, including the evaluation of the Essex Thameside franchise opportunity, the award, or any bid for the award of the Essex Thameside franchise, or negotiation of the Franchise Agreement.

This Invitation to Tender document should be read in conjunction with the draft Franchise Agreement supplied with it.

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

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SECTION 1: INTRODUCTION AND CONTEXT

1.1 Purpose of this Invitation to Tender

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

- 1) the Essex Thameside franchise proposition for which the Department is seeking bids;
- 2) how the competitive process will work;
- 3) how Bidders should complete their bids; and
- 4) how the evaluation process will work.

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

The Department's aim is for the new Essex Thameside franchise to commence operations with effect from 0200 hours on 26 May 2013.

1.2 Scope of the Essex Thameside Franchise

The Essex Thameside franchise comprises:

- the mainline from Fenchurch Street to Shoeburyness via Laindon and Southend Central.
- the Tilbury Loop route via Rainham and Dagenham Dock, which follows a longer southerly route between Barking and Pitsea; and
- the Ockendon line, from Upminster to Grays via Ockendon and Chafford Hundred (for Lakeside shopping centre).

Infrastructure works, including platform extensions, have been completed to allow 12-car formation trains to run on all lines. Driver Only Operation is used for trains of up to 8-car length. The current franchise operator is Station Facility Owner (SFO) at 24 stations. The new Franchisee will be SFO at 25 stations, as listed at Appendix 1A (List of Essex Thameside Franchise Stations), the current 24 and additionally Fenchurch Street station.

A map of the Essex Thameside franchise area and routes is included at Appendix 1B (Map of Essex Thameside Franchise).

A route diagram of the Essex Thameside franchise is attached at Appendix 1C (Route Diagram of Essex Thameside Franchise).

1.3 The Department's Objectives for the Essex Thameside Franchise

The Secretary of State has set out the objectives for the Franchise as follows:

- Support economic growth and in particular the development of the Thames Gateway through frequent train services of appropriate capacity. Use flexibility in the train service requirement to optimise services, delivering a balance of commercial and passenger benefit, while providing passengers with a broadly similar level of service as is currently timetabled;

- Ensure the overall passenger experience improves throughout the life of the franchise. This will include but not be limited to improvements in: service quality; retailing; provision of information to customers particularly during times of planned and unplanned disruption; implementing 'smart' technology and integrated ticketing throughout the franchise area on an inter-operable basis; improving accessibility (including disabled access) to stations and services; customer security and improving the transparency of information about the franchise;
- Ensure that train services perform to the highest practical reliability and punctuality standards, aiming to be amongst the most reliable and punctual services on the national network. Benchmark and optimise the overall environmental performance and minimise the carbon footprint for the franchise;
- Deliver services in the most cost-effective and efficient manner possible, and consider improving the alignment between Network Rail and the franchise in keeping with the recommendations of Sir Roy McNulty's Rail Value for Money study.

1.4 *Closing date for Bids*

Bids must be received by the Department by 12.00 hours on 27 September 2012.

SECTION 2: INFORMATION AND INSTRUCTIONS TO BIDDERS

2.1 Franchising Timetable and Process

An overview of the Department's management process for the letting of a franchise is documented in “A Guide to the Railway Franchise Procurement Process” published in December 2011 and provided with this ITT. The remaining stages of the process for appointing the Franchisee: Bid Preparation; Bid Evaluation and Negotiation; and Mobilisation, together with their indicative timings, are set out below.

Table 2-1: *Franchising Timetable*

Stage	Description	Party Responsible	Planned Date
Bid Preparation	<i>Preparation of bids</i>	<i>Bidders</i>	<i>July – Sep 2012</i>
	<i>Submission of bids</i>	<i>Bidders</i>	<i>27 Sep 2012</i>
Bid Evaluation & Negotiation of Bids	<i>Evaluation of bids, clarification, negotiation and agreement to terms of the Franchise Agreement and related documentation. Secretary of State consent to the Essex Thameside franchise award</i>	<i>The Department and Bidder(s)</i>	<i>Sep 2012 – Jan 2013 Jan 2013</i>
Mobilisation	<i>Prepare for transfer of operations</i>	<i>Franchisee</i>	<i>Feb – May 2013</i>

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

It should be noted that the Department SRO (Senior Responsible Officer) for this procurement is the Director General, Major Projects and London.

2.2 Restriction on Communications/Press Releases etc during Franchise Competition

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

Therefore until the award of the Essex Thameside franchise, the Department requires that Bidders confine any communications about the competition to communication that is necessary in order to develop their proposals. Until the award of the Essex Thameside franchise, Bidders are required to refrain from comment to national, local and industry media, Passenger Focus, Local Authorities, TfL, Members of Parliament and stakeholders about matters connected with the Essex Thameside franchise competition. If there are compelling reasons to make a public statement or comment then, the Department requires

Bidders in each and every instance to discuss the content of such statements or comments with the Department in advance.

2.3 Changes in Circumstances

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

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

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

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

2.4 Cost of Bidding and Model Audits

Each Bidder will be responsible for all costs, expenses and liabilities incurred by it in connection with the Essex Thameside franchise letting process, whether or not its bid and/or associated negotiations are ultimately successful or the process is subsequently varied in any way or terminated. Bidders will be responsible for all costs associated with the Modelling Best Practice Confirmation and Model Audit (each as defined in Section 6.8 (Model Sign-off – Terms of Reference)).

2.5 Preparation of Bids

The Department expects to receive bids that contain little or no qualifications. Bidders should make full use of all the information provided with this ITT, in the data site as referred to in Section 2.6 (Data Site) and, thereafter, the query process described in Section 2.7 (Query Process). Any bids which contain qualifications may be treated as non-compliant (and Bidders are referred to Section 2.12 for the possible consequences of a bid being treated as non-compliant).

2.6 Data Site

The Department has established a 'virtual data room' (the "data site"), operated by Connect Internet Solutions, containing, in electronic form, documents and information specifically relating to the Essex Thameside franchise and the incumbent operator of the Essex Thameside franchise. The address for the data site is www.essexthamesidedatasite.co.uk.

2.7 Query Process

All queries and requests for information must be submitted by Bidders in the Microsoft Excel format template issued to accredited Bidders.

Queries and requests for clarification or additional information should be submitted by e-mail to: EssexThameside@dft.gsi.gov.uk. Where direct communication is required this should be directed through the procurement team running the competition.

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

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

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

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

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

Notes from bi-lateral meetings and Bidder Bulletins are not to be considered part of the formal clarification process. Bidders must therefore only rely on the ITT and the formal Query Process.

Where a Bidder believes that there is any inconsistency between any documents or information provided by the Department to Bidders as part of the franchise letting process it should seek to clarify the point through the Query Process rather than make an assumption in its bid in relation to such matter.

2.8 Structure and Format of Bids

Bidders should note that the Department will evaluate the compliance of bids with the structure set out in Table 2-2 (Structure and Format of Bids) and, following any appropriate clarification, may (without limitation) ask for re-submission or disqualify any bid that does not conform.

The size of the main text of the bid including the Executive Summary and proposed means of delivery of the Base Service Specification including all annexes/appendices will be limited to 1,000 pages and the size of the text relating to any Priced Options will be subject to a separate overall size limit equivalent to 15 pages multiplied by the number of Priced Options requested by the Department. Bidder-generated Incremental Options will not be subject to a size limit equivalent. This requirement is summarised in Table 2-2.

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

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

One page constitutes one printed side of A4 with 2cm clear margins all round. For main text the minimum font size is 12 pt, font type is standard (i.e. not 'narrow') and minimum line spacing is 13pt. Double sided printing is required where this is practicable. Bidders will be encouraged to use a simple presentation style, avoiding expensive bindings, colour photographs and other high cost elements of production that do not directly add value to the substance of the bid. Minimum font size for any text in tables and graphs is to be 10 pt.

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

Annexes and Appendices

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 this Section 2.8 (Structure and Format of Bids).

Cross Referencing

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

Format of Bids

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

Hard Copies

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

Electronic Copies

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

Index

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.

Additional Electronic Copies

One **un-priced** electronic copy of Part 1 the Main Text is required in CD format, labelled clearly with the copy number, the Bidder's name and the contents of the CD and should be distinguishable from the priced electronic copies referenced above. Information is required to be stored in Microsoft Word (any version), and for spreadsheets, Excel 2003 format. The Department will send this copy, together with one of the Part 3 copies referred to in Table 2-2 below to Network Rail. Documents should not be submitted in PDF, except where unavoidable.

2.8.1 Submission of Bids

Bids are to be submitted to:

Dale Ward
Procurement Programme Support Manager
Commercial and Technical Services
Department for Transport
4/21 Great Minster House
33 Horseferry Road
London
SW1P 4DR

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

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

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

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

Bidders will be required to present up to 1 hour on the key elements of their submissions to the Department on a working day specified by the Department within 7 working days following bid submission. This presentation should include no financial information.

Bidders are required to provide the material set out in Table 2-2 when submitting their bids.

Table 2-2: Structure and Format of Bids

Part		Hard Copy	Electronic	Size limit
1	Main text			
	Executive Summary Delivery Plans for Base Service Specification (Section 3)	3 copies	3 copies +1 un-priced copy	1000 pages including annexes/appendices
	Delivery Plans for Incremental Options	3 copies	3 copies +1 un-priced copy	none
	Delivery Plans for Priced Options	3 Copies	3 Copies + 1 un-priced copy	15 pages per Priced Option
2	Financial			
	Operational Models and Financial Model (Section 6) including revisions in respect of Priced Options and Incremental Options	none	3 copies	75MB maximum size per workbook (See Section 6)
	PDF of Templates & worksheets of Tier 1 Operational Models that directly interface with Financial Model or other Tier 1 Operational Models			

	Record of Assumptions, Operating Manual, Modelling Best Practice confirmation, Financial Adviser's letter, Confirmation of Bond availability, ROSCO term sheets	2 copies	3 copies	none
3	Technical Data			
	If revised timetables are proposed the following details should be submitted in support of the Delivery Plans for the Base Service Specification, Priced Options the Incremental Options and VfM assessments:- proposed working timetables, rolling stock and crew diagrams and platform workings at Fenchurch Street and, if appropriate, Liverpool Street station.	2 copies	3 copies	none
4	Legal and compliance			
	'Deltaview' mark-up and clean copy of the Franchise Agreement, the Stations Parent Company Guarantee, the Conditions Precedent Agreement and the Funding Deed and any other agreements signed as part of the award of the franchise (together the "Franchise Signature Documents") including completion of those parts marked 'Bidders to populate' Non-compliance statements Changes in circumstances and competition matters Declaration of Conformity Confirmation that bid will be held valid for 275 days from bid return date as specified in Section 2.13	1 copy	3 copies	none

2.9 Executive Summary

Part 1 of the bid should include an Executive Summary that describes the Bidder's vision for the Essex Thameside franchise and how the Department's objectives for the franchise will be met.

The bid shall additionally include individual Executive Summaries for each of the Delivery Plans proposed within the relevant Delivery Plan.

2.10 Incremental and Priced Options

The Department requires Bidders to price for delivering the services needed to meet the Bidders' demand forecast in their Base Service Specification submission.

2.10.1 Priced Options

The Department requests proposals that enable the delivery of specific Priced Options detailed in Section 4 of this ITT. Such Priced Options must be presented, fully specified and priced separately from the Base Service Specification and should be self-contained, i.e. not dependent on any other Priced Option which may be required to be included in the Bidders submission.

The Department requires each Priced Option to be expressed as a clearly defined commitment with clear time plans for implementation that fully describe the circumstances and conditions under which the requested Priced Option may be delivered, including the benefits that will be achieved and how Bidders will engage with stakeholders in implementing these requirements. Bidders will be expected to clearly identify any risks, constraints or other factors that may affect the deliverability of the requested Priced Options and define ways in which these may be mitigated or overcome.

2.10.2 Incremental Options

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

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

The Department is aware that Bidders are likely to assess a range of potential initiatives for the Essex Thameside franchise whilst preparing their bids. Bidders may identify initiatives, which they consider to be of merit, but which have failed to achieve the Bidder's

financial criteria for inclusion in the Base Case bid. In these circumstances, Bidders are encouraged to submit the initiatives as Incremental Options. The Department will consider purchasing the Incremental Options offered by the winning Bidder subject to affordability constraints and economic appraisal criteria. Bidders are strongly advised to consult confidentially with the Department about their possible Incremental Options, so as to avoid the possibility of abortive effort being expended on options that the Department is unlikely to procure.

The financial modelling requirements for any submitted Incremental Options are laid out in Section 6: Financial Elements of this ITT.

2.11 Non-Compliant Bids, Statements, Changes in Circumstance and SoSRAs

2.11.1 Non Compliant Bids and right to remove Bidders from the process

Bids received which are in the opinion of the Department considered to be non compliant will be treated in accordance with Section 2.12. Bids may be considered to be non-compliant for reasons including but not limited to:

- late submission of Bids;
- incomplete or incorrectly completed Bids;
- bids that fail to meet the Department's requirements as specified in this ITT; and/or
- bids which fail to confirm compliance with all clauses, sections and schedules of the Franchise Signature Documents

In addition, the Department reserves the right to remove a Bidder from the process where, in the reasonable opinion of the Department, that Bidder has acted or failed to act in such a way that is consistent with the requirements of the bidding process and this ITT including but not limited to:

- material or serious misrepresentation by the Bidder in relation to the bid process or its application;
- contravention by the Bidder of the terms and conditions of this ITT; and/or
- breach of confidentiality or probity.

2.11.2 Non-Compliance Statements

Bidders are required, when submitting their bids, to list in the format set out in the following Table 2-3, all requirements of this ITT with which they are not able to confirm compliance in full. Full details of the reasons for the non-compliance should be given. Any provision not so listed and detailed will be regarded as having been accepted unconditionally.

Bidders are also required when submitting their bids to list in the format set out in the following Table 2-3, all clauses, Sections and schedules of the Franchise Signature Documents with which they are not able to confirm compliance in full. Full details of the reasons for non-compliance should be given. Any provision not so listed and detailed will be regarded as having been accepted unconditionally.

Table 2-3: Format of Non-Compliance Statement

Document	ITT Sections / Paragraph of the relevant Franchise Signature Documents which have NOT been complied with	Details
ITT		
Franchise Agreement		
Stations Parent Company Guarantee		
Conditions Precedent Agreement		
Funding Deed		

Note: The populated list in the above Table 2-3 are indicative examples only:

2.11.3 Changes in Circumstances and Competition Matters

Similarly, Bidders are required to include in their bids in the format set out in the following Table 2-4, details of any change in circumstances or competition matters that affect their bidding position.

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

Change	Reporting Required
Change in Circumstances	Bidders should include details in response to the instructions contained in Section 2.3 (Changes in Circumstances)
Competition Matters	Bidders should include details in response to the instructions contained in Section 2.18 (Competition Matters)

2.11.4 Secretary of State's Risk Assumptions (SoSRAs)

Bidders are discouraged from proposing their own SoSRAs or any other contractual amendments which seek to transfer risk from the Franchisee to the Secretary of State and in the reasonable opinion of the Department have the same, or a substantially similar, effect to a SoSRA. Where Bidders do propose their own SoSRAs, or other relevant contractual amendments, they must also include in the bid a statement either:

- (a) specifying the impact on Franchise Payment (if any) if the Secretary of State refuses to accept the SoSRA or other relevant contractual amendment; or
- (b) stating that if the SoSRA or other relevant contractual amendment was not accepted it is noted and agreed that the Secretary of State will have the right to reject the bid as non compliant.

Where a cost for removing the SoSRA or other relevant contractual amendment is specified the Secretary shall have the right to:

- (a) accept the bid as amended by deleting the relevant SoSRA or other relevant contractual amendment; and
- (b) reflect the specified cost for removing the SoSRA or other relevant contractual amendment in the risk adjusted price of the Bidders proposal.

2.12 Impact of Non-Compliance

Where a bid is found to be non-compliant as set out in Section 2.11.1 (including whether or not such non-compliance is specified in the Tables in Section 2.11 or any Non-Compliance Statement), or to lack any information required by this ITT to enable evaluation, the Department may:

- evaluate the bid;
- seek additional information or clarification from the Bidder; and/or
- reject the bid.

Where the Department (whether after seeking additional information or clarification or not) elects to evaluate any such bid, then the Department may take account of the effect of the non-compliances in all relevant aspects of its evaluation (including, without limitation, the scoring of Delivery Plans and the adjustment of cost and revenue forecasts for the purpose of evaluating the financial robustness of the bid). The Department may additionally ask the Bidder to specify the financial (Subsidy/Premium) impact on its bid of the removal of the non-compliance (confirming that the bid may be accepted as amended by such removal) and be entitled to take account of that impact in the evaluation. Ultimately the Department reserves the right to consider the bid non-compliant.

2.13 Validity of Bids

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

Bidders shall confirm in their bids for the specified Priced Options in Section 4 of this ITT and any proposed Incremental Options (including but not limited to the terms, bid price, and any subsequent changes agreed), that these Options may be exercised for a period of not less than 365 days from the date of the franchise award save that the Priced Option for Passenger Train services to serve a new station at Beam Park, shall be exercisable at any point during the franchise term.

2.14 Industry Consultation and Disclosure of Information in Bids

Bidders should be aware that, following the submission of bids, the Department will need to consult HM Treasury, the Office of Rail Regulation ("ORR"), its advisers and Network Rail. The Department will also consult such other persons as it considers necessary or appropriate including, but not limited to, its advisers, bodies representing passenger interests (such as Passenger Focus or London TravelWatch), TfL, the Disabled Persons

Transport Advisory Committee or successor body, affected Local Authorities and Local Economic Partnerships (collectively referred to as Consultees and each separately referred to as a Consultee).

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

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

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

2.15 Evaluation of Bids

Bids must be complete and submitted in accordance with the instructions to Bidders set out in this document. Bids must be compliant with the requirements of the Franchise Signature Documents. The evaluation of bids shall be conducted in accordance with this ITT and the Department's Guide to the Railway Franchise Procurement Process (published in December 2011 available at <http://assets.dft.gov.uk/publications/intercity-west-coast-franchise-itt/guide.pdf>) and the Franchise Evaluation Process Charts for Essex Thameside at Appendices 2A-2F of this ITT.

This process includes a consideration of the value for money and affordability of the franchise proposition before award, together with an assessment of the deliverability of Bidders' proposals.

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

The Department will assess the cost and revenues set out in bids for deliverability. If this assessment indicates a significant risk that costs or revenues will not be delivered, or identifies other reasons why the Franchisee is likely to be financially unstable, the Department may seek additional guarantees to be written into the contract to reduce the risk to public finances to an acceptable level. Where this is not confirmed, the bid may be deemed to have an unacceptable financial risk to the Department and may be rejected.

The Bidder shall submit demonstrable VFM assessment(s) of its proposals within its bid in accordance with the guidance document at Appendix 3 (Guidance for Bidders in constructing an Economic Case for the Essex Thameside franchise bids).

Incremental and Priced Options will not form part of the evaluation the Department uses in its preferred Bidder decision.

2.16 Negotiation and Award

Following bid evaluation and clarification, the Department reserves the right to negotiate with one, some, or all Bidders and subject to such negotiations the Department additionally reserves the right to request some or all Bidders to re-submit their Bids. There will be no public announcement of the preferred Bidder until that Bidder has been advised that the Department intends to award it the franchise. The Department intends to run a voluntary standstill period of 10 calendar days. Prior to the date of commencement of the voluntary standstill period the preferred Bidder would be required to sign the Franchise Agreement after the London Stock Exchange closes and the Secretary of State has been informed of the identity of the preferred Bidder. An announcement will be made to the London Stock Exchange at 07.00 hours the following morning setting out the Department's intention to award the franchise following the voluntary 10 day standstill period, as defined by the EU procurement directives. The documents signed by the preferred Bidder would be held securely by the Department until the preferred Bidder is either notified:

- (a) of the successful conclusion of the standstill period. Following such notification, the Department would sign the Franchise Agreement and on that date the completion of the Franchise Agreement and other relevant documents shall occur and become legally binding on the parties from that date; or
- (b) that the Department has received a legal challenge to the process during the standstill period and the Department would as soon as reasonably practicable after the date of such notification return all the documents as signed by the preferred Bidder.

2.17 Debrief for Bidders

On the day of announcing the intention to award the franchise (i.e. at the commencement of the voluntary standstill period) the Department will e-mail to unsuccessful Bidders a letter setting out a summary of the characteristics and relative strengths of the winning bid and the relative strengths and weaknesses of the unsuccessful Bidder's proposals.

2.18 Competition Matters

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 Office of Fair Trading ("OFT") would have jurisdiction), or a concentration with a Community dimension under Council Regulation (EC) No.139/2004 ("EUMR"), which would be required to be notified to the European Commission ("EC").

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 OFT (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. Generally, a competition 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 OFT may require “hold separate” undertakings to be give pending conclusion of any investigation. It is therefore important for the Department to be able to assess the impact of any potential intervention by the OFT or EC in scrutinising the bids of each Bidder under merger control rules.

If, in the view of the Department, the impact of any such intervention would prejudice the timing of the franchise process or the ability of the Bidder to operate the Franchise as bid, or would otherwise prejudice the Franchise or any other franchise, the Department reserves the right to disqualify the Bidder from the Essex Thameside franchise reletting process.

Each Bidder is therefore required to confirm:

- 1 Whether award of the Franchise to it would require notification to the EC under EUMR;
- 2 What strategy it will adopt to minimise the delay in being able to operate the Franchise if an award is made to it. In particular:
 - If the award to it of the Franchise would require notification under EUMR, whether the Bidder would propose to request pursuant to Article 4(5) EUMR that the transaction is referred back to the OFT for consideration, and how it views the prospects of such a request being accepted;
 - How the Bidder proposes to approach pre-notification discussions with the OFT or, as the case may be, the EC to ensure that the notification is complete and that all necessary supporting evidence is included;
 - The Bidder’s willingness to offer undertakings or commitments to the OFT or the EC in order to avoid a second phase investigation;
- 3 The form of any derogations the Bidder would seek to the OFT’s standard form hold separate undertakings in the event that these are required in the context of a completed merger;
- 4 That it will commit to offer such undertakings or commitments as may be required by the OFT or the EC to enable it to operate the Franchise as bid, and that any such undertakings or commitments given would not impact on its ability to operate any other franchise.

The Department will take this into account in the evaluation.

2.19 Transparency and Freedom of Information Act 2000

The Freedom of Information Act 2000 (the "FOIA") provides a general right of access to all information held by public authorities. The Department is a public authority. The general right of access to information is then limited by a number of exemptions. When someone

requests information under FOIA, the Department must normally release that information unless one of the exemptions in the FOIA applies. This is also the case if the data is environmental information covered by the Environmental Information Regulations 2004 (“EIR”).

In submitting their bids in response to this ITT, Bidders are invited to identify which parts, if any, of their bid are provided to the Department in confidence or are commercially sensitive, such that they may be exempt from disclosure under FOIA and/or EIR. Bidders should provide reasons why such information should not be disclosed in response to any request and an estimate of the period of time during which the Bidders believe that such information will remain exempt from disclosure.

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

Bidders should note that the Department will place a copy of the ITT in the public domain at the same time as it is supplied to Bidders.

Bidders’ attention is drawn to the relevant provisions of the FLPA, which permits in certain circumstances disclosure of information by the Department, as well as the provisions of section 145(2) of the Railways Act 1993.

