Department for Transport

Franchise Evaluation Process Charts for InterCity West Coast Franchise competition

May 2011

Introduction

This paper sets out the evaluation process which will be used in the evaluation of bids to operate passenger railway franchises. It should be read in conjunction with the 'A Guide to the Railway Franchise Procurement Process' published on the Department's website.

The six charts set out diagrammatically the key steps in the approach that will be used by the Department to evaluate the Bidders' responses and select the winning bid. It incorporates adjustments to the process agreed as part of joint 'lessons learned' exercise undertaken between Department and bidder owning groups in December 2007.

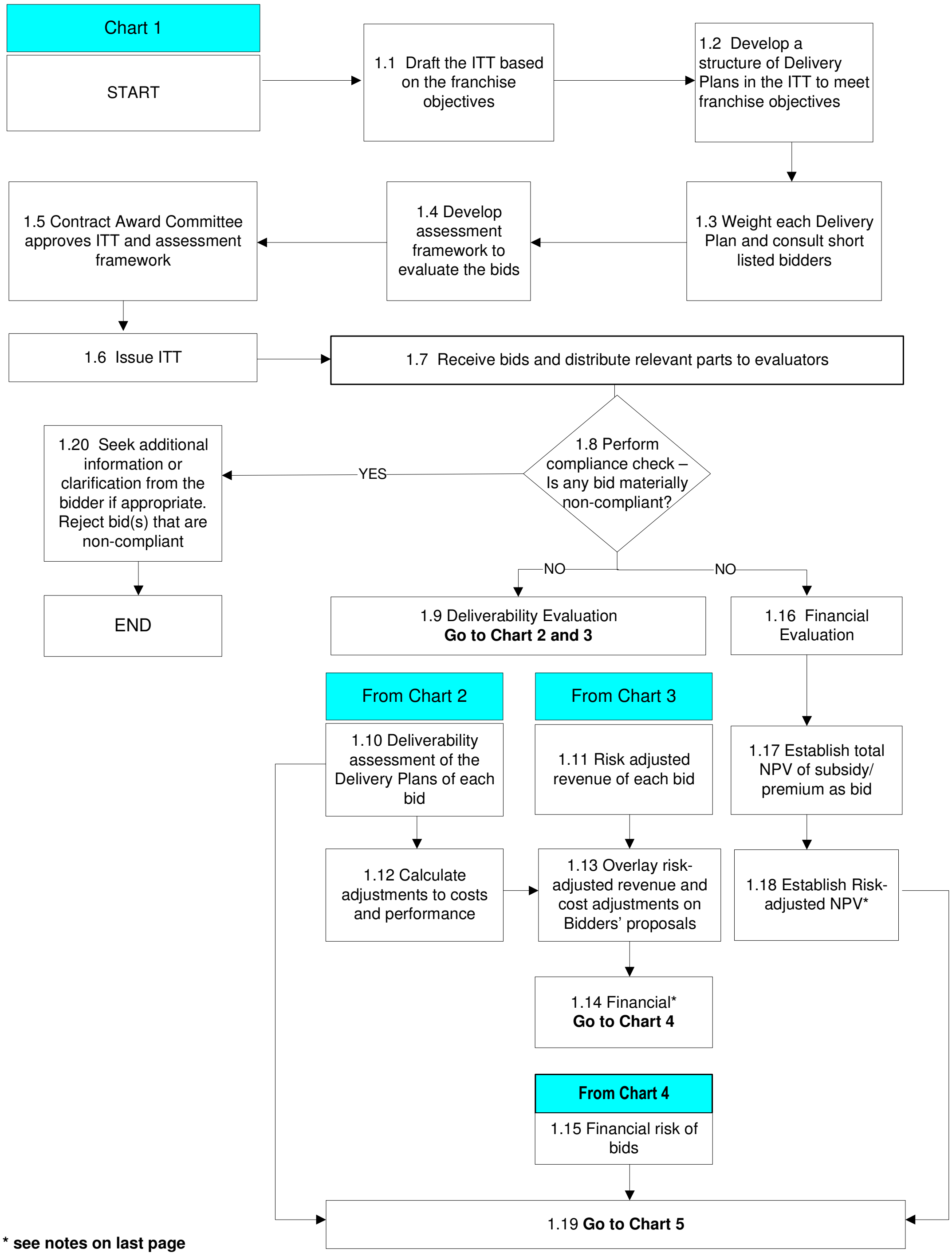
The document comprises the following charts:

Chart 1 – Franchise Evaluation Process – Overview
Chart 2 – Delivery Plan Assessment
Chart 3 – Revenue Assessment
Chart 4 – Categorisation of Financial Risk
Chart 5 – Selection of Winning Bid
Chart 6 – Selection of Leading Bid

Notes to the charts are attached after Chart 6.

