Department for Transport

Franchise Evaluation Process Charts for InterCity West Coast Franchise competition

Jan 2012

Issue 3

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.

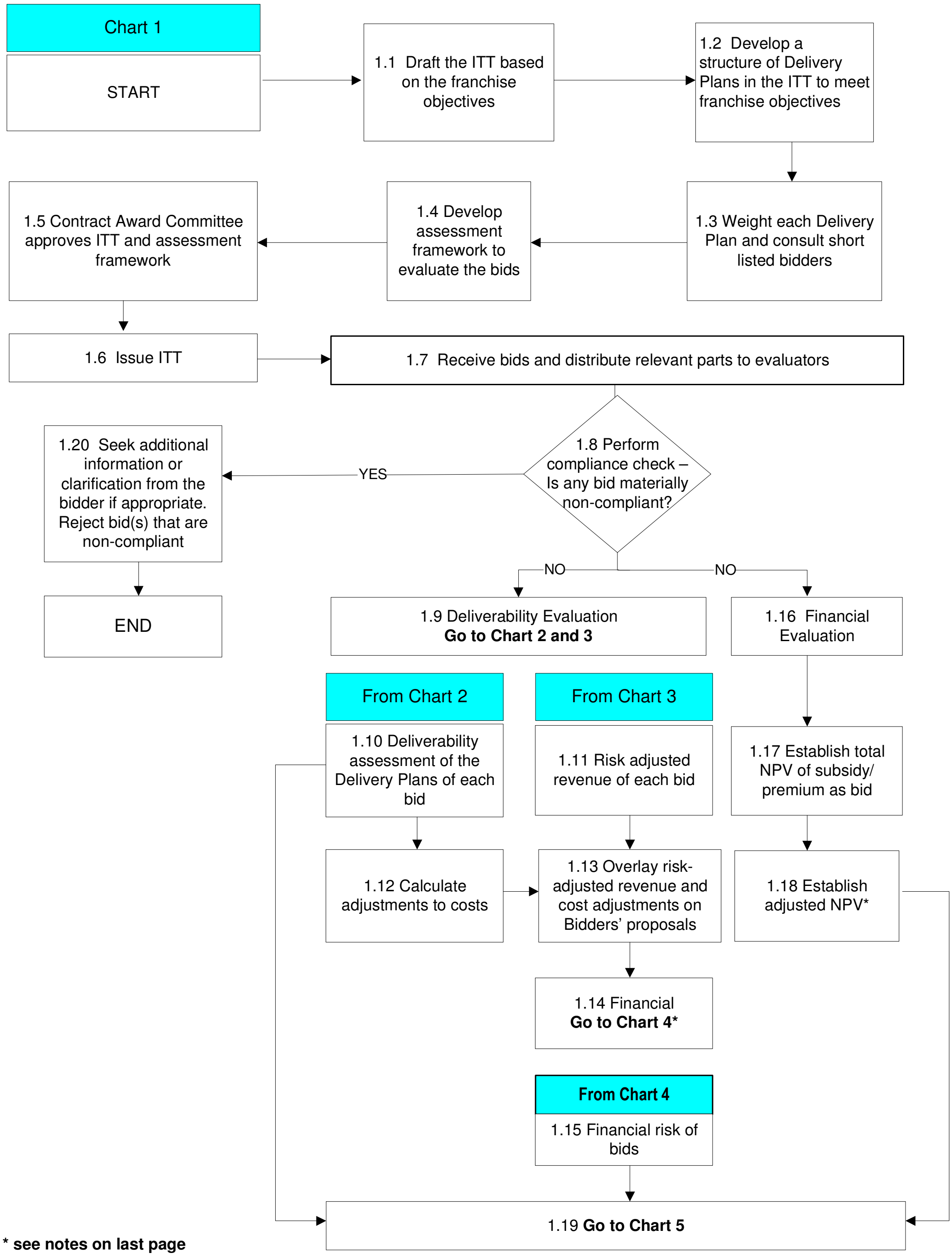
The document comprises the following charts:

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

From Chart 1, box 1.9

2.1 Start evaluation of deliverability of individual bids.

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2.2 Evaluators independently assess and score Delivery Plans using RADAR methodology including strength of Committed Obligations and Committed Obligations Payment Adjustments (COPAs) offered in the bids.

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2.3 All evaluators attend a meeting to agree DfT consensus score.