Bidders’ attention is also drawn to the pre-existing provisions of the Franchise Agreement that state that the Department may make certain information available to ORR, and may publish it. The Department intends that unit cost and/or cost data supplied to the Department by the Franchisee as part of the periodic management accounts will be made available to the ORR for benchmarking and will be published. The Department does not expect such information to be exempt under the terms of the FOIA/EIR. The Department complies with the central government transparency agenda programme, details of which can be found at <http://www.dft.gov.uk/publications/dft-transport-sector-transparency-board> and Cabinet Office guidance on this <https://update.cabinetoffice.gov.uk/resource-library/guidance-transparency> in relation to procurement and contracts.

2.20 Redactions from the Franchise Signature Documents.

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

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

Bidders are required to acknowledge that, except for any information which is exempt from disclosure in accordance with the provisions of the FOIA, the content of the Franchise Signature Documents is not Confidential Information. The Department shall be responsible for determining in its absolute discretion whether any of the content of the Franchise Signature Documents is exempt from disclosure in accordance with the provisions of the FOIA. Notwithstanding any other term of the Franchise Signature Documents, the Bidder hereby gives its consent for the Department to publish the Franchise Signature Documents in their entirety, (but with any information which is exempt from disclosure in accordance with the provisions of the FOIA redacted) including from time to time agreed changes to the Franchise Signature Documents, to the general public. The Department may consult with the Bidder to inform its decision regarding any redactions but the Department shall have the final decision at its absolute discretion. The Franchisee shall assist and cooperate with the Department to enable the Department to publish the Franchise Signature Documents.

Within four weeks of signature of the Franchise Signature Documents, the Franchisee will be required to submit to the Department a list of proposed redactions from the Franchise Signature Documents.

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

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

Should agreement on a redacted version of any document not be reached, the Secretary or State may, at his sole discretion, nevertheless place that document on the Department’s website and on the Section 73 Register subject to such redactions (if any), as he considers appropriate.

2.21 Variations to the Franchise Agreement

Bidders' attention is drawn to the variation provisions in Schedule 19 (Other Provisions), paragraph 1 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.

The Secretary of State may also require variations to other contracted provisions or outputs. In particular, variations may result from changes to the specification or timing of committed projects affecting the Essex Thameside 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 franchise could, in all relevant circumstances, reasonably be expected to be able to deliver and will be generally consistent with the overall scope of the franchise proposition taking into account the need to be able to vary the nature, quantity and manner of delivery of franchise services in response to circumstances relating to the development of railway infrastructure and services and other relevant financial, economic and technical developments and the implementation of developing rail policy.

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

SECTION 3: THE BASE SERVICE SPECIFICATION: INPUTS AND ASSUMPTIONS

The Franchise Offer

Bidders should refer to the Franchise Signature Documents which are supplied to Bidders alongside the publication of this ITT.

The Appendix to Schedule 8.2 (Figures for Calculation of Annual Franchise Payments) of the Franchise Agreement requires Bidders to price for a franchise length of 15 years, starting on 26 May 2013 and ending on 28 May 2028.

The franchise may be extended by up to 7 reporting periods, although this would be solely at the Department's discretion. Bidders shall 'price' for this extension period in full as though it was a continuation of their normal course of business although the price offered for the extension will not be taken into account in the evaluation of bids.

3.1 DELIVERY PLAN 1: MANAGING THE BUSINESS TO DELIVER BETTER VALUE

3.1.1 Organisation, Management and Staffing

In support of the Department's objectives, Bidders shall set out their plans, supported by organisational charts as appropriate, for the delivery of the franchise including:

- Corporate structure and relationships with parent companies
- Total establishment highlighting relevant skills and resources by activity and function
- Details of any outsourcing or sub-contractor arrangements and activities to be undertaken
- Proposed management team and structure
- Teams to manage internal and external interfaces
- Management and delivery of safety.

Bidders shall set out their approaches regarding:

- Reward policies, pensions
- Significant changes to job descriptions
- Relations with trade unions
- Training and staff development including opportunities in the supply chain for training and apprenticeships

Bidders shall set out their approaches regarding staffing of functions including, *inter alia*:

- Train and depot crewing/training
- Train maintenance
- Train cleaning
- Station staffing including retailing at stations
- Station maintenance.

Bidders shall outline how and what policy they intend to implement to create a safe working environment

The Department is committed to removing barriers to Small and Medium Enterprises (“SME”) participation in its contracts, and encourages the Franchisee to make their sub-contracts accessible to smaller companies and implement policies which embed SME’s in their supply-chains (see <http://www.dft.gov.uk/about/doing-business-with-us>). Bidders shall demonstrate their policy in this regard. For these purposes “Small and Medium Enterprises” shall have the meaning set out in the Franchise Agreement.

3.1.2 Management and Delivery of Change

No committed major projects are planned that would be expected to affect the delivery of the Essex Thameside franchise. Bidders shall demonstrate that they have sufficient resources to manage changes that they plan to initiate and implement during the franchise, in particular for any rolling stock capacity enhancements and significant timetable changes.

Network Rail is planning an enhancement of Fenchurch Street Station to increase capacity particularly for those accessing the station from Cooper’s Row. The enhancement is expected to be complete before the start of the new franchise, and should offer a significant improvement for interchange between the station and the London Underground station at Tower Hill. Bidders shall discuss the implementation of this development with Network Rail, including the impact of transfer of SFO responsibility to the Franchisee, and this shall be reflected in their Base Service Specification submission.

Bidders should demonstrate their awareness and proposed responses to planned developments in the Essex Thameside corridor and shall indicate how these might affect the services they propose to provide.

3.1.3 Achieving better value and the Rail Reform Agenda

The Department expects that the new Franchisee will deliver services in the most cost-effective and efficient manner possible, including considering improving the alignment between Network Rail and the franchise in keeping with the Rail Command Paper “*Reforming our railways; putting the customer first*” published by the Department in March 2012. This sets out how the Department plans to reduce the cost of running the railway by £3.5 billion per annum by 2019. The new Franchisee will be expected to work with the Department and Network Rail to develop ideas for bringing costs down and improving cooperation between the management of track and train.

3.1.3.1 Reducing Unit Costs

Bidders shall describe how, during the life of the franchise, they plan to reduce the unit costs of the franchised operation that they can control. The Department considers ‘total costs per passenger mile’, presented on an annual basis, as an appropriate measure for unit costs. A specific delivery plan is not required; rather every delivery plan should include a section that describes and quantifies the initiatives that the Franchisee shall implement to reduce unit costs in their Base Service Specification.

Bidders shall set out in their Executive Summary for Delivery Plan 1 a quantitative summary of the reductions for each year of the franchise to demonstrate how they will contribute towards the aims of the Command Paper. The reductions should be linked to initiatives set out in the delivery plans and sub-plans throughout the bid.

3.1.3.2 Alliancing

The Department considers that the new Franchisee should be given the maximum possible flexibility to work in partnership with Network Rail to optimise performance and drive down unit costs across the railway. The Department will not specify how or where such partnership working should be carried out although the Bidders attention is drawn to paragraph 4 of Schedule 6.2 (Essex Thameside Franchise Specific Provisions) of the Franchise Agreement. This paragraph imposes an obligation on the new Franchisee to endeavour to work with Network Rail to identify ways in which cooperation can be enhanced, costs reduced and closer working and alignment of incentives can improve value for money and performance within the parameters of the Franchise Agreement. The paragraph goes on to describe the obligations of the Franchisee where it proposes to enter into an alliance agreement that would require the obligations of the Franchisee under the Franchise Agreement to be varied.

Bidders are encouraged to explore with Network Rail alliancing opportunities covering Operations, Maintenance, Renewals and Enhancements, to be implemented during the life of the Franchise. Bidders should be aware that the Department considers it unlikely that any alliance under the terms of Schedule 6.2 (Essex Thameside Franchise Specific Provisions) will commence prior to 1 April 2014 (i.e. the start of Control Period 5).

Where Bidders choose to use the alliance mechanism as a way to drive efficiencies, this should be reflected in the appropriate delivery plans and be clearly identified in the corresponding Records of Assumptions. The breadth and depth of any alliancing proposals should be assured in their entirety by Network Rail, at bid stage.

The Efficiency Benefit Share (EBS) mechanism included within the Track Access Contract will be excluded from the financial adjustment process following a Charging Review. This means that from CP5 onwards the Franchisee will be on risk for any future changes made to the structure of the EBS by the ORR.

3.1.3.3 Traction Electricity Charges

The Traction Electricity Charge mechanism included within the Track Access Contract will be excluded from the financial adjustment process following a Charging Review. This means that the Franchisee will be on risk for any future changes made to the structure or level of Traction Electricity Charges by the ORR.

3.1.4 Environmental Management Plan

Bidders shall set out their plans for measuring and reducing the environmental impact of their rail activities. Where initiatives reduce energy bills or other costs, Bidders should reflect these in lower franchise costs.

Bidders should take account of the sustainability principles developed by the cross-industry Sustainable Rail Programme and reflect these as appropriate in their bids. They

should take account of the environmental best practice document produced by the Sustainable Rail Programme and which is available in the data site. All initiatives should be considered on a whole-life, whole-system cost basis.

Bidders shall include annual targets as part of their proposals to improve the environmental performance of the franchise. Bidders are free to define such targets but should as a minimum include:

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

Bidders may also set targets for other areas including but not limited to; noise, emissions of air quality pollutants, land contamination and other environmental impacts.

Bidders shall demonstrate their policies for monitoring and publishing the overall environmental performance of the franchise as an annual progress statement and should comply with the carbon management framework being developed by the Sustainable Rail Programme, in particular as regards reporting energy consumption.

Bidders should explain how environmental issues will be managed within the franchise, including;

- by ensuring senior management accountability
- introducing ISO14001 accreditation or an equivalent environment management system.

Bidders should set out plans for raising awareness of environmental issues among staff and customers and for encouraging and implementing ideas for reducing environmental impacts.

Bidders should demonstrate an awareness of the environmental impact of the goods and services they procure to support their franchise operation and Bidders shall submit their sustainable procurement policy. In this regard Bidders should consider applying the relevant British Standard BS 8903.

3.1.4.1 Energy and Carbon Management

Bidders shall demonstrate their compliance with, and their accreditation to ISO50001 or an equivalent energy management system across the franchise. This is intended to help organisations adopt a systematic approach in achieving continual improvement of energy performance, including energy efficiency, energy use and consumption.

Bidders shall set out plans to measure, monitor and manage their traction and non-traction energy consumption reflecting industry best practice:

- For traction energy this should include consideration of training in eco-driving techniques, the fitment of driver advisory speed systems and energy efficient

timetabling and stabling arrangements, and intelligent control of auxiliary loads in-service and when stabled.

- For non-traction energy Bidders should consider improving the energy performance of stations and depots through, for example, better insulation, more efficient and intelligent lighting and heating systems and the use of micro-generation. Any new station or depot developments should deliver at least an “excellent” rating using the Building Research Establishment Environmental Assessment Methodology (BREEAM).

Bidders shall set out plans for providing Network Rail with sufficiently accurate information on traction electricity consumption for billing purposes, for example through the fitment of onboard electricity consumption meters, and for helping the infrastructure manager monitor the performance of the electrification infrastructure.

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

Bidders shall set out plans for working more closely with Network Rail to reduce the environmental impacts of their franchise operation covering both traction and non-traction impacts. This should include timetable design and infrastructure modifications.

3.1.4.2 Technology and innovation

The McNulty Rail Value for Money study identified that the GB rail industry has tended to under invest in innovation compared to other railways and other industries. This has contributed to the continued high cost of running our railways. Consequently, Bidders should come forward with innovative proposals to reduce the cost of operating the railway and/or to deliver improved capability and performance on a whole system basis. This may include proposals to invest in infrastructure or rolling stock.

During the life of the franchise the Franchisee shall co-operate with the Department and other industry stakeholders in demonstrating and implementing innovative technologies or approaches as these emerge. Bidders should set out plans for keeping track of innovative technologies and participating in industry innovation initiatives such as RIA’s Unlocking Innovation scheme.

3.1.5 Managing Stakeholder Relations

The Department is seeking to ensure that the Franchisee works closely and effectively with all stakeholders throughout the duration of the franchise. Bidders shall confirm that they will co-operate with stakeholders over the life of the franchise to facilitate efficient development of major projects, service and accessibility improvements, to support the development and trials of innovative technologies and approaches and any other industry changes.

3.1.5.1 Transparency and data provision

Transparency and the provision of data are an important part of the Government's efficiency and reform agenda. The Franchisee shall be expected to make available to the Department and ORR cost and revenue data during the life of the franchise. Data may be published in a format that allows comparisons to be drawn between unit cost levels in other franchises, providing a reputational incentive for the new operator to reduce costs and enabling identification and adoption of best practice. Government shall also expect the new Franchisee to work with the Regulator to allow passengers to compare train operators performance for individual service groups, overcrowding and passenger complaints.

Bidders shall indicate how they will work with the wider rail industry to adopt and implement any future outcomes from the transparency agenda including the open publishing of timetables, real-time train running and appropriate fares information.

3.1.5.2 Managing the Interface with the rail industry

Bidders shall provide plans for how they will manage the ongoing relationship with Network Rail on a day to day basis, alongside liaison arrangements with TOCs and other industry parties including TfL. Bidders shall outline within their plans how they will work together with the wider rail industry to incorporate further changes that emerge from workstreams arising from the Rail Value for Money study.

3.1.5.3 Engagement and Consultation with Passenger Focus and London TravelWatch

Bidders shall detail how they will engage with Passenger Focus and London TravelWatch and what planned regular involvement this will entail, including proposals to consult with these bodies regarding key franchise issues.

3.1.5.4 Engagement and Consultation with Other Groups

Bidders shall demonstrate how they will work effectively and consult with Local Authorities, Local Economic Partnerships, regional and sub-regional bodies. Local Authorities have an ongoing aspiration for improvement in communication to help facilitate change, and as part of ongoing local initiatives including the development of Station Travel Plans. Bidders shall highlight how they will achieve effective dialogue with these stakeholders and with other relevant interest groups.

3.1.5.5 Engagement and Consultation with the General Public

Bidders shall state how they will keep the general public informed of key decisions and outline how they will make consultation effective, visible and transparent.

3.1.6 Mobilisation and Migration

Bidders shall demonstrate their capability to carry out an effective mobilisation and migration within the necessary timescales and proceed to commencement of operations on the start date of the new franchise. For clarity, mobilisation activities are interpreted in this document as being those leading up to the commencement of operations. Migration activities are those relating to the transfer and integration of the existing operations,

supporting assets, systems and commercial arrangements to create the new Essex Thameside franchise.

3.1.6.1 Objectives and Approach

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

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

This will include, amongst other things:

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

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

3.1.6.2 Transfers to the Franchisee

Clause 5.1 of the Conditions Precedent Agreement sets out the property, rights and liabilities that will be transferred to the Franchisee via the Start Date Transfer Scheme. Bidders may request for other property, rights and liabilities to be transferred to them via the Start Date Transfer Scheme through the process in clause 5.3 of the Conditions Precedent Agreement.

3.1.6.3 Rolling Stock

The Franchisee will be required to enter into rolling stock leases and associated contracts for the rolling stock that will enable it to deliver its obligations under the Franchise Agreement. This requirement will be a Condition Precedent to the start of the Essex Thameside franchise.

3.1.6.4 Transfer of Undertakings (Protection of Employment)

Bidders shall assume that the transfer of the c2c Rail Limited business and the entry into the Franchise Agreement will constitute the transfer of an undertaking for the purposes of the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE). Details will be provided of c2c Rail Limited employees who will transfer to the new Essex Thameside franchise.

3.1.6.5 Pensions

Bidders shall confirm acceptance of the terms and conditions relating to pensions contained in Schedule 16 (Pensions) of the Franchise Agreement. This confirmation shall be included in Part 4 Legal and Compliance.

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

The Franchisee shall become the Designated Employer for the active, retired and deferred members of the current shared cost sections of the Railways Pension Scheme (“RPS”) defined as - c2c Rail Section.

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

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

3.1.6.6 Safety Certificates for Railway Undertakings

The Franchisee shall be required to obtain a Safety Certificate in accordance with the Railways and Other Guided Transport Systems (Safety) Regulations 2006 (“the ROGS Regulations”) for the Essex Thameside franchise as a Condition Precedent to the commencement of the franchise. The Franchisee shall be responsible for maintaining the Safety Certificate for the term of the Essex Thameside franchise.

Bidders’ attention is drawn to the new licence obligation for stations which transfers substantial new responsibilities to the station operator. Bidders shall make provision for safety certification with regard to their infrastructure management function at stations.

Bidders shall engage with HM Railway Inspectorate during the bid preparation phase in order to ensure that the Safety Certificate will be issued in good time for the start of the franchise. Further information on the requirements and the process for obtaining a railway Safety Certificate can be found on ORR’s website via the following link: ORR Safety Certificate.

3.1.6.7 Licensing

As a Condition Precedent for the start of the Essex Thameside franchise, the Franchisee shall apply for, and secure, licences and a related Statement of National Regulatory Provisions to operate railway assets within Great Britain. Typically, this process can take up to 120 working days to complete, allowing for consultation and due process. ORR normally requires appropriate safety authorisations to be in place prior to the final issue of these licences.

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

The Franchisee will take on responsibility for operating, maintaining, and improving the stations. However this core duty will not be set in the franchise agreement. It will be set in the station licence and thus monitored and enforced by the ORR under the station licence.

The new licence obligation for stations transfers substantial new responsibilities to the station operator in a way that enables flexibility and freedom for Bidders. Guidance on the scope of station asset stewardship is set out in Attachment C.

3.1.6.8 Railway Safety Group

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

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

Bidders shall confirm that they will participate in industry groups and committees addressing the domestic, European and research safety agenda of the Railway Safety Group. Bidders shall demonstrate how they will engage fully in safety at both Franchisee and parent company level.

3.1.6.9 Station and Depot Access Contracts

Bidders shall demonstrate that they will have arrangements in place for gaining access to stations and depots operated by others. These will be covered by access contracts between the Station Facility Owner and the Essex Thameside Franchisee. Access contracts, with the exception of those with TfL, are regulated and are subject to approval or direction by ORR, which has produced a number of template access contracts for use by Franchisees. Bidders' particular attention is drawn to access arrangements for Stratford and Liverpool Street stations and Ilford depot.

3.1.6.10 Track Access Contracts

The existing track access arrangements will be transferred to the new operator under the Start Date Transfer Scheme. Details of the Track Access Contract can be found in the data site.

3.2 DELIVERY PLAN 2: IMPROVING THE CUSTOMER EXPERIENCE

The Department is seeking to achieve tangible and perceived improvements in the quality of the customer experience provided to passengers, ensuring that the overall passenger experience improves throughout the life of the franchise subject to value for money and affordability for the taxpayer. This will include, among others, improvements in service quality, retailing and the provision of information to customers particularly during times of planned and unplanned disruption.

Customer experience will be assessed against 24 National Passenger Survey (NPS) indicators. Bidders shall set out their expectations of performance against each indicator in the relevant Delivery Plan together with the specific initiatives and commitments to support the achievement of the indicators. The relevant Delivery Plan for each indicator is set out in Appendix 6 (NPS Measures) to this ITT.

The indicators are aggregated into four NPS Satisfaction Measures for which Bidders shall set NPS Benchmarks to be contracted in Schedule 7.2 (National Passenger Surveys) of the Franchise Agreement. Expectations of performance against all indicators and their linkage to the contracted NPS Satisfaction Measures shall be summarised and quantified in the Executive Summary in the relevant delivery plan.

3.2.1 Management Systems

Bidders shall set out their management systems for delivering, monitoring and improving performance against NPS satisfaction measures.

3.2.2 Monitoring against National Passenger Survey Satisfaction Measures

The Franchisee will be required to achieve the Benchmarks for each of four NPS indicators for the following NPS Satisfaction Measures in the Franchise Agreement:

- Stations
- Train services
- Train facilities
- Customer Services.

The NPS indicators included in each NPS Satisfaction Measure are set out in the Passenger Survey Methodology in Attachment K to this ITT.

The Passenger Survey Methodology sets out how NPS Satisfaction Measure scores are to be calculated at bid submission and during the franchise term. Each of the four measures is calculated from a number of aggregated NPS indicators using weightings which the Department has chosen in light of a local assessment by Passenger Focus of the satisfaction and dissatisfaction of Essex Thameside passengers. Passenger Focus will undertake National Passenger Surveys at least annually and the results of those surveys will be used to determine the Franchisee's performance against the NPS Benchmarks. Local weighting factors that will be applied at the start of the franchise are set out in Appendix 6 to this ITT. Given the duration of the Franchise and the potential for significant changes to train service provision over this period weightings shall be re-established by the Department, based on evidence provided by Passenger Focus, (in accordance with

the Passenger Survey Methodology, Attachment K) at year 3 and year 8 of the franchise with the new weightings coming into effect at years 5 and 10 respectively.

For each of train services and train facilities, Bidders shall propose NPS Benchmarks for the duration of the franchise that shall, as a minimum, be above the average score for the relevant measure for London and South East. The average score for each such measure will be calculated by combining the average satisfaction scores for the relevant measure from the Spring 2011 and Autumn 2011 waves of surveys. For Stations and Customer Services, Bidders will propose NPS Benchmarks for the duration of the franchise that shall, as a minimum be at or above the current average score for the Essex Thameside franchise. The current average for the Essex Thameside franchise will be calculated by combining the average satisfaction scores from the Spring 2011 and Autumn 2011 waves of surveys as presented in the Passenger Survey Methodology, Attachment K.

Passenger Focus has committed in future to publish disaggregated NPS scores based on the NPS Satisfaction Measures noted above. Passenger Focus will also provide a specific set of Essex Thameside NPS scores that isolate as far as is possible indicators and weightings which are local drivers of satisfaction and dissatisfaction.

The NPS score for each Satisfaction Measure, and the associated NPS Benchmarks that the Franchisee is committed to deliver must be displayed at all stations alongside other performance measures. It is expected that such information will start to be published by spring 2014.

Where any of the four contracted NPS Benchmarks is not achieved in any year the Franchisee is required to develop an improvement plan, with a level of expenditure of up to £100,000 per annum for each benchmark not achieved.

3.2.3 NPS Satisfaction Measure and customer experience initiatives relevant to this plan

Bidders shall set out their expectations of performance against each indicator relevant to this Delivery Plan together with the specific initiatives and commitments to support the achievement of the indicators. The relevant indicators for this Delivery Plan are set out in Appendix 6 (NPS Measures) to this ITT.

3.2.4 Delay Repay / Passengers' Charter

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

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

Bidders should demonstrate a commitment to a proactive policy of informing passengers of their right to claim in any given situation and to set out the procedures that will be adopted to make it easier to claim. Should a period of sustained poor “peak” performance be experienced (as measured by the number of trains arriving at their final destination within 5 minutes of their scheduled time), Bidders should consider compensating season ticket holders over and above the arrangements outlined above. In doing so, Bidders should consult Passenger Focus and London TravelWatch.

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

For Delay Repay purposes, ‘peak’ is defined as arrivals into London terminals between 07:00 and 09:59 and departures from London terminals between 16:00 and 18:59, Mondays to Fridays (excluding Bank Holidays). This definition of “peak” does not apply to fares.

