



Department  
for Transport

# Essex Thameside Franchise

## Invitation to Tender

September 2013

**PUBLISHING NOTE: Paragraph 5.8.2 has been redacted from the public version of this ITT as it contains certain information which is commercially sensitive. The version provided to Bidders as part of the procurement process is unredacted.**

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A	ESSEX THAMESIDE FRANCHISE TRAIN SERVICE REQUIREMENT
B	ESSEX THAMESIDE FRANCHISE AGREEMENT
C	FINANCIAL TEMPLATES
D	CONDITIONS PRECEDENT AGREEMENT
E	FUNDING DEED
F	ESSEX THAMESIDE STAKEHOLDER BRIEFING DOCUMENT
G	PARENT COMPANY GUARANTEE – STATIONS LIABILITY
H	PASSENGER SURVEY METHODOLOGY
	Annex a – NPS weights for ET 2012

Annex b – NPS weights for ET 2013 - onwards

Annex c – Composite score for ET Trend data 2008 - 2013

I FORM OF TENDER

# 1. Section 1: Introduction

## 1.1 Introduction

This invitation to tender, its appendices, all documents issued with and in connection with it and all clarification questions and responses relevant thereto (together the “**ITT**”) 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 the Office of Rail Regulation include, where appropriate and unless the context otherwise requires, references to those bodies’ predecessors and successors. References in this document to a “**Bidder**” means those entities who are defined as Applicants pursuant to a franchise letting process agreement, (“**Franchise Letting Process Agreement**” or “**FLPA**”) except where the context otherwise requires.

## 1.2 Services Concession Contract

This ITT invites tenders from Bidders in respect of a services concession contract (as that term is defined in both the Public Contracts Regulations 2006 and the Public Utilities Contract Regulations 2006 (both as amended)). This procurement is not regulated by either the Public Contracts Regulations 2006 or the Public Utilities Contract Regulations 2006. This procurement will instead be conducted in line with the applicable general principles of EU law and the requirements of English law. It will be awarded on the basis of the most economically advantageous tender, determined in accordance with the evaluation criteria and methodology specified in **Section 7** (Evaluation Criteria and Methodology).

## 1.3 Exceeding the Department’s Requirements

The Department is seeking ambitious and innovative Bids. The competition evaluates and values quality and, by offering Bidders the opportunity to exceed the Department's minimum requirements in certain areas, leaves Bidders to identify how to deliver the Department’s requirements for the Essex Thameside franchise set out in this ITT. The Department seeks Bids that demonstrate the intention to innovate technically, operationally and through novel business models and the industry’s sustainability principles over the life of the franchise. The Rail Technical Strategy describes opportunities from cross-system innovation and the collaborative working that this implies.

## 1.4 Communications

Save to the extent otherwise provided in this ITT, or agreed in advance with the Department, and without prejudice to the provisions of **paragraph 3.11** (Bidder Clarification Questions), Bidders will ensure that communications from or on behalf of Bidders and their Affiliates with the Secretary of State and/or the Department in respect of this ITT and the Essex Thameside franchise are made through AWARD (as described further in **paragraph 3.11** (Bidder Clarification Questions) or by email to the Project Director or his nominee. No other methods of communication are permitted unless agreed with the Department in advance. For the purpose of this ITT, “**Affiliates**” shall have the meaning given in the Franchise Letting Process Agreement between the Bidder and the Secretary of State in respect of the Essex Thameside Franchise Agreement.

## 1.5 Structure of this ITT

This ITT provides:

- the scope, context, background and objectives of the Essex Thameside franchise (**Section 2** (Scope, Context, Background and Objectives));
- information and instructions to Bidders (including instructions how to access the detailed information available regarding the Essex Thameside franchise and the processes for enquiries and communications and amendments and clarifications to the ITT during the Bid period) (**Section 3** (Information and Instructions to Bidders));
- an explanation of the requirements for Bid submission (including the number, type, format, content and procedure and timetable for submission of Bids) and of the expected process following Bid submission (**Section 4** (Explanation of Requirements for Bid Submission and Overview of Process following Bid Submission));
- detailed Bid submission requirements – Delivery Plans (**Section 5** (Detailed Bid Submission Requirements – Delivery Plans));
- detailed Bid submission requirements – Financial (**Section 6** (Detailed Bid Submission Requirements – Financial)); and
- the evaluation criteria and methodology to be applied to the Bids that are received (**Section 7** (Evaluation Criteria and Methodology)).

## 1.6 **Other documents etc**

For the purpose of the Essex Thameside franchise competition, this ITT supersedes the Department's document "The Franchise Competition Guide" published on 25 June 2013. In the event of any inconsistency between that document and this ITT, the terms of this ITT will prevail. This ITT also supersedes the invitation to tender issued on 2 July 2012 in respect of the Essex Thameside franchise and all clarifications and derogations issued under or in connection with that ITT (such invitation to tender and all such clarifications and derogations having no further effect).

## 1.7 **Franchise Letting Process Agreement**

This ITT should be read in conjunction with the Franchise Letting Process Agreement which, without limiting any aspect of this ITT, shall continue in full force and effect. Bidders are expected to ensure that they and their Affiliates comply with that Franchise Letting Process Agreement in every aspect in submitting their Bid and in the Bid which is submitted.

## 1.8 **Commencement of the Essex Thameside Franchise**

The Department's aim is for the new Essex Thameside franchise to commence operations with effect from 0200 hours on 14 September 2014.

## 1.9 **Updates and termination**

The Department reserves the right from time to time in its sole discretion to issue updates and amendments to this ITT (including, without limitation, to alter the timetable or the process (including reverting to an earlier stage in, or adding an additional stage to, the process), to negotiate, to downselect or to alter any other requirement of this ITT or the franchise letting process) and/or to terminate the process.



## 2. Section 2: Scope, Context, Background and Objectives

### 2.1 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 25 stations. The new Franchisee will be SFO at 26 stations under 99 year full repairing and insuring leases at a peppercorn rent, as listed at **Appendix 2**, Part A (List of Essex Thameside Franchise Stations), being the current 25 and additionally Fenchurch Street station.

A map of the Essex Thameside franchise area and routes is included at **Appendix 2**, Part B (Map of Essex Thameside Franchise).

A route diagram of the Essex Thameside franchise is attached at **Appendix 2**, Part C (Route Diagram of Essex Thameside Franchise).

### 2.2 Background and Context for ITT

This ITT has been prepared following the Report of the Laidlaw Inquiry published in December 2012, the Brown Review of the Rail Franchising Programme published in January 2013 (“**Brown Review**”) and the Government’s response to the Brown Review published in July 2013 and therefore supersedes the ITT issued on 2 July 2012. In summary, the following details have been included to incorporate recommendations from the Brown Review:

- the Bid submission requirements detailed in **Section 5** (Detailed Bid Submission Requirements – Delivery Plans) are now focused on the evidence needed to differentiate between Bidders and their proposed outcomes;
- elements of the Specification related to Bidder competence, standard industry processes or requirements already set out in the Franchise Signature Documents have been removed in order to streamline the ITT. As an example, before commencing franchise operation, the successful Bidder will be required to obtain a Safety Certificate from the ORR, certifying its safety management system in order to ensure safe operation of the railway, but as this is a requirement of any franchise operator, this ITT simply requires assurance that the necessary licences and certificates will be secured;
- proposals and commitments included in a Bidder’s Delivery Plans and/or Sub-Plans (“**Initiatives**”) are expected to be contracted, but as set out in **Section 4** (Explanation of Requirements for Bid Submission and Overview of Process following Bid Submission), there are now provisions to allow the Bidder to propose a financial commitment and specimen scheme which may be replaced with alternatives which achieve the same outcome but in a more efficient or better way, provided they are approved by the Department;
- the capital requirements for the franchise have been reviewed and are now set out clearly in **Section 6** (Detailed Bid Submission Requirements – Financial) together with the bond backing required. This means that Bidders will be able to determine the capital requirements in advance of Bid submission;
- Bid evaluation, as set out in **Section 7** (Evaluation Criteria and Methodology), now explicitly takes into account the quality of Bids, in terms of their credibility in meeting the Specification, the benefits that will be delivered and their robustness and resilience. The scoring of each Delivery Plan and/or Sub-Plan is linked, in **Section 5** (Detailed Bid Submission Requirements – Delivery Plans), to the Specification; and
- Bid evaluation also includes a Financial Robustness Test as described in **Section 7** (Evaluation Criteria and Methodology).

A fuller explanation is provided in the Government’s Response to the Brown Review.

### 2.3 The Department's Objectives for the Essex Thameside Franchise

The Secretary of State has set out the objectives for the Essex Thameside 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; and
- 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.

## 3. Section 3: Information and Instructions to Bidders

### 3.1 Availability of this document

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

### 3.2 Accuracy of information and liability of the Department and its Representatives

This ITT (including any Appendices, attachments, clarifications and documentation issued with or in connection with it) is not a recommendation by the Secretary of State, the Department 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 technical, financial and legal advice.

The information contained in this document has been prepared in good faith but neither it nor any other information provided to a Bidder or any of its Affiliates at any time in connection with the Essex Thameside franchise (“other information”) purports to contain all of the information that a prospective Franchisee or shareholder may or might require nor has it been independently verified. Neither the Secretary of State, nor any of his 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 adequacy, accuracy, reasonableness or completeness of the information contained in this document or other information provided.

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document or other information shall not form the basis of any Franchise Agreement or any other agreement entered into in connection with the replacement or acquisition of a passenger rail franchise or acquisition of shares in a Franchisee.

Eversheds LLP, PricewaterhouseCoopers LLP and LeighFisher Ltd are acting for the Department in relation to the award of the Essex Thameside franchise, and will not and do 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.

No contract or legal obligation shall result from any disclosure of information or other communication by the Department in connection with this franchise letting process, including the issue of this ITT, or from the reliance of any person on any information so disclosed or any such communication. No disclosure of information or other communication by the Department in connection with this franchise letting process will constitute an offer or an acceptance by or on behalf of anyone.

Without limiting the FLPA, the only obligations which are intended to come into existence pursuant to this franchise letting process are those intended to arise from a duly executed written agreement on the face of which it is apparent that such an agreement is intended by all parties thereto to be a franchise agreement for the purposes of the Railways Act 1993 and the Railways Act 2005 and any contracts ancillary to such an agreement. No legal relations are intended to arise until such a resulting franchise agreement is signed. The subject matter of this ITT shall have contractual effect only if and to the extent it is contained in the express terms of the Franchise Signature Documents.

As such, 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 any Franchise Signature Document.

### **3.3 Costs and expenses**

Each Bidder will be responsible for all costs, expenses and liabilities incurred by it and its Affiliates in connection with the franchise letting process, including prequalification, the evaluation of the Essex Thameside franchise opportunity, the award of the franchise, any Bid or consideration of the Franchise Agreement and associated agreements, whether or not its Bid and/or associated contractualisation

are ultimately successful or the process is subsequently varied in any way or terminated. In no circumstances shall the Department be responsible for such costs.

### 3.4 **Defined terms**

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

### 3.5 **Intellectual property**

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### 3.6 **Conflicts of Interest**

The Department requires all actual or potential conflicts of interest (including in particular those arising where an adviser put forward by one Bidder is the same firm or company or is a member of the same group of companies as that put forward by another Bidder or is working for the Department or the Secretary of State on this or similar schemes) to be resolved to the Department's satisfaction prior to the delivery of the Bidder's Bid in response to this ITT. Failure to declare such conflicts and/or failure to address such conflicts to the reasonable satisfaction of the Department could result in a Bidder being disqualified.

### 3.7 **Publicity**

The outcome of a rail franchise competition is of national significance within the United Kingdom and is likely to attract public and media attention. Bidders shall not and shall ensure that their Representatives, Affiliates and their Affiliates' Representatives shall not (i) issue any press notice, press release or statement in relation to the franchise letting process or their Bid without the prior written consent of the Secretary of State; or (ii) 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.

Save to the extent that this ITT requires Bidders and/or their Affiliates to consult formally with stakeholders, Bidders shall not and shall ensure that their Representatives, Affiliates and their Affiliates' Representatives shall not, until the award of the Essex Thameside franchise, without the prior written consent of the Secretary of State, make any statement or comment to anyone including (without limitation) national, local and industry media, Passenger Focus, London TravelWatch, Local Authorities, Transport for London (“**TfL**”), Members of Parliament and stakeholders about matters connected with the Essex Thameside franchise competition. If the Bidder considers that there are compelling reasons to make a public statement or comment, the Department requires Bidders in each and every instance to approach and discuss the proposed reasons for, and the content of, such statements or comments with the Department in advance of publication and the Bidder shall only publish or make such comments or statements with the Department's express prior written confirmation and approval.

### 3.8 **Industry Consultation and Disclosure of Information in Bids**

Bidders should be aware that, following the submission of Bids, the Department may consult HM Treasury, the ORR and Network Rail (including without limitation to the extent set out in **Section 7** (Evaluation Criteria and Methodology)). The Department may also consult such other persons as it considers necessary or appropriate (the entities in this paragraph collectively referred to as “**Consultees**” and each separately referred to as a “**Consultee**”).

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

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

In developing their Bids, Bidders can expect to be contacted by, and are encouraged to consult with stakeholders relevant to the Essex Thameside franchise, solely for this purpose following the issue of this ITT. It is each Bidder's

responsibility to decide on the scope and extent of this 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 the purpose of this consultation is to enable them to take views of stakeholders for the purpose of development of Bids, and not for Bidders to make any other or wider statements or comments to stakeholders about the competition, which remains prohibited by **paragraph 3.7** (Publicity).

### 3.9 **Right to Reject Bids and Non Compliance Statements**

The Department reserves the right to reject or disqualify a Bidder where:

- there is a material breach by a Bidder of the Franchise Letting Process Agreement;
- its Bid or any version thereof required to be submitted in accordance with **paragraph 4.3** (Structure and Format of Bids) is submitted late, is completed incorrectly in a material way, is materially incomplete or otherwise fails to meet the Department's submission requirements set out in this ITT;
- at any time prior to execution of the Franchise Agreement a Bidder is unable to satisfy the requirements for prequalification carried out as part of the Essex Thameside pre-qualification process;
- a Bidder or any of its Affiliates is guilty of material misrepresentation in relation to information provided by or on behalf of that Bidder during the pre-qualification stage and/or in connection with any Bid;
- a Bidder contravenes or does not comply with any of the terms and conditions of this ITT; or
- the ITT otherwise provides that a Bidder may be disqualified or that certain circumstances mean that a Bid or any part of it may or shall be treated as being or deemed to be non-compliant.

The disqualification of a Bidder will not prejudice any other civil remedy available to the Department and will not prejudice any criminal liability that such conduct by a Bidder may attract.

Bidders are required, when submitting their Bids, to list in the format set out in the following **Table 3.9** (Format of Non-Compliance Statement), 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 3.9** (Format of Non-Compliance Statement), all clauses, sections and schedules of the Franchise Signature Documents with which they are not able to confirm compliance in full. The Department may treat any Bidder who is not willing or able to comply fully with the Franchise Signature Documents as non-compliant. 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 3.9: 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		

### 3.10 Data Site and AWARD

The Department has established a web based data site operated by Connect Internet Solutions (the “**Data Site**”), containing, in electronic form, documents and information specifically relating to the Essex Thameside franchise and the incumbent operation of the Essex Thameside franchise. The address for the Data Site is [www.essexthamesidedatasite.co.uk](http://www.essexthamesidedatasite.co.uk). Short listed Bidders have been granted access to this site.

The Department has established a web based portal operated by QinetiQ Commerce Decisions (known as “**AWARD**”) which will be used for tender clarification and Bid submission, evaluation and clarification. The address for AWARD is <https://award.bravosolution.co.uk/award4/login.do>. Short listed Bidders have been granted access to this site.

### 3.11 Bidder Clarification Questions

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

Responses to BCQs submitted and derogations granted pursuant to the previous Essex Thameside ITT, dated 2 July 2012, are no longer valid. Bidders who want to ask the same BCQ or request the same derogation as under the previous Essex Thameside ITT should re-submit such question or derogation request quoting the reference number allocated to the previous clarification question issued under the previous Essex Thameside ITT in the text of the BCQ.

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

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

A Bidder may request that the Department treat a BCQ and its response as confidential. Confidential BCQs are BCQs where responses will only be shared with the Bidder raising the BCQ. Any such requests must be made clear at the time of submission of the BCQ. The Department will advise the Bidder in advance of providing the answer if it considers that all or any part of the BCQ cannot be treated as confidential, at which time the Bidder may either withdraw the BCQ or accept that the response will (in whole or in part, at the Department’s discretion) be treated as a non-confidential BCQ.

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

The Department will aim to respond to BCQs expeditiously having regard to the nature, extent and availability of the information requested. The Department will endeavour to respond to BCQs within 15 working days from receipt.

If any BCQs will not be responded to by the Department a reason will be given in the form of a response through the AWARD website. Bidders should be aware that BCQs may not be accepted from 20 working days prior to the closing date for Bid receipt, save in respect of new information provided after this point. The last date for the submission of BCQs for the Essex Thameside competition will, in the absence of any extension, therefore be midday on 26 November 2013. Any BCQs received after this point will only be accepted at the sole discretion of the Department.

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

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

### 3.12 **Transparency and Freedom of Information**

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 to which the FOIA applies. 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 in that case. 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 or which may be subject to any other provision of FOIA or

EIR, 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 be aware that the Information Commissioner has issued guidance which may mean that information which was confidential prior to signature of the contract may be subject to release after signature.

Bidders should note that, even where information is identified, for example as commercially sensitive or confidential, the Department may nonetheless 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 with redactions where appropriate.

Bidders' attention is drawn to the relevant provisions of the Franchise Letting Process Agreement, 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 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; and

- set out a process post signature of the Franchise Agreement for establishing the extent of any redactions from the Franchise Agreement and related documentation.

The Department complies with the central government transparency agenda programme, details of which can be found at:

<https://www.gov.uk/government/policies/improving-the-transparency-and-accountability-of-government-and-its-services>

and Cabinet Office guidance on this details of which can be found at:

<https://www.gov.uk/government/publications/procurement-and-contracting-transparency-requirements-guidance>

in relation to procurement and contracts.

### 3.13 **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 European Economic Community (“**EEC**”) 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 an EEC 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 given pending conclusion of any investigation. It is therefore important for the Department to be able to understand the impact of any potential intervention by the OFT or EC in scrutinising the Bids of each Bidder under merger control rules.

Each Bidder is therefore required to confirm in its Bid:

- whether award of the Franchise to it would require notification to the EC under EUMR;
- 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; and
  - the Bidder's willingness to offer undertakings or commitments to the OFT or the EC in order to avoid a second phase investigation;
- the form of any derogations the Bidder would seek to the OFT's standard form of 'hold separate' undertakings in the event that these are required in the context of a completed merger; and
- that it will commit to offer such undertakings or commitments as may be required by the 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 UK rail franchise.

If the Bidder is advised by the OFT, the Competition Commission or the EC that the award of the franchise may be subject to any prohibitions, divestments of interests or undertakings the Bidder will inform the Department as soon as possible. Bidders must also advise the Department as soon as possible if there is any change in the circumstances in relation to these issues from the position as outlined in the Bid. If Bidders fail to do so, their Bid will be deemed to be non-compliant.

If a Bidder is unable to or otherwise does not provide to the Department sufficient evidence to enable the Department to be satisfied that:

- there will be no intervention by the OFT or EU in relation to the Bidder's Bid for the franchise, or

- the impact of any such intervention will not prejudice the ability of:
  - the Bidder to commence operation of the Essex Thameside franchise on the Department’s proposed start date;
  - the Bidder to otherwise operate the Essex Thameside franchise in accordance with its Bid; or
  - any Affiliate (as defined in the Franchise Agreement) of the Bidder to continue to operate any other franchise of which it is the franchisee,

the Department reserves the right to disqualify the Bidder.

Bidders are required to include in their Bids in the format set out in the following **Table 3.13** (Format of Statement of Competition Matters), details of any competition matters that affect their bidding position.

**Table 3.13: Format of Statement of Competition Matters**

Change	Reporting Required
Competition Matters	<i>Bidders should include details in response to the instructions contained in <b>paragraph 3.13</b> (Competition Matters)</i>

**3.14 EC 1370/2007**

Pursuant to Regulation EC1370/2007 (the “**Regulation**”) the Department must ensure that the Franchise Agreement to be entered into with the winning Bidder does not result in the overcompensation of that winning Bidder for the purpose of the Regulation. Therefore:

- the Department will review the leading Bid(s) to ensure that such Bid(s) will not result in overcompensation for the purpose of the Regulation;
- Bidders must provide the Department with such additional information as the Department may request in relation to such review; and
- the Department reserves the right to reject any Bid which the Department considers would result in overcompensation for the purpose of the Regulation or to take other steps, in its discretion, to remove the overcompensation from a winning Bid.

### 3.15 Change in Circumstances

Bidders should note that the paragraphs of the Franchise Letting Process Agreement and the PQQ Process Document dealing with changes in circumstances and/or changes in ownership continue to apply.

Bidders are required to include in their Bids in the format set out in the following **Table 3.15** (Format of Statement of Changes in Circumstances), details of any change in circumstances that affect their bidding position.

The Department reserves the right to carry out some or all of the tests described and undertaken at the pre-qualification stage of the competition on receipt of Bids for all Bidders and immediately prior to award of the franchise for the leading Bidder(s) on the basis of most recent financial information.

**Table 3.15:** *Format of Statement of Changes in Circumstances*

Change	Reporting Required
Change in Circumstances	Bidders should include details in response to relevant provisions of the FLPA

### 3.16 Value for Money

The Bidder shall submit evidence-based Value for Money (“**VfM**”) assessment(s) of its proposals and shall provide its own VfM analysis of the Bid against its own quantified baseline in accordance with the guidance document at **Appendix 4** (Guidance for Bidders in Constructing an Economic Case for the Essex Thameside Franchise Bids).

An analysis of the VfM assessment submitted by the Bidder in accordance with this paragraph will be carried out on Bid(s). It will not be used to choose between Bids and will form no other part of the Bid evaluation process other than if it results in the Bid being treated as non-compliant on the basis of poor VfM as measured against a fixed threshold benefit cost ratio in the circumstances set out in **Appendix 4** (Guidance for Bidders in Constructing an Economic Case for the Essex Thameside Franchise Bids) to this ITT.

This assessment applies to Bids only and will not be applied during the Franchise Term.



### 3.17 **MOIRA**

Bids submitted using MOIRA 2, its component parts or intermediate outputs for modelling the revenue impacts, timetable changes, crowding or any other purpose will be treated as non-compliant.

### 3.18 **Variations to the Franchise Agreement**

Bidders' attention is drawn to the variation provisions in Schedule 9.5 (Variations and Incentivising Beneficial Changes), 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, acting in compliance with law.

The Secretary of State may also require variations to other contracted provisions or outputs, acting in compliance with law. 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 Department believes it is likely to make variations to the contract during the Franchise Term. In order to provide an incentive for the Franchisee 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.

### 3.19 **Form of Tender**

Bidders are required to include in their Bids a Form of Tender in the form set out in **Attachment I** (Form of Tender). No amendments to the Form of Tender are permitted.

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

### 4.1 Preparation of Bids

Bidders are reminded that they are expected to stand behind all aspects of their Bids. In particular Bidders are referred to **paragraph 4.7.3** (Contractualisation).

The Department expects to receive Bids that contain no qualifications. Bidders shall not propose amendments to the Franchise Signature Documents, their own Secretary of State Risk Assumptions or any other contractual amendments which seek to transfer risk from the Franchisee to the Secretary of State and in the reasonable opinion of the Department have the same, or a substantially similar, effect to a SoSRA. Any Bids which do not meet the requirements of this paragraph shall be treated as non-compliant.

### 4.2 Franchising Timetable and Process

The remaining stages of the process for appointing the Franchisee together with their indicative timings, are set out below:

Stage	Description	Party Responsible	Planned Date
<b>Bid Preparation</b>	Preparation of Bids	Bidders	September – December 2013
	Submission of Bids	Bidders	24 December 2013
<b>Bid Evaluation and Clarification of Bids</b>	Evaluation of Bids, clarification and agreement to terms of the Franchise Agreement (including Committed Obligations in accordance with <b>paragraph 4.7.3</b> (Contractualisation)) and related documentation. Secretary of State consent and HMT approval to the Essex Thameside franchise award	The Department and Bidder(s)	From December 2013
<b>Mobilisation</b>	Prepare for transfer of operations	Franchisee	To September 2014

### 4.3 Structure and Format of Bids

Bidders are required to provide the material set out in **Table 4.3** (Structure and Format of Bids) below when submitting their Bids:

**Table 4.3: Structure and Format of Bids**

Part		Submission Requirements	Size limit
<b>1</b>	<b>Main text</b>		
	The Summary Business Plan and seven Delivery Plans as required by <b>Section 5</b> (Detailed Bid Requirements – Delivery Plans)	One electronic copy submitted through AWARD One un-priced** electronic copy submitted through AWARD One electronic copy submitted in CD format One un-priced** electronic copy in CD format One hard copy	1,000 pages maximum including annexes and appendices
<b>2</b>	<b>Financial</b>		
	Operational Models and Financial Model as required by <b>Section 6</b> (Detailed Bid Requirements – Financial)	One electronic copy submitted through AWARD Two electronic copies submitted in CD format PDF of worksheets of Tier 1 Operational Models that directly interface with Financial Model or other Tier 1 Operational Models (note: it is only the interface worksheet of each Tier 1 Operational Model that is required)	75MB maximum size per Microsoft Excel workbook (See <b>Section 6</b> (Detailed Bid Requirements – Financial))
	Record of Assumptions required by <b>paragraph 6.4</b> (Record of Assumptions); Operating Manual required by <b>paragraph 6.5</b> (Operating Manual); Modelling Best Practice Confirmation required by <b>paragraph 6.6.1</b> (Modelling Best Practice Confirmation); Financial Structure and Funding Plan, Financial Adviser's letter, Confirmation of Bond availability, required by <b>paragraph 6.7.1</b> (Bid Requirements); and ROSCO term sheets required by <b>paragraph 5.8.2</b> (Rolling Stock Sub-Plan);	One electronic copy submitted through AWARD One electronic copy submitted in CD format One hard copy	None
<b>3</b>	<b>Technical Data</b>		
	The following details should be submitted in support of the main text : <ul style="list-style-type: none"> <li>• the proposed working and public timetables;</li> <li>• rolling stock and train</li> </ul>	One electronic copy submitted through AWARD One electronic copy submitted in CD format One hard copy	None

Part		Submission Requirements	Size limit
	<p>crew diagrams and platform workings at Fenchurch Street and, if appropriate, Liverpool Street station;</p> <ul style="list-style-type: none"> <li>• submission of relevant Timetables, Train Plans, train crew diagrams and rolling stock diagrams for the life of the Franchise; and</li> <li>• export files from MOIRA in .spg format.</li> </ul>		
<b>4</b>	<b>Legal and compliance</b>		
	<p>Versions (clean and redline mark up against the version of each agreement provided with this ITT) of each of the Franchise Agreement, the Stations Parent Company Guarantee, the Conditions Precedent Agreement, the Funding Deed and any other agreements signed as part of the award of the franchise (together the “<b>Franchise Signature Documents</b>”) with those parts marked 'Bidders to populate' completed</p> <p>Non-compliance statements as required by <b>paragraph 3.9</b> (Right to Reject Bids and Non Compliance Statements)</p> <p>FOIA statement as required by <b>paragraph 3.12</b> (Transparency and Freedom of Information)</p> <p>Changes in circumstances and competition matters as required by <b>paragraphs 3.13</b> (Competition Matters) and <b>3.15</b> (Change in Circumstances)</p> <p>A Completed Form of Tender as required by <b>paragraph 3.19</b> (Form of Tender)</p>	<p>One electronic copy submitted through AWARD</p> <p>One electronic copy submitted in CD format</p> <p>One hard copy</p>	None
5	Value For Money Assessment as required by <b>paragraph 3.16</b> (Value for Money)	<p>One electronic copy submitted through AWARD</p> <p>One un-priced** electronic copy submitted through AWARD</p> <p>One electronic copy submitted in CD format</p> <p>One un-priced** electronic copy in CD format</p>	20 pages maximum

Part		Submission Requirements	Size limit
		One hard copy	
6	Schedule of Committed Obligations (as required by <b>paragraph 4.7.3</b> (Contractualisation))	One electronic copy submitted through AWARD One electronic copy submitted in CD format One hard copy	None

\*\* Un-priced copies refers to the Summary Business Plan, Delivery Plans, Sub-Plans and Value for Money Assessment.