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2.4 Seek clarification (not new information) where required.

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2.5 Update Delivery Plan consensus scores as appropriate reflecting clarification responses.

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2.6 Delivery plan confidence is used to make adjustments to cost and revenue forecasts for the bids as appropriate.

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Got to Chart 1, box 1.10

CHART 3 – REVENUE ASSESSMENT

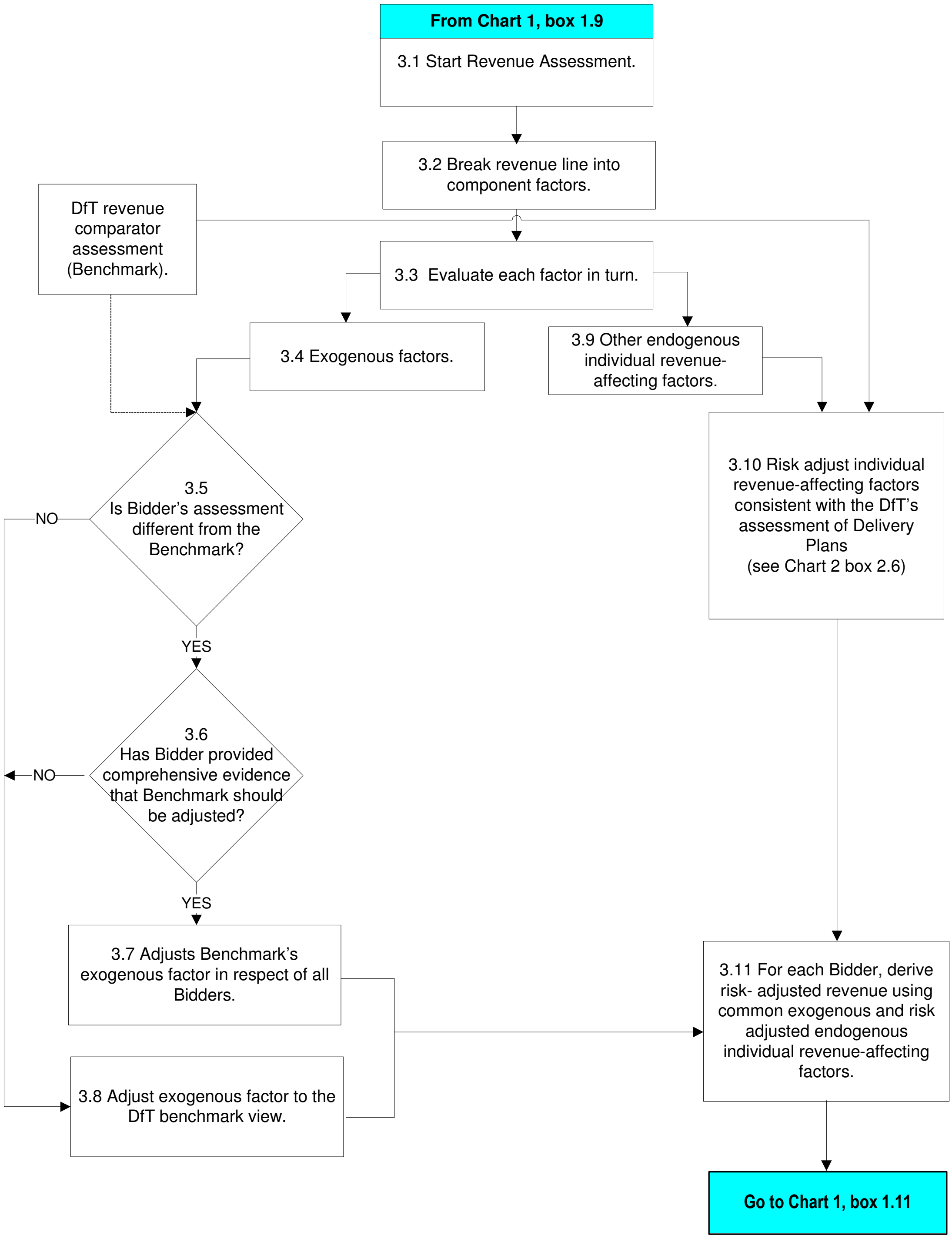

CHART 4 – CATEGORISATION OF FINANCIAL RISK

(Financial Capability Compliance)