This document is subject to change. Where there is a variance between this document and any notification relating to a specific franchise replacement process, such notification shall take precedence.

CHART 1 - FRANCHISE EVALUATION PROCESS - OVERVIEW



*** see notes on last page**

CHART 2 – DELIVERY PLAN ASSESSMENT

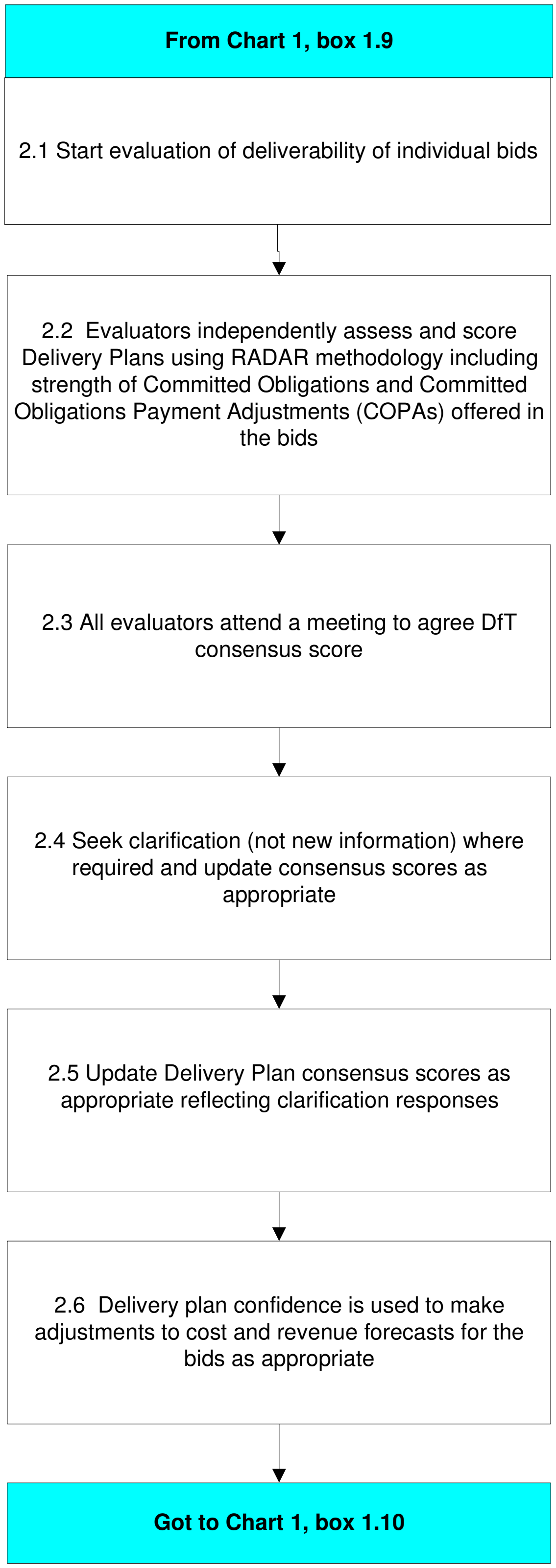


CHART 3 – REVENUE ASSESSMENT

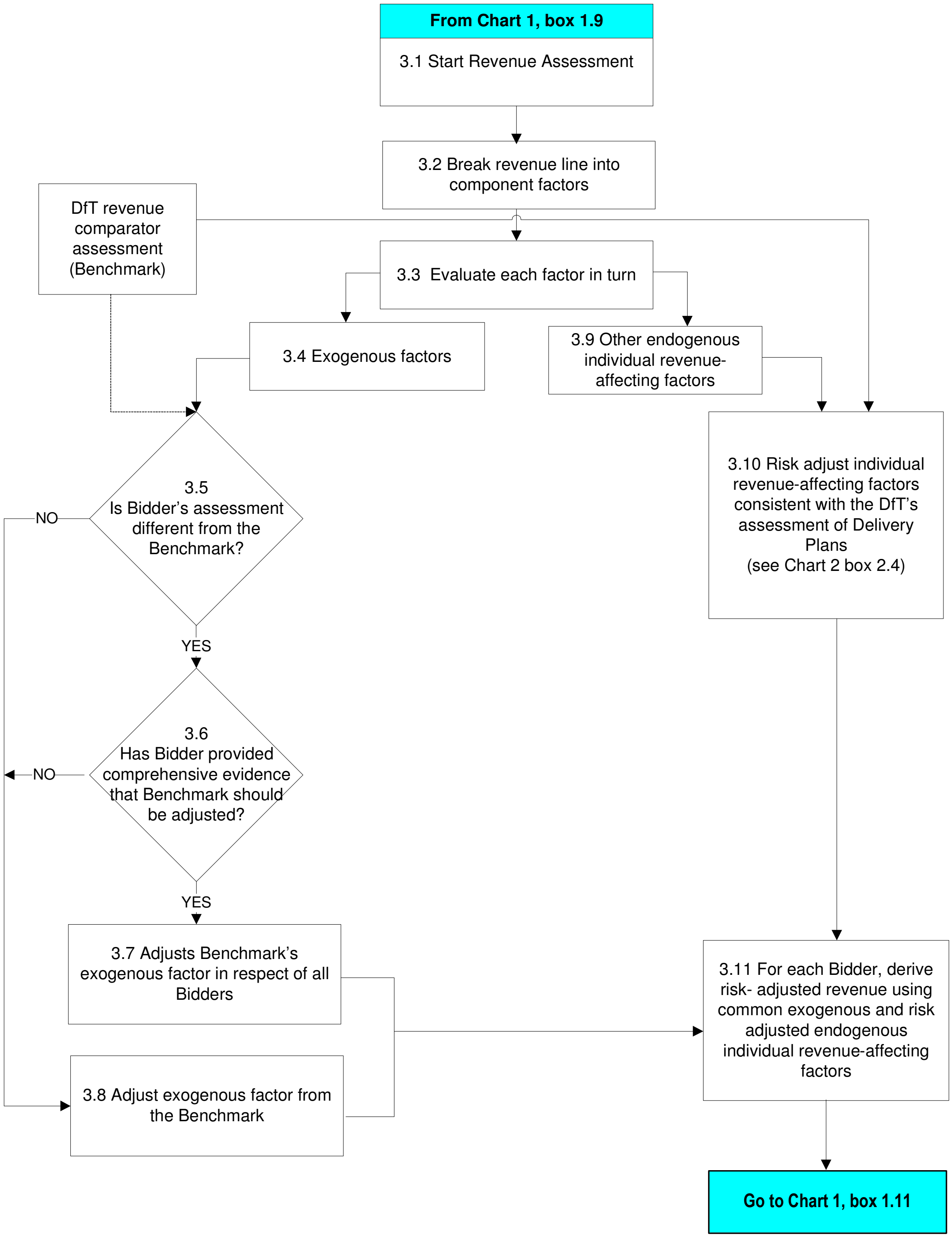
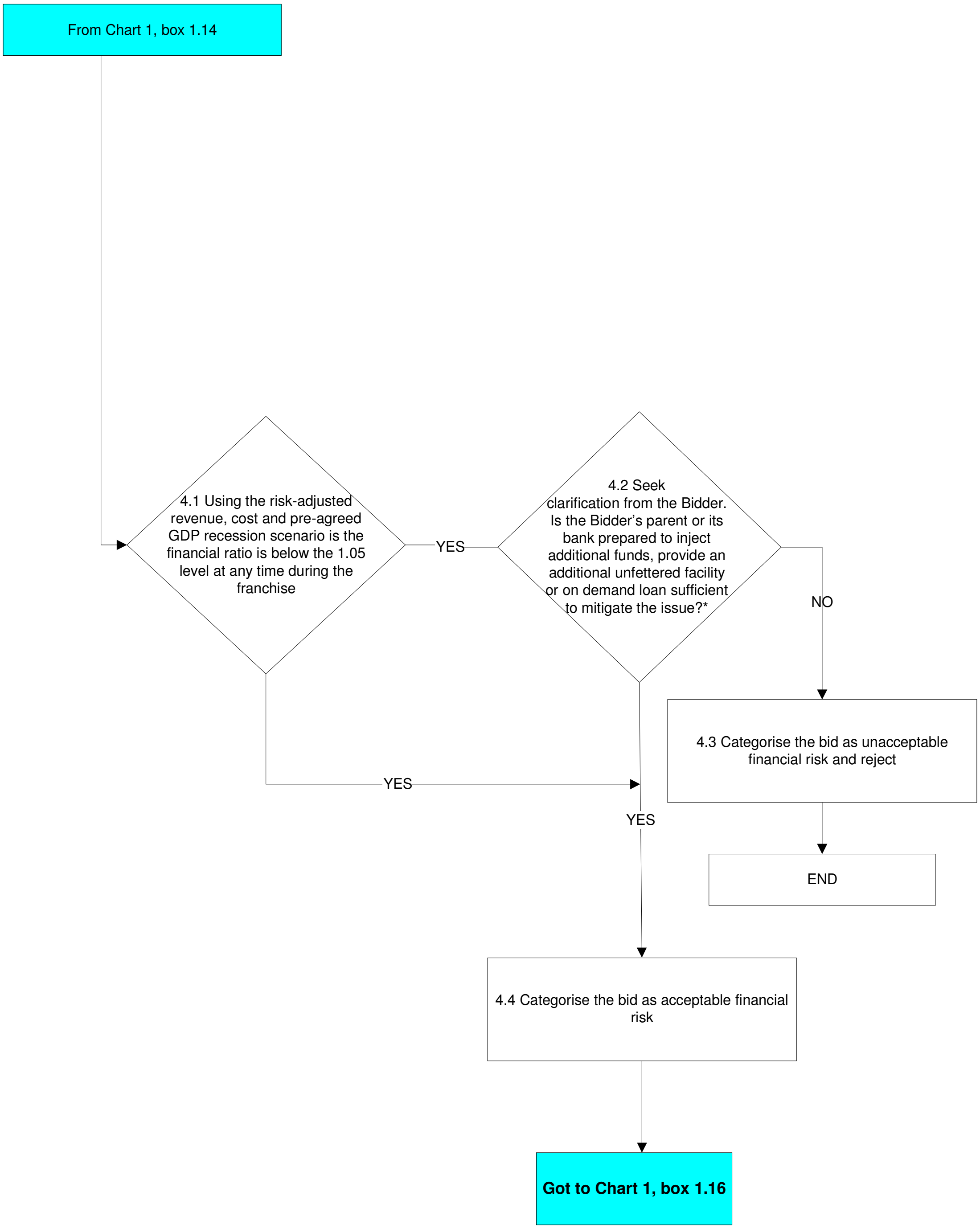