#### 4.3.1 Page Limits, Size of Text etc

The size of the main text of the Bid including all information required by **Section 5** (Detailed Bid Submission Requirements – Delivery Plans) will be limited to 1,000 pages.

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

- the contents of the financial part as required by **Section 6** (Detailed Bid Submission Requirements – Financial) and described in **Table 4.3** (Structure and Format of Bids);
- the contents of the technical data part as described in **Table 4.3** (Structure and Format of Bids);
- the contents of the legal and compliance part as described in **Table 4.3** (Structure and Format of Bids);
- Value for Money assessment as described in **Table 4.3** (Structure and Format of Bids);
- The Schedule of Committed Obligations discussed in **Table 4.3** (Structure and Format of Bids); 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 to be used will be 12pt Arial and the font type will be standard (i.e. not 'narrow') with minimum line spacing of 13pt. Double sided printing is required where this is practicable. Bidders are encouraged to use a simple presentation style, avoiding expensive bindings, colour photographs and other high cost elements of production as this will not add value to the substance of the

Bid. Minimum font size for any text in tables will be 10pt Arial (standard, not narrow). It will not be acceptable to place large sections of text into tabulated format as a means of meeting the page limit requirements. There will be no minimum font size set for graphs.

Any pages in excess of the permitted page limit or which do not comply with the above criteria, will be disregarded in the evaluation.

#### 4.3.2 **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 **paragraph 4.3** (Structure and Format of Bids).

#### 4.3.3 **Cross Referencing**

The Department's evaluators will follow cross references to specifically identified components of the response in relation to other Delivery Plans and/or Sub-Plans. No credit will be given for unspecific general references (e.g. "further evidence on this issue is provided in our Managing the Business Delivery Plan") and Bidders should therefore endeavour to make cross references as specific as possible.

#### 4.3.4 **Bid Consistency**

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

#### 4.3.5 **Language**

All Bids are required to be in English.

#### 4.3.6 **Monetary amounts**

All monetary amounts referred to in the Bid must be denominated in pounds sterling.

#### 4.4 Submission of Bids

Bidders are required to submit their Bid to the Department, prepared in accordance with the requirements listed in **Table 4.3** (Structure and Format of Bids) above, and in accordance with the following requirements:

- each CD shall be labelled clearly with the Bidder's name. The Department requires that an index is provided for the electronic information and that the file structure of the electronic information matches that of the hard copy documentation. Electronic information is required to be saved using the Open XML Standard format supported by Microsoft Office 2007 onwards. Specifically, spreadsheets must be saved using the Microsoft Excel xlsx file extension and documents as Microsoft Word docx files. The electronic copy should be packaged separately from the hard copy set;
- unless specifically stated otherwise, documents should only be submitted in PDF if they are not available in their original format. PDF versions should be searchable electronically;
- the hard copy shall be contained in ring binders suitably collated and labelled clearly with the Bidder's name and an index of the contents of each binder;
- the un-priced\*\* electronic copies shall be submitted through AWARD and in CD format clearly labelled with the Bidder's name and an index of the contents of each CD. The un-priced CD should be distinguishable from the priced electronic copy referenced above;
- the technical data shall include all relevant timetables in full working timetable format, train crew and rolling stock diagrams, in each case, for the Core Franchise Term. The timetables must be provided as a .pif file which shall be compatible with ITPS. Bidders shall provide both public and working timetable versions and all working and public timetables shall also be provided in PDF;
- the output export files from MOIRA shall be provided in .spg format; and
- the response must be consistent with the WebTAG (unit 3.15.4 August 2012) approach to the PDFH demand and revenue forecasting framework, in terms of the segmentation used and the methodology adopted in forecasting annual demand and revenue and in modelling of train crowding, including consistency with WebTAG / PDFH elasticity recommendations.



\*\* Un-priced copies refers to the Summary Business Plan, Delivery Plans, Sub-Plans and Value for Money Assessment.

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

Bids (all hard copies, electronic copies and copies to be submitted through the AWARD) must be received by the Department by 1200 hours on 24 December 2013. Bids submitted late will be treated as being non-compliant. A Bid is submitted late for the purposes of this ITT if any part of the Bid or copy in any format required by this ITT is submitted after the above deadline.

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

*“Essex Thameside [Bidder name] Plan [Plan 4: Customer Experience and Communities Delivery Plan] - File 1 of 3”*

Hard and CD copies of Bids are to be submitted to:

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

No other documents or information shall be submitted with the Bid. Hard and CD copies of the Bid must be submitted in boxes marked '**CONFIDENTIAL - Essex Thameside Franchise Bid submission in response to ITT 24 December 2013**'. The boxes should not be marked in any way that would indicate the identity of the Bidder. Bidders will be issued with a formal receipt for both the electronic and hard copy submissions from the Department at the time of the submission of their Bid. It will be the Bidder's responsibility to ensure the safe transfer of Bid submissions to the Department.

#### 4.5 **Presentations**

Bidders are required to present for up to 1 hour on the key elements of their Bids to the Department on a working day specified by the Department within 10 working days following Bid submission. Presentations will not be scored and are for

information only. This is designed to assist the evaluation teams in understanding the Bid. This presentation should include no financial information and should not be supported by accompanying hand outs. In the event that there is any difference between the presentation and the Bid, then the copy of the Bid submitted through AWARD shall take precedence.

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

#### 4.6 **Validity of Bids**

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

#### 4.7 **Process Following Bid Submission**

##### 4.7.1 **Evaluation**

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

##### 4.7.2 **Engagement with Bidders and Evaluation Clarification Process**

The Department is subject to obligations under EU and English law, including the obligations of equal treatment and non-discrimination. Subject to this, the Department reserves its rights to seek clarification in any form from and/or to engage in any other way with any or all of the Bidders at any time during the process, including but not limited to assisting in their consideration of a Bid. If amendments or clarifications are made concerning Bids, the evaluation will be on the amended / clarified version.

##### 4.7.3 **Contractualisation**

The Department expects each Bidder to be prepared to be contractually held to all elements of its Bid.

The Department will wish to contractualise Initiatives that have been taken into account in scoring Delivery Plans and Sub-Plans, to ensure that the Franchise Agreement covers the Initiatives that have been taken into account in awarding the Franchise, to ensure that the key features (including benefits for passengers and the tax payer) of the Bid are delivered, and at a level of detail reasonably required to reflect this and the other provisions of this **paragraph 4.7.3**.

Therefore for each Initiative proposed Bidders should:

- cross refer, in the relevant Delivery Plan or Sub-Plan, to the relevant provision of the Franchise Agreement which specifically obliges the Bidder to comply with or perform the relevant Initiative (where applicable) (“**Relevant Franchise Obligation**”); or
- where the first bullet point does not apply or does not cover the entirety of the relevant Initiative, provide a draft Committed Obligation in respect of such Initiative and cross refer in the relevant Delivery Plan or Sub-Plan to such Committed Obligation.

For the avoidance of doubt the fact that:

- a Bidder bears the financial (cost or revenue) risk of an Initiative; or
- an Initiative is intended to contribute towards a Bidder’s achievement of the NPS Benchmarks, the Benchmarks or any other output type obligation in the Franchise Agreement,

is not sufficient to mean that that Initiative is covered by a Relevant Franchise Obligation and Bidders should propose Committed Obligations in relation to such Initiatives.

The Department does not wish to contract:

- Bidders’ proposed timetables; or
- Bidders’ proposed staffing plans,

therefore Bidders are not required to propose Committed Obligations in relation to the same.

The Department wishes to contract Committed Obligations at a reasonably detailed level to capture the substance (i.e. what the Bidder is

proposing to do and when it will be done by), and any key aspects relating to the delivery, of the relevant Initiative. It does not wish to contract Committed Obligations which cover every single aspect required for the delivery of the relevant Initiative at a detailed level. For example, if a Bidder proposes to install new wheel lathes at a Depot, the level of Committed Obligation that the Department would expect is along the lines of:

*“By no later than [specify date], the Franchisee will install and commission no fewer than [number] [describe wheel lathes] at [name] Depot.”*

The Bidder may have included in its Bid further supporting information relevant to the assessment of the deliverability of the relevant Initiative. This may include, for example, the justification for undertaking the Initiative, details of investigative work undertaken (such as to ensure that the wheel lathes can be installed in the depot without disrupting its operation) and commitments around any preparatory steps that the Bidder proposes to take in order to deliver the relevant Initiative (such as entering into a contract for the purchase and installation of the wheel lathe by a specific date). The Department would not expect the Committed Obligation to cover this level of detail (and the extent to which such detail is included in the Bid will be taken into account when assessing the deliverability of the relevant Initiative but such detail would not be expected to be contracted).

Each proposed Committed Obligation should:

- clearly and unambiguously describe the relevant Initiative which the Bidder is committing to deliver;
- specify the date by which the relevant Initiative will be completed and, where applicable, commenced;
- where it contains a commitment to spend a specified amount (an “**expenditure commitment**”), clearly set out that amount and what types of expenditure may be counted towards such expenditure commitment (such as capital expenditure, operating expenditure, project management costs etc);

- include details of any matters upon which the Bidder proposes its obligation to deliver the relevant Initiative is made conditional, together with details of the impact of the occurrence of such matter; and
- be set out in the Schedule of Committed Obligations referred to in **paragraph 4.3** (Structure and Format of Bids) which shall fall outside the page limit.

As set out in **paragraph 4.3** (Structure and Format of Bids), Bidders may not propose Committed Obligations which seek to transfer any element of the risk of delivering the relevant Initiative to the Department. For example Bidders may not specify that certain circumstances will amount to a Change under the Franchise Agreement or would otherwise entitle the Bidder to an adjustment to the Franchise Payments.

In scoring a Delivery Plan or Sub-Plan the Department will (together with all other circumstances including those set out in **paragraph 5.1.7**) take into account the extent and nature of the Relevant Franchise Obligations or the Committed Obligations proposed in relation to Initiatives set out in that Delivery Plan or Sub-Plan. Bidders should therefore note:

- the degree of contractual commitment in each proposed Committed Obligation will be taken into account. By way of example, all other things being equal:
  - an absolute obligation to deliver an Initiative is likely to result in the Department considering that Initiative more deliverable than if a qualified obligation was proposed (such as a reasonable or all reasonable endeavours obligation); and
  - an Initiative which is clearly and unambiguously described in the relevant Committed Obligation is likely to be considered more deliverable than an Initiative which is described in unclear, vague or ambiguous terms; and
  - if a Bidder does not propose a Committed Obligation in relation to an Initiative which is not a Relevant Franchise Obligation or if there are aspects of such an Initiative not covered by a Committed Obligation proposed by a Bidder, the

Department will disregard the relevant Initiative or aspect thereof for the purpose of Delivery Plan or Sub-Plan scoring.

Where:

- a Bidder sets out in the relevant Delivery Plan or Sub-Plan its view that it is specifically required to deliver an Initiative pursuant to the Franchise Agreement and provides a cross reference in that Delivery Plan or Sub-Plan to the relevant provision of the Franchise Agreement; and
- the Department disagrees with the Bidder's view,

the Department will provide the Bidder with an opportunity to propose a Committed Obligation in respect of the relevant Initiative.

The Department reserves the right to clarify and engage with a Bidder to settle the wording of any Committed Obligation proposed or not to include any proposed Committed Obligation in the Franchise Agreement. Where the Department elects not to include any proposed Committed Obligation in the Franchise Agreement the evaluation of the relevant Initiative shall be on the basis of the nature and extent of the Committed Obligation proposed by the Bidder.

#### Specimen Schemes

Bidders may offer commitments to invest a nominated sum of money to deliver a specific outcome, supported by a specimen scheme, rather than an absolute commitment to a particular scheme. For this purpose, a specimen scheme means a proposal worked up to the level of a Committed Obligation consistent with the other requirements of this paragraph, subject only to the provisions of the next paragraph

When scoring Delivery Plans and/or Sub-Plans containing such Initiatives, the Department will review and take into account the extent to which the specimen scheme will achieve the specific outcome stated, and whether sufficient resource (spend) has been allocated to deliver the specimen scheme. The Franchise Agreement provides a mechanism by which alternative schemes can be agreed and delivered in place of a specimen scheme. If the parties are unable to agree an alternative scheme, the Franchisee will be required to deliver the specimen scheme.

Any such schemes should be clearly identified as such in the Bid including the Modelling Suite and for each specimen scheme the Bidder must provide details of the specific output intended to be delivered by the specimen scheme.

#### 4.7.4 **Intention to award**

Without prejudice to the Department's rights pursuant to **paragraph 1.9** (Updates and Termination), following completion of evaluation, the Department will inform the Bidder with the most economically advantageous tender (as determined in accordance with **Section 7** (Evaluation Criteria and Methodology)) that the Department intends to award the Franchise to it. There will be no public announcement of a preferred Bidder prior to this step being taken.

#### 4.7.5 **Signature of the Franchise Agreement and other Franchise Signature Documents**

Following notification by the Department that it intends to award the Franchise to it, the preferred Bidder will be required to sign (but not date or complete) the Franchise Signature Documents on the basis of such escrow arrangements as the Department may require. It is anticipated that this process will take place after the London Stock Exchange closes. There will be no award of the Franchise at this point, and award of the Franchise will not take place until confirmed by the Department to the preferred Bidder.

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

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

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

of at least 10 calendar days. The closing date of that period will be identified to the preferred and the unsuccessful Bidders.

**4.7.7 Voluntary standstill period**

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



## 5. Section 5: Detailed Bid Submission Requirements - Delivery Plans

### 5.1 Introduction

- 5.1.1 Bidders are required to submit a Summary Business Plan underpinned by seven delivery plans (the “**Delivery Plans**”) as part of their Bids.
- 5.1.2 Some of the Plans are split into various Sub-Plans. A list of the Plans (and their associated Sub-Plans where relevant) are set out below. Where a particular Delivery Plan has no Sub-Plans, ‘N/A’ appears in the column headed ‘Sub-Plan’ below:

Plan	Sub-Plan
Plan 1 – Summary Business Plan	N/A
Plan 2 – Managing the Business Delivery Plan	Organisation, Management and Staffing Sub-Plan
	Mobilisation and Migration Sub-Plan
	Licence Sub-Plan
Plan 3 – Corporate Social Responsibility Delivery Plan	Environment and Sustainability Sub-Plan
	Managing Industry Partnerships Sub-Plan
	Security Sub-Plan
Plan 4 – Customer Experience and Communities Delivery Plan	N/A
Plan 5 – Marketing and Retailing to Grow the Business Delivery Plan	Ticketing and Ticket Retailing Sub-Plan
	Growing the Business Sub-Plan
Plan 6 – Train Service Requirements, Crowding, Capacity and Demand Delivery Plan	N/A
Plan 7 – Train Performance and Train Service Delivery Plan	Delivering Performance Sub-Plan
	Rolling Stock Sub-Plan
Plan 8 – Better Stations and Asset Management Delivery Plan	N/A

- 5.1.3 Details of the Department’s requirements for the Plans (and, where relevant, their associated Sub-Plans), are set out in **paragraphs 5.2** (Plan 1: Summary Business Plan) to **5.9** (Plan 8: Better Stations and Asset Management Delivery Plan) of this **Section 5** (Detailed Bid Submission Requirements – Delivery Plans).

- 5.1.4 In order for the Department to assess whether each Bidder can meet the requirements, Bidders should provide in each Delivery Plan or, where relevant, each Sub-Plan:
- details of any important challenges and opportunities in relation to each requirement;
  - the key Initiatives that the Bidder proposes to undertake in order to deliver those requirements. Bidders should note **paragraph 4.7.3** (Contractualisation) in this regard;
  - the expected impact of the Initiatives (including scale and timing of the impacts);
  - full supporting evidence of how those Initiatives will be resourced and delivered, including a Gantt chart or similar, as appropriate; and
  - a statement of the annual revenues, costs and capital associated with each Initiative in respect of which any of these elements exceeds £100,000 in real terms in any Franchisee Year, consistent with those laid out in the Modelling Suite for these Initiatives; and
  - include cross references to the specific clause or sub-clause of the Franchise Agreement or the Schedule of Committed Obligations (as applicable) in accordance with **paragraph 4.7.3** (Contractualisation).
- 5.1.5 In addition to the requirements of **paragraph 5.1.4** (Introduction), paragraph (B) under each Delivery Plan or Sub-Plan lists specific evidence that Bidders should provide as part of their response.
- 5.1.6 The Department cannot and does not wish to be prescriptive in all areas about how Bidders may meet or exceed the requirements and does not wish to constrain innovations Bidders may propose. As such, the Department has set out in paragraph (C) under each requirement, indications or examples of what it considers will exceed its requirements. However, these indications are illustrative only and not exhaustive. Where no examples or indications are given, Bidders may still provide Initiatives supported by evidence that they consider will exceed the Department's requirements unless specifically stated otherwise.

- 5.1.7 The judgement as to whether or not a Bidder is likely to meet or exceed requirements will reflect the Department's overall view of the evidence provided, taking into account all the circumstances including:
- the credibility of the plans as a whole in meeting the requirements, including quality of research, analysis and understanding;
  - the extent to which the plans depend upon, and are supported by third parties;
  - evidence and relevant examples of Initiatives within the plans being successfully introduced elsewhere;
  - any cross references to other Delivery Plans or Sub-Plans made in accordance with the guidelines set out in **paragraph 4.3.3** (Cross Referencing);
  - the benefits that the Bidder will deliver in wider or long-term value and benefit for the Department, including through improvements for customers and communities;
  - the robustness and resilience of its plans for delivery, including an assessment of the risk to its ability to deliver in challenging circumstances;
  - the extent of the availability of funding or financing assessed in accordance with **paragraph 7.9** (Impact of Review of Financing and Funding Proposals);
  - the extent and nature of any Relevant Franchise Obligation and/or Committed Obligation proposed by the Bidder in accordance with **paragraph 4.7.4** (Contractualisation);
  - the extent of benefits to passengers generated by Initiatives; and
  - the timing of Initiatives and the period over which the benefits they generate are realised.
- 5.1.8 The Department will consider to what extent the evidence provides confidence that the Bidder will meet or exceed the requirement. Bidders should note that there are some specific requirements where responses that exceed the Department's requirements will not attract additional

evaluation credit (i.e. over and above that awarded for a submission which meets, but does not exceed, the Department's requirements). Where this is the case, it is made clear in paragraph (C) of the relevant Delivery Plan or Sub-Plan.

- 5.1.9 Bidders must also read the contents of the Franchise Signature Documents provided with this ITT which contains provisions relevant to meeting the requirements specified in this **Section 5** (Detailed Bid Submission Requirements – Delivery Plans). As part of this procurement, Bidders are not permitted to mark up the Franchise Signature Documents other than to fill gaps denoted by the drafting note 'Bidders to populate'. It is an overarching requirement that Bidders' proposals set out in each Delivery Plan and Sub-Plan are compliant with the Franchise Signature Documents. Anything contained within a Bidder's response to this **Section 5** (Detailed Bid Submission Requirements – Delivery Plans) which is non-compliant with the Franchise Signature Documents will not meet the Department's requirements and so will be scored accordingly and may result in the Bid being treated as non-compliant.
- 5.1.10 Details of how each Delivery Plan (and, where relevant, their associated Sub-Plans) will be evaluated (including the associated scoring matrix) is set out in **Section 7** (Evaluation Criteria and Methodology).
- 5.1.11 A Bidder that scores below 3 in respect of any of the following Sub-Plans will result in the Bid being treated as non-compliant:
- Mobilisation and Migration Sub-Plan (as described in **paragraph 5.3.2** (Mobilisation and Migration Sub-Plan) below);
  - Licence Sub-Plan (as described in **paragraph 5.3.3** (Licence Sub-Plan) below);
  - Delivering Performance Sub-Plan (as described in **paragraph 5.8.1** (Delivering Performance Sub-Plan) below); or
  - Rolling Stock Sub-Plan (as described in **paragraph 5.8.2** (Rolling Stock Sub-Plan) below);
- together the “**Key Sub-Plans**”.

- 5.1.12 As set out in **Section 7** (Evaluation Criteria and Methodology) a Bidder that scores below 3 in respect of any Delivery Plan will result in the Bid being treated as non-compliant.
- 5.1.13 Bidders' attention is drawn to **paragraph 4.3.3** (Cross Referencing) of this ITT.

## 5.2 Plan 1: Summary Business Plan

The Department requires the Bidder to summarise its Bid in the Summary Business Plan. The summary should include:

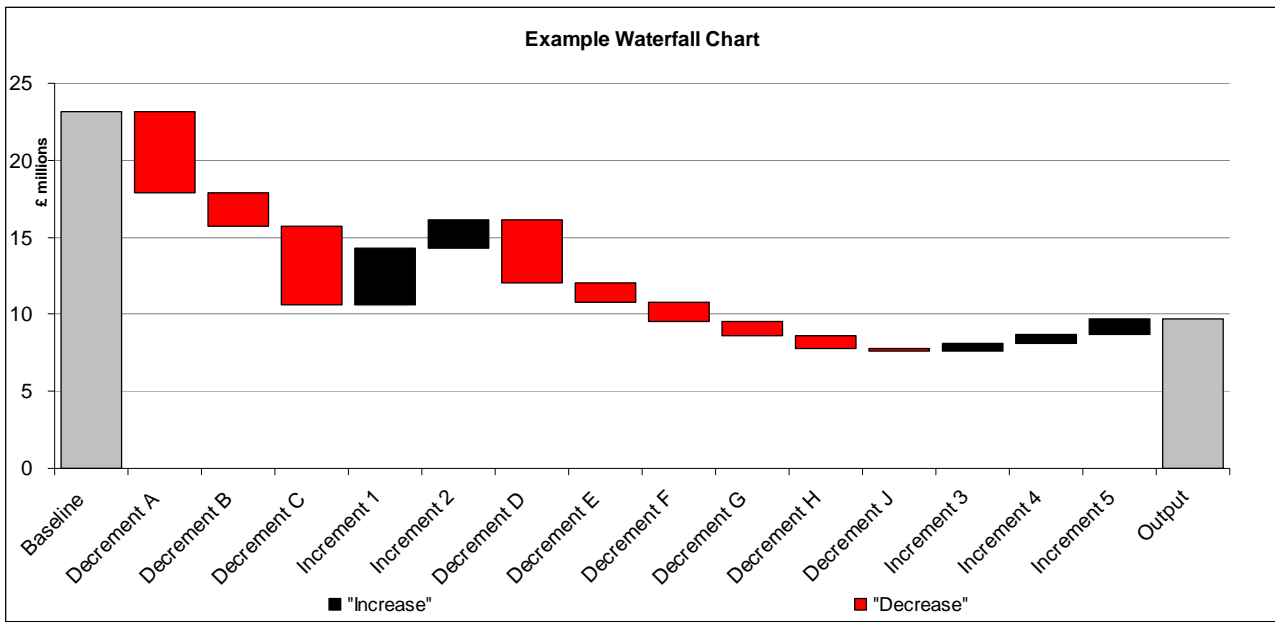
- a timeline for the business which shows the date of:
  - key actions which the operator needs to take in order to deliver the Initiatives; and
  - other significant events that will affect the operations, costs or revenues of the business, and
- nine separate graphs, each showing a waterfall chart which reflects movements in terms of revenues, cost (disaggregated at the level detailed in worksheet 'P&L3' in the Financial Templates in real terms), and subsidy / premium, across the following timeframes:
  - the start of the franchise to the end of Franchisee Year 5;
  - the start of Franchisee Year 6 to the end of Franchisee Year 10; and
  - the start of Franchisee Year 11 to the end of Franchisee Year 15.

An example of a waterfall chart is shown in **Figure 5.2** (Example of a Waterfall Chart), but Bidders may choose their own format.

Bidders should identify in the Summary Business Plan how they will meet the Department's objective to deliver services in the most cost-effective and efficient manner possible in keeping with the recommendations of Sir Roy McNulty's Rail Value for Money Study. The Department considers that the most appropriate way to express this is in 'total costs per passenger mile', presented on an annual basis.

Bidders should be aware that the Summary Business Plan will not be scored but that all evaluators will be given a copy of it to aid their understanding of the remaining Plans and Sub-Plans that they will evaluate.