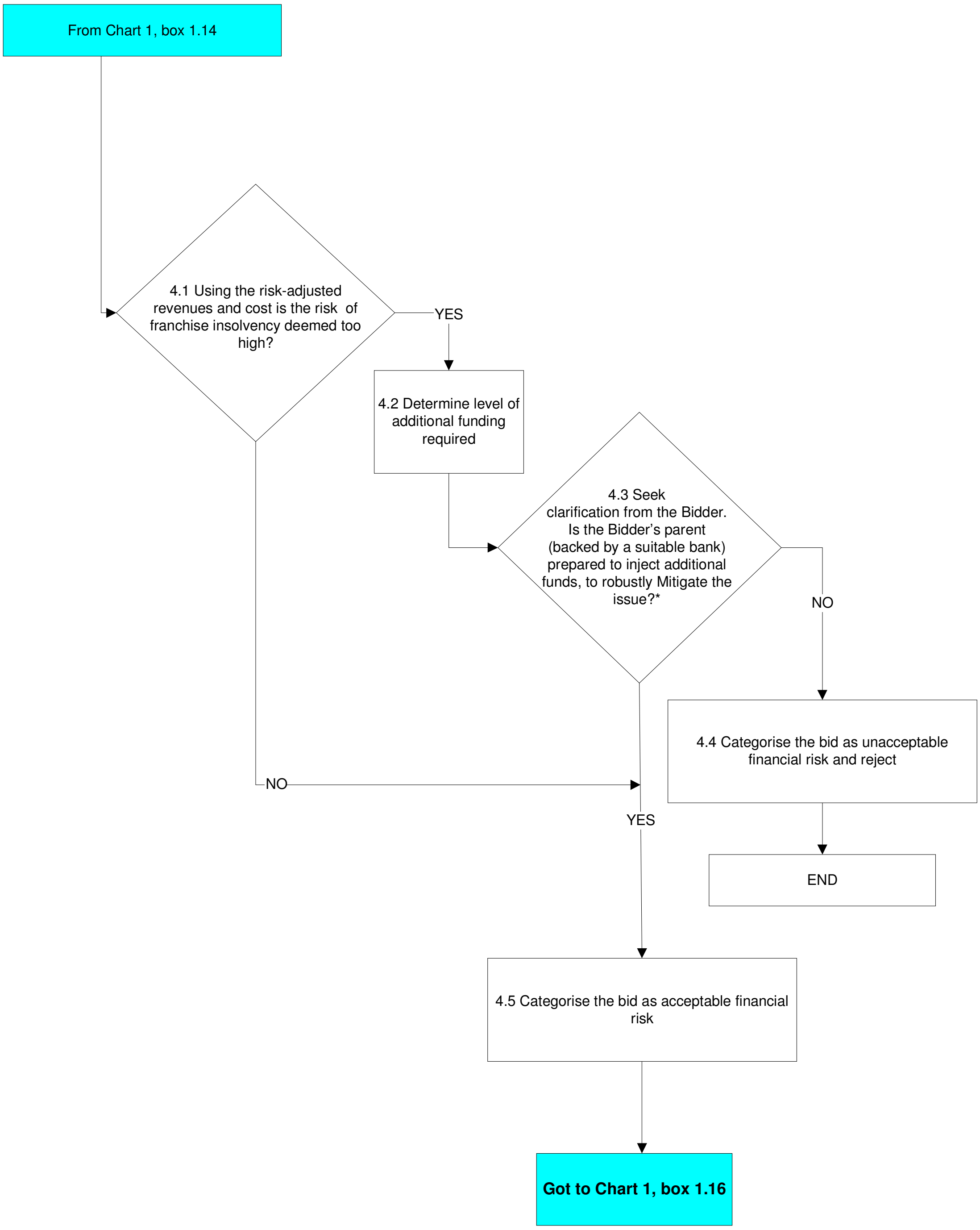

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CHART 5 – SELECTION OF WINNING BID