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

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

3.2.5 Managing Disruption

Network Rail requires engineering access to the network in order to maintain a safe and reliable railway. Bidders shall set out how they will minimise disruption for passengers. Given the diversionary routes available, Bidders shall demonstrate how they will work together with Network Rail and other passenger and freight operators to minimise inconvenience to passenger journeys and to minimise the use of rail replacement bus services. In the first instance passengers should be directed, where practicable, onto alternative heavy rail, London Underground or DLR services. Where the use of road services are unavoidable Bidders shall demonstrate how frequent, high-quality, accessible and well-managed rail replacement services are to be provided.

Bidders shall outline their approach to managing and recovering from unplanned disruption. Specific attention shall be placed on contingency plans for overruns of planned possessions and associated communications strategies along with how they will work with other operators to minimise disruption during planned engineering works.

Bidders shall demonstrate how they will work with ORR and Network Rail in developing their policy documentation for Passenger Information During Disruption (PIDD).

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

As projects are developed and implemented there might be some disruption to passenger journeys. Bidders shall provide details as to their approach to managing this interface recognising that such disruption should be avoided or at least minimised. Specific attention should be placed on:

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

3.2.6 Customer Information

Customer demands for quality information at stations about train times and platforms shall be addressed. Bidders shall provide details of how they will maintain and improve on information provision, particularly in terms of consistently reliable technology, to meet customer requirements for quality information in respect of train times, backed up by well informed staff. Bidders are encouraged to propose new ways in which they will communicate with customers.

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

Bidders should demonstrate how they will adopt the practices in the National Rail Enquiries good practice guides on customer information.

Bidders shall demonstrate how they will utilise existing channels of communication, such as real time information both at station and on train to provide accurate and up to date information especially when things go wrong. This also is reflected in the licence requirements for Passenger Information During Disruption (PIDD).

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

Reliability and availability of information screens should be routinely monitored and Bidders shall demonstrate that they have processes in place to deal quickly and effectively with any defects, including any inconsistencies with PA announcements.

3.3 DELIVERY PLAN 3: MARKETING AND RETAILING TO GROW THE BUSINESS

3.3.1 Fares

The Department is currently (2012) undertaking a review of fares policy in line with the recommendations of the McNulty report. For the purposes of this competition Bidders are encouraged to maximise use of the opportunities under existing policy.

3.3.1.1 Fares Policy

Bidders shall prepare their bids based on the current regulated fares policy, as set out in the Franchise Agreement, being applied to the Essex Thameside franchise. All fares baskets will be subject to fares policy, which increases the permitted aggregate value of the regulated fares basket by RPI+3% for the calendar years 2013 (which will commence prior to franchise commencement) and 2014 and by RPI+1% from 2015 and thereafter.

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

3.3.1.2 Zonal Fares

Bidders shall in their bid plans assume the continued operation of the zonal fares and pricing structure schemes currently in force on the franchise. Bidders are free to propose the development of zonal fare schemes over other parts of their franchise.

3.3.2 Ticketing

3.3.2.1 South East Flexible Ticketing Programme (SEFT)

Through the South East Flexible Ticketing Programme (SEFT), the Department is introducing smart and integrated ticketing technology across this region. Bidders shall assume that smart ticketing equipment will be funded throughout the Essex Thameside franchise area at the 15 stations identified as SEFT stations in the table at Appendix 1A (List of Essex Thameside Franchise Stations) where the Franchisee is SFO. Bidders should assume that SEFT will deliver equipment and systems for the provision of an ITSO based smart ticketing scheme by January 2014 meeting the definition of Acceptance in the model SEFT Delivery Agreement. This definition can be found in Appendix 7 (Definition of Acceptance in the model SEFT Delivery Agreement) and the SEFT Delivery Agreement can be found in the data site.

It is possible that Acceptance under the SEFT Delivery Agreement may be achieved by the current Franchisee by the Franchise Start Date. Alternatively, some or all of the SEFT Delivery Agreement responsibilities may be required to be delivered by the successful Bidder under funding arrangements associated with the SEFT Delivery Agreement. Bidders' shall include for the Base Service Specification the flexibility to accommodate any of these scenarios. Where SEFT deliverables are incomplete at the Franchise Start Date, the successful Bidders entering into a SEFT Delivery Agreement will form a Condition Precedent to the Franchise Agreement.

Information on the current programme and milestones for implementing the SEFT Delivery Agreement and the equipment specification are available in the data site. The Franchisee will be responsible for the ongoing maintenance and operation of SEFT infrastructure, where fitted and from the date of Acceptance whenever that occurs from the Franchise Start Date. Bidders shall provide appropriate plans to meet this obligation. Bidders shall also include for the management and maintenance of flexible ticketing.

3.3.2.2 ITSO Ticketing

Bidders shall propose a comprehensive ITSO compliant smart and integrated ticketing scheme for the franchise. This scheme shall make use of smart and integrated ticketing to improve the passenger experience, deliver both capital and operating cost efficiencies and manage demand. Such a scheme shall, as a minimum, retail, issue, accept and validate all valid ticketing products on any valid ITSO customer media, in accordance with the ITSO Operating Licence.

The Bidder requirements in respect of an ITSO-compliant scheme do not preclude Bidders from proposing further innovative ways of ticket retail, fulfilment and use, inter alia, the use of the internet, mobile telephone with barcode and/or Near Field Communication (NFC), contactless bank cards and home printing. The Franchisee may implement their smart ticketing scheme earlier than the dates set out below.

Subject to the following paragraph, the Franchisee shall introduce ITSO compliant ticketing throughout the franchise area for **all fare types** no later than 5 years post franchise award whilst retaining interavailability where it currently exists.

The Franchisee shall introduce ITSO compliant ticketing throughout the franchise area for the following fare types no later than 2 years post franchise award whilst retaining interavailability where it currently exists.

- Anytime - Both Period and Day, Single and Return
- Off Peak - Both Period and Day, Single and Return
- Super Off Peak - Both Period and Day, Single and Return
- Advance Single and Return
- Season Tickets
- London Travelcard
- Local Authority and TfL fares

The Franchisee shall use all reasonable endeavours to work with Local Authorities within the franchise area who may wish to implement smart rail or multi-modal ticketing schemes. The Franchisee shall not unreasonably withhold consent to such propositions.

The Franchisee should promote demand management and passenger benefits by:

- Participating in the South East Flexible Ticketing programme (SEFT) and implementing common smart products and common rules of use for those products as developed by SEFT.
- Making proposals for the development and implementation of new Smart/Flexible products.

Bidders should note that (inter-alia) reservations; warrants; supplements; excess fares; penalty fares; concessionary travel; rail card supported tickets form fundamental aspects of ticketing. The Franchisee will work with the broader industry to co-ordinate their approach to addressing these issues.

The Franchisee shall use all reasonable endeavours to promote the inter-availability of fares and tickets and to join all relevant ATOC/Department/RSP approved smart ticketing schemes including, where appropriate, adopting ATOC supported generic ticketing products.

As a minimum, the Bidder shall ensure there is appropriate provision of an ITSO-compliant ticketing system comprising ticket issuing equipment, readers and validators (and where appropriate gating) throughout the franchise area where they are Station Facility Owner (SFO), and to co operate with other train operators and infrastructure providers to meet these requirements throughout where they are not the SFO.

Bidders' ticket retailing and revenue protection proposals at stations set out in the Stations and Accessing the Network Delivery Plan shall support the uptake of, and value created by, ITSO ticketing. Bidders should also consider extending the functionality of TVMs to improve the passenger experience and work on solutions to enable passengers to view the ticketing products and associated itineraries loaded onto their ITSO customer media at points on their journey.

3.3.2.3 Passenger Uptake Targets

Bidders shall demonstrate how they will ensure growth in passenger journeys undertaken on ITSO compliant ticketing. Bidders shall propose targets for passenger uptake and levels of committed spend in the event that such targets are not achieved in accordance with paragraph 3.2 of Schedule 6.2 (Franchise Payments) of the Franchise Agreement.

The specific actions to achieve uptake targets shall include marketing to: increase the uptake of journeys undertaken on ITSO compliant ticketing; grow journeys at times other than the Peak; and contribute to increased passenger satisfaction. The Delivery Plan shall clearly state initiatives targeting existing passengers and initiatives designed to attract new passengers and retain them as repeat customers.

3.3.2.4 Implementation Plan and cost benefit analysis

Bidders shall provide an implementation plan for their ITSO ticketing scheme, demonstrating its phasing and how full implementation will be achieved within five years. This will be contractualised. Bidders shall provide an analysis of the costs and benefits of their scheme, taking into account the effects on capital and operational costs, implications for franchise revenue and the predicted effects on passenger experience and behaviour (including on patronage).

3.3.3 Marketing and ticket retailing

Bidders shall set out detailed plans of how they will utilise marketing techniques to increase passenger usage, and revenue specifically outside of the peak. These plans shall clearly state initiatives targeting existing passengers and initiatives designed to attract new passengers and to retain them as repeat customers. Bidders shall set out how information

from smart ticketing will be used and how the Franchisee intends to work with Local Authorities, TfL, and other local interest groups to integrate rail travel on the Essex Thameside corridor into the local transport network.

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

Bidders should consider how best to promote the use of season tickets including allowing passengers who travel regularly but not every weekday or not to a standard pattern to benefit from some season ticket discount. Proposals may be linked to the adoption of ITSO compliant ticketing and might include payment methods not normally used by national rail, for example, direct debit.

Bidders should be aware that flexi-smart ticketing schemes may be introduced on certain parts of the network by other franchised operators. Bidders shall set out how they would co-operate with the development and implementation of such schemes. Should the Franchisee be required to participate directly in these schemes the variation mechanism under paragraph 1 of Schedule 19 (Other Provisions) of the Franchise Agreement, will apply.

3.4 DELIVERY PLAN 4: TRAIN SERVICE & ROLLING STOCK SPECIFICATION TO ACCOMMODATE PASSENGER GROWTH

3.4.1 Demand and revenue

Bidders shall provide a detailed forecast of passenger demand over the life of the franchise, including demand for each hour in each of the morning and evening Peaks.

Bidders shall provide evidence to demonstrate that their forecasts of demand are robust and realistic. In order to be compliant with this Section such evidence must be supported by independent third party forecasts from a body recognised by HM Treasury. The Department will consider, as part of its deliverability assessment, the alignment of the proposed capacity to meet the Bidder's forecast level of demand, and particularly whether Bidders' Peak demand forecasts are realistic.

As a minimum, Bidders shall provide sufficient capacity to meet their forecast demand while staying within the Department's specified Crowding Limit (as defined in the Franchise Agreement). Outside of the Peak then all passengers should be expected to get a seat.

A bid that does not meet the Bidder's forecast demand will not be compliant with this instruction unless the Bidder can demonstrate that the provision of the required additional capacity would require alterations or improvements to the infrastructure of the rail network.

Bidders shall demonstrate they will protect revenue and minimise revenue loss across the Essex Thameside franchise area. This should include evidence of staffing plans and investments in equipment in support of their assumptions on revenue loss which are aligned with Bidder forecast demand and revenue.

3.4.2 NPS Indicators and customer experience initiatives relevant to the Base Service Specification

Bidders shall set out their expectations of performance against each indicator relevant to this Delivery Plan together with the specific initiatives and commitments to support the achievement of the indicators. The relevant indicators for this Delivery Plan are set out in Appendix 6 (NPS Measures) to this ITT.

3.4.3 Train Service Requirements

The Train Service Requirement (TSR) represents a minimum and should not be taken to imply any views the Department may have on future growth or service provision above this minimum. The TSR provides the minimum core service during the operating day and comprises the following elements:

- The minimum weekday/weekend number of station calls per hour per direction to be provided at each station served by the franchise.
- The minimum number of direct services to be provided between each franchise station and Fenchurch Street/Liverpool Street stations in the Peaks

- First and last train times to/from London on weekdays/weekends.

The station calls are not linked to particular train services and Bidders are free to decide on the optimum solution.

Fenchurch Street station is perceived as providing limited connectivity with underground and bus services, in particular compared with Liverpool Street station. A small number of services are currently timetabled to run into Liverpool Street via Stratford and services are diverted into Liverpool Street at weekends during engineering work on the approach to Fenchurch Street. Bidders are expected to review the opportunities to use Liverpool Street station.

Bidders shall demonstrate that their service proposals are appropriate across all routes to accommodate seasonal variations, public holidays and any special events that might be expected to take place across the franchise area.

Currently a bus service is specified which operates twice hourly between Tilbury Town station and Tilbury Riverside, allowing connections to ferry services and cruise ships. Bidders shall provide within their Base Service Specification submission their proposals for the continuation of an equivalent bus connection service within the Franchise. Bidders are encouraged to engage with the relevant local stakeholders in preparing their proposals.

3.4.4 Timetables

3.4.4.1 Timetable Development

On franchise commencement the incoming Franchisee will inherit a pre-existing timetable.

Bidders shall propose their own timetable developments to meet their proposed demand and capacity requirements to satisfy the Crowding Limit in the Peak and the provision of seated capacity at other times. Proposals from Bidders for alternative service patterns shall be compliant with the TSR and shall deliver one or more of:

- better operational performance and punctuality
- increased resilience to and improved recovery from disruption
- reduced energy consumption
- better utilisation of capacity
- increased frequency
- reduced journey times
- improved connectivity
- a material contribution to the financial performance of the Franchisee.

Bidders should have considered the options outlined for Essex Thameside as set out in Network Rail's Greater Anglia and LSE Route Utilisation Strategies.

The Department recognises that future timetable changes might be required or will become appropriate and Bidders shall demonstrate how they would manage such changes during the duration of the franchise. Where it is proposed that there should be timetable changes, it shall be for the Franchisee to carry out a public consultation in accordance with the provisions of paragraph 4 of Schedule 1.1 (Service Development) of the Franchise Agreement and to secure the necessary track access rights. These

provisions apply in respect of all timetable changes proposed by a Franchisee, and Bidders should therefore allow sufficient time for them to carry out consultation on their first timetable change (if required).

3.4.4.2 *Timetable Submissions*

Bidders shall set out their proposed timetable revisions to accommodate their forecast growth. When proposing their future timetable plans, Bidders' attention is drawn to the requirement to support any proposal for change with evidence to prove:

- The service provides sufficient capacity to meet Target Passenger Demand
- The service stays within the Crowding Limit during Peak periods and provides seated capacity in the Off Peak, in each case on the basis of Forecast Passenger Demand
- The proposed rolling stock solution is deliverable
- The timetable must be deliverable
- The timetable must fit with the requirements of freight and other passenger rail services.

Bidders shall provide detailed timetable and/or rolling stock deployment plans as supporting evidence, including rolling stock diagrams. Although provision of train crew diagrams is not mandatory, Bidders shall provide sufficient evidence that their proposed train service will be appropriately resourced with train crew to demonstrate deliverability.

Bidders shall provide such proposals in full working timetable format as a .pif file which shall be compatible with Network Rail's train planning system ITPS in order for Network Rail to be able to import the timetable into its timetable planning system. This will allow compatibility with other operators' services to be assessed. Bidders shall supply both public and working timetable versions for the use of the Department's evaluators and their technical advisors.

3.4.4.3 *Interacting with freight services*

At London Gateway, a new deep water port is being developed which will be of national importance to the future of the UK port and logistics industry and will necessitate additional access for freight. Local rail connections with London Gateway will be enhanced by the double tracking of the Thameshaven branch line, which links the port to the main rail network at Stanford-le-Hope.

Freight operators are significant users of the central part of Essex Thameside's route network, in particular the Tilbury Loop, which provides access to a number of important freight terminals.

Freight traffic is forecast to grow, particularly in respect of aggregates, associated with the development of the Thames Gateway area, and containers to and from London Gateway Port. Currently, all freight trains enter and leave the Essex Thameside network via the connection from Barking to the Gospel Oak line and to the Great Eastern Main line at Forest Gate. To accommodate the forecast growth, gauge and capacity enhancements to the Gospel Oak – Barking route have recently been completed.

Overall there is an aspiration for an increase by 2030 from the current 8 freight paths per day to 50 freight paths per day in each direction, primarily along the Tilbury loop.

There is an existing connection for freight services to HS1 at Dagenham. This connection will be retained.

Bidders shall demonstrate how their service plans can accommodate freight traffic and the interface and operational management necessary to avoid affecting the punctuality of passenger services which is consistent with the Departments aims.

3.4.5 Capacity Requirements

The bid must show that sufficient capacity is provided to:

- (a) meet the morning and evening Peak period crowding requirements set out in paragraph 1 of Schedule 6.2 (Essex Thameside Franchise Specific Provisions) of the Franchise Agreement; and
- (b) provide passengers travelling Off Peak with a seat.

In line with the Bidder's forecast demand.

Bidders are free to propose and fund infrastructure improvements to increase capacity if they choose to do so, on a commercial basis, but they are not required by this ITT to develop net cost infrastructure schemes in order to meet demand.

In calculating capacity for the purposes of (a), Bidders must comply with the capacity measurement provisions in Appendix 5 (Measurement of Rolling Stock Capacity).

3.4.6 Fleet Requirements

The current fleet comprises 296 carriages, class 357, formed by 74 4-car units. The Department does not require specific rolling stock to be used on the franchise. Rolling stock is leased or purchased by the Franchisee to meet the performance requirements of the franchise, such as meeting punctuality and passenger satisfaction targets, and the operational requirements of the infrastructure.

3.4.6.1 Rolling Stock Plan

Bidders shall set out clearly their plan to deliver sufficient rolling stock capacity to meet the Bidder's forecast demand and the Department's capacity requirements. Bidders shall demonstrate how they plan to deliver this capacity indicating how, over the duration of the franchise, they calculate the proposed capacity of their rolling stock, using the capacity measurement provisions in Appendix 5 (Measurement of Rolling Stock Capacity), and how their proposed solution enables them to meet or exceed their Performance and NPS Benchmarks.

Bidders shall set out in Table 1 of Schedule 1.7 (The Train Fleet) of the Franchise Agreement the Train Fleet they propose at franchise commencement. Bidders shall set out how they will implement the rolling stock changes set out in their fleet plan. For at least

their initial fleet, the Bidder's proposals must be accompanied by term sheets from the relevant vehicle owners.

Bidders shall explain the reasons for choosing:

- between new and cascaded fleets;
- the performance of the rolling stock including top speed capability and acceleration and braking rates

For those vehicles that are in the fleet plan beyond 31 December 2019, Bidders shall clearly set out how and when Persons with Reduced Mobility - Technical Specification for Interoperability ("PRM TSI") compliance will be achieved.

Should Bidders propose the introduction of new-build rolling stock they shall demonstrate that they have taken account of the rail industry's Key Technical Requirements¹. Bidders should also set out proposals for collaborating with other operators or industry stakeholders to deliver economies of scale or other options for delivering better value for money.

Where Bidders are proposing a major refurbishment of rolling stock they should comply with relevant European legislation and with existing industry standards and guidance as published by the RSSB (www.RSSB.co.uk) for the fitment of European Railway Traffic Management System (ERTMS) and GSM-R. In addition, Bidders are encouraged to propose improvements to the performance, attractiveness and energy efficiency of existing rolling stock as well as options for reducing its impact on the infrastructure and providing the infrastructure manager with robust and timely information on infrastructure condition. Again, Bidders shall take account of the industry's Key Technical Requirements and consider collaborating with other operators or industry stakeholders to deliver economies of scale or other options for delivering better value for money. Examples of initiatives Bidders should consider include:

- Driver advisory systems
- Lower weight, lower stiffness bogies
- Traction efficiency improvements
- Non-traction efficiency improvements e.g. fitment of intelligent, low energy lighting, heating and air conditioning systems
- Fitment of flush inhibit systems/retention toilets
- Technical and operational approaches to improve rolling stock reliability and availability

In addition Bidders shall include plans for the fitment of energy meters.

Bidders may propose changes to rolling stock interior layout, it is the Departments' view that a 'metro style' interior aims to maximise standing capacity by creating an interior that wholly facilitates that aim. If proposing a 'metro style' interior, Bidders shall include a description and pictorial demonstration of the full suite of interior alterations that support a potential increase in standing passengers, whilst maintaining a safe environment for boarding and travel.

¹ <http://www.futurerailway.org/Documents/TSLG%20key%20technical%20reqs.pdf>

When developing timetables, Bidders shall consider with Network Rail what infrastructure changes might be required to deliver greater capacity and improve franchise performance e.g. to deliver better punctuality, reduce journey time or increase resilience.

Where Bidders anticipate that additional rolling stock capacity may be required (whether by way of modification to the rolling stock proposed to be used by the Bidder or provision of additional rolling stock) to meet Bidder forecast demand, Bidders shall include a Committed Obligation in Part 1 to Schedule 6.1 (Committed Obligations and Related Provisions) of the Franchise Agreement. The Department is willing to consider a Committed Obligation which commits the Bidder to delivering a specified level of additional capacity (e.g. “increase the passenger carrying capacity of the Train Fleet by [xxx]”) without committing the Bidder to the specific means (e.g. modifications or delivery of additional rolling stock) by which the additional capacity will be delivered.

The Franchisee will be required to enter leases for incoming replacement rolling stock one year before the end of the lease of the rolling stock that is being replaced. Failure to do so will be an Event of Default. Bidders must also make clear how they will ensure that the TSR and Capacity Requirement will continue to be met after the fleet in question goes ‘off lease’.

Where improvements are to be made to rolling stock leased from ROSCOs and the funding rate agreed with the ROSCOs for the purposes of the bid is that such improvements would be rentalised in the rolling stock lease for the franchise length the Department will require (through its approval of Rolling Stock Leases under paragraph 2.1 of Schedule 2.2 (Security of Access Agreements, Rolling Stock Leases, Station and Depot Leases) of the Franchise Agreement) that any Rolling Stock lease entered into by the Bidder reflects such agreed funding rate. There will be no residual value payment from the next operator at the end of the franchise.

Where fleet cascades are part of the fleet plan, Bidders should set out how the cascades will be managed and what mitigation they would use should the incoming cascaded stock be delivered later than that originally assumed.

The Department is keen to encourage innovative rolling stock proposals. However, if Bidders intend to include in their rolling stock strategy a plan to lease rolling stock that is, at present, in use on another franchise they should explain, in confidence, their proposals to the Department as early as possible in the bidding process. The Department will assess any such proposals against the impact on the donor franchise.

For any such fleet that the bidder (or franchisee if post franchise commencement) intends to take on lease, the Department may require that the relevant lease should contain a provision whereby the vehicles concerned can be made available for continued use by the donor TOC (such as by way of sub lease (at cost) or delayed lease commencement date) until such time as it could reasonably be certain that the donor TOC can source replacement rolling stock.

For the fleet that the Bidder was intending to release from the franchise (including following an internal cascade) the Bidder must set what mitigation they would use should the incoming cascaded stock be delivered later than that originally assumed, including the terms on which use of the existing fleet can be extended with the ROSCO.

In circumstances where the Department requires there to be a delay to the cascade of a fleet to the Franchisee, this will be a Change. However the Change will be on the basis that the only adjustments made in respect of such Change (assuming that it is Qualifying Change) would be in respect of the impact upon the rolling stock lease rates and applicable variable track usage charges. Any changes in other costs and revenue resulting from the delayed introduction of rolling stock would not be included. However, the Department would agree to derogations against any capacity, performance or other obligations that had been committed to as part the introduction of the new fleet. These provisions will be included in the Franchise Agreement.