**Figure 5.2: Example of a Waterfall Chart**



## 5.3 Plan 2: Managing the Business Delivery Plan

### 5.3.1 Organisation, Management and Staffing Sub-Plan

#### (A) REQUIREMENTS

The Department requires an operator who will manage its organisation to deliver the obligations, aims and objectives of the business including those required by this ITT and the Franchise Agreement during all stages of the Franchise Term. Meeting the requirements includes:

- minimising disruption to the staff and services when making any changes to the business; and
- effectively managing the organisation through established corporate management systems and/or models of excellence such as EFQM.

The Department requires an operator who ensures the organisation has the overall competence to safely deliver all aspects of the business and operations for the full Franchise Term. The operator must have a robust approach to:

- ensuring a high level of competence in the workforce as a whole, for individual employees and in the organisation's supply chain (including contractors and sub-contractors where it relies on such bodies to deliver or support key aspects of the business);
- ensuring that the organisation will have appropriate technical, management and leadership skills (including in its supply chain/contractors where it relies on such bodies to deliver or support key aspects of the business);
- understanding, maintaining, formally demonstrating and improving on an ongoing basis the competences required; and
- meeting key staffing challenges in order to deliver the business through manpower planning, including vacancy gap strategy, outsourcing and use of agency staff as relevant.

The Department requires an operator who will monitor, understand and improve the level of staff engagement on this franchise by:



- establishing and developing a two-way staff engagement process that builds the trust and involvement of the workforce throughout the Franchise Term;
- measuring and analysing staff engagement, and setting targets to support a long-term vision;
- ensuring employees understand, and are valued for, their contribution to the organisation’s success; and
- supporting equality and diversity.

The Department requires an operator who will:

- maintain the current level (that is, all passenger services other than those operated with 12 car units) of Driver Only Operation (“**DOO**”) from the Start Date; and
- undertake such consultation upon the expansion of DOO, as the operator considers appropriate, to cover all services in the Franchise and, unless the Secretary of State agrees otherwise following the conclusion of that consultation, expand DOO to cover all services in the Franchise by no later than 31 March 2024.

(B) EVIDENCE THAT BIDDERS SHOULD PROVIDE

In addition to the minimum requirement set out in **paragraph 5.1.4** (Introduction), Bidders’ responses shall cover as a minimum:

- where the Bidder is suggesting any reduction or increase in staff headcount, details of the reasons for that change and the way in which that change will be managed, highlighting any impacts on operations;
- a break down at the end of each Franchisee Year in respect of full time equivalent staff numbers (split between employees and agency staff) by category (i.e. grade) , activity (i.e. role), location and average salary level for each grade; and
- ‘manpower’ plans in particular for train crews and other key operational roles requiring extended recruitment, potential retention strategies and training timescales.

In relation to DOO, Bidders should not deal with technical aspects of the Rolling Stock in this Sub-Plan, this detail should be captured in the Rolling Stock Sub-Plan described at **paragraph 5.8.2** (Rolling Stock Sub-Plan) below.

(C) **SCORING**

For meeting the above requirements, Bidders will score 4 in line with the scoring matrix at set out in **Section 7** (Evaluation Criteria and Methodology). Without prejudice to **paragraph 5.1.6** (Introduction) above, specific examples of how the requirements may be exceeded (subject to the quality and suitability of the Bidder's proposals addressing the relevant issue and the other requirements of the relevant plan, and the sufficiency and credibility of supporting evidence) are set out below:

- significant improvement in the long-term skills and competence of the workforce for the Essex Thameside franchise (whether by apprenticeships or otherwise) and/or making an effective contribution to building skills and competence in the supply chain and/or wider UK rail industry; and
- Initiatives should support the implementation of the People section of the Rail Technical Strategy and should go beyond addressing current skills-gap priorities and immediate business opportunities. Evidence of contributing to the wider UK rail industry could include providing expert skills and mentoring to other organisations or supporting/leading sector-wide initiatives to build the skills required (now and in the future), for instance through collaboration with the National Skills Academy for Railway Engineering.

5.3.2 **Mobilisation and Migration Sub-Plan**

(A) **REQUIREMENT**

The Department requires an operator who will ensure a smooth and safe mobilisation and migration of the business on time and with no disruption to passenger services. This requirement includes but is not limited to:

- managing the process for complying with the Conditions Precedent Agreement and obtaining all necessary consents (including all necessary safety approvals), licences (other than licences required

under the Railways Act 1993 and/or the Railway (Licensing of Railway Undertakings) Regulations 2005) and/or contractual rights (including under Access Agreements, Station Leases, Depot Leases and Rolling Stock Leases) before the Start Date. Bidders should note that the Railways Act 1993 and the Railway (Licensing of Railway Undertakings) Regulations 2005 licensing requirements are dealt with in a separate Sub-Plan;

- managing staff transfers (including complying with its obligations under TUPE and staff communication activities) as part of the mobilisation and migration; and
- managing the existing pension scheme from the start of the franchise with all assumptions clearly stated. Bidders are reminded that contracting out of the second state pension ends in April 2017 and shall make appropriate financial provision for this.

(B) EVIDENCE BIDDERS SHOULD PROVIDE

In addition to the minimum requirement set out in **paragraph 5.1.4** (Introduction), Bidders' responses shall cover as a minimum:

- a detailed narrative and plan (including full details of resource, timescales and activities) demonstrating how the Bidder will successfully achieve the mobilisation and migration of the franchise which covers the whole mobilisation period and migration activities for at least the first six months of the new franchise; and
- a detailed risk register which sets out the risks expected during mobilisation and migration which would prevent the requirement in paragraph (A) above being met and identifies appropriate mitigation measures.

(C) SCORING

A Bidder may not score an Evaluation Score higher than 4 for this Sub-Plan.

A Bidder that scores below 3 will result in the Bid being treated as non-compliant.

5.3.3 **Licence Sub-Plan**

(A) **REQUIREMENT**

The Department requires an operator who will obtain all necessary licences and Statements of National Regulatory Provisions required pursuant to the Railways Act 1993 and the Railway (Licensing of Railway Undertakings) Regulations 2005 to operate the Franchise.

(B) **EVIDENCE BIDDERS SHOULD PROVIDE**

In addition to the minimum requirement set out in **paragraph 5.1.4** (Introduction), Bidders' responses shall cover as a minimum:

- submission of a detailed narrative and plan (including resource, timescales and activities) demonstrating how the Bidder will successfully achieve the requirements of this Sub-Plan.

(C) **SCORING**

A Bidder may not score an Evaluation Score higher than 4 for this Sub-Plan.

A Bidder that scores below 3 will result in the Bid being treated as non-compliant.

(D) **FURTHER INFORMATION**

Bidders should note that this Sub-Plan will be passed to the ORR who will provide a report on Bidders' responses to this Sub-Plan to evaluators in accordance with **paragraph 7.3.1** (Delivery Plan and Sub-Plan Initial Scoring).

## 5.4 Plan 3: Corporate Social Responsibility Delivery Plan

### 5.4.1 Environment and Sustainability Sub-Plan

#### (A) REQUIREMENTS

The Department requires an operator who will set targets for improvement in the measures and in the manner specified in paragraph 18 of Schedule 13 (Information and Industry Initiatives) of the Franchise Agreement relating to energy efficiency, carbon footprint, waste and water usage, and who can demonstrate:

- the targets referred to above are set and designed on the basis of good information, including establishing a baseline, researching current performance and current practices on the franchise, identifying risks and opportunities and seeking and considering independent expert advice; and
- the targets referred to above are set at level that will deliver significant environmental benefits over the Franchise Term and that the delivery of the targets will require a significant change to business processes, approach and/or technologies.

The Department requires an operator who will implement a systematic approach to managing environmental, energy and procurement issues across the business as a whole for the full Franchise Term. This will include achieving and maintaining the accredited standards set out in the Franchise Agreement (ISO140001, ISO50001 and BS8903 or equivalent standards). The operator's approach must include:

- systems for reviewing and prioritising environmental issues, risks and targets through the Franchise Term including analysis of performance and trends, and research into best practice and opportunities for improvement; and
- ensuring that environmental impacts are an important consideration in the running of the business, and in major investment, procurement and business development decisions.

(B) EVIDENCE BIDDERS SHOULD PROVIDE

There is no further minimum requirement for this Sub-Plan beyond that set out in **paragraph 5.1.4** (Introduction).

(C) SCORING

For meeting the above requirements, Bidders will score 4 in line with the scoring matrix at set out in **Section 7** (Evaluation Criteria and Methodology). Without prejudice to **paragraph 5.1.6** (Introduction) above, specific examples of how the requirements may be exceeded (subject to the quality and suitability of the Bidder's proposals addressing the relevant issue and the other requirements of the relevant plan, and the sufficiency and credibility of supporting evidence) are set out below:

- seeking regular and informed independent advice, recommendations and audit/review in order to improve the sustainability of the operator's business, for instance through establishing a formal advisory or stakeholder body with a defined role;
- plans to go beyond understanding and managing direct and short term environmental impacts to make a significant contribution to sustainability of the franchise, its suppliers, the route and wider UK rail industry during the Franchise Term and being likely to leave the successor franchisee well placed to deal with future challenges and opportunities after the Franchise Term. This can include:
  - setting a transformational long-term vision for the full Franchise Term, backed by clear and transparent public and customer commitments and communications;
  - systems for researching, incorporating and building on industry best practice throughout the Franchise Term;
  - identifying and addressing indirect and longer term environmental impacts;
  - delivering improvements at sector, Route and rail industry level, on a whole life basis, including through engaging with the wider industry on sustainability initiatives (including through RSSB), proactively leading initiatives and setting

objectives/targets with its supply chain and wider stakeholders;

- addressing barriers to improvement that are structural or difficult to resolve; and/or
- enabling and encouraging others – including employees, customers and suppliers – to reduce their environmental impact;
- with respect to the requirements in paragraph (A) implementing research and development activity, including trial schemes, provided that such projects are innovative and likely to deliver benefits for the wider UK rail network or beyond the Franchise Term. Benefits identified for such schemes should be consistent with the rail industry's strategy set out in the Rail Technical Strategy. Particular regard will be given to projects where the Bidder has secured investment or resources from third parties or has committed a significant amount of its own resources.

#### 5.4.2 **Managing Industry Partnerships Sub-Plan**

##### (A) REQUIREMENT

The Department requires an operator who will proactively work with all industry stakeholders, including through participating in joint programmes and initiatives, throughout the Franchise Term in order to:

- achieve improvements in cost efficiency at Route level; and
- identify opportunities to develop the business, and the assets used by the business, to improve longer term value for the Department.

For the purposes of this Sub-Plan, which addresses rail industry and commercial partnerships, 'stakeholders' means TfL, Network Rail, ORR, the Department, other train operators, freight operators (and their customers), other Station Facility Owners (including LUL), ROSCOs, ATOC/Rail Settlement Plan and the operator's wider supply chain including SMEs.

(B) EVIDENCE BIDDERS SHOULD PROVIDE

In addition to the minimum evidential requirements set out in **paragraph 5.1.4** (Introduction), Bidders' responses shall cover as a minimum:

- a statement from Network Rail setting out their support for relevant elements of the Bidder's response, including but not limited to timetable and rolling stock changes;
- a statement from any other industry partners or stakeholders where successful delivery of an Initiative requires the agreement or active collaboration of that partner; and
- to the extent that the Bidder considers that an alliance would be one of the measures it would implement to achieve the requirements in paragraph (A) submission of a plan showing how and when the Bidder would enter into an alliance with Network Rail and/or any other stakeholders including resources, methodology, key programme dates and any other information that the Bidder considers relevant.

(C) SCORING

For meeting the above requirements, Bidders will score 4 in line with the scoring matrix at set out in **Section 7** (Evaluation Criteria and Methodology). Without prejudice to **paragraph 5.1.6** (Introduction) above, specific examples of how the requirements may be exceeded (subject to the quality and suitability of the Bidder's proposals addressing the relevant issue and the other requirements of the relevant plan, and the sufficiency and credibility of supporting evidence) are set out below:

- Initiatives to work proactively with industry stakeholders in a way likely to achieve efficiency improvements in the wider UK rail industry and support wider industry strategies, including better planning at industry level and cross-operator.

5.4.3 **Security Sub-Plan**

(A) REQUIREMENT

The Department requires an operator who will:



- achieve Secure Car Park Accreditation for all car parks in the franchise within the first 24 months following the Start Date and maintain thereafter;
- maintain Secure Station Accreditation at all stations throughout the Franchise Term;
- improve the security of customers and staff travelling and working across the franchise, by:
  - assessing and regularly reviewing the security and crime risk at all stations and across the franchise in partnership with the BTP;
  - implementing systems to control and minimise security incidents on trains and at stations;
  - provide a proportionate level of counter-terrorism protective security;
  - deterring and addressing instances of vandalism and graffiti in relation to trains, property, stations and car parks; and
  - in all areas working effectively with the BTP.

(B) EVIDENCE THAT BIDDERS SHOULD PROVIDE

There are no further minimum evidential requirements for this Sub-Plan beyond that set out in **paragraph 5.1.4** (Introduction).

(C) SCORING

For meeting the above requirements, Bidders will score 4 in line with the scoring matrix at set out in **Section 7** (Evaluation Criteria and Methodology). Without prejudice to **paragraph 5.1.6** (Introduction) above, specific examples of how the requirements may be exceeded (subject to the quality and suitability of the Bidder's proposals addressing the relevant issue and the other requirements of the relevant plan, and the sufficiency and credibility of supporting evidence) are set out below:

- provision of staffing at stations from first to last train, particularly between Grays, Laindon and Fenchurch Street;

- Initiatives to achieve the standards required for Secure Car Park Accreditation (if not awarded prior to the Start Date) within the first 12 months following the Start Date; and / or
- quality assurance of security measures and plans and / or proactive security training programmes.

## 5.5 Plan 4: Customer Experience and Communities Delivery Plan

### (A) REQUIREMENTS

The Department requires an operator who:

- will achieve the NPS benchmarks set out in the Franchise Agreement and deliver a good standard of customer service which it measures and tests against customer expectations;
- will engage with customers and provide good levels of service during challenging circumstances, for instance during periods of sustained poor peak performance or significant business change;
- implements a Passenger’s Charter which includes “Delay/Repay” compensation arrangements (as defined in the Passenger’s Charter Guidelines) for all services from the start of the franchise and handles customer complaints in a way designed to build trust and loyalty;
- delivers timely, accurate and useful customer information prior to the journey, at stations and on trains including during planned service amendments and unplanned disruption;
- improves the station access, interchange and overall station environment for customers at stations where it will be Station Facility Owner. Specifically to:
  - work effectively with London Borough of Barking and Dagenham and other stakeholders to improve Barking Station for customers;
  - provide step free access (including ticket validation) from all entrances to the station (including the footbridge) to all platforms at Dagenham Dock station no later than 31 March 2016 and maintain that step free access for the remainder of the Franchise Term;
  - maintain the level of step free access from the relevant station entrance to the platforms at all other Stations provided immediately prior to the Start Date;

- improve the door-to-door journey experience for its customers, including through better access to stations and through developing Station Travel Plans for all stations, or geographical group of stations, prepared in accordance with ATOC guidance;
- on award of the Franchise, implements and resources a Customer and Stakeholder Engagement Strategy which covers the Franchise Term. The Strategy should set out how the operator will:
  - collect and assess relevant and detailed information covering the concerns, issues, opportunities and risks relating to customer service, including customer views, priorities and opportunities, complaints, feedback and data;
  - implement a constructive two way dialogue with customers, communities and passenger representatives, including Passenger Focus and London TravelWatch, that is transparent, responsive and effective;
  - improve the transparency of all information relating to the franchise, including sufficiently disaggregated detail that a passenger wishing to do so can assess punctuality and other factors relevant to the particular journeys they make;
  - implement a process for generating a range of options to address emerging customer needs. The operator shall have systems for effectively evaluating, prioritising and considering such options and for working in partnership with other agencies where collaboration on development and delivery of schemes will improve outcomes. Additionally, the operator shall have a process for implementing their preferred options including, where appropriate, through use of the CCIF Amount under the Franchise Agreement;
  - ensure that customer expectations and opportunities are considered across all areas of the business, as a fundamental part of its operational and business decision making; and
  - describe how the operator will resource and deliver its Customer and Stakeholder Engagement Strategy, including

research and information gathering, communication, administration of the CCIF Amount and project management/development of schemes which are implemented using money from the CCIF Amount.

The Department requires an operator who will prepare and publish a Customer Report annually. The Customer and Stakeholder Strategy shall include a draft of the initial Customer Report, and the operator's plans for updating and reviewing that Customer Report. The Customer Report should set out the key commitments the Bidder will make to its customers, including commitments that relate to day-to-day services, how it will act to address problems and how it intends to improve services and/or facilities. It should provide sufficient information to allow customers to assess and understand the performance of the franchise, and demonstrate a reasonable level of accountability to its customers through doing so.

For the purposes of this Delivery Plan, which addresses customer and communities, 'stakeholders' means customers, local authorities, communities, rail user groups and similar organisations.

(B) EVIDENCE BIDDERS SHOULD PROVIDE

In addition to the minimum evidential requirements set out in **paragraph 5.1.4** (Introduction), Bidders' responses shall cover as a minimum:

- evidence for how the Bidder's Initiatives and actions will achieve the NPS Measure, highlighting key potential threats to passenger satisfaction and how the Bidder will address these issues;
- a plan specifying how the Bidder will deliver step free access to all platforms at Dagenham Dock station with milestones and a breakdown of costs;
- submission of a detailed narrative and plan (including resource, timescales and activities) demonstrating how the Bidder will successfully achieve, implement and manage "Delay/Repay" compensation arrangements (as defined in the Passenger's Charter Guidelines) from the Start Date, including strategies to raise passenger awareness of their rights to claim under the scheme and to make the claims process swift and simple; and

- provision of the Bidder's Customer and Stakeholder Engagement Strategy including the draft Customer Report.

(C) SCORING

For meeting the above requirements, Bidders will score 4 in line with the scoring matrix at set out in **Section 7** (Evaluation Criteria and Methodology). Without prejudice to **paragraph 5.1.6** (Introduction) above, specific examples of how the requirements may be exceeded (subject to the quality and suitability of the Bidder's proposals addressing the relevant issue and the other requirements of the relevant plan, and the sufficiency and credibility of supporting evidence) are set out below:

- proposals that provide a significant improvement in provision of information to customers compared to current industry standards, and meet a range of potential customer needs and aspirations;
- proposals which improve the ability of customers to make informed choices about their journey or potential journey, including during planned service amendments and unplanned disruption;
- proposals to implement and regularly review Station Travel Plans in a cost-effective way that prioritises initiatives with the greatest benefits to customers;
- proposals for commercial or technical innovations that are likely to bring benefits to wider UK rail industry and local communities and/or improve long term franchise value. Proposals may include funding, research, developing or piloting innovative services or solutions that improve any aspect of the door-to- door journeys, have a positive impact on local communities and/or improve customer satisfaction and engagement;
- making the operator's data publicly available to secure significant benefits for customers, the UK rail industry and the Essex Thameside franchise - for instance allowing a range of data to be freely and openly available to third parties to encourage innovation;
- proposals for the Customer and Stakeholder Engagement Strategy to ensure customers and (where relevant) communities will be

involved in developing business strategy, not just at the stage of identifying need;

- proposals that support the broader sustainable transport agenda by improving links with other public transport, encouraging cycling and walking and facilitating the roll-out of electric road vehicles;
- proposals that encourage modal shift and sustainability by helping passengers understand options regarding their journey opportunities;
- an operator who looks outside the boundaries of its business in order to have a significant positive impact on the communities it serves and is part of, including through work with charities, conducting education and outreach, sharing and building skills and seeking opportunities to improve lives;
- proposals for defining and measuring the quality of customer services and information provision, including station and train presentation in an effective and robust way, and a strategy for agreeing robust and challenging targets for improvement over the Franchise Term;
- demonstrating that the Initiatives proposed will, when implemented, deliver a significant improvement in customer experience at stations;
- proposing Initiatives to improve access and facilities for passengers with reduced mobility;
- providing step-free access from station entrances to platforms across the whole franchise by the end of the Franchise Term;
- proposals that meet key community priorities, including for stations and train services; and
- proposals for benchmarking and measuring the improvements in the door-to-door journey for customers.

(D) FURTHER INFORMATION

Bidders shall demonstrate that they meet the requirements of this plan without relying on any of the monies which form part of the CCIF Amount set out in the Franchise Agreement. This CCIF Amount exists to tackle priorities that emerge during franchise life, not at bid stage. Bidders must not finance Initiatives set out in this Bid using this CCIF Amount. The CCIF Amount will be indexed in accordance with the Franchise Agreement.



## 5.6 Plan 5: Marketing and Retailing to Grow the Business Delivery Plan

### 5.6.1 Ticketing and Ticket Retailing Sub-Plan

#### (A) REQUIREMENT

The Department requires an operator who will:

- maintain a consistently high standard of ticket retailing service;
- ensure customers are provided with widespread and easy access to the full range of tickets, and a range of ticket retail opportunities;
- provide a range of ticket products and ticket retailing solutions that meets the needs of customers;
- ensure information about ticket products and solutions is communicated in a clear and transparent fashion which enable passengers to access the information they need to confidently choose the best ticket for their journey, and to understand the terms, conditions and any restrictions on the ticket purchased, across all ticket retailing solutions and fulfilment media;
- exploit new technology in relation to ticket retailing to benefit customers, drive efficiencies and support sustainable growth of the business;
- cooperate with other industry partners and stakeholders in the development of relevant industry ticket retailing standards;
- continue to accept Oyster products on the Essex Thameside network to the same extent as currently, for so long as it is in widespread use in the London Travelcard area;
- encourage the uptake and use of smart ticketing on the franchise working with the South East Flexible Ticketing (SEFT) Programme including detailed proposals and strategy for innovative smart ticketing arrangements, including the products that will be offered and compatibility with other modes of travel (including, for example, those offered by TfL) for the duration of the franchise; and

- work in partnership with Local Authorities within the franchise area who wish to implement rail and / or multimodal ticketing.

The Department requires an operator who will work effectively with the SEFT Programme to deliver smart ticketing in accordance with the Franchise Agreement.

If the CPAY Acceptance Agreement or other pilot arrangements have been signed before the date of Bid submission, then the Department requires an operator who will honour the existing contractual arrangements as disclosed on the Data Site.

In the event that no contractual arrangements exist for CPAY acceptance within the franchise before the date of Bid submission, the Department requires an operator, where a demonstrable positive business case can be provided by the operator, to work effectively with TfL to deliver CPAY in the franchise.

(B) EVIDENCE THAT BIDDERS SHOULD PROVIDE

In addition to the minimum evidential requirements set out in **paragraph 5.1.4** (Introduction), Bidders' responses shall cover as a minimum:

- a clear description of the ticket retailing opportunities and experience that the operator will deliver. Supporting technical information should be provided only as far as needed to demonstrate that these outcomes will be delivered;
- a statement or letter setting out the commitment, views or comments of any third party that the Bidder is relying on in delivering or exceeding these requirements; and
- evidence that the business impacts, both financial and operational, for CPAY acceptance have been objectively considered.

(C) SCORING

For meeting the above requirements, Bidders will score 4 in line with the scoring matrix at set out in **Section 7** (Evaluation Criteria and Methodology). Without prejudice to **paragraph 5.1.6** (Introduction) above, specific examples of how the requirements may be exceeded (subject to the quality and suitability of the Bidder's proposals addressing

the relevant issue and the other requirements of the relevant plan, and the sufficiency and credibility of supporting evidence) are set out below:

- a plan to convert the majority of season ticket holders and other frequent travellers on to smart tickets within a demonstrably achievable timeframe. This may include the utilisation of new and alternative ways of developing products, retailing tickets and improving ticket retail opportunities;
- improvements to the overall ticket retail experience and enhanced choices and opportunities for the customer, including through harnessing technical innovations and investing in new solutions. Plans for the use of new and alternative ticket retailing methods could include third party retail, greater use of internet, consumer technology, barcodes, or integration of audio/visual technology, amongst others;
- offering tickets that can be used on various modes of transport, and linked to other ticket retail opportunities, including evidence of partnerships and/or support from third parties such as local authorities; and/or other equivalent products or services; and
- Initiatives which will exploit smart ticketing and utilise technology to implement, trial or develop other ticketing and fares innovations that can benefit passengers such as:
  - carnet products; and
  - the use of additional technologies (which may include contactless EMV bank cards, NFC mobile phones, barcodes).

## 5.6.2 Growing the Business Sub-Plan

### (A) REQUIREMENTS

The Department requires an operator who will:

- build new markets and grow the number of passenger journeys;
- optimise the use of all franchise assets, protect revenue both in the Peak and Off-Peak and manage growth in order to make the business more efficient;
- increase revenue outside the Peak; and
- provide generic branding of their stations, rolling stock and other material, such as timetables, posters, uniforms etc, unless there is a positive business case to provide non-generic branding. Generic branding means branding which does not suggest or imply any affiliation with the franchisee or its affiliates.

### (B) EVIDENCE THAT BIDDERS SHOULD PROVIDE

In addition to the minimum evidential requirements set out in **paragraph 5.1.4** (Introduction), Bidders' responses shall cover as a minimum:

- marketing plans showing returns on investment of marketing and other growth activities;
- if the Bidder proposes to adopt yield management techniques, details of its approach and any tools the Bidder intends to use for this purpose;
- a Modelling Suite that demonstrates compliance with Schedule 5 of the Franchise Agreement and submitted in accordance with Table 4.3; and
- a business case for non-generic branding, where proposed.

### (C) SCORING

For meeting the above requirements, Bidders will score 4 in line with the scoring matrix at set out in **Section 7** (Evaluation Criteria and Methodology). Without prejudice to **paragraph 5.1.6** (Introduction)

above, specific examples of how the requirements may be exceeded (subject to the quality and suitability of the Bidder's proposals addressing the relevant issue and the other requirements of the relevant plan, and the sufficiency and credibility of supporting evidence) are set out below:

- proposals for setting a base-line of the level of ticketless travel on the franchise and taking appropriate steps to reduce this ticketless travel, reporting levels and measures of ticketless travel in a transparent and timely manner.