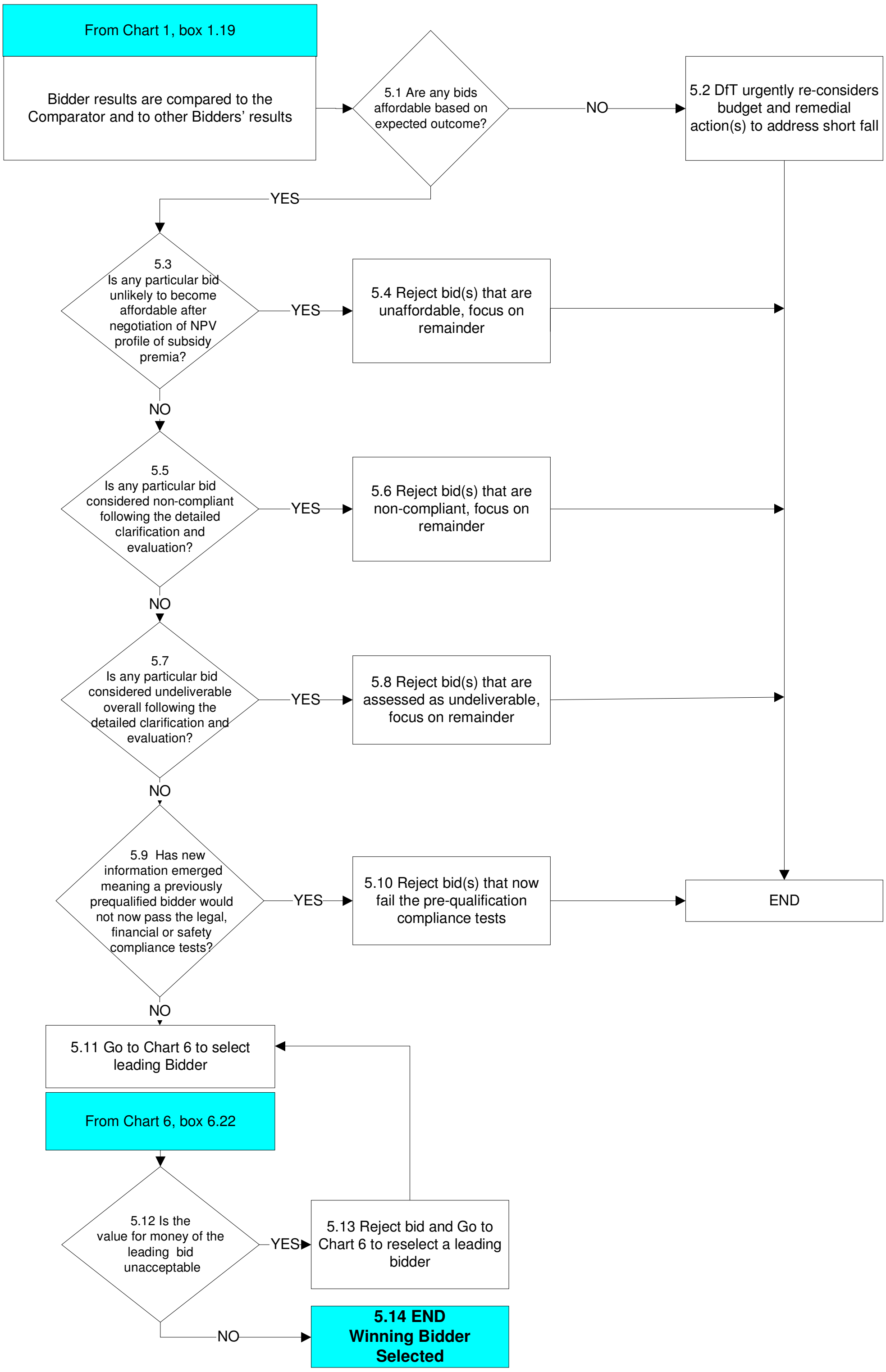
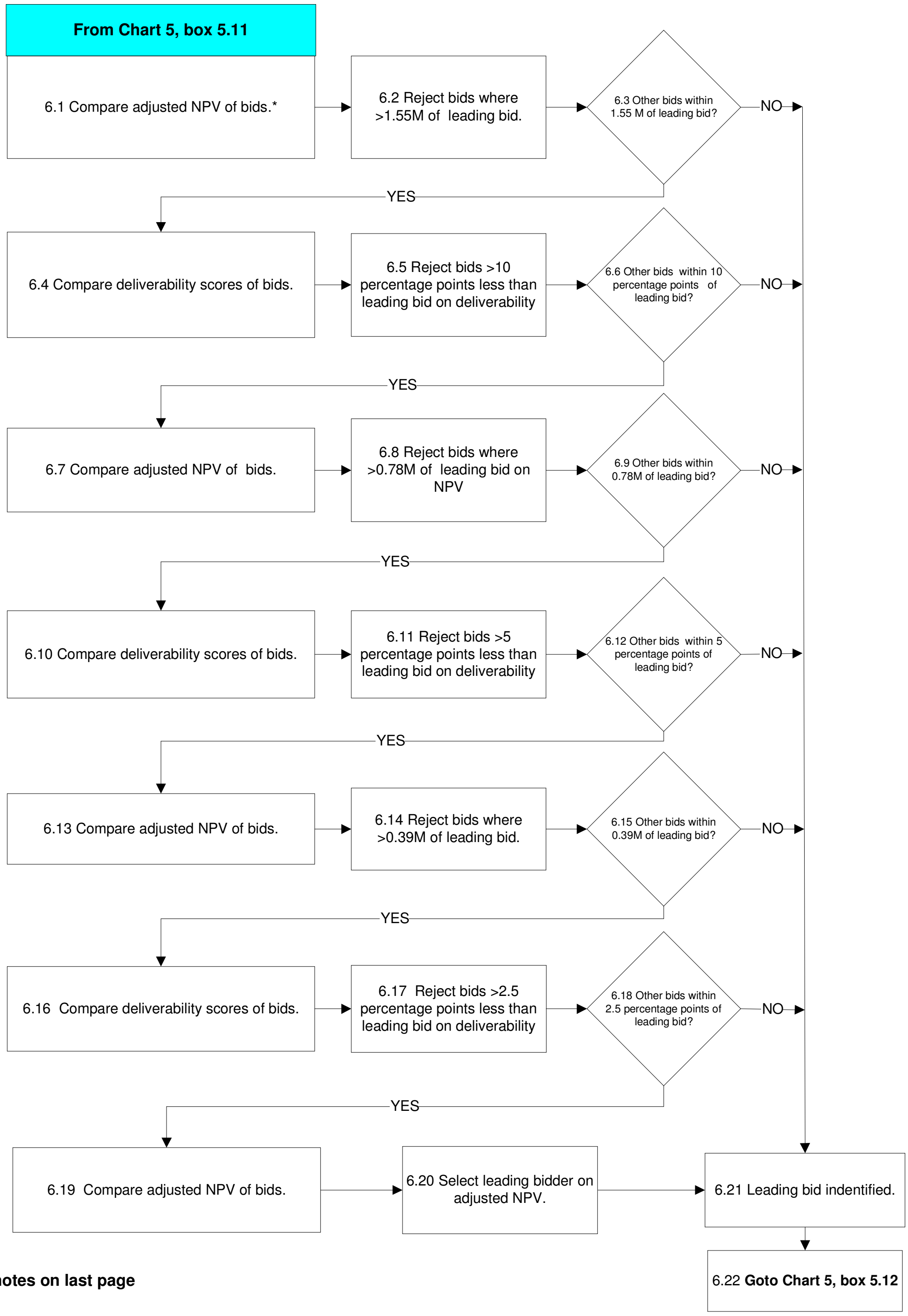