The Bidder should demonstrate how their fleet strategy helps to achieve greater standardisation as set out as Measure 7 in the ATOC discussion paper Rolling stock and value for money issued December 2011.

3.4.6.2 Passenger loading data

The Government requires accurate data on train loadings and crowding levels to enable review of service provision and future strategy. The Franchisee will be required to provide detailed passenger counts for all services in line with the annual data requirement that will be issued by the Department.

Bidders shall set out how their rolling stock solution will meet the requirements set out in paragraphs 1.5 and 1.6 of Schedule 1.5 (Information about Passengers) of the Franchise Agreement.

3.5 DELIVERY PLAN 5: TRAIN PERFORMANCE AND TRAIN SERVICE DELIVERY

The current franchise provides amongst the most reliable train services and passengers report high levels of user satisfaction. The Department expects that the new Franchisee will ensure that train services perform to the highest practical reliability and punctuality standards and overall passenger experience.

3.5.1 NPS Indicators and customer experience initiatives relevant to this plan

Bidders shall set out their expectations of performance against each indicator relevant to this Delivery Plan together with the specific initiatives and commitments to support the achievement of the indicators. The relevant indicators for this Delivery Plan are set out in Appendix 6 (NPS Measures) to this ITT.

3.5.2 Performance Targets

3.5.2.1 Setting Benchmark targets

Bidders performance targets will be contracted. The levels in the Appendices to Schedule 7.1 (Performance Benchmarks) of the Franchise Agreement represent the absolute minimum performance benchmarks the Department is willing to contract. These broadly reflect the current London and South East average performance levels.

Bidders shall propose challenging levels that are appropriate to their proposed operating arrangements including timetable, maintenance regime and the vehicles. Bidders shall provide evidence as to how these performance levels will be delivered. This more challenging level will then form the basis of the Franchise Agreement.

Bidders shall demonstrate how they will work towards achieving a continual improvement in performance over the life of the franchise. Bidders should identify the sources of such improvement and demonstrate a credible plan for meeting their aspirations. Bidders shall outline how they would work to ensure their own activities will assist Network Rail wherever possible in meeting targets.

The Franchisee shall publish performance information within twelve months of the Franchise Start Date. Bidders shall propose how they will publish this information, including the standard and frequency.

3.5.2.2 Train Operator-responsibility delay minutes

Bidders shall commit to levels for the reduction in TOC delay minutes and in cancellations, for which the Franchisee is responsible. Bidders shall provide their submissions based on not contravening the Delay Minute per 1000 train miles levels at Appendix 3 (TOC Minute Delay Benchmark Table) to Schedule 7.1 (Performance Benchmarks) of the Franchise Agreement. Bidders shall provide evidence in their Delivery Plan of how improved levels will be achieved.

3.5.2.3 Cancellations

Bidders shall provide their submissions based on not exceeding the Cancellations levels at Appendix 1 (Cancellations Benchmark Table) of Schedule 7.1 (Performance Benchmarks)

of the Franchise Agreement. Bidders shall provide evidence as to how they will keep cancellations under these benchmark levels.

3.5.2.4 Significant Lateness

The Department's HLOS seeks an improvement in the percentage of trains which are 30 minutes late or cancelled because of Network Rail and train operator-responsibility events with no exclusions (the 'Significant Lateness Measure'). Bidders shall identify their contribution to improvement by this measure.

3.5.2.5 TOC-on-TOC delay Minutes

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

3.5.2.6 Network Rail delay minutes

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

3.5.2.7 New Performance Measures

Bidders shall take into consideration that the Franchisee will be expected to assist the industry in setting and aligning targets for any new regulatory performance measures that may be introduced in Control Period 5 or beyond that period.

3.5.3 Safety

Bidders shall set out how they will engage with other parties to reduce the incidents of other third-party safety related incidents. In this regard particular attention is drawn to the operation and management of level crossings.

3.5.4 Rolling Stock Maintenance

Maintenance costs are a substantial part of the cost of a bid and form an important part of the Bidders fleet strategy for the franchise.

Bidders shall set out a detailed plan to cover the train maintenance strategy for the franchise and also a strategy for rolling stock stabling, this should include as a minimum;

- All supporting documents provided by the maintenance provider which should be from original offer until the final offer which is used in the bid to set out clearly the benefit of the negotiation.
- The savings of the strategy they are following compared to the other options which were open to them which shows clearly heavy maintenance / light maintenance comparators if applicable.
- Value and nature of service agreements managed by a maintenance provider compared to overhaul by the Franchisee with some form of technical support.

In this plan Bidders shall provide evidence of benchmarking their proposals.

3.5.5 Train Accessibility

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

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

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

3.5.6 Train Security

The Department is looking to ensure that the rail network provides a safe and secure environment for passengers and staff. Bidders shall consider the findings in Passenger Focus’ “Passenger perceptions of personal security on the railways” and consider how best to address them within their plans.

The Franchisee will be responsible for security on board its trains. Bidders shall include a brief assessment of current security arrangements at all levels from theft and assault to the threat of terrorism and they shall demonstrate what measures will be taken to make improvements.

Bidders shall include appropriate reference to how they intend to comply with the legal requirements for, and act upon the guidance to train operators to protect railway assets,

staff and passengers from acts of terrorism as set out in the National Railways Security Programme (“NRSP”). The NRSP incorporates the requirements of Instructions served on station and train operators under section 119 of the Railways Act 1993. Bidders shall set out, throughout the franchise period, their plan to provide security on-train including the application of CCTV.

3.6 DELIVERY PLAN 6: BETTER STATIONS, SECURITY AND ACCESS TO THE NETWORK

The new Franchisee is expected to be the Station Facility Owner (“SFO”) for 25 stations (including Fenchurch Street station) and listed in Appendix 1A leased from Network Rail under 99 year Full Repair and Insure leases at peppercorn rent. Trains also call at a further three stations (London Liverpool Street, Stratford and West Ham) that are managed by others. Information on these stations can be found in the data site.

The objectives for the franchise include improving accessibility, to stations and services, improving passenger security and improving the transparency of information about the franchise. Bidders shall set out their plans for wider transport integration and their approach to engaging with local authorities and other stakeholders to improve the journey opportunities and experience for passengers.

3.6.1 NPS Indicators and customer experience initiatives relevant to this plan

Bidders shall set out their expectations of performance against each indicator relevant to this Delivery Plan together with the specific initiatives and commitments to support the achievement of the indicators. The relevant indicators for this Delivery Plan are set out in Appendix 6 (NPS Measures) to this ITT.

3.6.2 Better Rail Stations

Bidders shall offer plans as how best to enhance the quality of the station portfolio. The plans should offer appropriate enhancements at stations, developed in as cost-effective a manner as possible, including through the use of third party funding. Bidders shall outline in their bids their approach to working with stakeholders to develop future schemes. Bidders shall indicate which of their schemes will be included as Committed Obligations within the Franchise Agreement. Bidders shall include station enhancement initiatives with a payback within the period of the franchise length within their Base Service Specification submission.

Contractual provisions are included that allow operators to receive value for investment in franchise assets, where these assets improve the value of the franchised business and where they have a value at the end of the franchise. Assets that meet the appropriate criteria may be designated as Investment Assets and the successor operator will then be required to purchase these assets at a price that reflects their ongoing value to the business.

Where Bidders have identified station enhancement initiatives, which they consider to be of merit but which have failed to achieve the Bidder's financial criteria for inclusion in the Base Service Specification submission, they are encouraged to submit the initiatives as Incremental Options, if they can be proven to be value for money and demonstrate a financial benefit over a 30 year period. These would not form part of the evaluation of the main bid, but Bidders should be aware of the Department's particular interest in any such proposals and the Department will consider purchasing the Incremental Options offered by the winning Bidder subject to affordability constraints and economic appraisal criteria.

The Franchise Agreement makes provision for schemes to be developed during the life of the franchise with longer payback periods than the franchise term through discussion with the Department.

3.6.3 *Asset Stewardship of Stations*

The Department together with ORR, Network Rail and ATOC has developed a proposition for the combined management and maintenance of stations to improve the customer experience, reduce costs, improve maintenance efficiency and encourage better use of the station assets. The new Franchisee will take full repair responsibilities for the 25 stations (including Fenchurch Street) for which it will be SFO.

Responsibilities will be governed by a modified contractual framework including new station licence requirements for asset stewardship and greater development rights under the lease. The new lease arrangements no longer require the sharing of benefits from commercial activities with Network Rail. The Franchisee will not pay Long Term Charges to Network Rail for the stations at which the Franchisee is SFO.

Bidders shall set out their plan to secure a stations licence including timetable, milestones and capability, including the steps required and the approach they will take to secure a safety certificate to undertake the full repair responsibilities at stations. Bidders shall state how they will satisfy the asset stewardship obligation taking account of the Regulatory Statement from the ORR for the Essex Thameside station operator licence asset stewardship obligations. Bidders shall set out the Asset Stewardship Policies and Plans required under the licence to a level sufficient to convey the quality and principles upon which the full licence application will be built and to capture the station asset stewardship offer.

The successful Franchisee shall be required to secure a parent company guarantee of £10 million for unfulfilled asset stewardship licence obligations to cover liabilities at handover of station assets to a successor operator. The level of liability at handover will be determined by the ORR against the requirements of the station licence obligations.

The Franchisee shall be expected to bear the full risk of their asset stewardship obligations at stations. Where an Uninsured Event (as defined in the Franchise Agreement) or latent defect leads to costs at a station, the successful Bidder will not be liable for funding those costs above £0.5 million per occurrence per station with a total liability ceiling of £10 million.

Bidders shall include proposals to manage station assets efficiently to achieve a better experience for customers, exploit the commercial potential of stations and achieve an overall improvement in value for money. Bidders will be expected to demonstrate their approach to enhancing stations throughout the life of their franchise. Any enhancements of £10 million or more (as a single project at any individual station) will be expected to be accompanied by a Committed Obligation in the Franchise Agreement and impact on the Station Stewardship Measure. All enhancements will be required to be included in the Station Asset Management Plan to the station licence including the definition of scope and the provision of credible associated funding. As part of any enhancement proposed, Bidders shall demonstrate accommodating future forecast levels of passengers through their stations.

Station enhancements are not expected to be funded by the use of Network Rail's Regulatory Asset Base (RAB). However Bidders should be aware of any ongoing RAB loan facility payments expected for the stations they inherit and make appropriate provision. Further guidance on the applicable use of the RAB for infrastructure schemes is available in the data site.

The Franchisee should establish an improved, consolidated and transferable approach to integrated station management. Bidders shall include proposals for the efficient and effective retention and updating of asset data and ultimate hand over of the policies, plans and records to the subsequent Franchisee.

As part of the evaluation process for the stations delivery plan, the ORR will be asked specifically to comment on Bidders submitted plans. In particular this will be to assess whether the Bidder's proposals show sufficient maturity to be developed into a Station Asset Management Policy and Plan so as to meet the licence obligation. The evaluation will also assess, in particular, the credibility of the proposed spend profile against planned outputs.

Further guidance on the expectations of the plans, policies and draft documentation for the Station Asset Stewardship condition of the station licence, the associated Regulatory Statement, the working agreement between the Department and ORR, and other station asset stewardship documentation is set out in Attachment C to this ITT.

3.6.4 Station Stewardship Measure

The Station Stewardship Measure (SSM) will be used as the primary means to plan and monitor the Franchisee's fulfilment of their station licence obligation to protect the long term value of the station assets. The SSM regime will be documented in the Franchisee's Station Asset Management Policy to its station licence. The draft document submitted by Bidders is expected to be finalised upon ORR's granting of the station licence prior to franchise commencement. The Department expects that at minimum, the baseline scores established within the first 12 months of the franchise, recalculated for improvements to the SSM methodology set out below, will be maintained for the term of the franchise for each Network Rail category of station set out in the data site. Bidders are encouraged to consider what uplift to those baseline scores they expect to achieve over the life of the franchise.

Bidders shall propose a condition survey methodology suitable for capturing data for use with the existing SSM evaluation methodology used by Network Rail. The survey methodology proposed in the bid should be sufficiently developed to enable acceptance in principle by the ORR. The new Franchisee will be expected to use this proposed methodology to survey the condition of all of the Essex Thameside station assets within the first 12 months of the franchise. The survey outputs will be used with the existing Network Rail evaluation methodology to calculate a baseline. The baseline must be reported to the ORR by 31 May 2014 supported by a validated and independently audited calculation model.

Whilst the baseline is being established, the new Franchisee shall carry on implementing a renewals programme in accordance with their approved Station Asset Management Plan to their station licence. This programme should as a minimum comprise Network Rail's plan of renewals for 2013/14.

Bidders shall propose improvements to the Network Rail SSM evaluation methodology and additional survey and valuation methodologies as necessary to make the overall SSM approach robust. As a minimum the improvements shall include: control in the way assets are broken down into elements; and the introduction of a weighting factor for the relative value of assets. These bid proposals shall be sufficiently developed to enable acceptance in principle by the ORR.

To implement the improvements during the franchise, the Franchisee shall submit to the ORR a recalculated baseline using the first year's condition survey data together with the improved evaluation methodology and asset valuation data. This will be required to be supported by a re-validated and independently audited calculation model for the Essex Thameside stations.

Bidders shall present a plan for the implementation of these improvements including the assembly of additional data recognising that as Franchisee, they might wish to implement these changes at the same time as establishing the baseline. The latest date for completing the recalculated model is 31 May 2016.

The improvements set out above are mandatory but Bidders are free to propose further improvements and refinements. Bidders are strongly recommended to discuss their proposals with the ORR during the development of their bids.

3.6.5 Improving Access and Interchange

The services on the Essex Thameside franchise provide east-west access between London and Thames side locations through southern and coastal Essex. Bidders are encouraged to demonstrate ways in which they would improve the quality and ease of access to their services as well as connections to services from other modes. Bidders are encouraged to hold discussions with key stakeholders in preparing their proposals.

3.6.5.1 Station Travel Plans

Bidders should consider the development and implementation of Station Travel Plans over the lifespan of the Essex Thameside franchise.

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

Bidders shall set out their priority locations for development of Station Travel Plans, together with the contribution they expect to make towards the development and implementation of any proposed plans.

3.6.5.2 Pedestrian Access and Interchange

Bidders shall set out their plans for improved pedestrian access, circulation and interchange at stations. Particular detail is required at key interchange including proposals for improved signage, weather protection, improved lighting and other facilities to enhance ease of movement, safety and security.

Bidders shall indicate which of their schemes will be included as Commitments to be included within the Station Licence application.

3.6.5.3 Cycling

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

Bidders shall set out their proposals for improving facilities at stations for cyclists to encourage greater cycle use by customers. It is for Bidders to decide upon the locations of any additional secure spaces in consultation with stakeholders, reflecting current provision and overall need. When defining any type of cycle parking facilities to be provided, Departmental cycle policy and approaches developed by the Cycle Rail Working Group should be considered.

Bidders shall indicate which of their schemes will be included as Commitments to be included within the Station Licence application.

3.6.5.4 Car Parking

Bidders shall set out their proposals to enhance provision of car parking at stations across the franchise area. The specific locations of any spaces proposed are a matter for Bidders to determine. Any increases proposed in the number of car parking spaces in the franchise area should be considered alongside other modes and environmental concerns. Bidders should also be mindful of planning issues as part of the wider issue of access to stations. Where additional parking is planned, consideration should be given to providing recharging facilities for electric and hybrid vehicles.

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

Bidders shall indicate which of their schemes will be included as Commitments to be included within the Station Licence application.

3.6.5.5 Plus Bus and Multimodal Travel Initiatives

Bidders shall set out their approach to the Plus Bus initiative and will be expected to participate in multi-modal schemes in accordance with the provisions of paragraph 10 of Schedule 13 (Information and Industry Initiatives) of the Franchise Agreement. Bidders also shall set out any other initiatives and programmes to encourage multi-modal transport.

3.6.6 Access for the Disabled and Persons with Reduced Mobility

3.6.6.1 Railways for All

The Railways for All Strategy describes what the rail industry will be doing to improve disabled access. A key part of this is the £370m Access for All funding to deliver access improvements. Under this scheme lifts have been installed at Laindon and Tilbury Town. There is a proposal to install a lift at Limehouse. Further information can be found at the Department's website at www.dft.gov.uk/transportforyou/access/rail/railstations. Bidders shall detail how they will co-operate with and reasonably assist and facilitate the implementation of the Programme.

3.6.6.2 Service Accessibility

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

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

Bidders shall outline their plans for staff training in disability awareness and detail their procedures for the sale of tickets to disabled customers. Bidders shall outline how they will provide an Assisted Passenger Reservation Service including any improvements proposed. The assisted persons' helpline will be provided free of charge.

Bidders shall identify within their bid a Minor Works budget for improving accessibility and mobility to the value of £150,000 per annum and details of how this fund will be managed. Bidders' attention is drawn to Schedule 4 (Persons with Disabilities and Disability Discrimination), paragraph 2.7 of the Franchise Agreement which requires the Franchisee to establish and manage the Minor Works Budget to fund the carrying out of the Minor Works.

3.6.7 Community Rail

Bidders should explore the scope to develop community rail initiatives within the franchise corridor that are designed to support and develop the local rail network and create links between the community, businesses and the railway, including seeking ways to improve facilities on stations through local station sponsoring.

Bidders shall demonstrate a commitment to work with any partnerships that might develop over time and to indicate how they propose to work with communities over the life of the franchise.

3.6.8 Station staffing and Security

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

3.6.8.1 Station Staffing

Bidders shall set out a plan as to how staff should be deployed at each station including levels of staff provision at ticket offices, on gate-lines, for train despatch or for carrying out more general activities within the station. Bidders shall demonstrate how their staffing plan supports their delivery of improved customer satisfaction at stations, particularly security at stations.

3.6.8.2 Station Security

The Essex Thameside Franchisee will be responsible for security at its stations. Bidders shall include a brief assessment of current security arrangements at all levels from theft and assault to the threat of terrorism and they shall demonstrate what measures will be taken to make improvements.

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

Bidders shall set out, throughout the franchise period, their plan to provide security at stations, including security at car parking and cycle storage. Bidders shall confirm that they will maintain the current status of Secure Station Accreditation (“SSA”) for the duration of the franchise period. Bidders shall set out their plans to address station security throughout the franchise period including the role and application of CCTV and systems to support accreditations such as the ‘Park Mark’ award and set out whether coverage will be extended.

3.6.8.3 Working with the British Transport Police

Bidders should assess with the British Transport Police (“BTP”) the security/crime risk at all stations in the franchise and shall ensure that their proposals include the prioritisation of all the identified high risk locations. Where new CCTV is provided or existing systems replaced, the Franchisee shall propose CCTV compatible with systems employed by the BTP. Bidders should outline how they will work in partnership with the BTP with regard to specific areas of concern over the safety and security of customers and staff, reduction in delay and crimes against property. In doing so Bidders should explain how they influence where appropriate resources are deployed, such as in areas where particular security issues are most prevalent and clearly set out any likely incremental costs request contact details for the relevant person at BTP from the Department in order to progress this.

Bidders should be aware of proposed changes to the British Transport Police Authority Police Services Agreement (“PSA”) a draft copy of the new agreement is on the data site. The current PSA will not be continued within the new Essex Thameside franchise and Bidders should include the cost implications of moving to this new PSA within their bids. It is intended that the new PSA will start in April 2013. Details of the process that the British Transport Police Authority will use to define the new PSA will be included in the data site alongside indications of the likely charges. Bidders should in the first instance request contact details for the relevant person at BTP from the Department in order to progress this.

SECTION 4: PRICED OPTIONS

Bidders are to provide Priced Options for the following schemes.

- Barking Station redevelopment
- Increasing passenger train service provision on the route between Grays and London via Dagenham Dock.
- Passenger Train services to serve a new station at Beam Park.

In developing their Priced Options, Bidders are to consider, discuss and review options with Network Rail (NR), TfL, Local Authorities and any other relevant stakeholders to identify the impact, if any, of accommodating a significantly higher number of freight paths than are offered currently.

The development of any Priced Option should not be contingent on any other Priced Option being selected. In addition there is a requirement for any Priced Option to be funded within the Franchise Period without any residual asset value(s) being transferred at franchise end to the next Franchisee.

Part of the Department's consideration of whether it wishes to buy any Priced Option will be the extent to which Bidders, where required, have secured appropriate contributions from stakeholders. If Bidders consider there is a strong enough commercial case then the Priced Option could alternatively be put in the relevant Delivery Plan in their Base Service Specification submission and as with any proposed Committed Obligation, the Department will need to see evidence of a robust business case.

When projects are developed and implemented there will need to be close liaison and cooperative working between the Franchisee, Network Rail, TfL, Local Authorities, other operators and relevant stakeholders.

Bidders shall demonstrate that they have sufficient resources to manage changes of the type, complexity and magnitude that might be expected to be implemented within the corridor and provide details as to how such interfaces would be managed to ensure the close liaison needed to deliver projects.

As projects are developed and implemented there might be some disruption to passenger journeys. Bidders shall provide details as to their approach to managing this interface recognising that such disruption should be avoided or at least minimised.

4.1 Barking Station Redevelopment

Bidders shall offer a Priced Option for delivering the redevelopment of Barking Station.

Barking Station provides interchange between services on Essex Thameside and other heavy rail, London Underground and bus services. Barking and Dagenham Council together with London Thames Gateway Corporation commissioned a Barking Station Masterplan to improve facilities and the commercial potential of the station. The proposals for the redevelopment of the site are available in the data site.

Bidders should engage with the scheme promoters and other relevant stakeholders and propose their approach for taking responsibility to deliver the redevelopment of the station. In developing their proposals Bidders will set out the scope of the scheme which is expected to be within the scope defined within the Masterplan. This would be accompanied by as a minimum:

- A clear project plan setting out key activities, milestones and deliverables.
- Risk register showing dependencies including prerequisites for delivery such as planning application decisions;
- Project management structures and delivery frameworks;
- Detail of funding and financing arrangements.

4.2 Increasing passenger train service provision on the route between Grays and London via Dagenham Dock

Currently the off-peak passenger service frequency on Tilbury Loop is 2 trains/hour and the Sunday service does not start until 09.00 hours.

Bidders shall offer a Priced Option for an increased frequency and extended hours of operation of the passenger service on the Tilbury Loop via Dagenham Dock. Bidders are required to:

- Set out when operation of the passenger service could commence;
- The hours of operation that such an enhanced service would operate and days of the week
- The level of service above that set out in the TSR which would deliver best value for money.

4.3 Passenger Train services to serve a new station at Beam Park.

The London Boroughs of Havering and Barking & Dagenham have been leading on the development of plans for a new station between Dagenham Dock and Rainham stations. As part of this process they have been working with NR and TfL. NR has undertaken a study for the design of the station and there has been a timetable analysis to inform the development of the business case. Funding has been secured from developer contributions for further development of the station design but there is no capital funding identified for the station at present.

Bidders shall offer a Priced Option for delivering passenger rail services to a station at Beam Park.

Bidders are advised to review the guidance on the conditions relating to the funding of new or enhanced services which are promoted by local bodies.

(<http://www.dft.gov.uk/publications/conditions-relating-to-the-funding-of-new-or-enhanced-services-promoted-by-local-bodies>)

Bidders shall:

- Confirm the level of demand that the proposed station is likely to generate and identify what proportion of this demand are new trips and what proportion is abstracted from adjacent railway stations;
- Identify the level of passenger service that is required to meet this demand;
- Confirm that any proposed passenger service is deliverable within the current infrastructure and fits with current and future passenger services and freight services to and from Thames Haven;
- Propose the level of service and the hours of operation.