5.7 **Plan 6: Train Service Requirements, Crowding, Capacity and Demand Delivery Plan**

(A) **REQUIREMENT**

The Department requires an operator who will develop and deliver a train service (including an appropriate Timetable and fleet solution) that:

- delivers the Department's Train Service Requirement as set out in **Attachment A**, including the provision of through services to London on a Sunday from Grays via Rainham;
- meets the Bidder's predicted demand at each station;
- does not exceed the Department's crowding measures (as described in paragraph (D) below);
- meets the Department's Capacity Test requirements as described in paragraph 6 in Appendix 3 (Specified Exogenous Factors) which also includes the minimum capacity at the end of CP5 (as described in paragraph (D) below) and, demonstrates that, in each Franchisee Year, it does not exceed the Department's Crowding Limits (as described in paragraph (D) below) in relation to both:
  - an alternative demand forecast where the Bidder's exogenous demand inputs and assumptions are entirely replaced with the Department's Specified Exogenous Factors, stated in Appendix 3 of this ITT; and
  - total demand forecast by the Bidder (including both the Bidder's exogenous and endogenous demand).
- will be appropriately resourced; and
- is compliant with the Timetable Planning Rules and Sectional Running Times (both as published / defined by Network Rail as at the date of this ITT) unless it can explain its rationale for any proposed departures from the published Timetable Planning Rules and / or Sectional Running Times, or unless the Bidder can demonstrate that its proposals are endorsed by Network Rail.

The Department requires an operator who will successfully administer and implement all future Timetable changes so as to provide a seamless and integrated operational service transition that is appropriately managed, resourced and executed.

(B) EVIDENCE THAT BIDDERS SHOULD PROVIDE

In addition to the minimum requirement set out in **paragraph 5.1.4** (Introduction), Bidders' responses shall cover as a minimum:

- detail of the fleet solution required to deliver the requirements specified in paragraph (A);
- Models that comply with the requirements in paragraph (A) and have the functionality described in **Section 6** (Detailed Bid Submission Requirements – Financial);
- evidence that the plans required pursuant to paragraph (A) will be able to accommodate the requirements of freight traffic;
- relevant Timetables, train crew diagrams and rolling stock diagrams for the life of the franchise. Bidders are not expected to sign rolling stock leases for the full Franchise Term on Franchise Commencement. The Timetables must be provided as a .pif file which shall be compatible with ITPS. Bidders must provide both public and working timetable versions and all working and public timetables shall also be provided in PDF;
- export files from MOIRA in .spg format;
- confirmation that the Bid is consistent with the PDFH demand and revenue forecasting framework, in terms of the segmentation used and the methodology adopted in forecasting annual demand and revenue in modelling on train crowding, including consistency with PDFH elasticity recommendations. Detailed evidence may be documented in the Record of Assumptions, but confirmation is required in the response to this Delivery Plan; and
- three worked examples documented (in the Record of Assumptions) of a manual calculation of an individual train load on a given journey leg through their crowding model process, from un-

calibrated train load through to crowding model output (in the form of its contribution to annual demand suppression).

**NOTE:** the technical evidence required listed above (as in **Table 4.3**) will be excluded from the page count, text size and other requirements set out in **paragraph 4.3** (Structure and Format of Bids) (Page Limits, Size of Text etc).

(C) SCORING

A Bidder may not score an Evaluation Score higher than 4 for this Delivery Plan.

Failure to comply with any of the first four bullet points under paragraph (A) will mean that the Bid is non-compliant.

Notwithstanding the previous paragraph, any Bidder that scores below 3 for this Delivery Plan will be treated as non-compliant.

(D) FURTHER INFORMATION

In order to prepare this Delivery Plan, Bidders must use the following instructions and information in relation to their predicted demand and the Department's crowding and capacity measures.

Bidders should note that:

- whilst they are required to develop and bid a train service (including an appropriate Timetable and fleet solution) that meets the requirements in paragraph (A) this requirement does not require Bidders to implement alterations or improvements to the infrastructure of the rail network in order to meet that demand;
- Bidders must not propose any timetable changes prior to December 2015. The operator will inherit the existing Timetable from the Start Date which may not meet the demand, capacity and/or crowding requirements in paragraph (A) above. For the purposes of Bid evaluation, Bidders will be deemed compliant with the demand, capacity and/or crowding requirements in paragraph (A) up to the Passenger Change Date in December 2015;



- the requirement at bid is to produce a timetable and Train Plan that is compliant with the Train Service Requirement (including the minimum capacity requirement), meets Target Passenger Demand and is compliant with the Crowding Limits set out in the ITT. The crowding requirement in the ITT is more stringent than the obligations associated with “Planning to meet Target Passenger Demand” included at Paragraph 7 of Schedule 1.1 of the Franchise Agreement. This is because, at Bid, it is a combination of the requirements to deliver the Train Service Requirement, meet Passenger Demand and be compliant with the Crowding Limits which will drive the required capacity and therefore the fleet;
- in franchise life, the fleet will be contracted, and the obligation will be as per paragraph 7 of Schedule 1.1, to plan to meet Target Passenger Demand up to and including full deployment of that contracted fleet; and
- 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 to 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.

Crowding

Any Bid which does not meet the following Crowding Limits (“**Crowding Limits**”) shall be non-compliant:

**Morning Peak on trains to London**

Crowding Measure	Autumn 2016 to Autumn 2019	Autumn 2020 to Autumn 2024	Autumn 2025 to End of Franchise
Standing passengers approaching or passing Grays	0%	0%	0%
Standing passengers approaching or passing Laindon	5.0%	3.0%	5.0%
Load above capacity at Cordon west of Barking	4.0%	4.5%	5.0%

**Evening Peak on trains from London**

Crowding Measure	Autumn 2016 to Autumn 2019	Autumn 2020 to Autumn 2024	Autumn 2025 to End of Franchise
Standing passengers departing or passing Grays	0%	0%	0%
Standing passengers departing or passing Laindon	0.3%	0.3%	0.3%
Load above capacity at Cordon east of Barking	3.0%	3.0%	3.5%

By way of explanation the percentages set out above relate to:

**Morning Peak on trains to London**

- the maximum percentage of standing passengers approaching or passing Laindon from the east (on trains arriving at London terminus 0700 to 0959) – calculated as standing passengers at Cordon to the east of Laindon on such services as a percentage of total overall passengers at Cordon to the east of Laindon on such services;
- the maximum percentage of standing passengers approaching or passing Grays from the east (on trains arriving London terminus

0700 to 0959) – calculated as standing passengers at Cordon to the east of Grays on such services as a percentage of total overall passengers at Cordon to the east of Grays on such services; and

- the maximum load above capacity departing or passing Barking (on trains arriving London terminus 0700 to 0959) - calculated as load above capacity at Cordon to the west of Barking on such services as a percentage of total passengers at Cordon to the west of Barking on such services.

### **Evening Peak on trains from London**

- the maximum percentage of standing passengers departing or passing Laindon (on trains departing from London terminus 1600 to 1859) – calculated as standing passengers at Cordon to the east of Laindon on such services as a percentage of total overall passengers at Cordon to the west of Laindon on such services;
- the maximum percentage of standing passengers departing or passing Grays (on trains departing from London terminus 1600 to 1859) – calculated as standing passengers at Cordon to the east of Grays on such services as a percentage of total overall passengers at Cordon to the west of Grays on such services; and
- the maximum load above capacity arriving Barking (on trains departing from London terminus 1600 to 1859) - calculated as load above capacity at Cordon to the east of Barking on such services as a percentage of total passengers at Cordon to the east of Barking on such services.

In the Off-Peak, customers must have a seat:

- on boarding east of Barking if travelling west bound; and
- on boarding at Barking or east of Barking if travelling east bound.

For the purpose of the above calculations:

- “standing passengers” means the number of passengers on the relevant service in excess of the seated capacity of such service;

- “load above capacity” means the number of passengers on the relevant service in excess of the total (seated plus standing) capacity of such service;
- off-peak passenger loads and capacity should be based on the “Autumn” count period;
- the percentages specified in the tables above are calculated in aggregate across all relevant services in the relevant Peak; and
- rolling stock capacities shall be determined in accordance with paragraph (D) of **paragraph 5.8.2** (Rolling Stock Sub-Plan).

Capacity

To avoid any uncertainty about the extent of the requirement for Bidders to deliver the Department’s CP5 capacity enhancement, the Department has incorporated that enhancement into its requirement for minimum passenger carrying capacity. Accordingly, the minimum passenger carrying capacity (measured as total seats plus allowable standing capacity) to be provided into London terminals during Morning Peak for the purposes of the requirement in paragraph (A) is:

	Morning Peak	High Peak Hour (arriving London Terminals 0800 to 0859)
<b>31 March 2019</b>	38,650	16,900

## 5.8 Plan 7: Train Performance and Train Service Delivery Plan

### 5.8.1 Delivering Performance Sub-Plan

#### (A) REQUIREMENTS

The Department requires an operator who will:

- deliver the performance benchmarks specified in Schedule 7.1 of the Franchise Agreement;
- design and implement service recovery and contingency planning (in conjunction with the rest of the industry) in a way which minimises delay and disruption for customers;
- work with industry partners including, but not limited to, Network Rail, to deliver the requirements in this paragraph (A);
- keep its proposals for meeting the requirements in this paragraph (A) up to date and objectively reviewed throughout the Franchise Term;
- implement appropriate general competency arrangements for control staff and provide specific training and appropriate competency arrangements for those with a key role in managing disruption, including on call staff;
- put in place systems for managing the interfaces with industry partners (including Network Rail, ROSCOs and train maintainers) that are necessary to deliver the performance benchmarks and minimise delay and disruption for passengers;
- develop a long-term vision for train service delivery on this franchise over the full Franchise Term and manage its business in order to deliver the results set out in this vision;
- analyse performance failures to root cause level as part of its core approach, and use a structured approach to prioritising improvements;
- produce, maintain and implement a business continuity and disaster recovery plan (including a Force Majeure Events recovery plan),

with detailed processes for managing disruption (including minor and significant incidents) that are clear, and considers stakeholders and the impact on customers. A structured approach should cover how contingency plans will be developed, regularly reviewed and implemented; and

- manage its business and deliver these requirements in a way that improves whole-industry cost effectiveness and efficiency.

(B) EVIDENCE THAT BIDDERS SHOULD PROVIDE

In addition to the minimum evidential requirements set out in **paragraph 5.1.4** (Introduction), Bidders' responses shall cover as a minimum:

- evidence that any significant joint Initiatives have been explored and validated with the relevant partner organisations, including Network Rail. This evidence may include a letter or a statement;
- the Bidder should provide for each performance Initiative:
  - problem identification;
  - approach to solution;
  - evidence for scale of impact on performance; and
  - evidence of successful implementation of similar solutions;
- evidence of resilience and contingency plans (e.g. weather plans); and
- evidence of how the Bidder's train crew strategy furthers the requirements of paragraph (A).

(C) SCORING

For meeting the above requirements, Bidders will score 4 in line with the scoring matrix at set out in **Section 7** (Evaluation Criteria and Methodology). Without prejudice to **paragraph 5.1.6** (Introduction) above, specific examples of how the requirements may be exceeded (subject to the quality and suitability of the Bidder's proposals addressing the relevant issue and the other requirements of the relevant plan, and the sufficiency and credibility of supporting evidence) are set out below:

- proposals to deliver the requirements of paragraph (A) that are particularly resilient so that the Bidder will continue to meet the requirements of paragraph (A) in exceptional and challenging circumstances;
- plans to work with Network Rail and National Task Force to deliver national and strategic objectives to improve performance to a level beyond achieving the requirements in paragraph (A), or by supporting the development of capability and competence in the UK rail industry;
- a credible set of targets and processes for improving overall performance that is additional to the performance benchmarks specified in Schedule 7.1 of the Franchise Agreement (e.g. as measured by Public Performance Measure (PPM)) and/or customer perception of reliability; and
- plans to trial or implement innovative schemes that have potential to benefit the wider UK rail industry if successful, with specified milestones and activities, to meet or exceed the requirements in paragraph (A).

#### 5.8.2 **Rolling Stock Sub-Plan**

##### (A) REQUIREMENT

The Department requires an operator who will implement a rolling stock solution, including maintenance and stabling that:

- is compatible with the technical and operational requirements of the franchise infrastructure;
- is capable of delivering the requirements specified in this ITT and the Franchise Agreement in relation to performance, TSR, capacity, demand and crowding;
- supports the Bidder's strategy for delivering the NPS Benchmarks set out in the Franchise Agreement;
- allows the Bidder to maintain the current level of DOO at the start of the franchise and (if applicable following consultation) deliver full DOO on all services by 31 March 2024;

- takes account of the requirements of current and emerging rolling stock industry standards;
- enables the performance requirements of this ITT and the Franchise Agreement to be achieved; and
- [Redacted]

The Department requires an operator who has a depot strategy that is compatible with the proposed rolling stock solution.

(B) EVIDENCE THAT BIDDERS SHOULD PROVIDE

In addition to the minimum evidential requirements set out in **paragraph 5.1.4** (Introduction), Bidders' responses shall cover as a minimum:

- how the Bidder will introduce, maintain, refurbish or reconfigure the Train Fleet to meet the requirements of this ITT and the Franchise Agreement and the plans for its business;
- 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 the number of standing passengers, whilst maintaining a safe environment for boarding and travel; and
- term sheets from the relevant vehicle owners for at least the initial fleet.

(C) SCORING

For meeting the above requirements, Bidders will score 4 in line with the scoring matrix at set out in **Section 7** (Evaluation Criteria and Methodology). Without prejudice to **paragraph 5.1.6** (Introduction) above, specific examples of how the requirements may be exceeded (subject to the quality and suitability of the Bidder's proposals addressing the relevant issue and the other requirements of the relevant plan, and the sufficiency and credibility of supporting evidence) are set out below:

- proposals to increase the efficiency of the Train Fleet and / or reduce its impact on the infrastructure, for instance Traction and Braking Performance, Driver Advisory System, energy efficient



lighting and heating and ventilation systems, Variable Stiffness Primary Suspension on the bogies or on-board condition monitoring;

- operational regenerative braking on any additional rolling stock within one year of the introduction of such rolling stock into service, for the remainder of the Franchise Term; and
- passenger facilities that meet passenger aspirations and priorities, for example air conditioning or real-time passenger information systems.

(D) FURTHER INFORMATION

In preparing this Sub-Plan, Bidders must use the following instructions and information:

Maintenance

A termination fee exists within the existing incumbent operator's maintenance contract with Bombardier Transportation UK Limited ("**Bombardier Agreement**"). Full details are provided in the Data Site.

Bidders are not required to take a transfer of this contract and/or obtain such maintenance services from Bombardier Transportation UK Limited. However if Bidders elect not to do so the Department's calculation of the Risk Adjusted NPV will be adjusted as described in **paragraph 7.6.2** (Calculation of Risk Adjusted NPV).

Fleet Configuration

The capacity measure of a standard unit is 0.45m<sup>2</sup> per passenger. For 0.45m<sup>2</sup> 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 m<sup>2</sup> is then divided by 0.45 for a total capacity of the unit (seats and standing). The seats plus required wheelchair provision(s) are deducted from the overall figure to calculate the separate standing only figure. For these purposes, tip-up seats must have a standard size base and have a back rest, if not, the area available when it is stowed will be included as

standing capacity. Tip-up seats cannot be counted if infringe upon the required wheelchair allocation.

Bidders may propose the use of “metro-style” rolling stock that allows 0.25m<sup>2</sup> per standing passenger, rather than the 0.45m<sup>2</sup> generally assumed. Metro-style rolling stock or alterations to the current fleet to increase capacity can be deployed. Bidders must demonstrate that the use of such a standard is likely to allow them to deliver proposed passenger satisfaction benchmarks.

Bidders who intend to propose “metro-style” rolling stock may discuss their proposals in confidence with the Department but, for the avoidance of doubt, any such discussions are for information only and will not affect the evaluation of Bids in accordance with **Section 7** (Evaluation Criteria and Methodology). In advance of any such meeting, Bidders must submit to the Department through the BCQ process an A3 scale drawing for each vehicle type for discussion.

To utilise a measure of 0.25m<sup>2</sup> per standing passenger, the seats are counted separately as these cannot be shrunk to 0.25m<sup>2</sup>. Seats are measured at 0.45m<sup>2</sup> per seat on the basis set out above. The areas at waist level which can be occupied by standing passengers are then measured. Standing areas include door areas and vestibules, corridors and aisles providing these can reasonably be stood in but still excludes seats and areas that are inaccessible (toilet, staff area, first class, litter bins, equipment cupboards, gangways, 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 into account 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. Bidders must provide an A3 scale drawing of the proposed layout for each vehicle type.

#### Cascaded rolling stock

Where fleet cascades are part of the fleet plan, Bidders shall 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.

If a Bidder intends 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 their Bid their reasons for believing that the ‘donor’ franchise will be able to secure alternative suitable rolling stock to continue to operate their train services. In such circumstances Bidders should explain their proposals to the Department, in confidence, as early as possible in the bidding process. The Department will consider any such proposals against the impact on the donor franchise, and may provide a view as to whether the Department is likely to have concerns if the Bidder includes this rolling stock in their proposed Train Fleet. Any such view would be provisional and without prejudice to the Department’s evaluation of the Bid once submitted. Such a view would not be communicated to other Bidders, as this may reveal one Bidder’s rolling stock strategy to the other Bidders, but it is open to any Bidder to approach the Department on this issue.

## 5.9 Plan 8: Better Stations and Asset Management Delivery Plan

### (A) REQUIREMENT

The Department requires an operator who will:

- improve the efficiency and effectiveness of station maintenance, renewal and station operations, for instance through :
  - good asset management and utilisation;
  - design and specification of station layout, fittings and facilities;
  - staff responsibilities; and / or
  - non-fare revenue growth (for example, retail, car parking, etc.).
- manage the maintenance and renewal of the stations such that station condition does not fall below levels specified in the Franchise Agreement;
- provide an annual report (including a copy of the station stewardship report issued to Network Rail and/or ORR) on asset maintenance and renewal to the Department as specified in the Franchise Agreement; and
- calculate the Station Stewardship Measure (SSM) currently defined by NR/ ARM/M17PR for each station, provide validated SSM scores to Network Rail annually and contribute to any future development of the measure.

For the avoidance of doubt, Bidders should note that credit for improvements to customer experience arising as a result of station enhancements will not be given under this plan, but will be given under Delivery Plan 4 (Customer Experience and Communities Delivery Plan).

### (B) EVIDENCE THAT BIDDERS SHOULD PROVIDE

In addition to the minimum requirement set out in **paragraph 5.1.4** (Introduction), Bidders' responses shall cover as a minimum:

- a station asset policy based on whole life costs that includes:

- clear rules for when intervention will be triggered specified in terms of asset condition and/or user satisfaction; and
- the approach for dealing with exceptional station asset renewals, such as those arising from latent defects or exceptional adverse weather, environmental contamination or third party damage;
- an integrated asset management plan that includes:
  - an initial priced station maintenance and renewal plan year-by-year for the Franchise Term. This should distinguish between reactive and planned maintenance;
  - plans specifying how any other proposed enhancements will be delivered with milestones and a breakdown of costs;
  - an estimate of how delivery of the integrated asset management plan will affect the condition of each station, by year;
  - details of how the Bidder will efficiently maintain and update asset data (including condition measures) and ultimately handover relevant policies, plans and records to a subsequent operator; and
  - details of the Bidder's plans for the management and handover of the assets at the end of the Franchise Term, including how the Bidder will work with Network Rail and any successor operator to ensure continuity of the maintenance and renewals programme.

(C) SCORING

For meeting the above requirements, Bidders will score 4 in line with the scoring matrix at set out in **Section 7** (Evaluation Criteria and Methodology). Without prejudice to **paragraph 5.1.6** (Introduction) above, specific examples of how the requirements may be exceeded (subject to the quality and suitability of the Bidder's proposals addressing the relevant issue and the other requirements of the relevant plan, and the sufficiency and credibility of supporting evidence) are set out below:

- providing investment in or transformation of stations, including Fenchurch Street and Barking Stations including submission of:
  - a clear project plan setting out key activities, milestones and deliverables required to improve or re-develop the station(s);
  - a risk register showing dependencies of the redevelopment including pre-requisites for delivery such as planning decisions;
  - project management structures and delivery frameworks for the redevelopment; and
  - detail of funding and financing arrangements.

## 6. Section 6: Detailed Bid Submission Requirements - Financial

### 6.1 Introduction

This section describes the detailed financial information which Bidders must include in their Bids. In summary, these are:

- a Financial Model;
- Operational Models;
- a Record of Assumptions;
- an Operating Manual;
- evidence that the Models have been reviewed in accordance with the requirements described in **paragraph 6.6** (Model Review and Audit);
- a paper describing the Bidder's financial structure and funding prepared in accordance with the requirements described in **paragraph 6.7** (Financial Structure and Funding); and
- in relation to modelling Change, the requirements as described further in **paragraph 6.8** (Modelling Change).

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

Any information submitted which does not comply with the requirements of this **Section 6** (Detailed Bid Submission Requirements – Financial) may result in the Bid being treated as non-compliant.

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

Bidders are required to satisfy themselves as to the technical accuracy of their Modelling Suite prior to submission. Where any element of the Modelling Suite is found to contain an error or errors, the Department reserves the right to, either:

- evaluate the relevant element of the Modelling Suite as received, in which case the Bidder shall bear the risk of the error or errors within that element of the Modelling Suite and of any impact that this may have on the evaluation carried out in accordance with **Section 7** (Evaluation Criteria and Methodology);
- correct the error or errors either itself or through clarification from the Bidder in accordance with **paragraph 4.7** (Process Following Bid Submission), and then evaluate that element of the Modelling Suite in accordance with **Section 7** (Evaluation Criteria and Methodology); or
- treat the Bid as non-compliant.

## 6.3 Financial and Operational Model Requirements

### 6.3.1 General

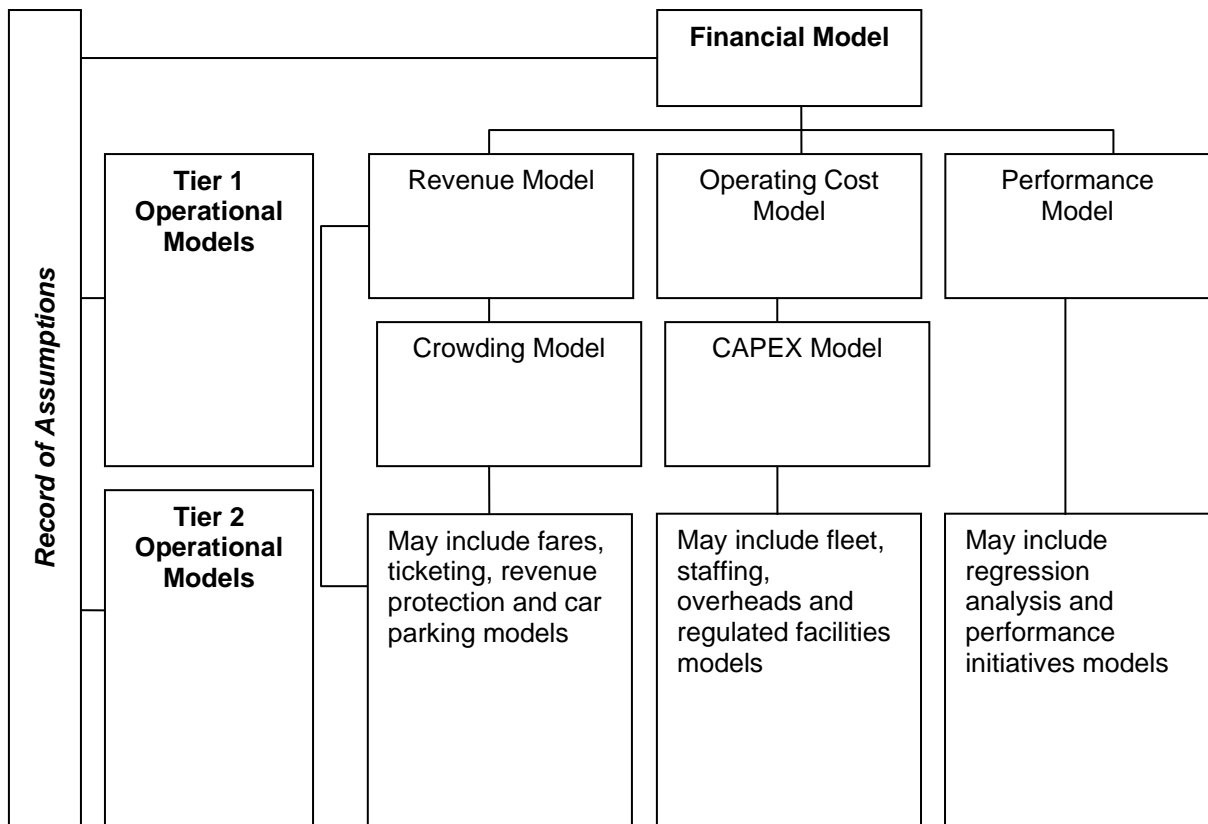
Each Bidder is required to submit and include as part of their Bid a Financial Model and all Operational Models which support that Financial Model. All Models must meet the requirements described in **Section 4** (Explanation of Requirements for Bid Submission and Overview of Process Following Bid Submission) and this **Section 6** (Detailed Bid Submission Requirements – Financial). The Modelling Suite must demonstrate the financial consequences of the Bidder's business and operational plans over the Core Franchise Term in order that the Department may evaluate them in accordance with the evaluation criteria and methodology described in **Section 7** (Evaluation Criteria and Methodology).

Any changes to the Models after Bid submission as a result of the clarification process described in **paragraph 4.7** (Process Following Bid Submission) or otherwise, will need to be clearly logged and traceable, including an audit trail in the relevant model itself, using the template version control sheet.

### 6.3.2 Structure of the Models

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





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

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

### 6.3.3 MOIRA

Bidders must use techniques or models traditionally used in the rail industry and comprising MOIRA (for clarity, this means MOIRA1 and not MOIRA 2) and bespoke revenue and crowding models for constructing

their Bids. Bidders are reminded that any such models, for example bespoke crowding models, must be consistent with the Department's WebTAG guidance i.e. using PDFH 5.0 crowding penalties as set out in the draft WebTAG document:

<http://www.dft.gov.uk/webtag/documents/expert/unit3.15.4d.php>

specifically paragraph 4.2.10 which notes that "...practitioners can choose their own approach to modelling crowding as long as it is consistent with PDFH 5.0 recommendations."