CHART 4 – CATEGORISATION OF FINANCIAL RISK



* see note on last page

CHART 5 – SELECTION OF WINNING BID

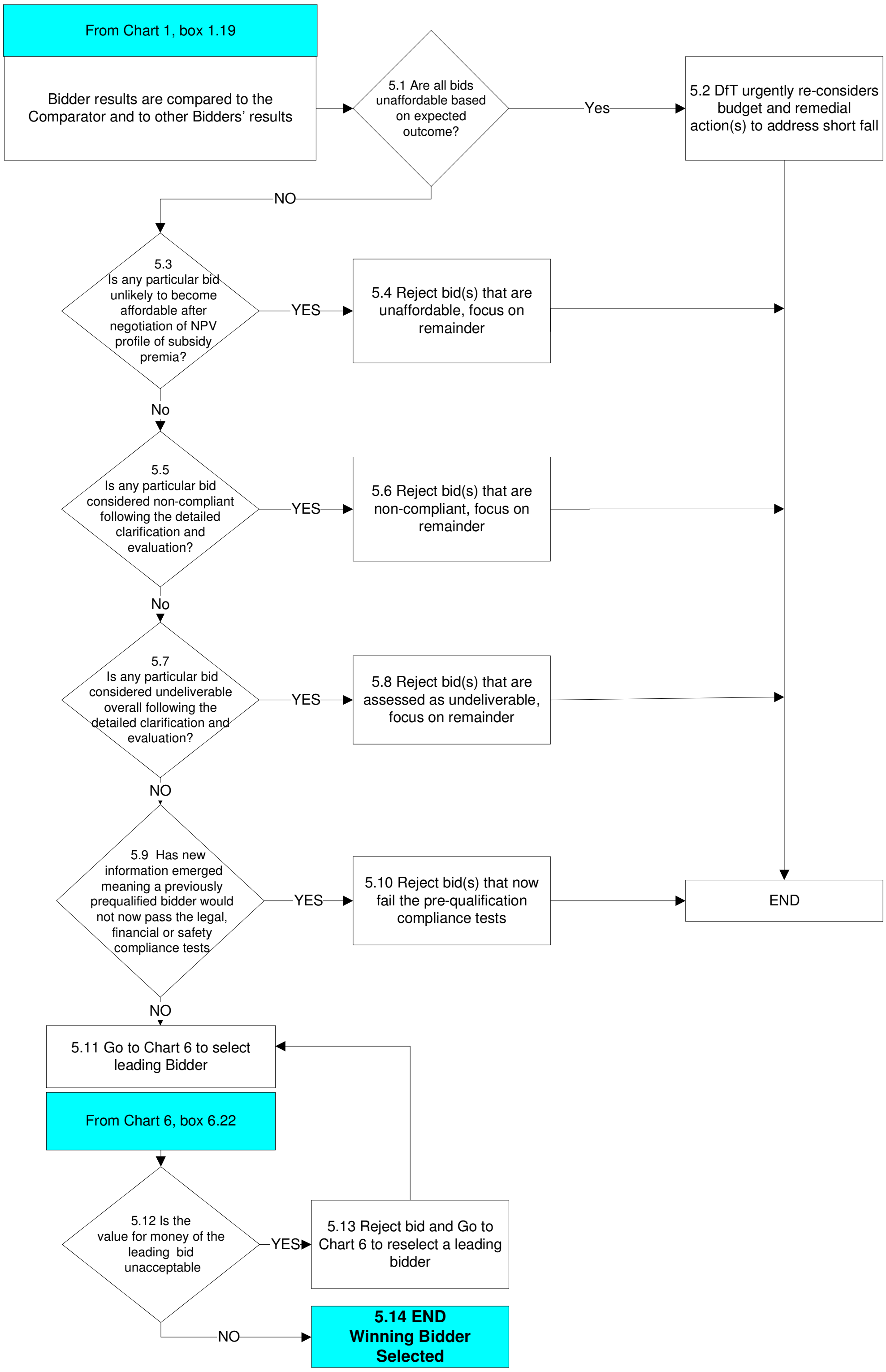
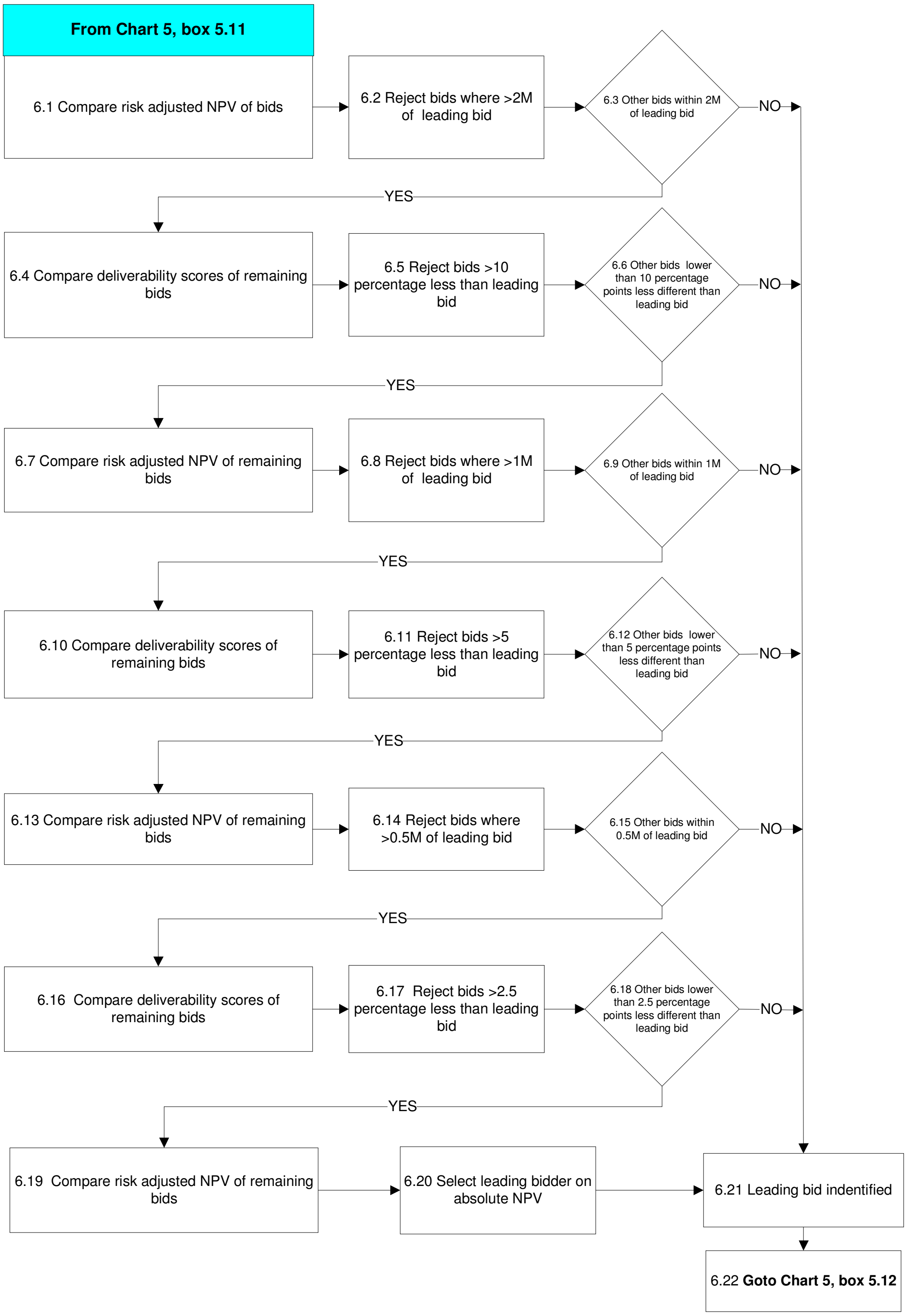