The proposal shall be accompanied by a clear plan which sets out actions, the interface with the scheme promoters and funding arrangements. The plan shall identify risks and pre-requisites for delivery of the proposed new service.

SECTION 5: THE BID: EVALUATION OF BASE SERVICE SPECIFICATION SUBMISSION

5.1 Introduction

The Department requires Bidders to show how they will deliver the Franchisee's obligations contained in the Franchise Agreement and how this will meet the objectives of the Essex Thameside franchise. The Department therefore requires Bidders to produce a set of Delivery Plans (Table 5-2 refers).

5.2 Required Response

5.2.1 Plans and Criteria

Bidders are required to provide a full set of seven Delivery Plans

Table 5-2 shows the Delivery Plans required. It should be noted that the Department will expect Bidders to as a minimum prepare responses to all the requirements set out in the Base Service Specification in Section 3 of this document when developing their proposals. Bidders shall additionally prepare a Delivery Plan on Modelling Change, Record of Assumptions and Profit Share, the requirements of which are set out later in this Section. Where any Delivery Plan makes reference to a financial number (cost, revenue, funding, NPVs or other), this number should be properly referenced to the relevant financial document (Financial Model, Record of Assumptions or Funding Plan).

The Delivery Plan headings in Section 3 are the Delivery Plans listed below.

Table 5-2: Delivery Plans for the Essex Thameside Franchise

The Delivery Plans should be submitted in the sequence shown in the table below. Plans have been assigned their own individual weighting as shown in the table. Bidders are reminded that cost reduction initiatives will be considered throughout the bid.

No	Delivery Plan	Weighting %
1	Managing the business to deliver better value (ITT Section 3.1)	11
2	Improving the customer experience (ITT Section 3.2)	11
3	Marketing and retailing to grow the business (ITT Section 3.3)	11
4	Train service & rolling stock specification to accommodate passenger growth (ITT Section 3.4)	22.5
5	Train performance and train service delivery (ITT Section 3.5)	22.5
6	Better stations, security and access to the network (ITT Section 3.6)	11
7	Modelling Change, Record of Assumptions and Profit Share	11
	Total	100

5.2.2 Committed Obligations

The Department will wish to contractualise improvements and investments that have been taken into account in scoring bid plans, in order to ensure that they are delivered. However, the Department would prefer to contractualise such commitments in as flexible a way as possible, in order to avoid the need to closely manage the on-time delivery of a long list of obligations. The Department encourages Bidders to link commitments to specific and measurable output targets where appropriate. For example, commitments to provide more car parking spaces or secure cycle spaces could be set at franchise rather than station level, or could be linked to demand.

The Department wishes to encourage focused obligations in support of key features of Delivery Plans but is not seeking de-minimis commitments. The Department is aware that not all aspects of Delivery Plans lend themselves to Committed Obligations. Some plans are closely linked to the delivery of core TSR, financial, service quality and performance commitments already included in the Franchise Agreement and it is not intended to duplicate those obligations. In choosing which initiatives to offer as Committed Obligations, Bidders should consider the following principles:

- Committed Obligations linked to delivery of outputs that would be recognised by customers are generally more appropriate than those linked to the internal process of delivery (e.g. business IT systems);
- Suitable Committed Obligations will generally have a significant cost and add passenger benefit, economic benefits that accrue to wider society, or network level benefits;
- Significant schemes to invest in infrastructure could be likely candidates for commitments;
- Less significant investments, services or initiatives may also be appropriate if they come at net cost, or are projected to have small or relatively uncertain revenue benefit – this could include some types of passenger facilities at smaller stations;
- The Department does not usually expect to contract initiatives that are part of the Franchisee's normal commercial business and which the bidder expects to be profitable;
- There may also be a case for offering a Committed Obligation in order to provide additional confidence to the Department that revenue, cost or operational committed can be delivered.

All Committed Obligations shall be recorded in the Part 4 Legal Response and need to include a clearly defined measurable target, an appropriate time limit for delivery and a proportionate Committed Obligation Payment Adjustment (“COPA”) if delivery is delayed.

The final page of each delivery plan should clearly tabulate all Committed Obligations contained within that Delivery Plan, including target, timescale and COPA.

All Committed Obligations must be robustly and clearly defined in the Franchise Agreement and any obligations should therefore be based on well-understood, easily tested data – ideally independent data such as the National Passenger Survey. The Department reserves the right not to accept or give credit for commitments offered by Bidders if, in the Department's view, they are framed in a way that may be hard to verify, would increase the need for contract management, or may lead to legal dispute.

5.2.3 Evaluation Process

Delivery Plans 1 – 6 shall be evaluated in accordance with paragraph 5.3 below. Delivery Plan 7 shall be evaluated in accordance with paragraph 5.4 below.

5.3 Evaluation Process (Delivery Plans 1 to 6)

5.3.1 General (Evaluation Process Chart 1 at Appendix 2A)

The Department will assess each response according to the Cabinet Office Efficiency and Reform Group (the “ERG”) and European Foundation for Quality Management (“EFQM”) guidelines. The franchise will be awarded to the Bidder who offers the Department the best, robust proposition, in terms of price and reliability, for operating the Base Service Specification, selected in accordance with the Franchise Evaluation Process Charts at Appendices 2A to 2F.

The Department will assess the risk to delivery of overall business performance and the Department's objectives for the Essex Thameside franchise. Delivery Plans 1 – 6 are weighted as shown in Table 5-2 and scored through the application of RADAR.

Bidders' attention is drawn to the guidance on risk assessment that is set out in paragraph 23 of “A Guide to the Rail Franchise Procurement Process”.

5.3.2 Financial Risk (Evaluation Process Charts 3 & 4 at Appendices 2C & 2D)

In accordance with Appendix 4 (Supplementary guidance on the risk adjustment process for financial compliance when sizing the Subordinate Loan Facility) evidence of the deliverability of the projected revenues and costs will be used to inform the Department's risk adjusted view of the bid which in turn will be used to assess the size of the Subordinated Loan Facility (SLF) required. In the event the Department requires an SLF in excess of the minimum £25 million stated, clarification will be sought from the Bidder to confirm the Bidder's ultimate parent (backed by a suitable bank) is prepared to guarantee the additional funds (on demand) on the terms of the Funding Deed, to minimize the risk of franchise default. Where this is not confirmed, the bid may be deemed to have an unacceptable financial risk to the Department and may be rejected.

For the avoidance of doubt, Bidders will not be allowed to make any revisions to their bid to reflect any requirement of the Department for a SLF in excess of the minimum £25 million.

5.3.3 Evidence

The Department requires evidence (for the purpose of Section 5.3.4 below) that the Delivery Plans are robust and achievable. Bidders are not expected to repeat evidence of

their general competency as a transport operator that will have already been submitted and assessed as part of the EFQM evaluation undertaken at the Pre-qualification stage. However, evidence is required of deliverability of the specific plans presented for the new franchise, which may be in the form of relevant examples from other operations. The more ambitious the improvement offered by the Bidder or the more innovative its approach, the greater the need for evidence to support the bid. It should additionally be noted by Bidders that the Department may seek to clarify with Bidders any element of their evidence provided in support of their bid.

5.3.4 Application of RADAR

Delivery Plans 1 to 6 will be evaluated using the RADAR process. Bidders are encouraged to identify the RADAR components of their response in respect to each, which will be applied as follows:

RADAR component	Contents	Weighting
Approach	<p>The Bidder's description of the outcomes which will be achieved and why. The linkage to the Department's objectives for the franchise should be described. This component should include analysis of the existing position supporting the approach proposed and the expected future results.</p> <p>The Department will be looking for evidence the Approach is sound and integrated. This will include evidence of a clear rationale; defined processes; focus on stakeholder needs; supports policy and strategy; and is linked to other Approaches as appropriate.</p>	40
Deployment	<p>This component centres on how the outcomes proposed by the Bidder will be delivered. In addition to describing what resources are required and how they will be deployed, this component should include evidence that promised improvements can be secured. Where appropriate, promised improvements should be linked to Committed Obligations and described in this Section.</p> <p>The Department will be looking for evidence the Approach can be implemented, especially where innovation or improvement is proposed and the Approach is deployed in a systematic structured way, with the method used for deployment being planned and executed soundly.</p>	40

Assessment & Refinement	<p>What Key Performance Indicators the Bidder will measure in order to ensure the delivery of outcomes. Where Committed Obligations are proposed that they are measurable, with appropriate time limits and proportionate COPA. How the business is structured and what processes are in place to react if the desired results are not achieved. This component should consider the risks to delivery and how the Bidder would manage and mitigate them, including possible mitigation actions if forecast revenue is not achieved.</p> <p>The Department expects to see evidence of regular measurement of the effectiveness of the Approach and Deployment and clear identification of best practise and continuous improvement opportunities.</p>	20
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The weightings adopted for each RADAR component reflect the application of this system to Delivery Plans for a new business. RADAR scoring is the evaluation method used to score for the European Quality Award.

The scoring matrix for each of the Delivery Plans 1 to 6 in Table 5-2 is shown under Attachment I to this ITT.

5.3.5 Deliverability (Evaluation Process Chart 2 at Appendix 2B)

A Delivery Plan which scores less than 40% overall will be judged ‘undeliverable’. In addition, where the Deployment component of a specific Delivery Plan scores less than 40% of the available marks for that component, then that Delivery Plan will be judged ‘undeliverable’.

In order for a bid to be judged ‘deliverable’ overall, none of Delivery Plans 1 to 6 nor Delivery Plan 7 must have been judged ‘undeliverable’.

The Department may reject a bid which is judged undeliverable in accordance with the above.

To achieve the maximum score available for Delivery Plans 1 to 6, Bidders will need to demonstrate added value, consistent with the Department's objectives for the franchise, in excess of delivery of the Base Service Specification. In order to receive credit Bidders need to evidence that the added value is in itself deliverable. Examples might include contracting to exceed the minimum Performance Benchmarks required by the Department and in particular (but not exclusively) the Train Service & Rolling Stock Specification to Accommodate Passenger Growth Delivery Plan.

5.4 Evaluation Process (Delivery Plan 7)

5.4.1 Delivery Plan 7: Modelling Change, Record of Assumptions and Profit Sharing

Bidders shall demonstrate they can manage any Changes (in accordance with Schedule 9.1 (Financial and Other Consequences of Change) of the Franchise Agreement) that are triggered under the Franchise Agreement as part of the Modelling Change evaluation of the Models, Records of Assumptions and Operating Manuals.

The Department will assess its confidence in the Bidder's Models and Record of Assumptions in accurately and comprehensively documenting the financial elements of its bid and score it as a Delivery Plan. This will be assessed by consideration of the Part 2 Financial response, which is not subject to any page limit, and will also take into account the suitability of the modelling suite and Record of Assumptions to act as a basis for the pricing of emerging Changes to the franchise. The RADAR components (identified in 5.3.4 Application of RADAR) will not be applied in respect of Delivery Plan 7 “Modelling Change, Record of Assumptions and Profit Share”.

The Department will award up to 15% weighting points in this delivery plan for bids that offer improvement on either or both of the profit sharing levels or profit sharing thresholds, to the extent that Bidders’ financial and/or other bid submissions commit to any such improvements.

Where Bidders wish to submit proposals that offer enhanced profit sharing levels or thresholds, it is requested that such proposals are laid out clearly in the Record of Assumptions (or elsewhere that is clearly identified in the Executive Summary) and that those committed offerings are appropriately reflected in the Bidder’s Financial Model. No credit will be awarded as part of the evaluation process for the inclusion of additional tiers of profit share.

5.4.2 Delivery Plan 7: Deliverability Weightings

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

Modelling:	Weighting
Assessment of worked examples and approach to change	20%
Suitability of Record of Assumptions	40%
Suitability of Financial Model	10%
Suitability of Operational Models (including integrity of the modelling suite)	15%
Profit Share:	
<u>Improvements to profit sharing / thresholds</u>	15 %
Total	100%

5.4.3 Delivery Plan 7: Deliverability

If Delivery Plan 7 scores less than 40% overall it will be judged 'undeliverable'. In order for a bid to be judged 'deliverable' overall, neither Delivery Plan 7 nor any of Delivery Plans 1 to 6 must have been judged 'undeliverable'.

5.5 Selection of winning bid (Evaluation Process Charts 5 & 6 at Appendices 2E & 2F)

Following the bid evaluation and clarification the Department will follow the Franchise Evaluation Process Charts 5 and 6 to select the winning bid. All bids which are deemed to have met all of the following criteria (together with any bid which does not meet the relevant criteria which the Department has determined not to reject), as described in the relevant Sections of the ITT, will be considered in the Selection of the leading bid (Evaluation Process Chart 6):

- does the bid demonstrate affordability as required by Section 2.15 and within the Delivery Plans;
- is the bid considered to be compliant in accordance with Section 2.11;
- Is the bid deliverable;
- has any new information emerged meaning a previously pre-qualified Bidder would not now pass the legal, financial or safety compliance tests in accordance with Section 2.3.

As set out in Process Charts 5 and 6, the Department will then select the lead bid through a series of NPV and deliverability 'gates'. The approach is to calculate 10% of the NPV of the premium of the leading bid (the "threshold"). Only bids with an NPV of premium which is within this threshold of the leading bid will pass through to the deliverability gate. Thereafter only Bidders who are within 10% of the leading bid on deliverability will proceed. These tests will repeat, halving the gap on premium NPV or deliverability on each occasion until a single bid remains.

5.5.1 Value for Money (VfM)

Bidders shall provide their own VfM analysis of the bid against their own quantified baseline in accordance with Section 2.15. This will take the form identified in Appendix 3 (Guidance for Bidders in constructing an Economic Case for the Essex Thameside franchise bids). The Department's objective is to receive an assessment of the VfM of the proposals made by the Bidder that is consistent with WebTAG guidance

An analysis of the VfM assessment submitted by the Bidder in accordance with Section 2.15 will be carried out on the leading bid only. It will not be used to choose between bids and will form no other part of the bid evaluation process other than the Department may reject the leading bid on the basis of poor VfM as adjusted as set out below and subsequently measured against a fixed threshold benefit cost ratio (BCR) in the circumstances set out in Appendix 3 (Guidance for Bidders in constructing an Economic Case for the Essex Thameside franchise bids) to this ITT.

The VfM assessment will be carried out against a 'do minimum' that represents the current service offer plus known and committed changes (train service plus quality) rolled forward with the demand grown according to the standard PDFH methodology. Bidders are to produce their own quantified baseline in line with WebTAG guidelines.

The Department in conjunction with its Technical Advisers will review the submitted VfM assessment and may seek clarification from Bidders where appropriate.

The Department may adjust the BCR of the leading bid to reflect:

- any errors in the Bidder's VfM analysis (including but not limited to any nonconformance with Web Tag guidance or with any other of the instructions or requirements given to Bidders in respect of the VfM analysis to be provided); and or
- the Department's view of any assessments/assumptions made by the Bidder in its VfM analysis (on the basis set out in Appendix 3 (Guidance for Bidders in constructing an Economic Case for the Essex Thameside franchise bids)).

SECTION 6: THE BID: FINANCIAL ELEMENTS

6.1 Introduction

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

The Models will be used during bid evaluation to compare overall pricing, review detailed projections of revenues and costs and to test the financial resilience of Bidder solutions. The successful Bidder's Models will be subject to an independent Model Audit and placed in Escrow after contract signature. Qualifying Changes occurring during the term of the franchise shall be subject to a supplemental Model (and accompanying documentation/ ancillary models) which reflects the franchise at the point in time that the Qualifying Change arises. Each Model will contribute to a consolidated revised Franchise Payment under the terms of the Franchise Agreement. The full provisions are as set out in Schedule 9 (Changes) of the Franchise Agreement.

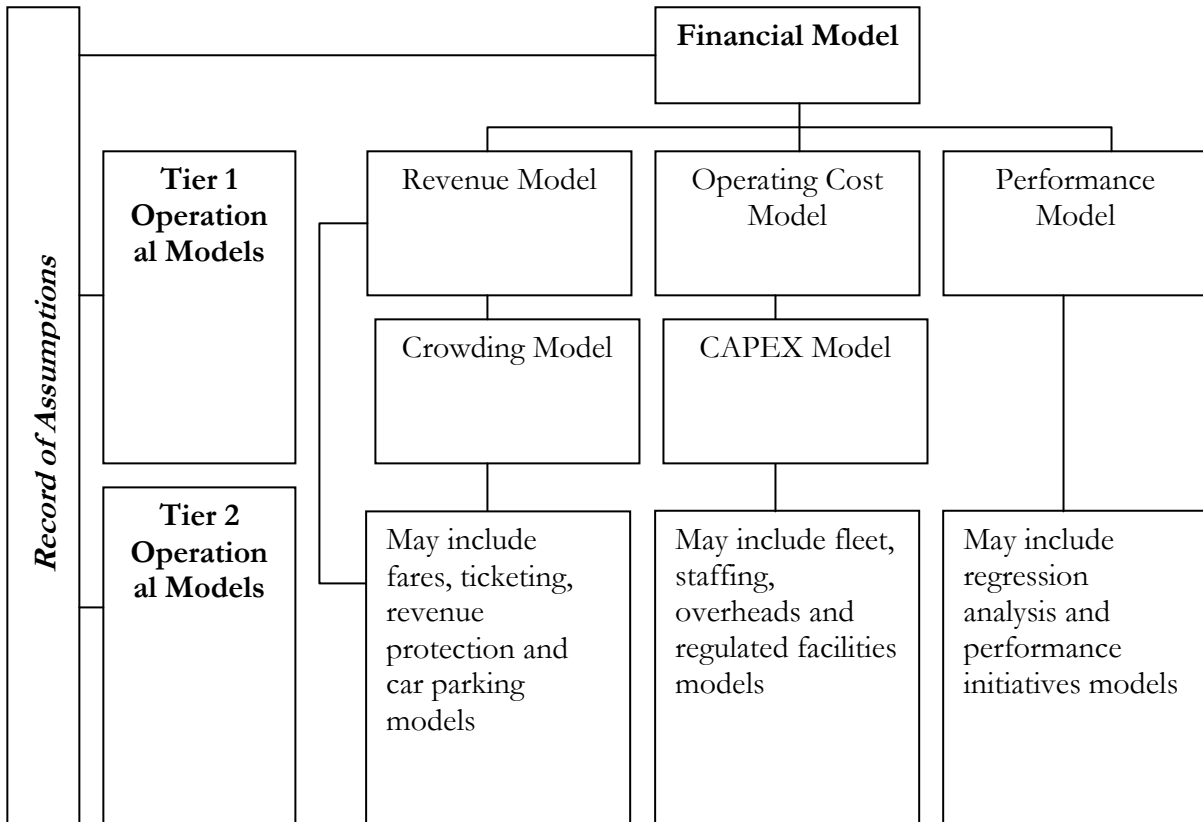
The evaluation of bid deliverability will include an assessment of the fitness for purpose of the Models, Record of Assumptions and Operating Manual to price changes (as part of the Delivery Plan 7 Modelling Change, Record of Assumptions and Profit Share).

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

6.2 Model Requirements and Constraints

6.2.1 General

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



The minimum review standards that apply to each group of models are described in Section 6.8.

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

No rows, columns, cells or worksheets of the Models should be hidden or password protected. Protecting worksheets without passwords to avoid accidental changes to inputs or calculations is allowed, provided it does not reduce the transparency or usability of the Models. Grouping rows or columns is permissible, but hiding rows, columns or worksheets is not permissible.

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

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

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

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

The Models submitted by Bidders must be in line with best practice in accordance with the requirements set out in Section 6.8.1 and employ the accepted principles of Separation, Consistency, Integrity and Linearity, unless a derogation has been granted.

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

- to allow a different approach to the treatment of forecasts before the franchise commences (i.e. 26th May 2013), part years and any extensions as laid out in the Financial Templates; and
- to allow units, indices and other useful modelling ‘flags’ to be included in the columns to the left of the first modelled year.

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

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

6.2.2 Financial Model

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

- Franchise Payments (the Appendix to Schedule 8.2 (Annual Franchise Payments) of the Franchise Agreement);
- Modified Revenue and Actual Operating Costs (Schedule 12 (Financial Obligations and Covenants) of the Franchise Agreement); and
- Performance Bond and Season Ticket Bond values (Schedule 12 (Financial Obligations and Covenants) of the Franchise Agreement).

These outputs should change automatically following the running of any sensitivity or changed inputs. However, the Financial Model should have the functionality to freeze any Profit Share Thresholds (where appropriate) and the Annual Franchise Payments.

The Department will specify and conduct sensitivity tests on the Financial Model as part of its evaluation process but Bidders are not required to submit a set of standard sensitivity tests. The Department encourages Bidders to include within their modelling suite user-friendly functionality which allows basic sensitivities (e.g. a given change to the overall revenue growth rate) to be run. In addition, where a Bidder (for internal purposes) uses an input to represent a drawdown of funds to ensure that the lock-up ratios (set out in Schedule 12 (Financial Obligations and Covenants) of the Franchise Agreement) are met after application of a sensitivity is applied, we ask that this functionality remains in the model and is transparent.

Bidders should adopt an absolute sign convention in constructing their Financial Model, such that all revenues and assets are positive and all costs and liabilities are negative.

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

The Financial Model should be self-contained within a single Excel Workbook, and should have the functionality to run Incremental Options (if submitted) by use of a switch applied to the Base Service Specification and without recourse to the Operational Models. The Operating Manuals and Record of Assumptions should clearly explain the method by which the switch selects the case of the different scenarios. The Financial Model should be presented in annual terms, with year-ends coinciding with the Department's 31 March accounting year end (as demonstrated within the Templates), except in the case of the part year periods identified in Section 6.3.

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

6.2.3 *Operational Models*

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

- a Revenue Model. This demand / passenger revenue forecasting model must at least disaggregate demand and revenue into the ticket types and Service Groups contained in the Templates. Any further disaggregation of demand and revenue into more detailed flows or segments is at the discretion of the Bidder. The Revenue Model and its associated sub-models in Tier 2 also need to show clearly and apply all demand forecasting input assumptions and parameters and their impact on demand and revenue. This will include, but not be limited to, such factors as:

- macro-economic factors, including competition with air services and car (disaggregated into individual factors where appropriate);
- timetable changes;
- fare proposals and policy;
- operating performance;
- service quality;
- marketing;
- revenue protection initiatives;
- revenue / yield management initiatives; and
- other investments or initiatives (such as station or rolling stock improvements).

The Revenue Model should explicitly disaggregate the revenue effects associated with the relevant Delivery Plans listed in Table 5-2 in Section 5;

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

The Models should have the capability to forecast the Other Revenue section of the Financial Model, to the level of disaggregation required by the Templates. Given that many of the items in this Section are secondary to forecasts generated by the Revenue and Operating Cost Models, Bidders may choose to provide this capability within the Financial Model, employ an additional Tier 1 Operational Model, or develop an alternative methodology. Bidders are requested to detail the approach adopted in their Operating Manual and/or Record of Assumptions.