#### 6.3.4 **The Financial Model**

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

- includes the calculations that are required to produce outputs for inclusion in the Franchise Agreement and Funding Deed (as set out in the financial templates provided to Bidders through the Data Site and listed at **paragraph 6.3.6** (Financial Templates) below (the "**Financial Templates**") and for use in accordance with **Section 7** (Evaluation Criteria and Methodology). Outputs from the Financial Templates will be used:
  - to populate the Franchise Payments (the Appendix to Schedule 8.2 (Annual Franchise Payments) of the Franchise Agreement);
  - to populate the Season Ticket Bond value (Season Ticket Bond);
  - to populate the Profit Share tables in the Franchise Agreement;
  - to populate the PCS value and the Bonded PCS value (Funding Deed);
  - for the purpose of **paragraph 7.7** (Adjusted PCS) in **Section 7** (Evaluation Criteria and Methodology); and
- includes functionality to allow the Department to undertake the Department's Financial Robustness Test as well as the Capacity Test as specified in **Appendix 3** (Specified Exogenous Factors).

This functionality will enable the Department to ‘switch’ the Bidder’s Models between the Bidder’s own exogenous forecasts and Specified Exogenous Factors for the purpose of the Financial Robustness Test. In practice this may be a model switch (or switches) or a clearly documented procedure that, when followed, allows the Models to move between the Bidder’s exogenous demand assumptions and the Specified Exogenous Factors. Bidders must not amend any of their endogenous revenue forecasts. 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 and the Annual Franchise Payments;

- allows risk adjustments and sensitivities to be applied to all assumptions as described in this **Section 6** (Detailed Bid Submission Requirements – Financial) and **Section 7** (Evaluation Criteria and Methodology);
- allows the Department to simulate drawdowns of certain of the Parent Company Support as required by the Financial Robustness Test described in **Section 7** (Evaluation Criteria and Methodology). In particular:
  - where, after the application of risk adjustments in each year of the franchise as part of the Financial Robustness Test, the Financial Ratio is breached, the Financial Model must allow the Department to simulate drawdowns of the aggregate of the Variable PCS and the Additional PCS either in full (i.e. where, despite drawdown of the full amount of the Variable PCS and the Additional PCS, such Financial Ratio is still breached) or to the extent required to ensure that such Financial Ratio is no longer breached (in accordance with the process described in **paragraph 7.7** (Adjusted PCS). This dynamic funding calculation (“**DFC**”) functionality must be transparent in the way it is modelled and documented in the Operating Manual and will be evaluated in accordance with **Section 7** (Evaluation Criteria and Methodology);
  - the DFC must simulate the drawdown and repayment (as appropriate) of only Variable PCS and Additional PCS funds

committed under the terms of the Funding Deed in circumstances where risk adjustments are applied to the Financial Model in accordance with **Section 7** (Evaluation Criteria and Methodology);

- the DFC should disregard the value of Fixed PCS for the purpose of the Financial Robustness Test;
  - the DFC must work in conjunction with the requirement to freeze Annual Franchise Payments and Profit Share Thresholds as outlined above; and
  - the DFC must demonstrate that PCS is repaid in accordance with the Funding Deed and the Franchise Agreement as appropriate (where maintenance of the Financial Ratio permits);
- accurately executes the calculations as designed, and provides confidence in its robustness and ability to price Change;
  - provides a sufficient level of usability to allow Change scenarios to be run in a reasonable timescale;
  - provides an appropriate level of granularity for populating template outputs, and is sufficiently transparent to show Changes clearly; and
  - is sufficiently flexible to form the required basis for the pricing of Change with only minor alterations being made to the model's structure.

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

- adopt an absolute sign convention in constructing their Financial Model, such that all revenues and assets are positive and all costs and liabilities are negative;
- include an index switch in their Financial Model 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; and

- ensure that their Financial Model is self-contained within a single Microsoft Excel Workbook. The Financial Model should be presented in annual terms, with year-ends coinciding with the Department's 31 March accounting year end (as demonstrated within the Financial Templates), except in the case of the part year periods identified in **paragraph 6.3.7** (Generic model requirements and assumptions).

The Department has specified the First Profit Share Threshold, the Second Profit Share Threshold and the Third Profit Share Threshold to be used in the Financial Model in the Franchise Agreement. Bidders are free to specify:

- a revised First Profit Share Threshold which results in Profit Share payments becoming due to the Department earlier than they would have been had the First Profit Share Threshold been as specified by the Department;
- a higher percentage of Relevant Profit to be payable to the Department once the First Profit Share Threshold is exceeded than set out in paragraph 3.2(a) of Schedule 8.1 of the Franchise Agreement;
- a revised Second Profit Share Threshold which results in the relevant profit share payments becoming due to the Department earlier than they would have been had the Second Profit Share Threshold been as specified by the Department;
- a higher percentage of Relevant Profit to be payable to the Department once the Second Profit Share Threshold is exceeded than set out in paragraph 3.2(b) of Schedule 8.1 of the Franchise Agreement; or
- a revised Third Profit Share Threshold which results in the Department becoming entitled to 100% of Relevant Profit above that threshold earlier than it would have been had the Third Profit Share Threshold been as specified by the Department.

However Bidders:

- may not propose any other changes to the profit sharing mechanism; and
- should note that neither amounts payable to the Department by way of Profit Share nor any improved Profit Share Thresholds proposed will be taken into account in the evaluation of their Bid.

### 6.3.5 **Operational Models**

The Operational Models are all those models that contain calculations generating inputs either directly or indirectly to the Financial Model. Each Bidder is required to submit with its Bid Operational Models which 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 Financial 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 coach services and car (disaggregated into individual factors where appropriate);
  - timetable changes;
  - fare proposals and policy that demonstrates compliance with Schedule 5 of the Franchise Agreement;
  - operating performance;
  - service quality;
  - marketing;
  - revenue protection Initiatives;
  - revenue / yield management Initiatives; and

- other investments or Initiatives (such as station or rolling stock improvements).
- a crowding model that is clearly linked to the revenue model. This shall include a schedule of daily services and stops, with the relevant headcode, diagram and seat and standing capacity, covering individually each service for which crowding could have a material impact. The model must show average daily loadings along the line of route for each of these services, in each year of the franchise. The crowding model outputs transferring to the revenue model should be expressed as a daily average load, with outputs to calculate the crowding metrics adjusted for an Autumn day. The model should summarise loadings by hour throughout the day. The crowding model must also show the crowding measures as defined in the ITT, and capacities delivered against the minimum capacities as defined in ITT for each year of the Core Franchise Term;
- an operating cost model that should produce inputs to the Financial Model to the level of disaggregation required by the Financial Templates. Any further disaggregation is at the discretion of the Bidder;
- 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 (for example, CAPEX model), showing the detailed investment plan for each incidence of funding of infrastructure, other works and schemes that support the Bidder's proposals with a value in excess of £100,000 (real terms) and that reflects the precise details of their own funding arrangements.

Each Bidder is required to submit with its Bid Operational Models which:

- accurately execute the calculations as designed, and provide confidence in their robustness and ability to price Change;
- provide a sufficient level of usability to allow Change scenarios to be run in a reasonable timescale;
- are coherent, in that the different Models, including the Financial Model, interface and work together effectively;
- provide an appropriate level of granularity for generating Financial Model inputs, and are sufficiently transparent to show Changes clearly;
- includes functionality to allow the Department to undertake the Department's Financial Robustness Test and the Capacity Test as specified in **Appendix 3** (Specified Exogenous Factors). This functionality will enable the Department to 'switch' the Bidder's Models between the Bidder's own exogenous forecasts and Specified Exogenous Factors for the purpose of producing accurate outputs against which the Department is able to satisfy itself of the Bidder's performance against the Department's Capacity Test. In practice this may be a model switch (or switches) or a clearly documented procedure that, when followed, allows the Models to move between the Bidder's exogenous demand assumptions and the Specified Exogenous Factors. For both tests, Bidders must not amend any of their endogenous revenue forecasts;
- are sufficiently flexible to allow the pricing of Change with only minor alterations being made to the model structures; and
- have the capability to forecast the Other Revenue section of the Financial Model, to the level of disaggregation required by the Financial Templates. Given that many of the items in this Section are secondary to forecasts generated by the revenue and operating cost models, Bidders may choose to provide this capability within the Financial Model, employ an additional Tier 1 Operational Model, or develop an alternative methodology. Bidders are required to detail the approach adopted in their Operating Manual and/or Record of Assumptions and such approach will form part of the evaluation carried out in accordance with Section 7 (Evaluation Criteria and Methodology).



### 6.3.6 Financial Templates

Each Bidder is required to submit with its Bid completed copies of the Financial Templates.

A list of these Financial Templates together with a brief summary of each worksheet's content and status is set out below:

Sheet	Content	Status
Template Cover	Properties, legend	Bidder free to use/update
Template Control	Contains real/nominal switch for template calculations, option flag	Bidder to link cells F15 and F24 to model control sheet. Use functionality but do not alter structure.
Version Control	Version control record	Populate but do not alter structure
Template Inputs		
Timeline	Define franchise timeline and part year adjustments	Populate but do not alter structure
Indices & Rates	Repository of indices and rates	Populate but do not alter structure
Line Items	Master definition of line items	Bidder may populate spare line items denoted by square brackets
Template Outputs		
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

Sheet	Content	Status
Financial Statements		
P&L1	Template for forecasts of selected option	Populate highlighted cells but do not alter structure
P&L2	Template for forecasts of selected option	Contains formulae, do not alter
P&L3	Template for forecasts of selected option	Contains formulae, do not alter
CF	Template for forecasts of selected option	Populate but do not alter structure
BS	Template for forecasts of selected option	Populate including Opening Balance in column AJ, 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 cells only) but do not alter structure
NPV	NPV of Franchise Payments calculation (feed from Financial Statements)	Contains formulae, do not alter
FO&C	Schedule 12 Financial Ratio, Performance & Season Ticket Bond calculations (feed from Financial Statements)	Populate (highlighted cells only) but do not alter structure
CALCULATION OF PCS	Calculation template for PCS, including sizing Variable PCS and the PCS bonding requirement	Populate (highlighted cells only) but do not alter structure

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

The first Franchise Year of the Essex Thameside franchise is expected to run part year from 14 September 2014 to 31 March 2015. In order to accommodate the difference between the rail year and the part year identified above, the relevant worksheets in the Financial Templates provide extra column(s) where Bidders should derive the part year element from the full year columns. In addition, an extra column will be provided in the Financial Templates for the optional seven period

extension callable in accordance with Schedule 18 of the Franchise Agreement.

The Financial Ratios are incorporated in the Financial Templates and are based on outputs contained in the template financial statements. Bidders should take note of the drafting of Schedule 12 (Financial Obligations and Covenants) of the Franchise Agreement in completing the Financial Templates.

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

- must ensure that the addition of any further information must be done in such a way as to remain consistent with the format of the Financial Templates and that the level of detail provided is sufficient to give full transparency of all components of costs and revenues;
- must note that the spare rows provided in the Financial Templates can be used to accommodate additional detail but deleting or inserting rows or columns to the Financial Templates is not permitted and may result in the Bid being treated as non-compliant;
- may use the two blank columns inserted between the flag / labelling columns and the first modelled year as they see fit. The intention is that these columns will assist in the transfer of historic data to the Financial Model;
- must ensure that the outputs in the Financial Templates are linked to the input / calculation cells where appropriate and in such a manner as to facilitate both the understanding of the Financial Model and tracing of core assumptions used in the Financial Model;
- may either add worksheets to the Financial Templates or copy the Financial Templates into their own Models. In either case, Bidders are required to ensure that the named ranges defined in the Financial Templates are preserved;
- must ensure that the format of the profit and loss account, cash flow statement and balance sheet are set out in the manner stipulated by the Financial Templates; and

- 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'.

### 6.3.7 **Generic model requirements and assumptions**

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

- the Models should be presented in Microsoft Excel format as shown in **paragraph 4.4** (Submission of Bids), with workings and formulae intact (i.e. non input cells should not be 'hard-coded' with values);
- no rows, columns, cells or worksheets of the Models should be hidden or password protected. Protecting worksheets without passwords to avoid accidental changes to inputs or calculations is allowed, provided it does not reduce the transparency or usability of the Models. Grouping rows or columns is permissible, but hiding rows, columns or worksheets is not permissible;
- the Department wishes to receive models that are efficient in their operation and use of memory. A maximum file size of 75MB is permitted, and smaller Microsoft Excel workbooks are encouraged. Any workbook taking up more than 75MB of disk space results in the Bid being treated as non-compliant;
- 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 derogation has been granted in accordance with the process described in **paragraph 6.3.8** (Derogations) below;

- the Models submitted by Bidders must be in line with best practice in accordance with the requirements set out in **paragraph 6.6** (Model Review and Audit) and employ the accepted principles of “separation”, “consistency”, “integrity” and “linearity”, unless derogation has been granted in accordance with the process described in **paragraph 6.3.8** (Derogations) below;
- although best practice would dictate that a consistent formula is used across columns in each row, there are a number of circumstances where a model can be made more transparent by changing the formulae across an array. Provided it is made clear (even when printed out and the formulae cannot be seen) that the calculation method is different, Bidders may use different formulae in respect of the following:
  - to allow a different approach to the treatment of forecasts before the franchise commences (i.e. 14 September 2014), 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 Modelling Suite will be maintained and supplemented together, and submitted simultaneously as required to support any Change arising during the Core Franchise Term; and
- the output schedules of the Financial Model should be in the format of the Financial Templates.

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

- the franchise will commence on 14 September 2014;
- 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 (incorporating any relevant transitional arrangements to FRS101 or FRS102 should the bidder not choose to early adopt) or IFRS but the accounting basis chosen must be disclosed, consistent and once selected cannot be changed;
- the units to be used in each Bid submission are clearly set out in the Financial Templates provided;
- the default prices stated in the Financial Model should be nominal but when viewed in real terms, outputs should be deflated to 2014/15 prices;
- the Franchise Payment table set out in the Appendix to Schedule 8.2 (Figures for Calculation of Franchise Payments) of the Franchise Agreement should be completed in 2014/15 prices;
- annual RPI and AWE indices assumptions will be made available to Bidders in the Data Site and shall apply from 1 April 2015 and annually thereafter. Bidders should adopt their own RPI and AWE assumptions between 14 September 2014 and 31 March 2015 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 (14 September 2014);
- for the purposes of calculating net present values, the template calculation assumes the following timings for cashflows:

- 22 December 2014 for the part year 14 September 2014 to 31 March 2015;
- mid-year cashflows (30 September) for full Franchisee financial years;
- Profit Share levels and thresholds are as per the Franchise Agreement (Schedule 8.1 (Franchise Payments));
- any amounts attributable to Profit Share that are included within a Bidder's Financial Model will be disregarded for the purpose of the evaluation, including the Financial Robustness Test, carried out in accordance with **Section 7** (Evaluation Criteria and Methodology);
- there will be no changes to the Track Access Contract and charging methodologies as a result of any reviews conducted by ORR during the Core Franchise Term or between the date of issue of this ITT and the Franchise Start Date. The Department recognises that the ORR will likely announce the outcome of its CP5 Periodic Review prior to the Franchise Start Date. However, given the expected timing of the CP5 Periodic Review, Bidders must use CP4 rates in their Bids. For the avoidance of doubt, the Department reserves the right, pursuant to **paragraph 1.9** (Updates and Termination), to require Bidders to use CP5 rates in their Bids, in which case the Department will also publish further instructions to Bidders;
- Bidders should make their own assumptions for Traction Electricity Charges and any Efficiency Benefit Share mechanism that might be proposed for CP5;
- for calculating Franchise Payments the methodology should be applied consistently on an annual basis, in accordance with the Franchise Agreement; and
- the findings of the Department's Fares and Ticketing Review are due to be published shortly. Bidders should prepare their Bids on the basis of existing policy. However the Department reserves the right, pursuant to **paragraph 1.9** (Updates and Termination), when that review is published, to mandate that Bidders prepare their Bids on the basis of that new policy. If that is the case, the Department will also publish further instructions to Bidders.

### 6.3.8 Derogations

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

- model size;
- use of OFFSET and INDIRECT functions; and
- Modelling Best Practice Confirmation.

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

#### 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.

#### Use of prohibited functions

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

- the use of these functions generates significant savings in model run times and use of disk space or otherwise significantly assists the efficient pricing of Change; and
- the use of these functions is clearly explained and documented in the Operating Manual and Record of Assumptions.

#### Modelling Best Practice

The Department will consider applications to relax the requirements of the Modelling Best Practice Confirmation 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.

## 6.4 Record of Assumptions

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



- is in Microsoft Word format in accordance with **paragraph 4.4** (Submission of Bids);
- contains all financial and operational assumptions used in the Models 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;
- includes a description of accounting policies, especially in relation to capital investment, pensions, and taxation assumptions.
- includes a table setting out the percentage of total other revenues, other operating costs and rolling stock costs (totals in real terms over the Core Franchise Term) that are earned from or paid to HQ, group or other affiliates (as defined in the Franchise Agreement);
- includes separately the costs involved and assumptions made in relation to pension contribution rates, both employer and employee;
- if the Bidder proposes investment with a return which exceeds the Core Franchise Term, any costs and revenues that accrue in relation to that investment should be explicitly set out in the Record of Assumptions laid out for:
  - the period from investment until franchise end; and
  - the period from franchise end until end of asset life, including the basis for determining that asset's life;
- contains a level of detail and a granularity of data which exceeds that contained in the Models;
- clearly sets out the rationale underlying the assumptions and the methodologies adopted;
- provides a satisfactory level of usability in that linkages to the Models are clear and the narrative provides the user with sufficient information to assess the financial impact of price or volume changes within a reasonable timeframe;

- the narrative is enhanced by the use of tables which may be directly traceable to the Models, and arriving at an estimate of the financial impact of a change in prices or volumes is aided by the quality of the narrative; and
- where changes in the Financial Model are attributable to Initiatives, the reasons for such shall be reflected in the Record of Assumptions. An example of how such movements could be presented is shown in Table 6.4 below. Bidders should note that words and values contained within Table 6.4 are indicative only.

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

Franchise Year	1	2	3	4	5	6	7	8
Base Year FTE	432.5	432.5	432.5	432.5	432.5	432.5	432.5	432.5
LFR data – baseline adjustment	(20.0)							
Initiative DP3.4.5 (Train Maintenance in house)				15.0	30.0	5.0	(3.0)	
Initiative DP3.4.5 (Depot staff restructuring)	(15.0)	(10.0)						
Initiative DP6.2.3 (Management/HQ Structure Efficiencies)	(5.0)	(5.0)						
Initiative DP5.2.1 (Sales channel review)	(5.0)	(3.0)	(2.0)					
Initiative DP4.1.1 (Station Welcome Hosts)	5.0	2.0						
<b>Total FTE at year end</b>	<b>392.5</b>	<b>376.5</b>	<b>374.5</b>	<b>389.5</b>	<b>419.5</b>	<b>424.5</b>	<b>421.5</b>	<b>421.5</b>

Bidders are required to fully evidence the details behind their Initiatives in their response to **Section 5** (Detailed Bid Submission Requirements - Delivery Plans). However, using the above table as guidance, Bidders shall, in their Record of Assumptions, accompany such a table with a brief narrative of each Initiative. The wording of the narrative will make it reasonably determinable that the Initiative is the same as its correspondingly numbered Initiative in the Bidder's response to **Section 5** (Detailed Bid Submission Requirements - Delivery Plans).

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

- a copy of its modelled timetable and source codes (which have been developed within MOIRA (not MOIRA2 as per the instruction set out in **paragraph 3.17** (MOIRA)) or any other revenue or timetable development software) to calculate the likely passenger revenues that will be earned from the timetable submitted with their Bids and that have been utilised in the population of the Bidder's Revenue Models. This information should be provided electronically in raw format as an appendix to a Bidder's Record of Assumptions; and
- as described above, the Operational Models should have the capability to forecast the Other Revenue section of the Financial Model, to the level of disaggregation required by the Financial Templates. Bidders may choose to provide this capability within the Financial Model, employ an additional Tier 1 Operational Model, or develop an alternative methodology. Bidders are requested to detail the approach adopted in their Operating Manual or the Record of Assumptions.

## 6.5 Operating Manual

### 6.5.1 Requirements

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

- is in Microsoft Word format in accordance with **paragraph 4.4** (Submission of Bids);
- clearly explains the method by which the Bidder's Models are able to carry out the tests described in **paragraph 6.3.5** (Operational Models);
- includes a description of each Model, its structure and capability;
- includes an explanation of the flow of data through the Financial Model and the interfaces with the Operational Models submitted. This may be presented diagrammatically with supporting narrative as appropriate;
- includes a description of the purpose and operational characteristics of each worksheet and how it interacts with the Models;

- includes instructions on how to input data, select assumptions and calculate the financial outputs;
- where macros (or other visual basic functions) have had to be used, includes a description of any macros used in the operation of the Models, the reason for their use and how they impact on the results; and
- is an accurate and plain-English document that facilitates a reasonable level of understanding of the functionality of the Bidder's Models, including how they interface and are interdependent with other Models. Screen shots and narrative provide the user with sufficient information to assess the content, purpose and functionality of the Models.

### 6.5.2 Changes

In addition to the requirements and content set out in **paragraph 6.5** (Operating Manual), the Operating Manual shall also include worked examples of Change (“**Worked Examples**”) as set out below. The Worked Examples will be evaluated in accordance with **Section 7** (Evaluation Criteria and Methodology). The Financial Model is **not** required to include a switch to allow these examples to be selected. The Worked Examples to be included are:

- Worked Example (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); and
- Worked Example (B) – all trains run an additional 10% loaded vehicle miles in franchise years 6 and 9 only (cost impact only, diagram and revenue effects not required) and Average Minutes Lateness NR benchmark for the Essex Thameside Peak service group increases by 20% from the base level in Franchisee Years 3 and 4 only.

The Bidder must ensure that the Worked Examples:

- provide a clear and detailed account of the assumptions and processes employed in pricing Change, including:
  - details of the individual steps to be followed to make the Change; and
  - identification of the Models impacted by the Change (i.e. financial, revenue, crowding, fares etc), including a process flow diagram;
- trace the effect of a revised input through the Models, providing an audit trail from output Franchise Payments back to input changes;
- include a commentary on the rationale for the inclusion/exclusion of each variable within the scope of the Change, demonstrating the reasonableness of the revisions; and
- the level of change in the Financial Model outputs, including but not limited to Franchise Payments, is commensurate with the level of input changes.

In addition to providing the Worked Examples 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 in-life, 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 in Worked Example (A), above, was announced in 2015 but that the Franchisee at that time did not believe the number calculated in the Worked Example was the correct adjustment. The Department would like Bidders to demonstrate what evidence it might use to substantiate its position and how it would engage and share information with the Department to agree and contract the Change. This evidence may include downloads from ticketing and/or accounting systems, recent evidence of the relevant price elasticity of demand or other, more qualitative, information.

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

**6.6 Model Review and Audit**

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

	Independent Modelling Best Practice Confirmation	Model Audit	Calculation Review	Technical Review
<b>Financial Model</b>	✓	✓		✓
<b>Tier 1 Operational Models</b>	✓		✓	✓
<b>Tier 2 Operational Models</b>	✓			✓
<b>Timescales and Requirements</b>	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 in accordance with the process described in **paragraph 6.6.2** (Model Audit).

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, in accordance with the process described in **paragraph 6.6.3** (Calculation Review).

Bidders are required to satisfy themselves as to the technical accuracy of all Models prior to submission, noting the allocation of risk with respect to errors within the Models described in **paragraph 6.1** (Introduction) above.

**6.6.1 Modelling Best Practice Confirmation**

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

obtained in accordance with the process described in **paragraph 6.3.8** (Derogations) above. The Modelling 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;
- **Linearity** of calculation flow (e.g. that there are no circular references); and
- **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 have been obtained in accordance with the process described in **paragraph 6.3.8** (Derogations) above.

#### 6.6.2 **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 Bidders' account only. Bidders must obtain the Department's acceptance (not to be unreasonably withheld) of their choice of independent model auditor and the Department's agreement to the definition of the Financial Model for determining the scope of the audit. The Department will expect to receive the audit report within ten working days of it being requested of the Bidder.

The Department requires the Model Audit to confirm:



- whether the Financial Model has been constructed appropriately so as to materially achieve the objective that it was designed to meet, insofar as its logical integrity under the bid assumptions and input data is concerned, including the conversion of 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;
- whether the DFC accurately performs the calculations as required in this ITT. The Department will define with the Model Auditor the inputs and parameters, as appropriate, to meet this requirement in the Model Audit; and
- whether the Exogenous Switch accurately performs the calculations as required in this ITT. The Department will define with the Model Auditor the inputs and parameters, as appropriate, to meet this requirement in the Model Audit.

For the Model Audit, the Department may provide one or more Bidders with no more than five tests for the purposes of understanding

robustness of the Financial Model. The Model Audit will test the logical integrity of the arithmetical operations in the Financial Model formulae and calculations under the assumptions and input data for the specified test(s). A robustness test is defined as a change in one or more variables.

Bidders are required to satisfy themselves as to the technical accuracy of all Models prior to submission, noting the allocation of risk with respect to errors within the Models described in **paragraph 6.1** (Introduction) above.

### 6.6.3 **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 bid 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.