CHART 6 – SELECTION OF LEADING BID



Notes to charts

Chart 1- Franchise Evaluation Process Overview

Box 1.8
Non-compliant bids will include those containing Secretary of State Risk Assumptions (SoSRAs) that are unacceptable to DfT.

Box 1.13
The categorisation of the Bidder'sfinancial risk reflecting the DfT view of revenue and cost, and a recession stress test. The Bidder's Base Case submission is risk-adjusted taking account of:

- clarifications answers from the Bidders;
- the DfT's view of Bidder's revenue net of GDP adjustment;
- the DfT's view of costs;
- a pre-determined recession stress test.

These assessments will be based upon the DfT's assessment of the bid Delivery Plans (see Chart 2, box 2.6).

Box 1.14
The methodology aims to risk-adjust the expected net cost to DfT of selecting that bid. The Bidder's Base Case submission is risk-adjusted taking account:

- DfT's liabilities not allowed for in the Bidders' models e.g. Secretary of State Risk Assumptions; rolling stock subject to Section 54 undertakings where the obligation passes to the Department.

Chart 2- Delivery Plan Assessment

The overall deliverability assessment will include the DfT's confidence in the Bidders' Models to price Change.

Chart 4 – Categorisation of the Financial Risk of Bids.

The effect of risk-adjusted performance, revenue and cost figures on the Schedule 12 ratio (financial ratio) will be assessed on all submissions. However, the DfT will approach bidders for additional unfettered facilities only if required (see below).

Box 4.2
In calculating the financial ratio using risk-adjusted revenue, cost and performance figures the DfT will assume that the level of dividends is reduced in compliance with the lock up requirement.

Box 4.2
DfT may only ask a Bidder to increase its unfettered facilities if it is deemed a 'leading bidder' on the basis of its risk-adjusted NPV of subsidy/ premium and Delivery Plan score.

Chart 6 – Selection of the Leading Bid

The threshold amount 'M' is defined as 1% of the NPV of the Turnover of that Bidder. (NPV of 1% of aggregate franchise Turnover (passenger revenue) derived from the DfT comparator values).