6.3 *Financial Model Templates*

The Department requires that the output from the Models follow the Templates that will be made available in the data site altered from recent competitions given the introduction of several new requirements as outlined in this ITT. The Department realises that Bidders may wish to expand the level of detail provided within the Models beyond these minimum

requirements and requires that this is done in such a way as to remain consistent with the format of the Templates. The level of detail provided should be sufficient to give full transparency of all components of costs and revenues but the spare rows provided can be used to accommodate additional detail. Deleting or inserting rows or columns to the Templates is not permitted and will be deemed to be non compliant.

The outputs in the Templates should be linked to the input / calculation cells where appropriate and in such a manner as to facilitate both the understanding of the Financial Model and tracing of core assumptions used in the Financial Model. Bidders can either add worksheets to the Templates or copy the Templates into their own models. Bidders are required to ensure that the named ranges defined in the Templates are preserved.

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

Bidders should note that any types of revenues or costs that it wishes to include under a catch all heading of ‘Other’ should not exceed £100,000 (in real terms) 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’.

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

The Essex Thameside franchise runs part year from 26th May 2013 to 31 March 2014. In order to accommodate the difference between the rail year and the part year identified above, the relevant worksheets in the Templates provide an extra column where Bidders should derive the part year element from the full year columns. In addition, extra columns will be provided in the Templates for the optional seven period extension following the franchise end date.

Bidders may use the two blank columns inserted between the flag / labelling columns and the first modelled year as they see fit. The intention is that these columns will assist in the transfer of historic data to the Financial Model.

The lockup ratios set out in Schedule 12 (Financial Obligations and Covenants) of the Franchise Agreement is incorporated in the Templates and is based on the outputs contained in the templated financial statements. Bidders should take note of the drafting of Schedule 12 (Financial Obligations and Covenants) of the Franchise Agreement.

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

Sheet	Content	Status
Template Cover	Properties, legend	Bidder free to use/update
Template Control	Contains real/nominal switch for templated calculations, option flag, print and group/ungroup macros	Bidder to link cells 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
Templated Inputs		
Timeline	Define franchise timeline and part year adjustments	Populate blank column headers but do not alter structure
Indices & Rates	Repository of indices and rates	Populate but do not alter structure
Line Items	Master definition of line items	Bidder may populate spare line items denoted by square brackets
Templated Outputs		
LENNON Revenue	Template for forecasts of selected option	Populate but do not alter structure
Other Revenue	Template for forecasts of selected option	Populate but do not alter structure
Staff	Template for forecasts of selected option	Populate but do not alter structure
Other Opex	Template for forecasts of selected option	Populate but do not alter structure
RS Charges	Template for forecasts of selected option	Populate but do not alter structure
Infrastructure	Template for forecasts of selected option	Populate but do not alter structure
Performance	Template for forecasts of selected option	Populate but do not alter structure
TOC Capex	Template for forecasts of selected option	Populate but do not alter structure
Financial Statements		
P&L1	Template for forecasts of selected option	Populate (row 332 and below) but do not alter structure
P&L2	Template for forecasts of selected option	Contains formulae, do not alter
P&L3	Template for forecasts of selected option	Contains formulae, do not alter
CF	Template for forecasts of selected option	Populate but do not alter structure
BS	Template for forecasts of selected option	Populate including Opening Balance in column AG, but do not alter structure
Output Calculations		
FAA	Production of tables for the Appendix to Schedule 8.2 of the Franchise Agreement (feed from Financial Statements and Bidder model)	Populate (highlighted rows 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 rows only) but do not alter structure

6.4 Generic Bidding Assumptions

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

- The franchise will commence on 26th May 2013;
- the Essex Thameside franchise financial year commences on 1 April of each year;
- financial forecasts are to include calculations of the tax liabilities of the subject company in accordance any applicable tax law. Complete integrated tax computations should be included in the Financial Model to the extent that any group, consortium or other form of relief or sale of losses is clearly stated within such model;
- Bidders are to adopt either UK GAAP or IFRS but the accounting basis chosen must be disclosed, consistent and once selected cannot be changed;
- the units to be used in each bid submission are clearly set out in the Templates provided;
- the default prices stated in the Financial Model should be nominal but when viewed in real terms, outputs should be deflated to 2013/14 prices;
- the tables listed below should be completed in 2013/14 prices:
 - Franchise Payment table set out in the Appendix to Schedule 8.2 (Figures for Calculation of Franchise Payments) of the Franchise Agreement.
- annual Retail Prices Index (RPI) and Average Weekly Earnings (AWE) indices assumptions will be made available to Bidders in the datasite and shall apply from 1 April 2014 and annually thereafter. (Bidders should adopt their own RPI and AWE assumptions between 26 May 2013 and 31 March 2014 inclusive, and such assumptions should be clearly stated);
- the real discount rate to be applied is 3.5 per cent per annum;
- net present values of the revenues, costs and Franchise Payments will be discounted back to the Franchise Start Date (26 May 2013);
- for the purposes of calculating net present values, the templated calculation assumes the following timings for cashflows:
 - 27 October 2013 for the part year 26 May 2013 to 31 March 2014;
 - mid-year cashflows (30th September) for full Franchisee financial years.
- Profit Share levels and thresholds are as per the Franchise Agreement (Schedule 8.1 (Franchise payments));

- there will be no changes to the Track Access Contract and charging methodologies as a result of any reviews conducted by ORR during the Franchise Term (Bidders should use CP4 rates until the end of CP4 and assume that they are held constant in real terms thereafter); and
- for calculating Franchise Payments the methodology should be applied consistently on an annual basis, in accordance with the Franchise Agreement.

6.5 *Record of Assumptions and Operating Manual*

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

The Record of Assumptions should contain all financial and operational assumptions used and shall explain and discuss the inputs of each Model, including the base unit cost for each input. Where contracted variable unit costs have the potential to change as a result of Change (e.g. maintenance contract charges which vary between mileage bands), Bidders are required to include the full range of potential unit costs of their anticipated contracted agreements within the Record of Assumptions.

The Record of Assumptions should include assumptions used in the pricing of any Incremental Options if submitted. A description of accounting policies, especially in relation to capital investment, as well taxation assumptions should also be included. If the Bidder proposes investment with a return which exceeds the life of the franchise, any costs and revenues that accrue during the relevant period should be set out explicitly in the Record of Assumptions.

A separate record of assumptions shall be submitted for incremental or priced options.

In light of the Department setting out a less detailed train service specification than in previous franchise competitions, the Department now requires that Bidders submit a copy of their modelled timetable and source codes (which have been developed within MOIRA (not MOIRA2) or any other revenue or timetable development software) to calculate the likely passenger revenues that will be earned from the timetable submitted with their bid and that have been utilised in the population of Bidders' Revenue Models. The Department will accept this information electronically in raw format as an appendix to a Bidders' Record of Assumptions.

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

- a description of each Model, its structure and capability;
- an explanation of the flow of data through the Financial Model and the interfaces with the Operational Models submitted. This may be presented diagrammatically with supporting narrative as appropriate;
- a description of the purpose and operational characteristics of each worksheet and how it interacts with the Models;

- instructions on how to input data, select assumptions and calculate the financial outputs;
- a table setting out the percentage of total other revenues, other operating costs and rolling stock costs (totals in real terms over the Franchise Term) that are earned from or paid to HQ, group or other affiliates; and
- where macros (or other visual basic functions) have had to be used, a description of any macros used in the operation of the Models, the reason for their use and how they impact on the results.

The Operating Manual should include a worked example of Change. The Financial Model is **not** required to include a switch to allow this example to be selected. The Operating Manual should contain a detailed description of the required steps to create the required supplemental Change Model and the required changes to the original inputs to the Models to create the inputs for that supplemental model, and the rationale for such changes alongside a clear description of how the Models have been used to produce the worked example. The example should show the changes in key numbers leading to change in the franchise payment.

Change to Model as bid

The worked example to be included is:

- a. Maximum regulated fare basket increases for 2016 decreases to RPI+0 from RPI+1. 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).

It is suggested that the following headings might be used to explain the change:

- Change Overview: Models impacted by the change (financial, revenue, crowding, fares etc), including a process flow diagram
- High level description of expected outcome
- Individual steps to be followed to make the change
- Outputs: Showing original, incremental and new outputs including, but not limited to, the change to the Franchise Subsidy/ Premium
- Sense checks (for instance, in 'a' above, how does the modelled change to revenue compare to 1% of annual revenue from regulated fares?)

Changes to reflect the franchise as operated at the time of change

In addition to providing the worked example above (which shows the impact of the Change on the franchise as bid), Bidders are asked to explain how they would demonstrate the financial impact of a Change to the franchise, where the Bidder believes the baseline inputs for the franchise as it is being operated at the time of the Change differ from the inputs in the original financial model at the time of the bid.

To do this, Bidders are asked to assume that the policy change described by 'a' above was announced in 2015 but that the Franchisee at that time did not believe the number

calculated in the worked example above was the correct adjustment. The Department would like Bidders to demonstrate what evidence it might use to substantiate its position. This may take the form of downloads from ticketing and/or accounting systems, recent evidence of the relevant price elasticity of demand or other, more qualitative, information.

This section of the Operating Manual will be evaluated as a part of Delivery Plan 7 Modelling Change, Record of Assumptions and Profit Share.

6.6 *Priced Options, Incremental Options and 'Blank Option'*

The Department has specified Priced Options for Barking Station redevelopment, increasing train service provision on the route between Grays and London via Dagenham Dock and Beam Park Station.

The Department requires a consistent level of detail / information for each Bidder proposed Incremental Option, if submitted, and Priced Options to enable it to make an informed decision. Therefore financial outputs for each option should be produced automatically by use of a switch that will update the financial outputs. Models should be capable of running multiple options individually and also in combination, except where options are mutually exclusive.

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

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

6.7 *Derogations*

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

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

Applications must be made in writing to the Procurement Team by 3 August 2012 at the latest. It is not expected that derogations will be necessary for Financial Models.

6.7.1 *Model size*

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

6.7.2 Use of prohibited functions

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

- 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.

6.7.3 Modelling Best Practice

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

6.8 Model sign-off - Terms of Reference

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

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

The Financial Model will be subject to a full Model Audit as described in Section 6.8.2. The Department recognises that the accounting elements of the Model Audit are not relevant to the Tier 1 Operational Models, and therefore requires a review of the calculations only, to be conducted by the same party as the Model Audit, as set out in Section 6.8.3. The Department will conduct a technical review of the Operational Models in Tier 1 and Tier 2 as part of its evaluation process. It is at the Department's discretion as to whether any aspect of the technical review is shared with the relevant Bidders.

Bidders are required to satisfy themselves as to the technical accuracy of all Models prior to submission, noting the allocation of risk with respect to errors within the Models described below.

Bidders shall bear the risk of errors within the Financial Model, the Record of Assumptions and any associated Operational Models and of any adverse impact that this may have on the premiums payable.

6.8.1 Modelling Best Practice Confirmation

Each Bidder must provide an independent Modelling Best Practice Confirmation report on all sections of the Models, co-addressed to the Department and that Bidder, as part of its bid submission, taking account of any derogations obtained (described in Section 6.7). The Best Practice Confirmation is not considered to be an audit of the Models.

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

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

- **Separation** of inputs, calculations and outputs;
 - Inputs: should include data and assumptions but no calculations;
 - Calculations: should include individual calculations that support each line of all outputs and reports. There should be no duplication of calculations nor should input cells be hard-coded in the calculation sheets; and
 - Outputs: should not include any hard-coded input cells or calculations except for sums and check totals.
- Data inputs, calculations and output areas should be completely separate and clearly labelled. The Modelling Best Practice Confirmation must document the high level patterns of data flow within the Models and include a flow chart of the main data flows between worksheets and workbooks;
- **Consistency** of formulae across rows and down columns and across worksheets. The Models should have time periods across the columns and calculations down the rows. This should be consistent in all worksheets. There are two areas where consistency is most important:
 - Columns: the same column should be used for the same period in each worksheet; and
 - Rows: a row will contain only one formula, copied across all columns.
- The Modelling Best Practice Confirmation must provide a review of the Models' structures by means of spreadsheet maps, which give a visual representation of the worksheet structure and layout, highlighting elements of the worksheet layout that warrant further investigation (however, as this is not as detailed as a Model Audit, each individual formula is not checked);
- **Integrity** of financial statements (e.g. that there are no balancing figures). The Modelling Best Practice Confirmation must provide an assessment of the extent and

effectiveness of internal and/or error checks contained within the Models and detail any internal control checks that indicate errors; and

- **Linearity** of calculation flow (e.g. that there are no circular references);
- **Macros**, where required, their function should be clearly explained.

The Modelling Best Practice Confirmation must also provide confirmation that the 75MB size limit has been adhered to, and that the INDIRECT and OFFSET functions are not used except where derogations (described in Section 6.7) are granted.

6.8.2 Model Audit

Following bid submission and prior to contract award the Department will request one or more Bidders to obtain an independent audit of 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 Bidder’s account only. Bidders must obtain the Department’s acceptance (not to be unreasonably withheld) of their choice of independent model auditor and its agreement to the definition of the Financial Model for determining the scope of the audit. The Department will expect to receive the audit report within ten working days of it being requested of the Bidder.

The Department requires the Model Audit to confirm:

- whether the Financial Model has been constructed appropriately so as to materially achieve the objective that it was designed to meet, insofar as its logical integrity under the Base Service Specification assumptions and input data is concerned, including the conversion of real values to nominal values;
- whether the tax charge, liabilities and payments calculated by the Financial Model, on the basis of the assumptions made in the Operating Manual and Record of Assumptions appear materially consistent with current understanding of existing UK tax legislation;
- whether the key accounting assumptions in the Financial Model and the Operating Manual and Record of Assumptions appear materially consistent with current understanding of UK GAAP/IFRS;
- whether the calculation of the Annual Franchise Payments is in accordance with the terms of the Franchise Agreement;
- whether the calculation of the financial ratios is in accordance with Schedule 12 (Financial Obligations and Covenants) of the Franchise Agreement;
- whether the Financial Model has been developed in a well structured manner to acceptable standards;

- whether assumptions and input data in the Operating Manual and Record of Assumptions have in all material respects been consistently reflected in the Financial Model;
- Priced Options (and Incremental Options if submitted): the Department will require an audit to be performed on all of the Options which have been, or may yet be, contracted. Any redundant Options should be removed from the Models at this point; and
- For robustness purposes the Department may provide the preferred Bidder with no more than five tests for the purposes of understanding robustness of the stress test. The Model Audit will test the logical integrity of the arithmetical operations in the Financial Model formulae and calculations under the assumptions and input data for the specified test. A robustness test is defined as a change in one or more variables.

Bidders should note the allocation of risk with respect to errors within the Models described in this Section 6.8.

Calculation Review

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

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

6.8.4 Profit Sharing

The Franchise Agreement (Schedule 8.1 (Franchise Payments)) provides Bidders with information about the Profit Sharing mechanism that is a feature of this competition. The main elements of the mechanism are:

- The Department will share in the Franchisee's profits above a minimum prescribed level in each year of the franchise (including part years);
- There will be three thresholds of profitability and the Franchisee will share differing percentages of its profits with the Department at each level;
- Profit and the thresholds and levels of sharing are outlined in the Franchise Agreement (Schedule 8.1 (Franchise Payments));
- The thresholds and levels of profit outlined in the footnotes to the Appendix to Schedule 8.1 (Franchise Payments) of the Franchise Agreement represent the minimum level that is to be contracted. Bidders are invited to submit proposals that improve on these levels and/or thresholds and any such committed proposals will be considered under the Modelling Change, Record of Assumptions and Profit Share Delivery Plan as outlined in this ITT. No credit will be awarded as part of the evaluation process for the inclusion of additional tiers of profit share.

6.9 *Financial Structure and Funding*

Each Bidder is required to submit a Financial Structure and Funding document which should:

- detail the total investment plan for all funding of infrastructure, other works and schemes that support its proposals, including explaining its linkage with the Financial Model;
- provide precise details of its own funding arrangements and detail the exact nature of relationships with any funding partner or underlying financial securities provided by third parties;
- provide details of the providers of the Performance Bond and Season Ticket Bond including term sheets from the Bond Provider(s) in order to demonstrate that the requirements of the Franchise Agreement have been met;
- include 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);
- include 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);
- provide details of how the Bidders intend to support their proposed parent company loan as set out in the Funding Agreement with suitably accredited third parties or banks (with ratings specified in Section 6.11) including term sheet(s) and letter(s) of support
- include a parental company guarantee in respect of any liabilities at handover of station assets in the template form available in the data site. Bidders are required to

confirm in their bids that they accept its terms and will be prepared to enter into the guarantee in that form on the date of execution of the Franchise Agreement;

- demonstrate how ongoing working capital requirements, as forecast in the Financial Model, will be funded;
- include for each franchise commitment made in the bid (or groups of commitments if appropriate), submit a funding plan with full details of its linkage with the Financial Model, each source of funding, including rights and obligations of each type of funding and details of agreements with the organisations providing funding. For each source, a letter of support and term sheet must be provided from the underwriting financial institution setting out the terms and conditions (including all condition precedents, fees, repayment profile, basis of interest rate calculation) of the finance;
- include an investment profile as detailed in the Templates providing for each proposal category (Base Service Specification and Priced Options (and Incremental Options if submitted)) and by investment category;
- include a letter from its financial adviser(s) (as an Annex if appropriate) confirming that:
 - the funding plans for all aspects of the bid have been developed to a stage that will allow funding to be made available to the Franchisee on execution of the Franchise Agreement;
 - financial adviser support of the funding proposition has been provided in the knowledge of the terms and conditions set out in the term sheets of the finance providers;
 - the funding plans are accurately reflected in the Financial Model;
- confirm the interest rates and contractual terms of any inter-company debt funding, subordinated loans or other funding arrangements between or to be between the Franchisee and any affiliate or third party;
- provide details and assumptions for interest earned on cash deposits; and
- Include a statement of day one funding available and any assumptions around the transfer of season ticket or advance ticket purchases from the incumbent.

6.10 Other Information Required

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

6.11 Funding Agreement

The Department requires such funding proposals to be robust and accordingly they must be backed by suitable third party bonds or guarantees from credit providers of no less than “A-“ long term Standard and Poor’s rating. The Bidder shall be required to provide a loan facility, signed by the Bidders’ parent for a minimum sum of £25 million. A template “Deed of Undertaking re: Share Capital and loan facility” will be provided to Bidders who are

required to confirm in their bids that they accept its terms and will be prepared to contractualise their funding proposals accordingly from completion of the Franchise Agreement. Bidders are also referred to the requirement for a parent company guarantee set out in 3.6.3.

SECTION 7: FURTHER INFORMATION

Further information relating to the Essex Thameside Franchise, for example on issues such as working with stakeholders and accessing the network can be found in the data site.

APPENDIX 1A: LIST OF ESSEX THAMESIDE FRANCHISE STATIONS

The Essex Thameside Franchisee will be the Station Facility Owner (SFO) at 25 Stations:

Fenchurch Street	Dagenham Dock	Leigh-on-Sea
Limehouse	Rainham	Chalkwell
Barking	Purfleet	Westcliff-on-Sea
Upminster	Grays	Southend Central
Ockendon	Tilbury Town	Southend East
Chafford Hundred	East Tilbury	Thorpe Bay
West Horndon	Stanford-le-Hope	Shoeburyness
Laindon	Pitsea	
Basildon	Benfleet	

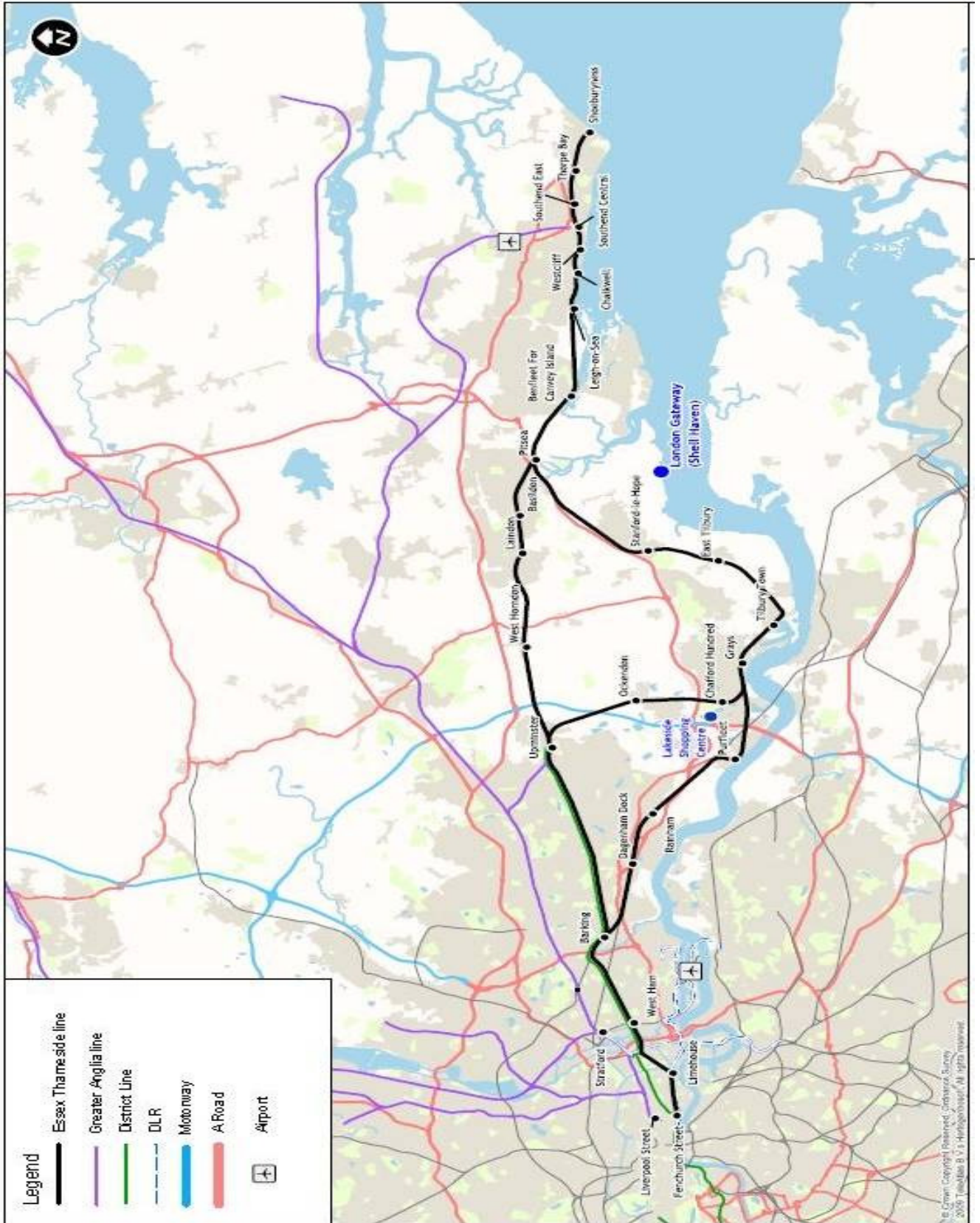
In addition, the current Essex Thameside Franchisee operates train services that call at the following 3 stations at which it is not SFO:

Liverpool Street	West Ham	Stratford
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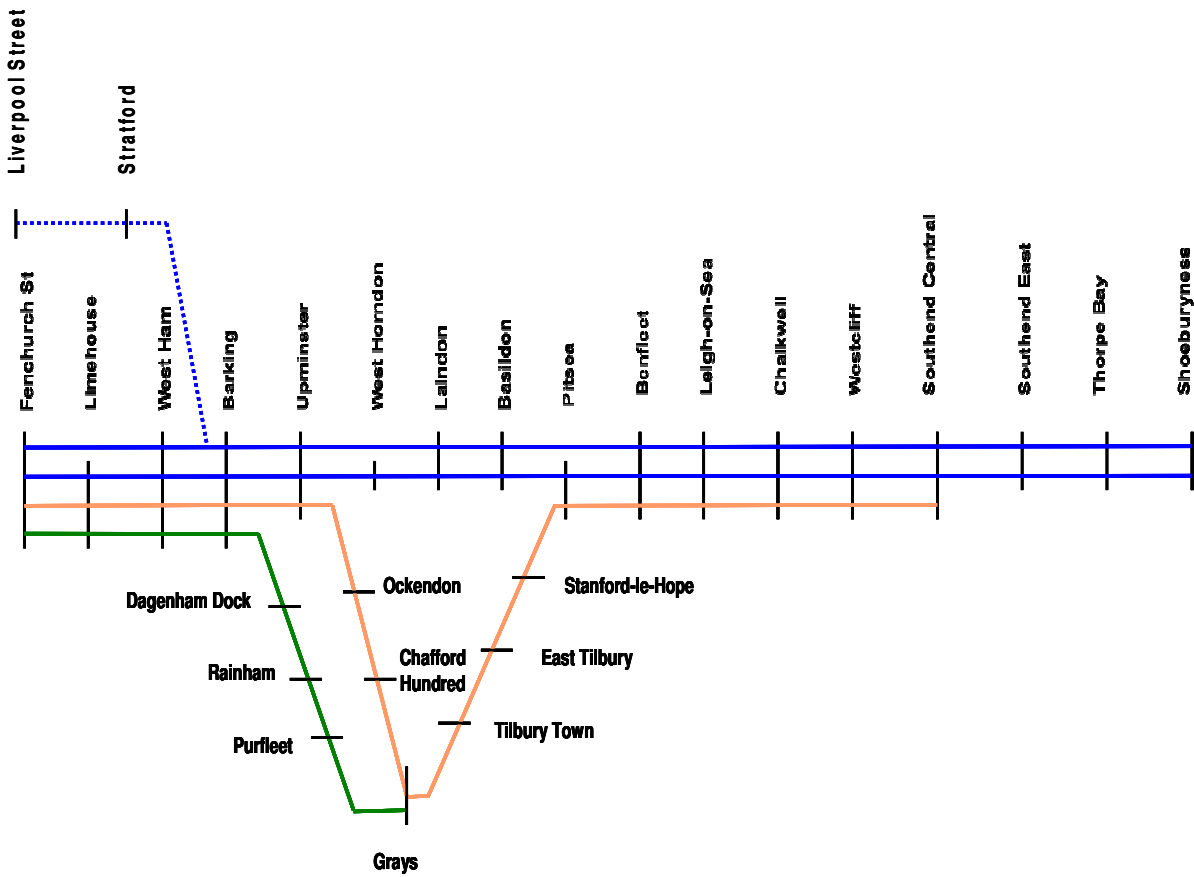
There are 15 Stations where the Essex Thameside Franchisee is the SFO that have SEFT infrastructure/equipment in place currently:

West Horndon	Laindon	Basildon
Pitsea	Benfleet	Leigh-on-Sea
Chalkwell	Westcliff-on-Sea	Southend Central
Southend East	Thorpe Bay	Shoeburyness
Tilbury Town	East Tilbury	Stanford-le-Hope

APPENDIX 1B: MAP of ESSEX THAMESIDE FRANCHISE

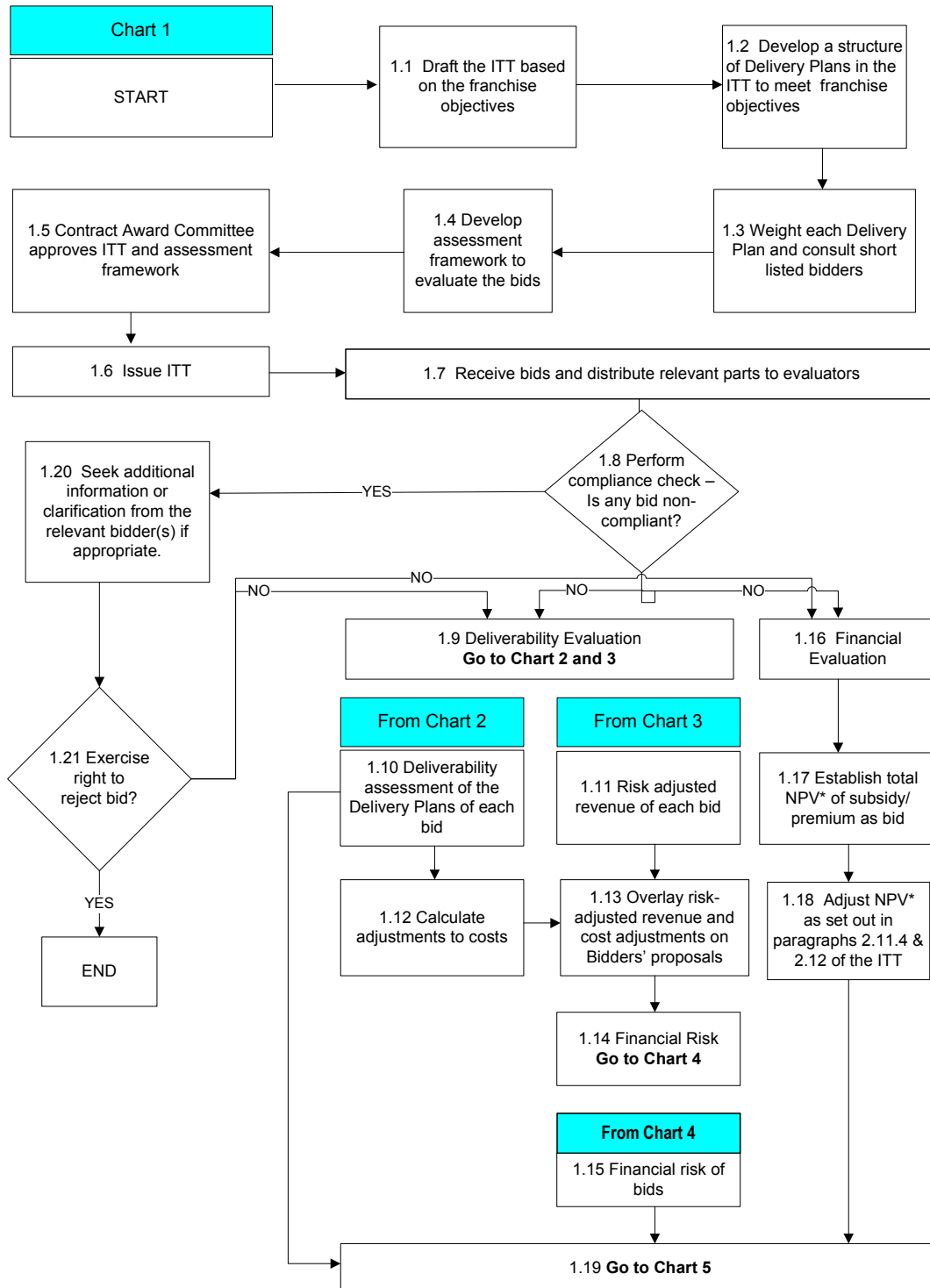


APPENDIX 1C: ROUTE DIAGRAM OF ESSEX THAMESIDE FRANCHISE



APPENDIX 2A: FRANCHISE EVALUATION PROCESS CHART 1

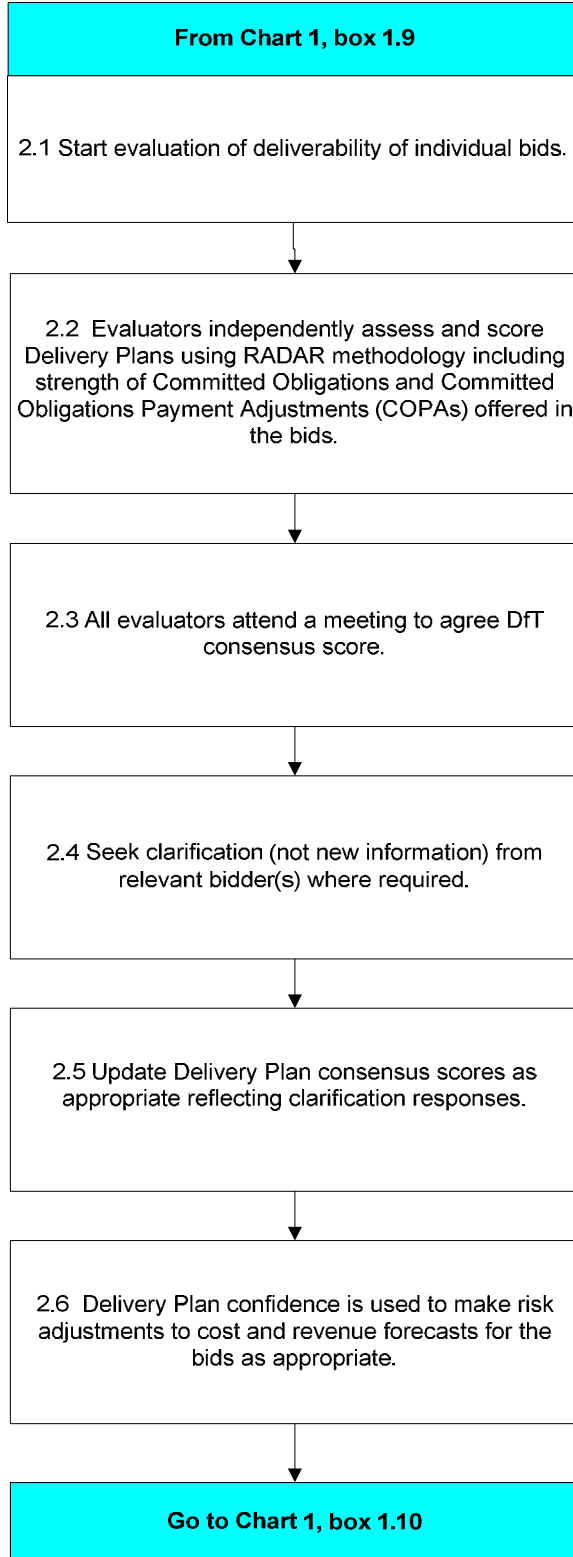
CHART 1 - FRANCHISE EVALUATION PROCESS - OVERVIEW



*Net Present Value of the Franchise Premiums over the core 15 years of the franchise
 NB: Risk adjustments are to correct non-compliance within a Bid, or to price a Secretary of State Risk Adjustment where the Department does not accept the risk distribution proposed

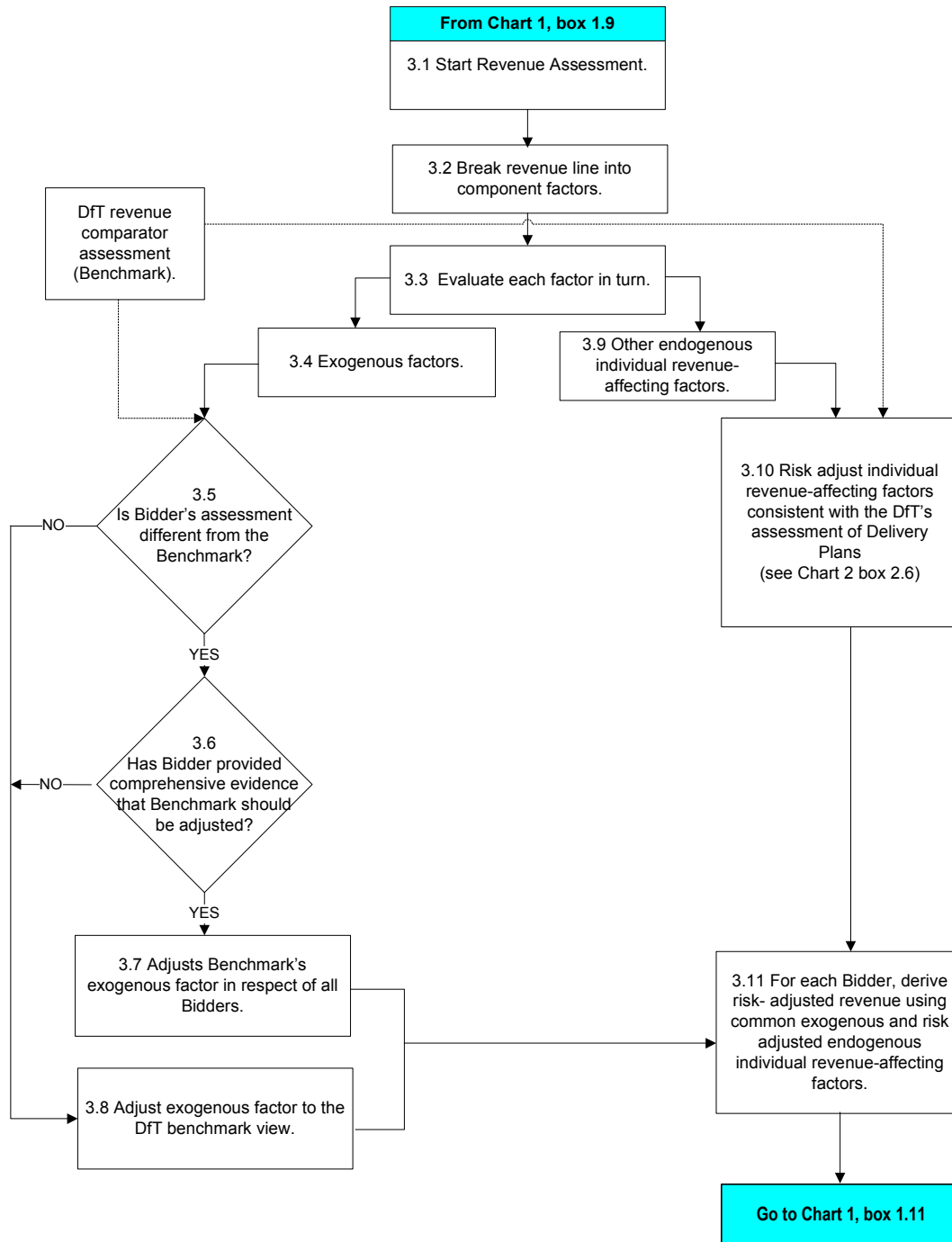
APPENDIX 2B: FRANCHISE EVALUATION PROCESS CHART 2

CHART 2 – DELIVERY PLAN ASSESSMENT



APPENDIX 2C: FRANCHISE EVALUATION PROCESS CHART 3

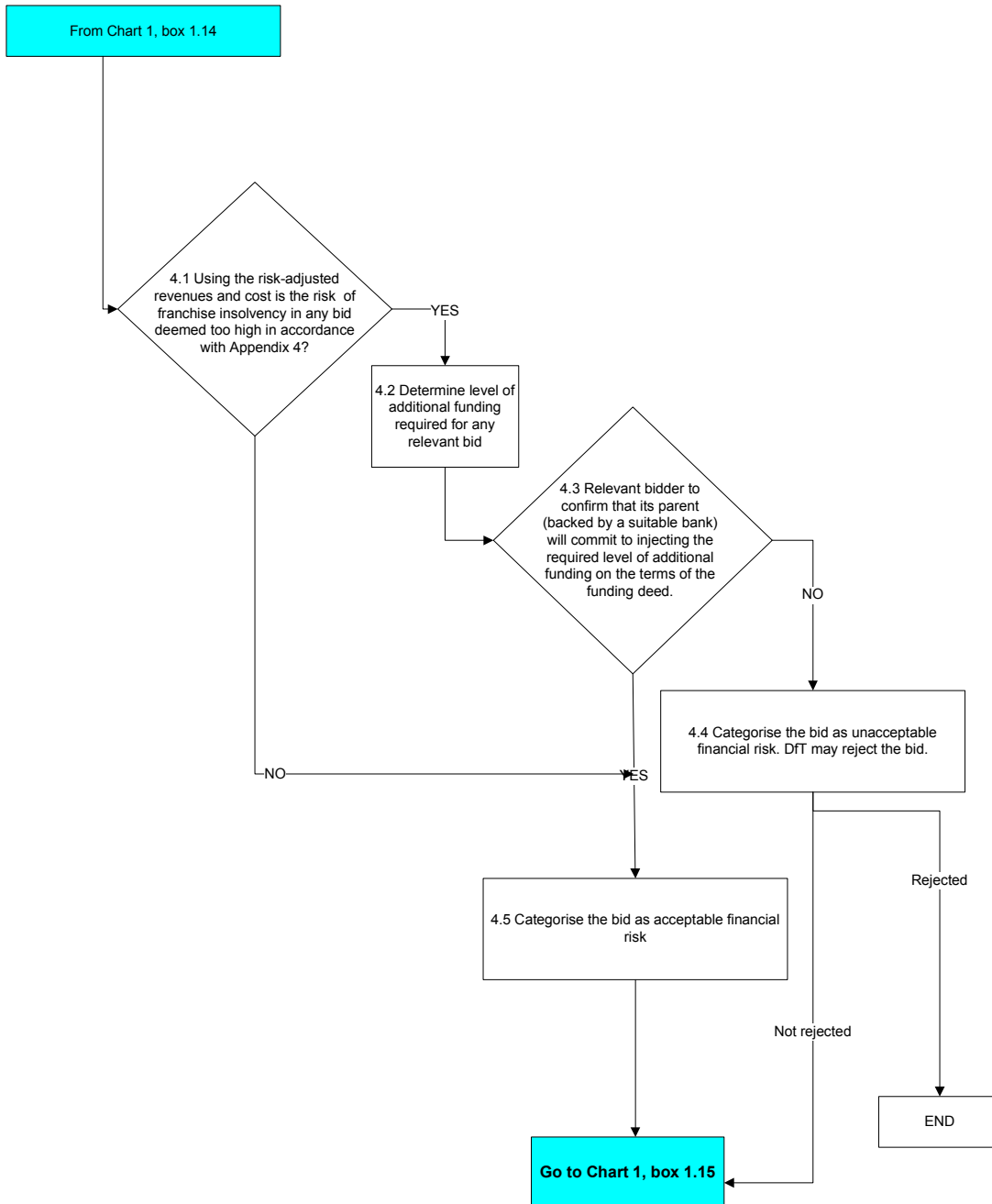
CHART 3 – REVENUE ASSESSMENT



APPENDIX 2D: FRANCHISE EVALUATION PROCESS CHART 4

CHART 4 – CATEGORISATION OF FINANCIAL RISK

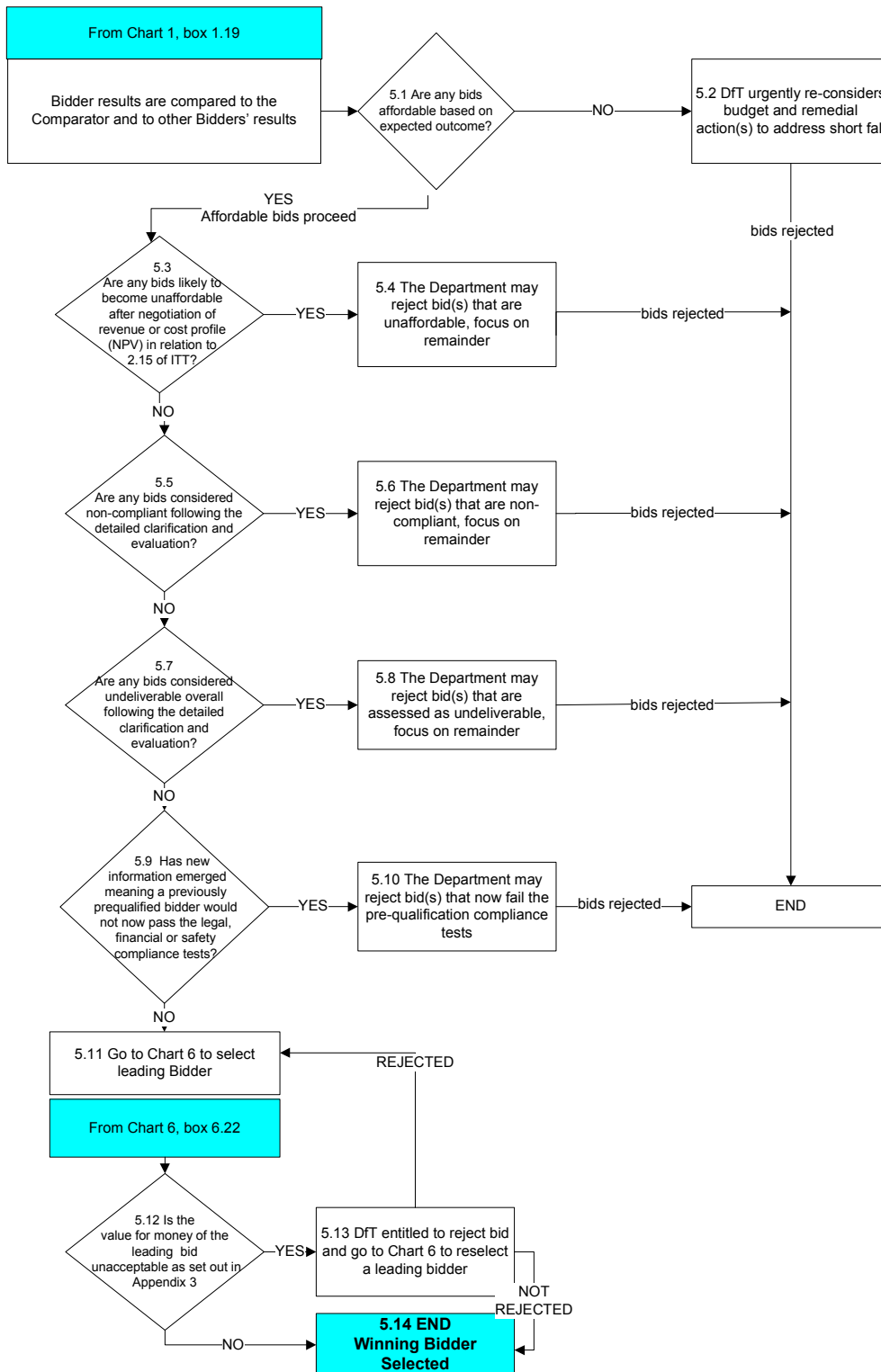
Identification of Required Subordinated Loan Facility



NB: Risk adjustments are to correct non-compliance within a Bid, or to price a Secretary of State Risk Adjustment where the Department does not accept the risk distribution proposed