## 6.7 **Financial Structure and Funding**

### 6.7.1 **Bid requirements**

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

- details the total investment plan for all funding of infrastructure, other works and schemes that support its proposals, including explaining its linkage with the Financial Model;

- shows that Required PCS and any Additional PCS has been provided in accordance with the requirements set out in **paragraph 6.7.2** (Parent Company Support) below;
- provides precise details of its funding arrangements, the exact nature of relationships with any funding partner(s) or underlying financial securities provided by third parties, risks to its ability to meet its funding commitments and how risks will be mitigated;
- provides details of the providers of the Performance Bond, Season Ticket Bond and PCS Bond including term sheets from the Bond Provider(s) in order to demonstrate that the requirements of the Franchise Agreement have been or will be met;
- includes a statement from the relevant Bond Provider accepting the form of the Performance Bond as set out in the Franchise Agreement (as an Annex if appropriate);
- includes a statement from the relevant Bond Provider accepting the form of the Season Ticket Bond as set out in the Franchise Agreement (as an Annex if appropriate);
- includes a statement from the relevant Bond Provider accepting the form of the PCS Bond as set out in the Funding Deed (as an Annex if appropriate);
- includes a statement from the Parent accepting the form of the Funding Deed and its terms, and that they will be prepared to enter into the Funding Deed in that form on the date of execution of the Franchise Agreement;
- includes a parental company guarantee in respect of any liabilities at handover of station assets in the form at Attachment G (Parent Company Guarantee – Stations Liability). 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;
- demonstrates how ongoing working capital requirements, as forecast in the Financial Model, will be funded;

- includes for each Initiative which has a funding source outside of working capital (or groups of commitments if appropriate), a funding plan with full details of its linkage with the Financial Model, each source of funding, including rights and obligations of each type of funding and details of agreements with the organisations providing funding (including intra-group or intra-company funding). For each source, a letter of support and term sheet must be provided from the underwriting financial institution setting out the terms and conditions (including all condition precedents, fees, repayment profile, basis of interest rate calculation) of the finance;
- includes an explanation of the basis under which the Bidder proposes to procure rolling stock from the ROSCOs, the detailed basis of the accounting treatment of associated charges (explaining in particular whether the leases are treated as operating or finance leases and why) and the detailed tax treatment of these charges (explaining in particular the application if relevant of the long funding lease rules contained in Chapters 6 and 6A of Part 2 of the Capital Allowances Act 2001);
- includes a letter from its financial adviser(s) (as an Annex if appropriate):
- confirming that the funding plans for all aspects of the Bid have been developed to a stage that will allow funding to be made available to the Franchisee on execution of the Franchise Agreement;
- confirming that financial adviser support of the funding proposition has been provided in the knowledge of the terms and conditions set out in the term sheets of the finance providers;
- confirming that the funding plans are accurately reflected in the Financial Model;
- confirming that risks to the Bidder's ability to meet its funding commitments have been identified and mitigated;
- sets out the calculated ratios in respect of the Parent as set out in **paragraph 7.7** (Adjusted PCS), together with details of the data used and its source, and details of the calculations undertaken and

confirming, to the best of its knowledge, that the ratios have been calculated in accordance with the parameters defined in **paragraph 7.7** (Adjusted PCS);

- confirms 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 (as defined in the Franchise Agreement) or third party;
- provides details and assumptions for interest earned on cash deposits; and
- includes a statement of funding available to the Franchisee from the Start Date and any assumptions around the transfer of season ticket or advance ticket purchases from the incumbent.

Bidders should note that the Department reserves the right to risk adjust a Bid in accordance with **Section 7** (Evaluation Criteria and Methodology).

#### 6.7.2 **Parent Company Support**

Bids for the Essex Thameside franchise must be supported by a level of parent company support ("**Parent Company Support**").

The successful Bidder and its Parent will be required to enter into the Funding Deed with the Department. The Funding Deed will set out the Parent's obligation to make the Parent Company Support available. The Parent which enters into the Funding Deed with the Department will be the Parent subjected to the Additional Financial Test, which is described in **paragraph 7.7** (Adjusted PCS).

Without limiting the remainder of this **paragraph 6.7.2** (Parent Company Support), the amount of Parent Company Support which Department requires Bidders to provide under the Funding Deed ("**Required PCS**") will be calculable by Bidders by reference to their Financial Models. The method of calculation is set out in the Financial Template and is as follows:

$$\text{Required PCS} = F + V$$

Where:

F equals £30,000,000 (“**Fixed PCS**”); and

V equals 4.0% of the difference between (a) and (b) below (“**Variable PCS**”):

(a) the total premium bid across the Core Franchise Term, calculated as the sum of the Franchise Payments (in nominal terms) for each Franchisee Year, without any regard for payments by way of Profit Share due to the Department pursuant to paragraph 3 of Schedule 8.1 of the Franchise Agreement; and

(b) £806,626,841\*,

provided that where (b) is greater than (a), V shall be deemed to be zero.

\* This figure is based on nominal values.

Bidders may propose a level of Parent Company Support in excess of Required PCS (any such excess being "**Additional PCS**") for the purpose of providing additional financial robustness to the Bid or Specific Purpose Additional PCS. Additional PCS must be advanced by the Bidder's Parent in accordance with the terms of the Funding Deed.

Bidders will be required to procure, in accordance with the Funding Deed, a bond from a third party financial institution with a relevant credit rating in an amount equal to 50% of the aggregate of the Required PCS and any Additional PCS *minus* the value of any Specific Purpose Additional PCS, collectively ("**Bonded PCS**"). For the purpose of this paragraph, "**relevant credit rating**" means either a credit rating of:

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

“**Specific Purpose Additional PCS**” means Additional PCS proposed by a Bidder for the purpose of:

- working capital; or
- to fund investments or capital expenditure to be made by the Franchisee,

as specifically identifiable within that Bidder's Financial Structure and Funding Plan and Modelling Suite. The Department is not willing to pay for, and Bidders should not include in their Modelling Suites, any costs (including financing or similar costs) in relation to Additional PCS which is not Specific Purpose Additional PCS.

Where a Bidder has purported to attach Additional PCS to working capital, investments or capital expenditure for the purpose of meeting the definition of Specific Purpose Additional PCS and after clarification, the Department is unable to reasonably determine that such Additional PCS is identifiable as working capital, investment or capital expenditure, then such Additional PCS shall be deemed to fall outside the definition of Specific Purpose Additional PCS for the purpose of correctly calculating the value of Bonded PCS and the Department reserves the right to either:

- require Bidders to obtain the third party bond that corresponds to the correct value of Bonded PCS; or
- deem the Bid to be non-compliant.

## 6.8 Modelling Change

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

**Table 6.8** Modelling Change Submission Requirements

No.	Item	Requirements
1.	Worked Examples and approach to Change	Each Bidder will include within the Operating Manual submitted with its Bid, the Worked Examples and details of its approach to Change prepared in accordance with the requirements described in <b>paragraph 6.5.2</b> (Changes) of this ITT.
2.	Record of Assumptions and Operating Manual	Each Bidder will include within its Bid a Record of Assumptions prepared in accordance with the requirements described in <b>paragraph 6.4</b> (Record of Assumptions) of this ITT and an Operating Manual prepared in accordance with the requirements described in <b>paragraph 6.5</b> (Operating Manual) of this ITT.
3.	Suitability of Financial Model for implementing Changes	Each Bidder will include within its Bid a Financial Model prepared in accordance with the requirements described in <b>paragraph 6.3</b> (Financial and Operational Model Requirements) of this ITT.
4.	Suitability of Operational Models (including integrity of the Modelling Suite) for	Each Bidder will include within its Bid Operational Models prepared in accordance with the requirements described in <b>paragraph 6.3</b> (Financial and Operational Model Requirements) of this ITT.

No.	Item	Requirements
	implementing Changes	

The Department will, as part of the evaluation carried out pursuant to **Section 7** (Evaluation Criteria and Methodology), assess whether the Bidder has met all of the requirements as specified in the column headed 'Requirements' in **Table 6.8** (Modelling Change Submission Requirements), in respect of each of these four items. This will be on a pass/fail basis against each of the four items as described in **paragraph 7.5** (Evaluation of Modelling Change).

The Department recognises that there are considerable time, cost and resources often deployed by the Department and Franchisees in the contracting and management of Change throughout the Franchise Term. The contracting of a suitable Modelling Suite will support endeavours to improve the efficiencies around contracting Change.

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



## 7. Section 7: Evaluation Criteria and Methodology

### 7.1 Foreword

Through this franchise competition the Department is seeking to procure a Franchisee for Essex Thameside. In doing so, the price offered by Bidders to meet the Department's Specification is an important, but not the only, factor/criterion to be taken into consideration. The Department considers it appropriate to adopt a scoring system that reflects both financial and non-financial factors.

This change has necessitated the development of a new process for evaluating and scoring Bids being broadly consistent with the approach used on other large public procurements but which is, by definition, untried in passenger rail franchise competitions run by the Department. Given that Bidders are unfamiliar with the new process the Department has shared both its thinking and its approach on scoring and evaluation with Bidders as this has developed. Feedback received from Bidders has helped to refine the proposals and the final arrangements presented in the ITT reflecting the Department's judgement taking account of the comments made.

**Section 5** (Detailed Bid Submission Requirements – Delivery Plans) sets out in detail, for each Delivery Plan and Sub-Plan, the criteria which Bids will have to meet to achieve an Evaluation Score of 4 representing a Bid which meets the requirements of the Department's Specification. It also provides an indication of the areas where Bidders may seek to exceed the Department's requirements in order to achieve an Evaluation Score of more than 4 and up to 7. As described in **paragraph 5.1.6** (Introduction), the ITT does not prescribe the requirements for these higher scores because the Department wants to encourage innovation by Bidders. A tightly prescribed approach would have the twin effect of inhibiting innovation and conditioning Bidder responses. However, without seeking to constrain innovation in any way, the Department has described how Evaluation Scores above 4 could be achieved in **paragraph 7.4.1** (Scope to Achieve Scores Higher than 4) below. Evaluators will therefore exercise professional, evidence and experience based judgement in scoring Bids. Scores will be moderated in order to quality assure this process and ensure consistency of scoring as described in **paragraph 7.4.2** (Moderation of Evaluation Scores).

In order to combine price/cost and quality, the Department has decided to adopt the formula  $P+(n*Q)$ . This is presentationally different to the approach commonly adopted in the UK and elsewhere in the EU in other procurements of assigning a relative weight to financial and non-financial considerations based on the best price Bid and the maximum available Quality Score, although in mathematical terms the effect of these approaches to combining price/cost and quality is similar, with some key differences discussed below.

The decision to adopt this approach reflects the Department's considered view that the  $P+(n*Q)$  formula is superior to other methods in situations where the financial value of Bids may vary widely (as has been the case on previous franchise competitions). This applies particularly to competitions where the Bid is based on a premium/subsidy which is a net figure and intrinsically more volatile than a standard gross cost-based Bid.

With a  $P+(n*Q)$  formula, the value assigned to 'n' is potentially significant in determining the outcome of the competition. Setting this value of 'n' involves an element of judgement by the Department and, rather obviously, that judgement needs to be made before Bids are prepared. This judgement has been informed by analysis including an assessment of sample schemes that might be proposed by Bidders; the amount of premium/cost that the Department would be prepared to sacrifice in order to secure a high quality Bid; the range within which the proportion of overall score assigned to quality would be expected to lie; and feedback from Bidders, who were consulted on possible values of 'n'.

Through consultation on 'n' along the way; in its drafting and declaring the value it finally ascribes to 'n' in the ITT, the Department has made its approach on price/quality transparent to all.

It is normal under the relative weighting methodology for the maximum score available for quality to represent a fixed proportion of the overall score for example, 70% price and 30% quality. This cannot be the case when the overall score is calculated as  $P+(n*Q)$  as the quality proportion will vary depending on the price bid. This is precisely the characteristic which makes the approach flexible enough to handle a wide range of potential prices submitted in Bids. However, based on the analytical work undertaken, it is still the Department's expectation that the price will represent a greater proportion of the overall score than quality.

Another key aspect of the process is the Financial Robustness Test. In order to have confidence that the winning Bid meets the Department's requirements for

financial robustness it is necessary for the Department, if necessary, to carry out risk adjustments on Bids as described in **paragraph 7.6** (Evaluation Of Financial Robustness) and **Appendix 5** (Risk Adjustment Process). The Department will risk adjust where it considers that there is a material risk of a materially different financial outcome, for example, where there is insufficient evidence to support costs, revenue and capital or where an error has been made.

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

- the Department's rights set out at **paragraph 3.9** (Right to Reject Bids and Non-Compliance Statements);
- the Department's rights to terminate or amend the terms of the procurement as set out at **paragraph 1.9** (Updates and Termination);
- **paragraph 3.16** (Value for Money); and
- **paragraph 3.14** (EC 1370/2007),

the Essex Thameside Franchise will be awarded to the Bidder which submits the most economically advantageous tender for the Core Franchise Term.

## 7.2 Definition of MEAT for the competition

The Bidder submitting the most economically advantageous tender for the Core Franchise Term shall be determined in accordance with the following formula:

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

Where:

P A value equal to the Bidder's Risk Adjusted NPV as determined in accordance with this **Section 7** (Evaluation Criteria and Methodology) in millions rounded to two decimal places (for example, 225,524,999 will be rounded to 225.52, and 225,525,000 will be rounded to 225.53);

n means 16.5;

Q means the Bidder's Quality Score as determined in accordance with **paragraph 7.4** (Scoring Methodology for Delivery Plans 2 to 8); and

(n\*Q) will be rounded to two decimal places.

Bidders should note that:

- the maximum Quality Score is 7.32 and therefore the maximum value of  $(n*Q)$  is 120.78. This is the maximum score that a bid can obtain in relation to quality regardless of the Risk Adjusted NPV of that bid or the winning bid. Therefore it is not possible to specify a weighting in percentage terms between price and quality; and
- however, as demonstrated by (i) the formula set out above; (ii) the fact that there is no cap on the value of “P”; and (iii) the fact that the maximum value of  $(n*Q)$  is 120.78, the relative importance of price is greater than that of quality.

The Bidders will be ranked in accordance with their Final Scores as determined in accordance with formula above, with the highest Final Score ranking first. The Final Score will be to one decimal place (for example, 99.24 will be rounded to 99.2, and 99.25 will be rounded to 99.3).

In the event that there are equal highest Final Scores, a tie break shall apply between the Bidders awarded those Final Scores (“**relevant Bidders**”) and the following approach will be followed:

- the winning Bidder will be the relevant Bidder that achieved the highest Evaluation Score on Plan 6 (Train Service Requirements, Crowding, Capacity and Demand Delivery Plan);
- if two or more relevant Bidders achieved equal highest Evaluation Scores on Plan 6 (Train Service Requirements, Crowding, Capacity and Demand Delivery Plan), the winning Bidder shall be whichever of such relevant Bidders achieved the highest Evaluation Score on Plan 4 (Customer Experience and Communities Delivery Plan); and
- if two or more relevant Bidders achieved equal highest Evaluation Scores on both Plan 6 (Train Service Requirements, Crowding, Capacity and Demand Delivery Plan) and Plan 4 (Customer Experience and Communities Delivery Plan) the winning Bidder shall be whichever of such relevant Bidders has the highest aggregate sum of the As Bid Franchise Payments in respect of each Franchisee Year from the start of the franchise to 31 March 2019.

## 7.3 Evaluation of Delivery Plans and Sub-Plans

### 7.3.1 Delivery Plan and Sub-Plan Initial scoring

The Department will evaluate Delivery Plans 2 to 8 (and, where applicable, their component Sub-Plans) against the evaluation criteria set out in **paragraph 7.4** (The Scoring Methodology for Delivery Plans 2-8) and the requirements of **paragraph 5.1** (Introduction), and assign each Delivery Plan and, where applicable, each Sub-Plan an Evaluation Score in accordance with **paragraph 7.4** (The Scoring Methodology for Delivery Plans 2-8). The Delivery Plans have been allocated weightings as set out in the matrices in **Table 7.3a** (Essex Thameside Evaluation Matrix Delivery Plan Weightings). Plan 1 (Summary Business Plan) will not be scored.

Where a Delivery Plan consists of more than one Sub-Plan, the individual Sub-Plan Evaluation Scores will be aggregated in accordance with the weightings set out in **Table 7.3b** (Essex Thameside Evaluation Matrix Sub-Plan Weightings), in order to give the score for the relevant Delivery Plan.

The Department will commission reports in relation to particular Delivery Plans and/or Sub-Plans, from Network Rail, ORR and Passenger Focus. The Department will be using these reports to consider the suitability and deliverability of the Bidders' relevant Delivery Plans and/or Sub-Plans and their consistency with the requirements set out in this ITT. Network Rail, ORR and Passenger Focus will not evaluate or score any Delivery Plans and/or Sub-Plans.

### 7.3.2 **Impact of Financial Robustness Test on Evaluation Scores**

In accordance with **paragraph 7.7** (Adjusted PCS), a Financial Robustness Test will be carried out on each Bidder's Models as part of the evaluation process. Where, in accordance with **paragraph 7.7.3** (Calculation of Risk Adjusted NPV), a Bidder is projected, in its Risk Adjusted Financial Model to breach the Financial Ratio at any point during the Core Franchise Term:

- the Evaluation Score for any Delivery Plan and/or Sub-Plan which includes a Relevant Initiative may be revised so that the Evaluation Score takes no account of the impact of such Relevant Initiative provided that no revision will be made to any such Evaluation Score pursuant to this paragraph where such revision would result in an increase in such Evaluation Score;

- for the avoidance of doubt revision to the Evaluation Score for any Delivery Plan and/or Sub-Plan pursuant to this paragraph shall not cause any Delivery Plan and/or Sub-Plan to be deemed non-compliant.

The following principles shall apply for the purpose of this **paragraph 7.3.2** (Impact of Financial Robustness Test on Evaluation Scores):

- no adjustment will be made to the Bidder’s Risk Adjusted NPV pursuant to this **paragraph 7.3.2** (Impact of Financial Robustness Test on Evaluation Scores); and
- in accordance with this **Section 7** (Evaluation Criteria and Methodology), and notwithstanding the adjustments described here, Bidders remain expected to be willing to contract the Committed Obligations proposed in their Bids.

For the purpose of this **paragraph 7.3.2** (Impact of Financial Robustness Test on Evaluation Scores):

- a “**Relevant Initiative**” means an Initiative for which the Completion Date falls at any time after the Year of Breach (as defined in **paragraph 7.6** (Evaluation of Financial Robustness)); and
- “**Completion Date**” means the earlier of (i) the date specified for the Relevant Initiative in the relevant Delivery Plan or Sub-Plan pursuant to **paragraph 5.1.4** (Introduction); and (ii) the date specified for the Relevant Initiative in the relevant Committed Obligation, in each case as the date by which the Relevant Initiative will be completed.

Bidders should note therefore that the outcome of the process described in this **paragraph 7.3.2** (Impact of Financial Robustness Test on Evaluation Scores) may result in adjustment to a Bidder’s Evaluation Score and/or Quality Score and may therefore affect the ranking of Bidders and ultimately the selection of the winning Bidder.

**Table 7.3a:** *Essex Thameside Evaluation Matrix Delivery Plan Weightings*

Plan	Weighting
Plan 1 – Summary Business Plan	0%
Plan 2 – Managing the Business Delivery Plan	5%
Plan 3 – Corporate Social Responsibility Delivery Plan	5%
Plan 4 – Customer Experience and Communities Delivery Plan	20%
Plan 5 – Marketing and Retailing to Grow the Business Delivery Plan	15%
Plan 6 – Train Service Requirements, Crowding, Capacity and Demand Delivery Plan	25%
Plan 7 – Train Performance and Train Service Delivery Plan	15%
Plan 8 – Better Stations and Asset Management Delivery Plan	15%

**Table 7.3b: Essex Thameside Evaluation Matrix Sub-Plan Weightings**

Delivery Plan	Sub-Plans	Weightings
Plan 2 – Managing the Business Delivery Plan	Organisation, Management and Staffing Sub-Plan	40%
	Mobilisation and Migration Sub-Plan	40%
	Licence Sub-Plan	20%
Plan 3 – Corporate Social Responsibility Delivery Plan	Environment and Sustainability Sub-Plan	20%
	Managing Industry Partnerships Sub-Plan	40%
	Security Sub-Plan	40%
Plan 5 – Marketing and Retailing to Grow the Business Delivery Plan	Fares, Ticketing and Ticket Retailing Sub-Plan	50%
	Growing the Business Sub-Plan	50%
Plan 7 – Train Performance and Train Service Delivery Plan	Delivering Performance Sub-Plan	50%
	Rolling Stock Sub-Plan	50%

*i.e. Delivery Plan Evaluation Score = Sum (Each Sub-Plan Evaluation Score x Sub-Plan % Weighting)*

#### 7.4 The scoring methodology for Delivery Plans 2 to 8

Delivery Plans and their associated Sub-Plans, (where applicable) will be assessed on the basis of whether, in the judgement of the evaluators, Bidders meet, exceed or fail to meet the requirements set out in **Section 5** (Detailed Bid

Submission Requirements – Delivery Plans). The evaluation criteria for the award of an Evaluation Score are as set out in **Table 7.4a** (Evaluation Scores) below.

**Table 7.4a: Evaluation Scores**

Evaluation Score	Description
0	No evidence provided or on the evidence provided the evaluators conclude that the Bidder will NOT meet the requirements of the Specification and the Bid is worse than an award of a 1.
1	The evaluators have fundamental concerns from the evidence that, overall, the Bidder will NOT meet the requirements of the Specification.
2	The evaluators have material concerns from the evidence that, overall, the Bidder will NOT meet the requirements of the Specification.
3	The evaluators believe from the evidence that, overall, the Bidder will meet the requirements of the Specification with minor concerns.
4	The evaluators believe from the evidence that, overall, the Bidder will meet the requirements of the Specification.
5	The evaluators believe from the evidence that, overall, the Bidder will slightly exceed the requirements of the Specification.
6	The evaluators believe from the evidence that, overall, the Bidder will significantly exceed the requirements of the Specification.
7	The evaluators believe from the evidence that, overall, the Bidder will significantly exceed the requirements of the Specification in all material respects.

Where evaluators judge that there are areas of concern in relation to any Delivery Plan or Sub-Plan, to arrive at the Evaluation Score they may take into account areas where the requirements have been exceeded in respect of that Delivery Plan or Sub-Plan. In those circumstances, this means that the Evaluation Score may be higher than the Evaluation Score which would otherwise be indicated by the degree of concern attributed by the evaluators to the relevant Delivery Plan or Sub-Plan.

The assessment of a Delivery Plan or Sub-Plan is on an overall basis. There will be a single Evaluation Score. Where there are a number of Initiatives within the Delivery Plan or Sub-Plan, the Evaluation Score for that Delivery Plan or Sub-Plan reflects the overall assessment of those Initiatives taken together.

The Department has set out the requirements to meet the specification in **Section 5** (Detailed Bid Submission Requirements – Delivery Plans). Where examples of



how to exceed the requirements are given in scoring section paragraph (C), these are for guidance only.

The scoring is a number line from 0 to 7 and Evaluation Scores are not restricted to whole numbers if this is needed to reflect the evaluation of Delivery Plans and/or Sub-Plans appropriately.

Where a Delivery Plan has Sub-Plans its score will be the aggregate score of the Sub-Plans based on their weighting set out in **Table 7.3b** (Essex Thameside Evaluation Matrix Sub-Plan Weightings).

A Delivery Plan which fails to achieve an overall Evaluation Score equal to or greater than 3 will be treated as non-compliant.

A Bidder that scores below 3 in respect of any of the Key Sub-Plans will result in the Bid being treated as non-compliant.

In evaluating Delivery Plans and Sub-Plans concerns may be ‘minor’, ‘material’ or ‘fundamental’ and the specification may be ‘slightly exceeded’, ‘significantly exceeded’ or ‘significantly exceeded in all material respects’ in each case for a number of reasons, including without limitation, in relation to:

- the quality or appropriateness of any Initiative or the proposed outcomes;
- the sufficiency or credibility of evidence provided;
- the demonstration of the ability to implement those Initiatives or deliver the proposed outcomes; or
- the description of resources or delivery timescales.

In evaluating Delivery Plans and Sub-Plans, the Department may take into account any relevant information submitted with the Bid or referred to in this ITT including, without limitation, the Modelling Suite and technical data such as the working timetable.

#### 7.4.1 **Scope to achieve scores higher than 4**

The requirements set out in the relevant paragraph (A) of **Section 5** (Detailed Bid Submission Requirements – Delivery Plans) for each Delivery Plan or Sub-Plan can be met at varying levels. For example the requirement in **paragraph 5.6.1** (Plan 5 - Ticketing and Ticket Retailing Sub-Plan) “ensure customers are provided with widespread and easy

access to the full range of tickets, and a range of ticket retail opportunities” allows scope to exceed the requirements.

Likewise, some of the evidence that Bidders are asked to provide in the relevant paragraph (B) of **Section 5** (Detailed Bid Submission Requirements – Delivery Plans) for each Delivery Plan or Sub-Plan can lead to responses that demonstrate variations in confidence of deliverability, for example in **paragraph 5.6.2** (Plan 5 - Growing The Business Sub-Plan) “marketing plans showing returns on investment of marketing and other growth activities” or can demonstrate variations in quality, for example in **paragraph 5.5** (Plan 4 – Customer Experience and Communities Delivery Plan) “evidence for how the Bidder’s Initiatives and actions will achieve the NPS Measure, highlighting key potential threats to passenger satisfaction and how the Bidder will address these issues”. This also provides scope to fully meet or exceed requirements.

The relevant paragraph (C) of **Section 5** (Detailed Bid Submission Requirements – Delivery Plans) for each Delivery Plan or Sub-Plan gives illustrative examples of Initiatives which could enable requirements to be exceeded, so that the Delivery Plan or Sub-Plan may receive an Evaluation Score greater than 4. Initiatives may exceed the requirements to a varying extent, for example in **paragraph 5.6.1** (Ticket and Ticket Retailing Sub-Plan) “a plan to convert the majority of season ticket holders and other frequent travellers on to smart tickets within a demonstrably achievable timeframe”.

A Bidder may therefore exceed requirements for a particular Delivery Plan or Sub-Plan, and therefore achieve an Evaluation Score of more than 4, by:

- meeting some requirements in paragraph (A) to a higher standard than required;
- providing higher quality evidence to meet the requirements set out in paragraph (B) so that the Department considers the Initiative in the Bid to be of greater quality or more likely to be delivered; and/or
- committing to deliver additional Initiatives (which may or may not overlap with those set out in paragraph (C)), which align with the requirements set out in the relevant Delivery Plan or Sub-Plan and are supported by credible implementation plans.

**Paragraph 5.1.7** (Introduction) sets out factors that will be taken into account in making a judgement about whether a Bidder is likely to fully meet or exceed requirements, and **paragraph 7.4** (the Scoring Methodology for Delivery Plans 2 to 8) sets out the scoring methodology that the Department will apply.