CHART 6 – SELECTION OF LEADING BID



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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 1.18
The methodology aims to adjust the expected net cost to DfT of selecting that bid. The Bidder's Base Case submission is 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 adjusted, 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 4.3
DfT may only ask a Bidder to increase its unfettered facilities if it is deemed the bid is competitive.

Chart 5 – Selection of the Winning Bid

Box 5.5
The compliance assessment will include an assessment of financial modelling compliance with the instructions in Section 5 of the ITT.

Box 5.12
The overall objective is to provide an assessment of the value for money of the proposal made by the bidder that is consistent with WebTAG guidance

A Value for Money assessment 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 other than the DfT may reject the leading bid on the basis of poor Value for Money as measured against a fixed threshold benefit cost ratio (BCR). In these circumstances we would go to the second place bid.

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.

Bidders shall provide their own VfM analysis with the bid against their own quantified baseline. This will take the form 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. We do not require this to be in the form of a '5 case model'. DfT 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.

DfT in conjunction with it's Technical Advisers will review the VfM assessment and may seek clarification from bidders where appropriate.

The DfT may adjust the BCR/NPV of the leading bid to reflect:-

- any errors in the bidder's VfM analysis (including but not limited to any non-conformance 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

- DfT's view of any assessments/assumptions made by the bidder in its VfM analysis.

Chart 6 – Selection of the Leading Bid

Adjusted NPV is as explained under Box 1.18.

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