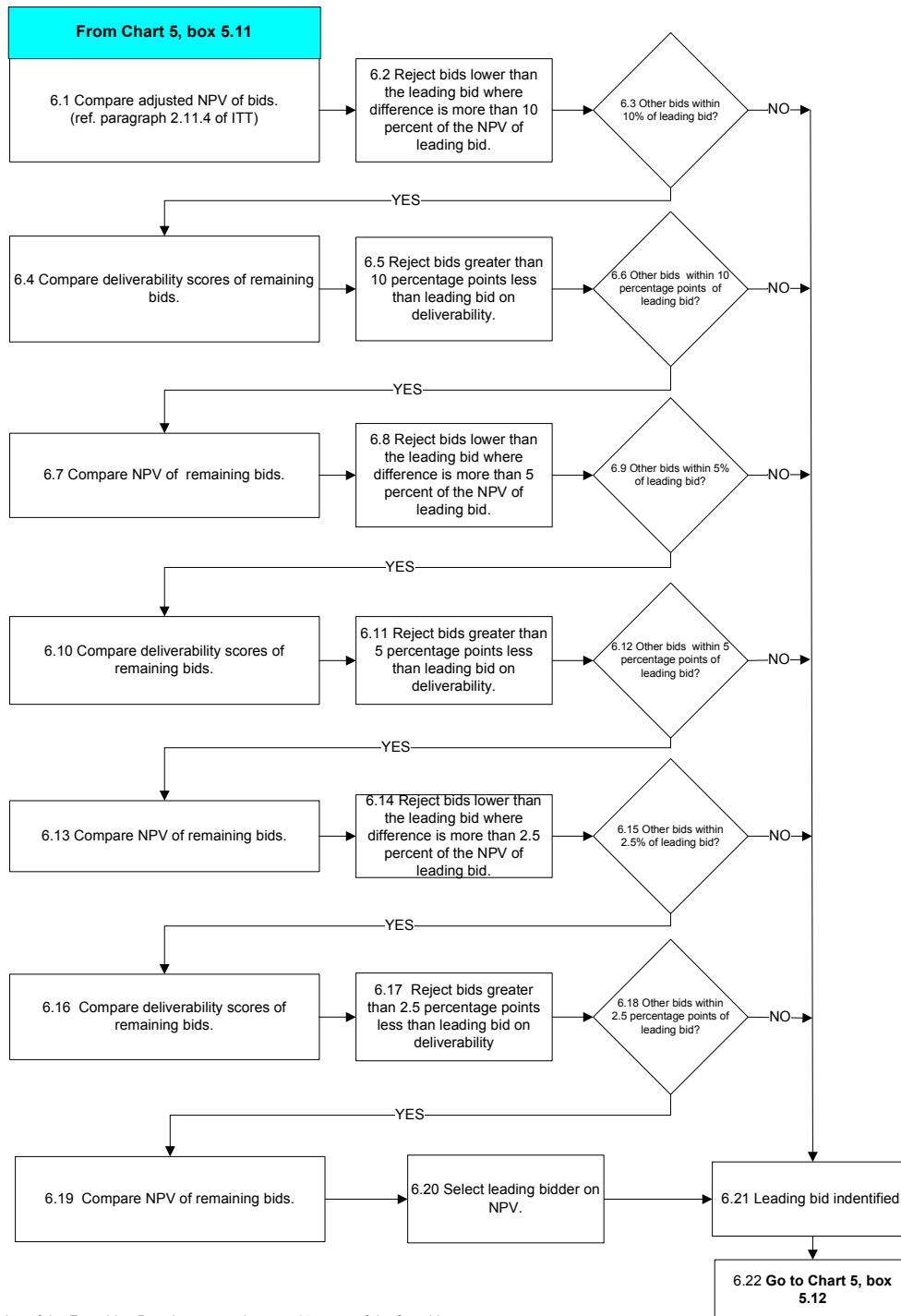
APPENDIX 2E: FRANCHISE EVALUATION PROCESS CHART 5

CHART 5 – SELECTION OF WINNING BID



APPENDIX 2F: FRANCHISE EVALUATION CHART 6

CHART 6 – SELECTION OF LEADING BID



*Net Present Value of the Franchise Premiums over the core 15 years of the franchise
 NB: Risk adjustments are to correct non-compliance within a Bid, or to price a Secretary of State Risk Adjustment where the Department does not accept the risk distribution proposed

APPENDIX 3: Guidance for Bidders in constructing an Economic Case for the Essex Thameside franchise bids

Background

The Department is required to carry out an economic appraisal to demonstrate the value for money (VfM) of all commitments of public expenditure or utilisation of public resources. This includes the letting of rail franchise contracts.

Under the previous approach to franchising where there was a detailed Service Level Commitment (SLC), the Department would carry out the economic appraisal before issuing the specification. Under the more flexible approach used in the Essex Thameside (ET) franchise this is not possible as the Department will not have knowledge of what service specifications a Bidder may offer.

The Department is asking Bidders to carry out the economic appraisal based on the specification in its bid and to submit the results with its bid. The VfM will only be assessed for the leading bid. VfM will not be used to choose between bids and will form no other part of the bid evaluation other than the Department may reject the leading bid on the basis of poor VfM as measured against a fixed threshold Net Present Value (NPV) (as set out below in the Section ‘Specification of the Benefit Cost ratio and the Net Present Value’).

Bidders are asked to provide a maximum of a 20 page ‘economic case’ report containing the description and quantification of costs and benefits with supporting Record of Assumptions and models where these are additional to the other bid models. The Department does not require this to be in the form of a ‘5 case model’. The Department will require that the costs and benefits included in the appraisal are internally consistent with the overall bid and that they can be traced back to one or more of the delivery plans or the financial model.

Economic appraisal is carried out using a framework set out in the HM Treasury Green Book². Within this framework the Department has developed specific guidance on transport appraisal in WebTAG³. Particular attention should be paid to WebTAG unit 3.13 *Guidance on Rail Appraisal*⁴ although an appraisal will draw on the wider WebTAG guidance and also on values contained in the Passenger Demand Forecasting Handbook.

Following guidance set out in WebTAG unit 1.1, the level of detail in the appraisal should reflect the size and scope of the initiative under assessment. The level to which each of the steps in this process is implemented will be dependent upon the type and size of the problems being addressed. It is expected that appraisals will be comprehensive but proportionate.

² HMT Green Book http://www.hm-treasury.gov.uk/data_greenbook_index.htm.

³ WebTAG guidance <http://www.dft.gov.uk/webtag/>.

⁴ <http://www.dft.gov.uk/webtag/documents/expert/unit3.13.php>

Specification of the Benefit Cost Ratio and the Net Present Value

The franchise proposition should demonstrate that the bid offers no worse value for money than the expiring franchise. Compliance is measured by the Net Present Value (NPV) of the economic case calculated as defined in WebTAG unit 3.13 paragraph 6.11:

$NPV = \text{Present Value Benefits (PVB)} - \text{Present Value Costs (PVC)}$

Where the Benefit Cost Ratio (BCR) is calculated as:

$BCR = PVB/PVC$

The Department requires that the NPV of the bid is positive as a check that the proposed franchise proposition is no worse in value for money than the existing fixed franchise specification. For a traditional investment project where there is a cost to Government this is equivalent to a BCR in excess of 1. The Department is aware that a bidder's proposal may involve reduced costs and increased benefits or reduced costs and reduced benefits against the 'do minimum'. This would be acceptable to the Department provided that the NPV is positive. WebTAG provides guidance on non monetised impacts but only monetised impacts will be accepted as part of the appraisal.

Bidders should also note that under WebTAG guidance, all costs and benefits should be presented in real terms converted into 2002 prices and discounted to 2002 values using the HMT Green Book discount rate of 3.5%. Costs and revenues should also be converted to market prices (see guidance in WebTAG 3.13 paragraph 3.4.3)

The length of the appraisal period is to **28th May 2028**. Investments that are proposed in the bid that have been agreed by the ORR and have a payback longer than the end of the franchise can include incremental costs and benefits over the life of the asset.

The appraisal should be on the entirety of the base specification in the bid. Bidders will not be required to demonstrate that individual parts of the proposal provide value for money only that on aggregate the bid is value for money.

Bidders can provide a separate economic appraisal of incremental options should they wish in order to support the case for these options. However, these will not be included in the overall evaluation and should the Department choose to purchase incremental options it will carry out its own appraisal.

Defining the 'do minimum' specification

Costs and benefits in the economic appraisal of the bid should be calculated against a counterfactual or 'do minimum' case⁵. The 'do minimum' reflects what would happen in the absence of the changes proposed in the bid.

⁵ The counterfactual is sometimes called the 'base', the 'do nothing' or the 'do minimum'. However in order not to confuse with the 'base' specification terminology used in the bidding process, the word 'base' will not be used in this guidance. Instead the counterfactual will be described here as the 'do minimum'.

For the ET franchise the Department defines the ‘do minimum’ as operating and maintaining the capacity, timetable and service quality (except crowding) levels that exist at the end of the existing franchise through the new franchise term until the **28th May 2028**.

Bidders are not required to quantify all the costs and benefits of the ‘do minimum’ or of the bid. It is sufficient to quantify only costs and benefits of the bid that are changes (increments and decrements) against the ‘do minimum’.

The ‘do minimum’ should be rolled forward using demand forecasts based on exogenous and endogenous factors. The exogenous factors should be consistent between the ‘do minimum’ and the proposal.

The station lease changes should be assumed to be the same in both the ‘do minimum’ and the bid and these should not form part of the appraisal.

Changes to costs and benefits resulting from the proposal

Bidders should calculate the changes in costs and benefits against the ‘do minimum’ that result from the proposed bid. The changes should be consistent with those set out in the bid including but not restricted to any proposed changes relating to service patterns, rolling stock and other initiatives.

The Department is aware that over the term of the franchise Bidders may take advantage of the flexibility offered by the specification and deliver an alternative specification to that which is initially proposed within the bid. However, the economic appraisal should reflect the initial view on which the detailed costs and revenues are calculated as part of the bid. The nature and extent of the costs and benefits quantified as part of the economic appraisal must be consistent with the initiatives and estimated costs and revenues elsewhere in the bid. A premium can be included for the value of future flexibility should this be relevant to and consistent with the bid.

Endogenous factors can be different between the ‘do minimum’ and the Bidders proposal, but only where it is the result of a change proposed as part of the bid. Likewise, unit costs should be assumed to be the same between the ‘do minimum’ and the proposal unless there is a change as the direct result of the proposal.

Changes to costs

The Present Value of Costs (PVC) estimate should include all costs and revenues that impact on the premium received by the Department and other external costs that affect the financial position of the Government. This shows the change in premium against the ‘do minimum’.

Cost changes are likely to be the result of

- Operating costs and renewals that change as the result of initiatives in the bid
- Revenue changes that change as the result of initiatives in the bid (revenues change the cost of the franchise to the Department and are therefore a negative cost)
- Investment costs (contingency and optimism bias should only be included if they are being passed to the Department as part of the franchise payment)

- Other premium changes (e.g. for flexibility)

The cost to Government (PVC) should also include wider impacts on government finances that are not be reflected by a change in the premium. The main category here is likely to be abstraction where the Department is contractually obliged to compensate other operators or where it impacts on the future value of the franchise to the Department.

Changes to benefits

Benefits (or disbenefits) within the PVB definition will include social benefits (non market) or financial benefits to individuals or private companies.

Benefits may include changes resulting from;

- Generalised Journey Time (GJT). Bidders should use PDFH v5 values for modelling GJT changes but WebTAG 3.5.6 values of time must be used to quantify the value of these in the appraisal.
- Crowding costs. The Department's guidance is to use PDFH v5 for crowding costs. Crowding costs estimated in GJT equivalent units should be monetised using WebTAG values of time.
- Non user impacts (road decongestion). The impact of changes in rail passengers on road congestion. Tables and guidance are supplied in WebTAG unit 3.13.2
- Fares. The financial impact of changes to fares should be treated as a transfer (of consumer surplus) initially between passengers and the operator and ultimately to Government as premium (if appropriate). Consideration should also be given to the deadweight loss/gain associated with the change and the impact of train and road congestion from associated demand changes. Bidders should use PDFH v4 for fare elasticity. The impact of changes to regulated fares under the existing fares policy should normally be considered as part of the base.
- Wider impacts. The nature of changes possible within this franchise is unlikely to result in significant changes in the underlying economy. Given the complexity of carrying out this analysis properly, we would not recommend Bidders include these in the appraisal.
- Quality. Quality benefits can be valued using the evidence set out in PDFH. Quantification can be through fare value or equivalent GJT (monetised using WebTAG values of time)
- Reliability. Using PDFH assumptions on equivalent GJT of delay minutes
- Carbon where appropriate to changes in vehicle miles or the type of rolling stock

The Department accepts that estimation of some 'softer' benefits can be a matter of judgement. However, in order to accept the benefits the Department requires that a justification is provided and that they are internally consistent with the demand, revenue and cost assumptions elsewhere in the bid.

Outputs and supporting material

- An economic case of up to 20 pages describing the analysis and the methodology used to construct the appraisal and the underlying demand forecasts
- A Record of Assumptions

- Additional evidence that is not externally available (for example not in PDFH or WebTAG)
- Links to other outputs provided with the bid that are relevant to the results in the appraisal
- Additional material (for example MOIRA timetables and outputs) that are not included elsewhere with the bid
- Results spreadsheet detailing costs and benefits by year
- The results need to be summarised in the following tables for which details are available in WebTAG. These are developed for a broad range of transport appraisal projects and we would expect some areas to be blank.
 - Appraisal Summary Table.
 - Transport Economic Efficiency table
 - Public Accounts table
 - Assessment of Monetised Costs and Benefits

APPENDIX 4: Essex Thameside – Guidance on the evaluation of financial robustness and sizing of the Subordinated Loan Facility

Introduction

This document is intended to provide guidance to Bidders about the process that the Department will use to evaluate bids for financial capability compliance, including the methodology for determining the size of any Subordinated Loan Facility (SLF) needed to give comfort that Government is contracting with an entity that is robust enough to withstand business downturns and/or variances in costs / revenues compared to those projected in the financial model.

Summary: Financial capability compliance in bid evaluation

- The Department requires that:
 - the cost and revenue forecasts used in Bidders' models are sound and achievable
 - bids remain financially robust across a range of downside economic scenarios after any adjustments (as described below) to revenues and costs.
- The implication of this is that a combination of Franchisee profit margin and/ or owning group SLF could be needed to provide financial support to the franchise in the event of economic downturns or adverse cost variances. In addition, the Franchisee will not receive revenue protection for any shortfall in outturn revenue as a consequence of overly-optimistic forecasts made at competitive tender stage.
- The Department will evaluate each bid's evidence as to its financial robustness.

Process for testing robustness and sizing the SLF

- The financial robustness process will involve the following steps:
 - a. Following submission, each bid will be evaluated. This technical assessment could result in a series of risk adjustments to bid revenue and cost lines.

All Bidders exogenous growth forecasts will be adjusted to a common view of revenue growth and endogenous factors will be adjusted to reflect what the Department believes is reasonable given the evidence supplied. Both upward and downward adjustments to costs and revenues are possible. The output of this stage will be 'normalised' cost and revenue forecasts.
 - b. A simulation model ('the model') developed by the Department will be populated with Bidders' normalised cost and revenues (output of step a.) and premia from the bid model (which are not risk adjusted). This will result in an adjusted bid margin which reflects the impact of risk adjustment. Any reduction in net income as a result of adjustments during the technical assessment will reduce the extent to which the bid margin is available to provide a buffer against economic downturns and/or variances in costs / revenues compared to those projected in the financial model.

- c. Bidders' normalised revenue and cost assumptions and the adjusted bid margin are then run against a series of 500 economic scenarios. The distribution of the scenarios reflects the predicted distribution of economic outcomes, with more scenarios clustered around the central forecast and fewer at the extremes. Where the simulations are considered to result in franchise default in more than 5% of the economic scenarios, the additional funds required by way of SLF will be the amount which is required to ensure the probability default rate remains no higher than 5%.
- d. The Department will seek clarification from each Bidder as to whether its parent (backed by a suitable third party) would be prepared to inject additional funds in the form of an SLF, available at the start of the franchise, to the value identified in step c. If the parent is willing and able to provide a subordinated loan facility of the required value, the bid will be categorised as having an acceptable financial risk. If not, the bid will be categorised as having an unacceptable level of financial risk and may be rejected.

SLF 'ready reckoner'

The Department has prepared a 'ready reckoner' to help inform Bidders about how the SLF will be sized and the amount that might be required at different margins/ levels of risk adjustment, using its own comparator model and assumptions. The figures in the table below are for illustrative purposes only and should not be regarded as the confirmed level of financial support that might be required, taking into account the size of the risk adjustment and the bid margin.

SLF 'ready reckoner'

tem	Criteria	Indicative SLF
1	Minimum value of SLF	Minimum SLF of £25m regardless of the value of the risk adjustment
2	Margin in excess of 5%	Initial risk adjustment can be offset against margin in excess of 5% at a ratio of 1:1 <i>in the year in which it occurs</i>
3	Value of additional risk adjustment not covered by item 2	Requires an additional SLF at a ratio of 1:1

Details of assessments

1. Exogenous Revenue Adjustment (Processes 3.5 to 3.8)

- For the purpose of risk assessment Bidders' exogenous growth forecasts will be adjusted to a common view of revenue growth; and
 - It is expected that Bidders will use the market segmented approach to forecasting as stated by PDFH Guidance. Bidders should use PDFH v5, except for fares elasticity where v4 is applicable.
 - The adjustment to Bidders' exogenous revenue forecasts will use current Official Government forecasts as published by the Office for Budget Responsibility (OBR), except in the situation where a Bidder provides strong evidence that alternative forecasts are more appropriate. In this case, the Department reserves the right to apply an alternative forecast to all Bidder forecasts (Process 3.7).
 - Adjustment to fares-related growth back to current Department fares policy may be made should Bidders decide to take their own independent views on future changes in fares policy.

2. Endogenous Adjustments

- All Department risk adjustments will be made on the basis of the 'most likely' outcome, taking into account existing industry / Department guidance, research and new research and evidence put forward by Bidders where included in associated Delivery Plans. These will inform the Department's reasonable view of the assessment of the value attached to the initiative.
- This adjustment will take into account any risk mitigations (contingency costs) already identified by Bidders in their cost / revenue forecasts and reported in the Record of Assumptions.
- Where appropriate, 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 expected demand response.

3. Overall Cost and Revenue Adjustments (Processes 3.11 and 1.11)

Both exogenous and Bidder-related cost and revenue adjustments will be made to cost and revenue lines, including knock-on impacts on ancillary revenues and other factors such as crowding, where Bidders' revenue models allow.

APPENDIX 5: Measurement of Rolling Stock Capacity

The capacity measure of a standard unit is 0.45m² per passenger. For 0.45m² per passenger, as this is effectively the same as a seat, the internal waist line of the vehicle as a whole is measured to ascertain the total area. The areas that are inaccessible (toilet, staff area, first class, litter bins, equipment cupboards, etc) are then measured. The total inaccessible area is deducted from the total area. The remaining area in m² is then divided by 0.45 for a total capacity of the unit (seats and standing). Physical seats are counted plus required wheelchair provision to calculate the standing figure which is rounded down to the nearest whole number. Tip-up seats are only counted as seats if they have a standard size base and a back and do not occupy a required wheelchair allocation.

Where appropriate, the specification will permit Bidders to propose the use of “Metro-style” rolling stock that allows 0.25m² per standing passenger, rather than the 0.45m² generally assumed. Metro-style rolling stock or alterations to the current fleet to increase capacity can be deployed. Bidders will need to demonstrate that the use of such a standard is likely to allow them to deliver proposed passenger satisfaction benchmarks.

For 0.25m² per passenger, the seats are counted separately as these cannot be shrunk to 0.25m². The areas at waist level which can be occupied are then measured. Standing areas include door areas and vestibules, corridors and aisles providing these can reasonably be stood in but still excludes areas that are inaccessible (toilet, staff area, first class, litter bins, equipment cupboards, required wheelchair provision, etc., and between seats unless there is a sufficiently large area to reasonably stand which is not used for another purpose).

For both capacities, it is assumed that the rounding down to a whole number of standing passengers takes care of protruding handrails, partitions and any “awkward corners” too small to be measured. Measurement is at waist level as that is the standard measurements supplied and used in the rolling stock internal layout and configuration plans.

APPENDIX 6: NPS Measures

Table 1 sets out the NPS indicators used to calculate each of the four NPS Satisfaction Measures in the Franchise Agreement Schedule 7.2.

Table 1: Proposed NPS indicators for Essex Thameside

NPS Satisfaction Measure	NPS indicator	Local weighting applied at Franchise Start Date (%)	Relevant Delivery Plan
Stations			
	Ticket buying facilities	10.15	2
	The upkeep/repair of the station buildings/platforms	10.15	2
	Cleanliness	10.15	2
	The facilities and services	10.15	2
	Connections with other forms of public transport	15.4	2
	Facilities for car parking	10.15	2
	Overall environment	10.15	2
	Your personal security whilst using	23.7	2
Train services			
	The frequency of the trains on that route	37.0	4
	Punctuality/reliability (i.e. the train arriving/departing on time)	26.3	5
	The length of time the journey was scheduled to take (speed)	21.5	4
	Connections with other train services	15.2	4
Train facilities			
	Upkeep and repair of the train	19.1	4
	The space for luggage	5.95	4
	Sufficient room for all passengers to sit/stand	8.1	4
	The comfort of the seating area	10.0	4
	The ease of being able to get on and off	25.9	5
	Your personal security on board	5.95	5
	The cleanliness of the inside	17.0	2
	The cleanliness of the outside	8.0	2
Customer services			
	How request to station staff was handled	19.1	2
	How well train company deals with delays	57.5	2
	The availability of staff at stations	11.7	2
	The attitudes and helpfulness of the staff at stations	11.7	2

APPENDIX 7: Definition of Acceptance in the model SEFT Delivery Agreement

The Definitions of “Acceptance”, the defined terms therein and the overall “SEFT Delivery Agreement” are:

“Acceptance” means acceptance of the “Equipment” for commercial use as an “ITSO-Certified Smartmedia” ticketing system at all “Target Stations” in accordance with the purposes of the “Project Objective” which acceptance shall occur on the earlier of a) the receipt by Secretary of State of TOC’s written confirmation of acceptance, and b) a date which is 2 weeks after the Equipment has been used by fare paying passengers at all “Target Stations” as an “ITSO-Certified Smartmedia” ticketing system.

Where,

“Equipment” means the readers, processors, ISAMs (an “ISAM being an ITSO Security Application Module as defined in ITSO specification 1000-8), communications equipment, back office equipment (“HOPS” (a Head Office Processing System), CMS (Card Management System), “AMS” (Asset Management System)) and any other equipment in respect of the automatic ticket gates and passenger validators for future installation or upgrade at the “Target Stations.”

And

“Target Stations” means all stations for which Essex Thameside is SFO

And

“ITSO-Certified Smartmedia” means the contactless smartcards, devices or other media designed to hold or transmit the fare and travel information with the monetary or other value encoded which have been fully certified by ITSO and comply with the EMV ticketing standard agreed by the SEFT board.

And

“Project Objective” means the successful implementation of an ITSO-Certified Smartmedia ticketing scheme; to include the installation and operation of all equipment and such front and back office systems as are necessary to achieve the same at “Target Stations” to drive a [significant percentage] take up and use by passengers of “ITSO-Certified Smartmedia” for travel across the franchise from one year after “Acceptance”.

ATTACHMENTS

- A *Essex Thameside Franchise Train Service Requirement*
- B *Essex Thameside Franchise Agreement*
- C *Guidance on Station Asset Stewardship*
- D *Conditions Precedent Agreement*
- E *Funding Agreement*
- F *Essex Thameside Financial Templates*
- G *Essex Thameside Stakeholder Briefing Document*
- H *Declaration of Conformity Statement*
- I *Delivery Plans – Scoring Matrix*
- J *Parent Company Guarantee – Stations liability*
- K *Passenger Survey Methodology*