Set out below is further guidance about when Delivery Plan or Sub-Plan may achieve an Evaluation Score higher than 4. This guidance is not an exhaustive description of how a Delivery Plan or Sub-Plan may achieve an Evaluation Score higher than 4. Different combinations of Initiatives, evidence and characteristics of Initiatives may lead to an Evaluation Score higher than 4 depending on the Delivery Plan or Sub-Plan. On that basis and by way of illustration only:

- a Delivery Plan or Sub-Plan might achieve an Evaluation Score of 5 where, in addition to meeting the requirements to score a 4 all of the following criteria are met:
  - all of the Initiatives to meet the requirements in paragraph (A) are judged to be credible and deliverable, with some of the Initiatives being supported by evidence of successful implementation elsewhere underpinning cost estimates; and
  - some of the Initiatives demonstrate third party support where relevant; and
  - some of the Initiatives have the potential to enhance the long term value of the franchise where relevant; and
  - one or more Initiatives are proposed which generate additional benefits for passengers and/or additional revenue (where applicable), and in each case align with the requirements set out in the relevant Delivery Plan or Sub-Plan, and are supported by credible implementation plans.
- a Delivery Plan or Sub-Plan might achieve an Evaluation Score of 6 where in addition to meeting the requirements to score a 4:
  - all Initiatives to meet the requirements in paragraph (A) are judged to be credible and deliverable, with the majority of the

Initiatives being supported by evidence of successful implementation elsewhere underpinning cost estimates; and

- the majority of Initiatives demonstrate third party support where relevant; and
  - some of the Initiatives have the potential to significantly enhance the long term value of the franchise where relevant; and
  - one or more Initiatives are proposed that (if appropriate in combination) deliver significant additional benefits for passengers and/or significant additional revenue (where applicable) and in each case align with the requirements set out in the relevant Delivery Plan or Sub-Plan, and are supported by credible implementation plans.
- in addition a Delivery Plan or Sub-Plan might achieve an Evaluation Score of 7 where, in addition to meeting all of the criteria described above for an Evaluation Score of 6:
    - in combination the Initiatives significantly exceed the requirements set out in the Delivery Plan or Sub-Plan in all material respects; and
    - the Delivery Plan or Sub-Plan is outstanding and there are no concerns in any respect.

The descriptions above, of how a Delivery Plan or Sub-Plan might achieve an Evaluation Score of 5, 6 or 7, assume that there are no concerns in any respect about the Initiatives covered by the relevant Delivery Plan or Sub-Plan. Where there are concerns in some respects about a Delivery Plan or Sub-Plan but the Specification is exceeded in some respects, an overall Evaluation Score will be given taking into account both the areas of concern and the areas in which the Specification is exceeded, in accordance with **paragraph 7.4** (The Scoring Methodology for Delivery Plans 2 to 8).

As stated in this **paragraph 7.4** (The Scoring Methodology for Delivery Plans 2 to 8) , intermediate scores may be awarded along the scoring line.

#### 7.4.2 Moderation of Evaluation Scores

The Department will undertake a process of moderation of scoring and of checking of scores against the methodology and the table of Evaluation Scores set out in this **paragraph 7.4** (The Scoring Methodology for Delivery Plans 2 to 8). Each evaluator will undertake their evaluation of the Delivery Plans and Sub-Plans, and will allocate Evaluation Scores. Their individual scores and a narrative to explain each score will be entered into AWARD.

These Evaluators will then meet to agree and moderate Evaluation Scores to reach a consensus Evaluation Score for the Delivery Plan or Sub-Plan they have scored. Where consensus is not possible the score will be determined by the Project Director or his nominee. The moderation may need, without limitation, to challenge and test the scoring, ensure the moderated consensus Evaluation Score represents a thorough and objective analysis, and that the consensus Evaluation Score is consistent with the approach to evaluation described in this ITT. The moderation process may involve comparison of bid scoring to ensure consistency of approach.

The Project Director will appoint a facilitator and a record keeper to manage this process.

AWARD will be used to record this process.

#### Quality Scores

It is proposed to convert Evaluation Scores into Quality Scores on a linear scale as shown in the table below. Where a Delivery Plan scores an Evaluation Score less than 3 but the Department does not exercise its right to exclude the relevant Bidder, a Quality Score will not be given for that Delivery Plan. Delivery Plans which meet with minor concerns, meet, or exceed the requirements of the Specification will achieve a higher Quality Score as shown on the scale below at **Table 7.5b** (Conversion of Evaluation Scores to Quality Scores).

Quality Scores will be applied at a Delivery Plan level not at the Sub-Plan level.

**Table 7.4b:** *Conversion of Evaluation Scores to Quality Scores*

Evaluation Scores	Quality Score
0 to (but excluding) 1	0
1 to (but excluding) 2	0
2 to (but excluding) 3	0
3 to (but excluding) 4	1 to (but excluding) 3
4 to (but excluding) 5	3 to (but excluding) 5
5 to (but excluding) 6	5 to (but excluding) 7
6 to (but excluding) 7	7 to (but excluding) 9
7	9

Quality marks are not restricted to whole numbers if this is necessary to reflect the Evaluation Score. As such, the Quality Score will be applied pro-rata on the same basis as the Evaluation Score. For example:

Evaluation Scores	Quality Scores
2.9	0.0
3.0	1.0
3.25	1.5
4.5	4.0
6.25	7.5

The overall Quality Score will be calculated and summed in accordance with the weightings set out in **Table 7.3a** (Essex Thameside Evaluation Matrix Delivery Plan Weightings) to give a weighted Quality Score.

This Quality Score is component “Q” in the formula set out at **paragraph 7.2** (Definition of MEAT for the Competition).

## 7.5 Evaluation of Modelling Change

As described in **paragraph 6.8** (Modelling Change) of this ITT, Bidders must submit the items in the column headed ‘Item’ in **Table 6.8** (Modelling Change Submission Requirements) in accordance with the requirements in the column headed ‘Requirements’ in **Table 6.8** (Modelling Change Submission Requirements) in order to be compliant with this ITT.

A Bidder will fail this requirement if, after clarification in accordance with **paragraph 4.7.2** (Engagement with Bidders and Evaluation Clarification Process), the Department has more than minor concerns that any of the requirements have

not been met. The assessment will be on a pass/fail basis against each of the four items in **Table 6.8** (Modelling Change Submission Requirements). Bidders must pass each of the four items separately in order to be compliant.

For the avoidance of doubt:

- assessment of item 2 in **Table 6.8** (Modelling Change Submission Requirements), relating to the suitability of a Bidder's Record of Assumptions and Operating Manual, will not be limited to consideration of the suitability of these documents when applied to Worked Examples but, rather, will consider the suitability of these documents across the entirety of the Bid;
- assessment of items 3 and 4 in **Table 6.8** (Modelling Change Submission Requirements), relating to the suitability of the Models, will not be limited to consideration of the suitability of the Financial and Operational Models when applied to Worked Examples but, rather, will consider the suitability of the Models across the entirety of the Bid.

Notwithstanding that one or more Bidders may have been assessed as compliant with the requirements of **paragraph 6.8** (Modelling Change) of this ITT, the Department reserves the right to negotiate with one or more Bidders, prior to signing of the Franchise Agreement, to improve the transparency, granularity and usability of the Modelling Suite in areas which it believes would be beneficial to the ongoing management of the franchise.

## 7.6 Evaluation of Financial Robustness

The Department will undertake a financial robustness test (“**Financial Robustness Test**”) in accordance with this **paragraph 7.6** (Evaluation of Financial Robustness) on each Bidder's Models for the purpose of determining the Risk Adjusted NPV. This Risk Adjusted NPV is (subject to adjustment in accordance with paragraph (D) of **paragraph 5.8.2** (Rolling Stock Sub Plan)) component “P” in the formula at **paragraph 7.2** (Definition of MEAT for the Competition).

### 7.6.1 Risk Adjustment Process

In order to enable it to undertake the Financial Robustness Test, the Department will undertake a risk adjustment process which will include an assessment of the deliverability of the costs, revenues and capital set out in Bids. The process for the determination of risk adjustments and the

calculation of the impact of these adjustments is described in **Appendix 5** (Risk Adjustment Process). Further to this process it will produce a **“Risk Adjusted Financial Model”** for each Bidder.

#### 7.6.2 Calculation of Risk Adjusted NPV

Bidders must be familiar with the content of **Appendix 5** (Risk Adjustment Process) which contains important information about both Exogenous and Endogenous Risk Adjustments.

Following the application of risk adjustments described in **Appendix 5** (Risk Adjustment Process), if a Bidder is projected, in its Risk Adjusted Financial Model:

- not to breach the Financial Ratios at any point during the Core Franchise Term, the Bidder’s Risk Adjusted NPV will be the As Bid NPV; or
  - to breach the Financial Ratios at any point during the Core Franchise Term, the Bidder’s Risk Adjusted NPV will be equal to the sum of the following:
    - the aggregate of the NPV of the As Bid Franchise Payments in respect of each Franchisee Year from the Start Date to the end of the Franchisee Year immediately prior to the Franchisee Year in which the bidder is projected to breach the Financial Ratios (the Franchisee Year of projected breach being the **“Year of Breach”**); plus
    - 50% of the NPV of the As Bid Franchise Payments in respect of the Year of Breach; plus
    - 50% of whichever is the lower of:
      - the NPV of the As Bid Franchise Payments in respect of the Year of Breach; and
      - the Department’s Base Line in respect of the Year of Breach;
- plus



- the aggregate of the relevant amounts in respect of each Franchisee Year from and including the Franchisee Year immediately following the Year of Breach until the end of the Core Franchise Term. For the purpose of this bullet only, the “relevant amount” in respect of any Franchisee Year shall be the lower of:
  - the NPV of the As Bid Franchise Payments in respect of that Franchisee Year; and
  - the Department’s Base Line in respect of that Franchisee Year.

**Table 7.6a: Department’s Base Line**

Franchisee Year	Department’s Base Line (expressed as £’000s)
Franchisee Year 1	992
Franchisee Year 2	3,224
Franchisee Year 3	7,585
Franchisee Year 4	16,558
Franchisee Year 5	20,277
Franchisee Year 6	23,415
Franchisee Year 7	25,553
Franchisee Year 8	28,691
Franchisee Year 9	31,454
Franchisee Year 10	34,278
Franchisee Year 11	35,728
Franchisee Year 12	37,853
Franchisee Year 13	40,149
Franchisee Year 14	43,200
Franchisee Year 15	45,199
Franchisee Year 16	22,310

For the purposes of determining the Risk Adjusted NPV of a Bid:

- the Department will assume that Parent Company Support in an amount equal to the aggregate of the Variable PCS and Additional PCS the Bidder’s parent company has committed to provide in accordance with the Funding Deed has been provided to the Bidder

except where **paragraph 7.7.5** (Adjusted PCS) provides for an adjusted amount to be taken into account;

- any Profit Share included within any Franchise Payment shall be disregarded;
- subject to the above, a ‘breach’ is considered to occur from the first Franchisee Year in which the Financial Ratios, as reflected in the Risk Adjusted Financial Model, are below 1.050; and
- in the circumstances described under the heading ‘Maintenance’ in paragraph (D) of **paragraph 5.8.2** (Rolling Stock Sub-Plan), a downwards adjustment equivalent to the NPV of the Bombardier Agreement termination fee will be applied.

For the avoidance of doubt:

- the Franchise Agreement will be based upon the winning Bidder’s Modelling Suite; and
- the Bidder’s Risk Adjusted Financial Model and Risk Adjusted NPV will only be used for the purpose of the Financial Robustness Test and accordingly calculating a Bidder’s Final Score and the ranking of Bids.

There will be no opportunity for a Bidder to amend its Bid, including to make available additional finance.

## 7.7 Adjusted PCS

7.7.1 The Department requires assurance that each Bidder is able to meet the PCS requirements generated by its Bid and will apply the additional financial test described in this **paragraph 7.7** (Adjusted PCS) for this purpose (“**Additional Financial Test**”).

7.7.2 In accordance with **paragraph 6.7.1** (Bid Requirements), Bidders must submit with their Bid, a letter from their financial adviser which sets out the calculated ratios in respect of the Bidder’s Parent as described below in Test 1 and Test 2. For the purpose of this **paragraph 7.7** (Adjusted PCS), the “**Parent**” is the ultimate parent company of the Franchisee (which the Bidder is required to identify and insert for the purpose of the definition of “Parent” in the Franchise Agreement) and must be the party

which will enter into the Funding Deed to provide the Required PCS and any Additional PCS:

**Test 1: EBITDA**

EBITDA

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(Required PCS + Additional PCS)

Where:

EBITDA = Earnings before interest, tax, depreciation and amortisation over the last twelve months as stated in the most recent publicly available audited and consolidated accounts (updated to reflect any significant post-balance sheet events including information contained in any published interim accounts) of the Bidder's Parent;

Required PCS = has the meaning given to it in **paragraph 6.7.2** (Parent Company Support);

Additional PCS = has the meaning given to it in **paragraph 6.7.2** (Parent Company Support);

**Test 2: Net Assets**

Net Assets

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(Required PCS + Additional PCS)

Where:

Net Assets = The net assets as stated in the most recent publicly available audited and consolidated accounts (updated to reflect any significant post-balance sheet events including information contained in any published interim accounts) of the Bidder's Parent;

Required = has the meaning given to it in **paragraph 6.7.2**

PCS (Parent Company Support);

Additional = has the meaning given to it in **paragraph 6.7.2**

PCS (Parent Company Support);

7.7.3 The Department will assess the information received pursuant to **paragraph 7.7.2** (Adjusted PCS) above and, where necessary, seek clarification from Bidders.

7.7.4 Where on the basis of the information provided with the Bid, the Bidder's Parent does achieve both of the ratios described below:

Test 1: EBITDA  $\geq$  (greater than or equal to) 1.0

Test 2: Net Assets  $\geq$  (greater than or equal to) 2.0

(the “**AFT Ratios**”), then the Department shall undertake the Financial Robustness Test on the basis of the Variable PCS and Additional PCS as included in that Bidder's Bid.

7.7.5 Where on the basis of the information provided with the Bid, the Bidder's Parent does not achieve one or both of the AFT Ratios, then the Department shall adjust the amount of the Variable PCS and the Additional PCS assumed to be provided to the Bidder by the Parent for the purposes of the Financial Robustness Test and the calculation of the Risk Adjusted NPV (“**Adjusted PCS**”).

7.7.6 Where **paragraph 7.7.5** (Adjusted PCS) applies, the Adjusted PCS shall be calculated as follows:

- (i) the Department will adjust the aggregate of the Bidder's Additional PCS and Variable PCS downwards until both of the AFT Ratios have been met or the adjusted aggregate of the Additional PCS and Variable PCS has reached zero; and
- (ii) the Adjusted PCS will be either:
  - o the adjusted aggregate of the Additional PCS and Variable PCS remaining at the point both AFT Ratios are met following the adjustments, if applicable, in paragraph (i) above; or

- if following those adjustments one or both of the AFT Ratios have still not been met, zero.

7.7.7 The application of the Adjusted PCS under **paragraph 7.6.2** (Calculation of Risk Adjusted NPV) compared with the application of the aggregate of the Variable PCS and the Additional PCS may affect the Bidder's Final Score and may therefore affect the ranking of Bidders and ultimately the selection of the winning Bidder.

7.7.8 For the avoidance of doubt:

- the Fixed PCS will not be adjusted and will not be taken into account for the purposes of the Financial Robustness Test; and
- the winning Bidder and its Parent shall be obliged to contract with the Department on the basis of the amount of Required PCS and Additional PCS included in its Bid, and not the Adjusted PCS as calculated in accordance with **paragraph 7.7.6** (Adjusted PCS) above.

7.7.9 Following the completion of all other steps in the evaluation but prior to franchise award, the Department will require all Bidders to update and resubmit the information required by **paragraph 7.7.2** (Adjusted PCS) above through their financial advisers. The Department will apply the Additional Financial Test to all Bidders based on the information resubmitted by the Bidders in accordance with this **paragraph 7.7.9** (Adjusted PCS). If any Bidder or Bidders fail to meet one or both of the AFT Ratios, the Department will recalculate those Bidders' Risk Adjusted NPV based on the outcome of the Financial Robustness Test being carried out using the revised Adjusted PCS calculated in accordance with **paragraph 7.7.6** (Adjusted PCS).

This may affect the Bidders' Final Scores and may therefore affect the ranking of Bidders and ultimately the selection of the winning Bidder.

7.7.10 The Department reserves the right to re-perform the Additional Financial Test for any or all Bidders at any time between receipt of Bids and immediately prior to franchise award.

## 7.8 Interaction between Evaluation Scores and the Financial Robustness Tests

The assessment of financial robustness described in **paragraph 7.6** (Evaluation of Financial Robustness) will be informed by the review of each Bidder's Delivery Plans and Sub-Plans, in addition to any other information available to the Department, including the Modelling Suite.

There is no automatic link between the scoring of Delivery Plans and/or Sub-Plans and the financial risk adjustments. However, if further to review of the Delivery Plans and/or Sub-Plans the Department has concerns about an aspect of one or more of that Bidder's Initiatives, and believes that as a result there is a material risk of a materially different financial outcome from the Bidder's financial projections, it may both:

- take into account any risk to the delivery of the Bidder's Initiatives in the scoring of the Delivery Plans and/or Sub-Plans as described in **paragraph 7.3** (Evaluation of Delivery Plans and Sub-Plans); and
- make a financial risk adjustment as described in **paragraph 7.6** (Evaluation of Financial Robustness) to reflect any risk to the achievement of the Bidder's financial projections.

## 7.9 Impact of review of financing and funding proposals

Bidders' financing and funding proposals, as described in their Financial Structure and Funding plan (described at **paragraph 6.7.1** (Bid Requirements)), and their financial implications as reflected in the Bidders' Modelling Suites, will be reviewed in order to assess their robustness, deliverability and credibility.

Where in relation to any Bidder the available evidence fails to provide the Department with adequate confidence that the funding or financing will be available:

- in sufficient quantum (for example, letters of support and term sheets from third party financiers do not provide reasonable confidence that the funding will be made available to that Bidder to the extent reasonably required to substantially deliver an Initiative and/or are inconsistent with the values contained in the Bidder's Modelling Suite or other bid documentation); or
- at the right time (for example, letters of support and term sheets from third party financiers do not provide reasonable confidence that the funding will be made available to that Bidder at the time proposed by the Bidder in its

Modelling Suite or other bid documentation to enable the Initiative to be delivered on or by a certain date and in the manner described);

then the Department may:

- take this into account in determining the Evaluation Score for any Delivery Plan and/or Sub-Plan which includes any such Initiative, to reflect the risk to delivery of that Initiative; and
- make a financial risk adjustment (in accordance with **Appendix 5** (Risk Adjustment Process)) to reflect any resulting risk to the financial robustness of the Bid.

## Appendix 1: Glossary of Terms

Term	Meaning
<b>Additional Financial Test</b>	has the meaning given to it in <b>paragraph 7.7.1</b> (Adjusted PCS);
<b>Additional PCS</b>	has the meaning given to it in <b>paragraph 6.7.2</b> (Parent Company Support);
<b>Affiliates</b>	has the meaning given to it in <b>paragraph 1.4</b> (Communications) unless the context otherwise requires;
<b>AFT Ratios</b>	has the meaning given to it in <b>paragraph 7.7.4</b> (Adjusted PCS);
<b>As Bid Franchise Payment(s)</b>	in respect of any Franchisee Year the value of Franchise Payments (excluding any amounts attributable to Profit Share) for that Franchisee Year as shown in the Bidder's Financial Model;
<b>As Bid NPV</b>	the total NPV of As Bid Franchise Payments (excluding any amounts attributable to Profit Share) in nominal terms during the Core Franchise Term as shown in the Bidder's Financial Model;
<b>ATOC</b>	Association of Train Operating Companies;
<b>Autumn</b>	means the typical autumn weekday counts. This is defined as the average of Tuesday, Wednesday and Thursday counts during October and November, but excluding those falling within half-term week;
<b>AWARD</b>	has the meaning given to it at <b>paragraph 3.10</b> (Data Site and AWARD);
<b>Base Year</b>	has the meaning given to it at <b>Appendix 3</b> (Specified Exogenous Factors);
<b>BCQ</b>	has the meaning given to it at <b>paragraph 3.11</b> (Bidder Clarification Questions);
<b>Bid</b>	a tender submitted by a Bidder in response to this ITT;
<b>Bidder</b>	has the meaning given to it at <b>paragraph 1.1</b> (Introduction);
<b>Bonded PCS</b>	has the meaning given to it in <b>paragraph 6.7.2</b> (Parent Company Support);
<b>BTP</b>	British Transport Police;
<b>Calculation Review</b>	the review conducted in accordance with <b>paragraph 6.6.3</b> (Calculation Review);
<b>Capacity Test</b>	has the meaning given to it in <b>Appendix 3</b> (Specified Exogenous Factors);
<b>CAPEX</b>	capital expenditure;
<b>Competition Commission</b>	the UK body known as the 'competition commission' whose role under the Competition Act 1998 as amended by the Enterprise Act 2002, is to carry out in-depth inquiries into mergers, markets and aspects of the regulation of the major regulated industries and any successor or replacement body established from time to time;
<b>Consultee</b>	has the meaning given to it at <b>paragraph 3.8</b> (Industry Consultation and Disclosure of Information in Bids);
<b>Contingent Initiative</b>	has the meaning given to it at <b>paragraph 4.7.3</b> (Contractualisation);
<b>Cordon</b>	a physical point on the railway where capacity or passenger load is measured;
<b>Core Franchise Term</b>	the core term of the Franchise Agreement (excluding any extension that may



Term	Meaning
	be called under Schedule 18 of the Franchise Agreement);
<b>CP4</b>	Network Rail's Control Period 4;
<b>CP5</b>	Network Rail's Control Period 5;
<b>CP5 Periodic Review</b>	ORR's periodic review of CP5;
<b>CPAY</b>	Central payment system;
<b>Crowding Limits</b>	has the meaning given to it at <b>paragraph 5.7</b> (Plan 6 - Train Service Requirements, Crowding, Capacity and Demand Delivery Plan);
<b>Customer and Stakeholder Engagement Strategy</b>	the strategy to be provided in accordance with <b>paragraph 5.5</b> (Plan 4 – Customer Experience and Communities Delivery Plan);
<b>Customer Report</b>	has the meaning given to it in <b>paragraph 5.5</b> (Plan 4 – Customer Experience and Communities Delivery Plan);
<b>Data Site</b>	has the meaning given to it at <b>paragraph 3.10</b> (Data Site and AWARD);
<b>Delivery Plan</b>	means a delivery plan described in <b>Section 5</b> (Detailed Bid Requirements – Delivery Plans), being: <ul style="list-style-type: none"> <li>(a) Summary Business Plan</li> <li>(b) Plan 2 – Managing the Business Delivery Plan;</li> <li>(c) Plan 3 – Corporate Social Responsibility Delivery Plan;</li> <li>(d) Plan 4 – Customer Experience and Communities Delivery Plan;</li> <li>(e) Plan 5 – Marketing and Retailing to Grow the Business Delivery Plan;</li> <li>(f) Plan 6 – Train Service Requirements, Crowding, Capacity and Demand Delivery Plan;</li> <li>(g) Plan 7 – Train Performance and Train Service Delivery Plan; and</li> <li>(h) Plan 8 – Better Stations and Asset Management Delivery Plan;</li> </ul> and ' <b>Delivery Plans</b> ' shall mean more than one of them;
<b>Department</b>	has the meaning given to it at <b>paragraph 1.1</b> (Introduction);
<b>Department's Base Line</b>	means, for any Franchisee Year, the amount shown for such Franchisee Year in the right hand column of <b>Table 7.6a</b> (Department's Base Line);
<b>DFC</b>	has the meaning given to it in <b>paragraph 6.3.4</b> (The Financial Model);
<b>Driver Advisory System</b>	a system that provides train drivers with an advisory train speed (limited by the line speed profile and maximum train speed);
<b>Driver Only Operation or DOO</b>	method of train operation where the vehicle is operated by a driver alone without a conductor;
<b>EA02</b>	Enterprise Act 2002;
<b>EC</b>	European Commission;
<b>EEC</b>	European Economic Community;
<b>EFQM</b>	European Foundation for Quality Management;
<b>EIR</b>	Environmental Information Regulations 2004;
<b>EMV</b>	Europay, MasterCard and Visa;
<b>EU</b>	European Union;
<b>EUMR</b>	Council Regulation (EC) No. 139/2004;
<b>Evaluation Score</b>	the score awarded to a Delivery Plan or Sub-Plan in accordance with <b>Table 7.4a</b> (Evaluation Scores);

Term	Meaning
<b>Final Risk Adjustments</b>	has the meaning given to it at <b>paragraph 2.2</b> (Overview of Process) of <b>Appendix 5</b> (Risk Adjustment Process);
<b>Final Score</b>	the outcome of the formula $P + (n \times Q)$ set out at <b>paragraph 7.2</b> (Definition of MEAT for the Competition);
<b>Financial Model</b>	a financial model prepared in accordance with <b>paragraph 6.3</b> (Financial and Operational Model Requirements);
<b>Financial Ratio(s)</b>	the financial ratio(s) as set out in row 187 of the worksheet labelled “FO&C” within the Risk Adjusted Financial Model;
<b>Financial Robustness Test</b>	has the meaning given to it at <b>paragraph 7.6</b> (Evaluation of Financial Robustness);
<b>Financial Structure and Funding Plan</b>	has the meaning given to it in <b>paragraph 6.3.4</b> (The Financial Model);
<b>Financial Templates</b>	has the meaning given to it in <b>paragraph 6.3.4</b> (The Financial Model);
<b>FOIA</b>	Freedom of Information Act 2000;
<b>Franchise Agreement</b>	the Essex Thameside Franchise Agreement attached at <b>Attachment B</b> ;
<b>Franchise Letting Process Agreement or FLPA</b>	has the meaning given to it at <b>paragraph 1.4</b> (Communications);
<b>Franchise Signature Documents</b>	has the meaning given to it in <b>Table 4.3</b> (Structure and Format of Bids);
<b>HMT</b>	HM Treasury;
<b>IFRS</b>	International Financial Reporting Standards;
<b>Initiatives</b>	has the meaning given to it at <b>paragraph 2.2</b> (Background and Context for ITT);
<b>ITPS</b>	Network Rail’s Integrated Train Planning System;
<b>ITT</b>	has the meaning given to it in <b>paragraph 1.1</b> (Introduction);
<b>Key Sub-Plans</b>	has the meaning given to it in <b>paragraph 5.1.11</b> (Introduction);
<b>London TravelWatch</b>	the independent statutory watchdog for transport users in London known as ‘London TravelWatch’;
<b>LUL</b>	London Underground Limited;
<b>MEAT</b>	most economically advantageous tender;
<b>Model Audit</b>	has the meaning given to it in <b>paragraph 6.6.2</b> (Model Audit);
<b>Modelling Best Practice Confirmation</b>	the confirmation that the Models have been prepared in accordance with best practice as required by <b>paragraph 6.6.1</b> (Modelling Best Practice Confirmation), subject to any derogations granted pursuant to <b>paragraph 6.3.8</b> (Derogations);
<b>Modelling Suite</b>	together the Models, the Record of Assumptions and the Operating Manual;
<b>Models</b>	together the Financial Model and the Operational Models;
<b>MOIRA</b>	the timetabling software known as ‘MOIRA’ used to forecast the impact of timetables on passenger revenue but not MOIRA 2;
<b>NFC</b>	Near Field Communication;
<b>NPV</b>	net present value;

Term	Meaning
OFT	the UK Office of Fair Trading;
Operating Manual	prepared in accordance with <b>paragraph 6.5</b> (Operating Manual);
Operational Model(s)	models prepared in accordance with <b>paragraph 6.3</b> (Financial and Operational Model Requirements);
ORR	the UK Office of Rail Regulation;
Parent Company Support or PCS	has the meaning given to it in <b>paragraph 6.7.2</b> (Parent Company Support);
Passenger Focus	the independent public body known as both 'Passenger Focus' and the 'Rail Passenger Council' created by Government to safeguard the interests of passengers;
PDFH	Passenger Demand Forecasting Handbook version 5.0 for all demand drivers except fares, where PDFH 4.0 should be used;
Plans	those plans as set out in the column headed 'Plan' in the table set out in <b>paragraph 5.1</b> (Introduction);
PQQ	pre-qualification questionnaire for the Essex Thameside Franchise published on 19 December 2011;
PQQ Process Document	the pre-qualification process document that accompanied the PQQ;
Proposed Risk Adjustments	has the meaning given to it at <b>paragraph 2.1.4</b> (Overview of Process) of <b>Appendix 5</b> (Risk Adjustment Process);
Public Performance Measure or PPM	Network Rail's measure showing the percentage of trains which arrive at the destination on time;
Quality Score	means the score awarded to a Bidder in accordance with <b>Table 7.4b</b> (Conversion of Evaluation Scores to Quality Scores);
Rail Technical Strategy	means the document in the Data Site of the same name;
Record of Assumptions	a record of assumptions prepared in accordance with <b>paragraph 6.4</b> (Record of Assumptions);
Representative	officers, employees, agents, consultants or advisers;
Required PCS	has the meaning given to it in <b>paragraph 6.7.2</b> (Parent Company Support);
Risk Adjusted Financial Model	has the meaning given to it at <b>paragraph 7.6</b> (Evaluation of Financial Robustness);
Risk Adjusted NPV	has the meaning given to it at <b>paragraph 7.6</b> (Evaluation of Financial Robustness) subject to adjustment in accordance with paragraph (D) of <b>paragraph 5.8.2</b> (Rolling Stock Sub Plan);
ROSCO	Rolling Stock Operating Company;
Route	the Network Rail Anglia Route in so far as the franchise operates within that boundary;
RSSB	Rail Safety and Standards Board Ltd;
Schedule of Committed Obligations	means the schedule of Committed Obligations required to be provided by Bidders in accordance with <b>paragraph 4.3</b> (Structure and Format of Bids).
Secretary of State	has the meaning given to it at <b>paragraph 1.1</b> (Introduction);
Secretary of State Risk Assumptions	the assumptions specified in Schedule 9.3 (Secretary of State Risk Assumptions) of the Franchise Agreement;
Sectional Running Times	the sectional running times published by Network Rail from time to time;

Term	Meaning
<b>Secure Car Park Accreditation</b>	an award provided by the Park Mark Safer Parking Scheme, an initiative of the Associations of Chief Police Officers aimed at reducing crime in parking facilities;
<b>Secure Station Accreditation</b>	accreditation provided by the Department and BTP under the Secure Stations Scheme, aimed at reducing crime in railway stations;
<b>SEFT Programme</b>	South East Flexible Ticket Programme;
<b>Specific Purpose Additional PCS</b>	has the meaning given to it in <b>paragraph 6.7.2</b> (Parent Company Support);
<b>Specification</b>	the requirements of the Delivery Plans and Sub-Plans as set out in <b>Section 5</b> (as applicable), or the relevant parts thereof (as the context may require);
<b>Specified Exogenous Factors</b>	means those factors set out in <b>Appendix 3</b> (Specified Exogenous Factors);
<b>Sub-Plan</b>	those sub-plans as set out in the column headed ‘Sub-Plan’ in the table set out in <b>paragraph 5.1</b> (Introduction);
<b>Summary Business Plan</b>	the plan to be provided pursuant to <b>paragraph 5.2</b> (Plan 1: Summary Business Plan);
<b>Sustainable Rail Programme</b>	the sustainable rail programme developed by the Rail Safety and Standards Board Ltd;
<b>TOC</b>	Train Operating Company;
<b>Train Service Requirements or TSR</b>	the requirements set out in <b>Attachment A</b> ;
<b>TUPE</b>	Transfer of Undertakings (Protection of Employment) Regulations 2006;
<b>Unspecified Exogenous Factors</b>	means an exogenous factor other than the Specified Exogenous Factors, where “exogenous factor” means those drivers of passenger demand that are not within the control of the Department or the Franchisee, such as factors relating to the economy, population, employment, land use and competition from other operators or other modes of transport;
<b>VfM</b>	Value for Money;
<b>VfM Report</b>	has the meaning given to it at <b>Appendix 4</b> (Guidance for Bidders in Constructing an Economic Case for the Essex Thameside Franchise Bids); and
<b>Year of Breach</b>	has the meaning given to it at <b>paragraph 7.6.2</b> (Calculation of Risk Adjusted NPV).

## Appendix 2: The Essex Thameside Franchise

### Part A: List of Essex Thameside Franchise Stations

The Essex Thameside Franchisee will be the Station Facility Owner (SFO) at 26 Stations:

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

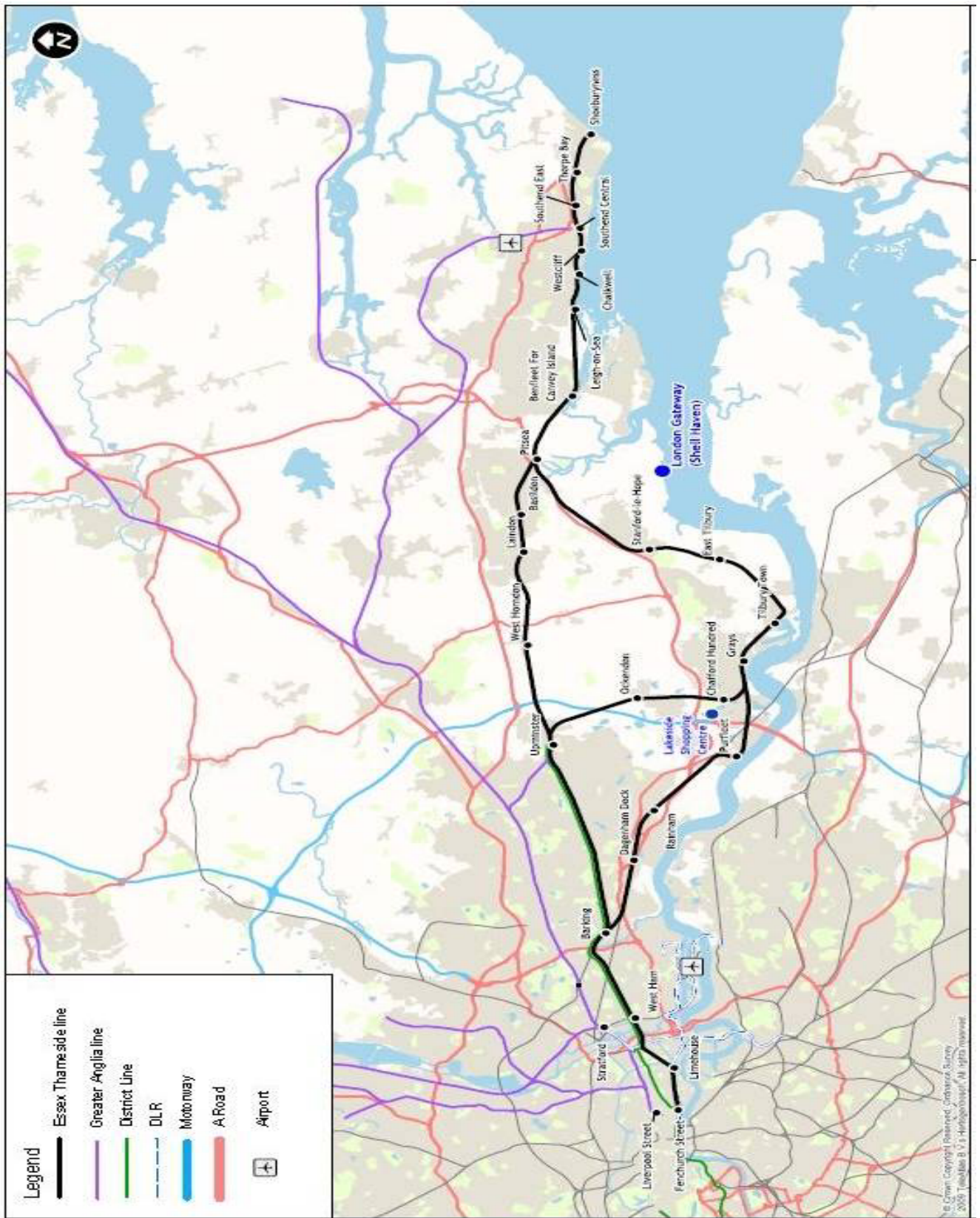
In addition, the current Essex Thameside Franchisee operates train services that call at the following 2 stations at which it is not SFO:

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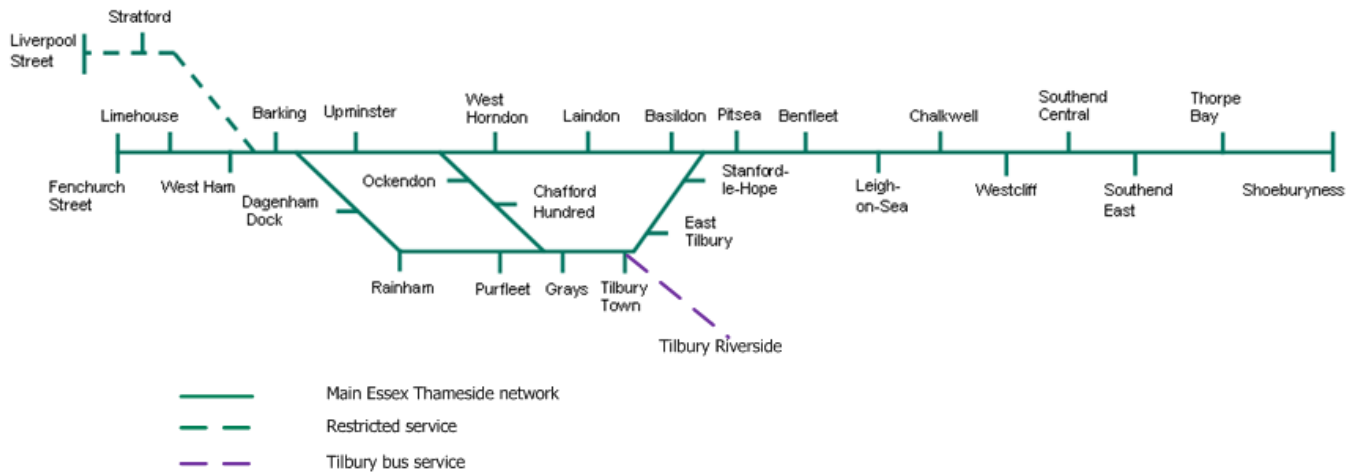
There are 15 Stations where the Essex Thameside Franchisee is the SFO that have SEFT infrastructure/equipment in place currently:

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

Part B: Map of Essex Thameside Franchise



### Part C: Route Diagram of Essex Thameside Franchise



## Appendix 3: Specified Exogenous Factors

### 1. Introduction

The following Specified Exogenous Factors will replace the Bidder's entire exogenous inputs and assumptions including any unspecified exogenous factors specifically for the purpose of risk adjustment and Financial Robustness testing, and also for the purpose of the Capacity Test in relation to achievement of the crowding and capacity measures as described in **paragraph 5.7** (Plan 6 – Train Service Requirements, Crowding, Capacity and Demand Delivery Plan) with an alternative demand scenario.

### 2. Base Year

The base year for forecasting demand and revenue should be set at 2012/13 revenue actuals by ticket type (see Table 1 below) ("**Base Year**").

Lennon sales data from MOIRA has been used as the basis for splitting demand and revenue into the market segments on a flow by flow basis, using MOIRA flow data for the year to September 2012. Market segmentation is based on a PDFH structure with 6 geographical segments developed for the purposes of the forecast. The key segments are those containing flows to central London originating from within the Travelcard area, and those originating outside the Travelcard area. In addition to the geographical segmentation there is also a breakdown by product type: full, reduced and seasons. The mapping to PDFH-defined segment is also shown within Table 1 below.



**Table 1** 2012/13 Passenger Revenue Base Year

Ticket Type	Model Segment	PDFH Segment	Revenue £000's	Journeys 000's
Full	Travelcard Area Flows to / from Zone 1	Within Travelcard Area	4,540	1,307
	Zone 2 – 6 Travelcard Area Flows	Within Travelcard Area	1,779	1,160
	ET Outers to London Travelcard Area	Rest of SE t/f Travelcard Area	23,684	3,819
	London Travelcard Area to ET Outers	Rest of SE t/f Travelcard Area	7,026	1,336
	ET to / from ET Non London	Within SE excl Travelcard Area	3,925	1,527
	ET to / from Other	Within SE excl Travelcard Area	1,019	99
Reduced	Travelcard Area Flows to / from Zone 1	Within Travelcard Area	2,827	1,286
	Zone 2 – 6 Travelcard Area Flows	Within Travelcard Area	1,577	1,870
	ET Outers to London Travelcard Area	Rest of SE t/f Travelcard Area	12,267	2,969
	London Travelcard Area to ET Outers	Rest of SE t/f Travelcard Area	4,293	1,401
	ET to / from ET Non London	Within SE excl Travelcard Area	3,508	2,202
	ET to / from Other	Within SE excl Travelcard Area	850	124
Seasons	Travelcard Area Flows to / from Zone 1	Within Travelcard Area	7,255	2,892
	Zone 2 – 6 Travelcard Area Flows	Within Travelcard Area	2,856	1,966
	ET Outers to London Travelcard Area	Rest of SE t/f Travelcard Area	47,456	10,671
	London Travelcard Area to ET Outers	Rest of SE t/f Travelcard Area	4,626	1,146
	ET to / from ET Non London	Within SE excl Travelcard Area	1,674	1,303
	ET to / from Other	Within SE excl Travelcard Area	255	103
<b>TOTAL</b>			<b>131,417</b>	<b>37,182</b>

Segment definitions:

- *Travelcard Area Flows to / from Zone 1:* journeys on ET wholly within the Travelcard area to / from Travelcard zone 1 (e.g. Barking – Fenchurch Street);
- *Zone 2 – 6 Travelcard Area flows:* journeys on ET wholly within the Travelcard area but excluding Travelcard zone 1 (e.g. Upminster - Barking);
- *ET Outers – London Travelcard Area:* Journeys wholly on ET from origins outside the London Travelcard area to destinations within the London Travelcard area (e.g. Southend to Fenchurch Street / Southend – West Ham);
- *London Travelcard Area - ET Outers:* Journeys wholly on ET from origins inside the London Travelcard area to destinations outside the London Travelcard area (e.g. Fenchurch Street to Southend / West Ham - Southend);
- *ET to / from ET Non-London:* Journeys on ET outside the London Travelcard area (e.g. Benfleet – Basildon); and
- *ET to / from Other:* Journeys between ET stations and stations outside the ET area involving a journey leg on another TOC (e.g. Cambridge – Benfleet).

Bidders will also need to include any material elements of ‘Other’ passenger revenue in their Base Year and forecast revenue for this test.

### **3. DfT Specified Exogenous Factors**

The Specified Exogenous Factors, specified to be adopted purely for the purposes of risk adjustment and Financial Robustness testing and the Capacity Test , are based on the Department’s EDGE forecast inputs provided in April 2013, and are presented as an indexed growth factor to the Base Year 2012/13 through to 2029/30, to apply at aggregate flow category level. The approach to applying these factors should be consistent with the Passenger Demand Forecasting Framework. The Department’s forecasts are provided for the following core exogenous factors:

- GDP per Capita;
- Population;
- Employment (for flows to Central London, the growth index is based on a growth across four London boroughs - City, Westminster, Tower Hamlets and Camden. These are weighted by the current ET business mix across these boroughs – see Table 13 below);
- Non-Car Ownership (shown as a percentage difference against the Base Year);
- Car Fuel Cost;
- Car Time;
- Bus Cost;
- Bus Time;
- Bus Headway; and
- Real Fares Increases (RPI +1%).

**Table 2: GDP per Capita**

Indices by Flow Category	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/17	27/28	28/29	29/30
Flows From or Within London Travelcard Area	1.00	0.99	0.98	0.99	1.00	1.02	1.04	1.05	1.07	1.09	1.11	1.13	1.15	1.17	1.19	1.21	1.24	1.26
Flows from Outside London Travelcard Area	1.00	0.99	0.99	1.00	1.02	1.04	1.06	1.08	1.09	1.11	1.13	1.14	1.16	1.18	1.20	1.22	1.25	1.27

**Table 3: Population**

Indices by Flow Category	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/17	27/28	28/29	29/30
Travelcard Area Flows to / from Zone 1	1.00	1.01	1.03	1.04	1.06	1.07	1.08	1.10	1.11	1.12	1.13	1.14	1.15	1.16	1.17	1.18	1.19	1.20
Zone 2 - 6 Travelcard Area Flows	1.00	1.02	1.03	1.05	1.07	1.09	1.11	1.12	1.14	1.16	1.17	1.19	1.20	1.21	1.22	1.24	1.25	1.26
ET Outers to London Travelcard Area	1.00	1.01	1.02	1.03	1.03	1.04	1.05	1.06	1.07	1.08	1.09	1.09	1.10	1.11	1.11	1.12	1.13	1.14
London Travelcard Area to ET Outers	1.00	1.01	1.03	1.04	1.06	1.07	1.09	1.10	1.11	1.13	1.14	1.15	1.16	1.17	1.18	1.19	1.20	1.21
ET to/from ET Non-London	1.00	1.01	1.02	1.02	1.03	1.04	1.05	1.06	1.06	1.07	1.08	1.09	1.09	1.10	1.10	1.11	1.12	1.13
ET to/from Other	1.00	1.01	1.02	1.03	1.05	1.06	1.07	1.08	1.10	1.11	1.12	1.13	1.13	1.14	1.15	1.16	1.17	1.18

**Table 4: Employment**

Indices by Flow Category	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/17	27/28	28/29	29/30
Travelcard Area Flows to / from Zone 1	1.00	1.02	1.03	1.04	1.06	1.08	1.08	1.09	1.10	1.11	1.12	1.13	1.14	1.15	1.16	1.17	1.17	1.18
Zone 2 - 6 Travelcard Area Flows	1.00	1.01	1.03	1.04	1.06	1.07	1.08	1.08	1.09	1.10	1.10	1.11	1.11	1.12	1.13	1.13	1.13	1.14
ET Outers to London Travelcard Area	1.00	1.02	1.03	1.04	1.06	1.08	1.09	1.10	1.11	1.12	1.13	1.14	1.15	1.16	1.16	1.17	1.18	1.19
London Travelcard Area to ET Outers	1.00	1.01	1.02	1.02	1.03	1.04	1.04	1.04	1.05	1.05	1.05	1.06	1.06	1.06	1.07	1.07	1.07	1.08
ET to/from ET Non-London	1.00	1.01	1.02	1.02	1.03	1.04	1.04	1.04	1.05	1.05	1.05	1.06	1.06	1.06	1.07	1.07	1.07	1.08
ET to/from Other	1.00	1.01	1.02	1.03	1.04	1.05	1.06	1.06	1.07	1.07	1.07	1.08	1.08	1.09	1.09	1.10	1.10	1.10

**Table 5: Non-Car Ownership**

Indices by Flow Category	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/17	27/28	28/29	29/30
Travelcard Area Flows to / from Zone 1	0.0%	0.2%	-0.4%	-0.5%	-0.7%	-0.6%	-0.6%	-0.6%	-0.6%	-0.6%	-0.6%	-0.6%	-0.7%	-0.7%	-0.7%	-0.7%	-0.7%	-0.8%
Zone 2 - 6 Travelcard Area Flows	0.0%	-0.3%	-0.5%	-0.8%	-1.0%	-1.0%	-0.9%	-0.9%	-0.9%	-0.9%	-0.9%	-0.9%	-1.0%	-1.0%	-1.0%	-1.0%	-1.1%	-1.1%
ET Outers to London Travelcard Area	0.0%	-0.4%	-0.7%	-1.0%	-1.3%	-1.4%	-1.4%	-1.5%	-1.5%	-1.6%	-1.7%	-1.8%	-1.9%	-1.9%	-2.0%	-2.1%	-2.2%	-2.3%
London Travelcard Area to ET Outers	0.0%	-0.2%	-0.5%	-0.7%	-0.9%	-0.9%	-0.9%	-0.9%	-0.9%	-0.9%	-0.9%	-1.0%	-1.0%	-1.1%	-1.1%	-1.1%	-1.2%	-1.2%
ET to/from ET Non-London	0.0%	-0.4%	-0.7%	-1.0%	-1.3%	-1.4%	-1.4%	-1.5%	-1.6%	-1.6%	-1.7%	-1.8%	-1.9%	-2.0%	-2.1%	-2.2%	-2.3%	-2.4%
ET to/from Other	0.0%	-0.3%	-0.6%	-0.9%	-1.1%	-1.2%	-1.2%	-1.3%	-1.3%	-1.4%	-1.5%	-1.6%	-1.7%	-1.7%	-1.8%	-1.9%	-2.0%	-2.1%

**Table 6: Fuel Cost**

Indices by Flow Category	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/17	27/28	28/29	29/30
All Flows	1.00	1.00	1.00	1.01	1.02	1.03	1.04	1.05	1.06	1.07	1.08	1.09	1.10	1.11	1.12	1.13	1.13	1.14

**Table 7: Car Time**

Indices by Flow Category	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/17	27/28	28/29	29/30
Travelcard Area Flows	1.00	1.00	1.01	1.01	1.02	1.03	1.04	1.05	1.06	1.07	1.09	1.10	1.11	1.12	1.13	1.14	1.15	1.16
ET Outers to / from London Travelcard Area	1.00	1.00	1.01	1.01	1.01	1.02	1.02	1.02	1.03	1.03	1.04	1.04	1.05	1.05	1.05	1.06	1.06	1.07
ET Non-London Flows	1.00	1.00	1.00	1.01	1.01	1.01	1.01	1.02	1.02	1.02	1.03	1.03	1.03	1.03	1.04	1.04	1.04	1.05

**Table 8: Bus Cost**

Indices by Flow Category	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/17	27/28	28/29	29/30
Travelcard Area Flows	1.00	1.02	1.04	1.06	1.08	1.11	1.13	1.15	1.17	1.20	1.22	1.25	1.27	1.30	1.33	1.35	1.38	1.41
Other ET Flows	1.00	1.02	1.05	1.07	1.09	1.12	1.14	1.17	1.20	1.22	1.25	1.28	1.31	1.34	1.37	1.40	1.43	1.47

**Table 9: Bus Time**

Indices by Flow Category	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/17	27/28	28/29	29/30
Travelcard Area Flows	1.00	1.01	1.01	1.02	1.03	1.05	1.06	1.08	1.09	1.11	1.13	1.15	1.16	1.18	1.19	1.21	1.22	1.24
ET Outers to / from London Travelcard Area	1.00	1.00	1.00	1.01	1.01	1.02	1.02	1.02	1.03	1.03	1.04	1.04	1.05	1.05	1.05	1.06	1.06	1.07
ET Non-London Flows	1.00	1.00	1.00	1.01	1.01	1.01	1.02	1.02	1.02	1.03	1.03	1.04	1.04	1.04	1.05	1.05	1.05	1.06

**Table 10: Bus Head**

Indices by Flow Category	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/17	27/28	28/29	29/30
Travelcard Area Flows	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0.99	0.98	0.97	0.96	0.96	0.95	0.94	0.93	0.92
Other ET Flows	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.01	1.01	1.02	1.02	1.03	1.04	1.04	1.05	1.05

**Table 11: Real Fares**

Indices by Flow Category	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/17	27/28	28/29	29/30
All Flows	1.00	1.01	1.02	1.03	1.04	1.04	1.05	1.07	1.08	1.09	1.10	1.11	1.12	1.13	1.14	1.15	1.16	1.18

#### 4. Exogenous Factor Elasticities

**Table 12: Elasticities**

Flow Category	Ticket Type	GDP Capita per	Population	Employment	Non Ownership Car	Fares	Fuel Cost	Car Time	Bus Cost	Bus Time	Bus Head
Travelcard Area Flows to / from Zone 1	Full	0.64	0.49	0.66	0.30	-0.51	0.20	0.10	0.11	0.04	0.02
Zone 2 - 6 Travelcard Area Flows	Full	0.64	0.49	0.66	0.30	-0.51	0.20	0.10	0.11	0.04	0.02
ET Outers – London Travelcard Area	Full	1.20	1.00	-	0.71	-0.66	0.19	0.24	0.17	0.17	0.03
London Travelcard Area - ET Outers	Full	1.20	1.00	-	0.71	-0.72	0.24	0.30	0.20	0.20	0.03
ET – ET Non-London	Full	1.20	1.00	-	0.71	-0.72	0.24	0.30	0.20	0.20	0.03

Flow Category	Ticket Type	GDP Capita per	Population	Employment	Non Ownership	Car	Fares	Fuel Cost	Car Time	Bus Cost	Bus Time	Bus Head
ET - Other	Full	1.20	1.00	-	0.71		-0.72	0.24	0.30	0.20	0.20	0.03
Travelcard Area Flows to / from Zone 1	Reduced	0.94	0.73	0.36	0.55		-0.69	0.20	0.10	0.14	0.04	0.02
Zone 2 - 6 Travelcard Area Flows	Reduced	0.94	0.73	0.36	0.55		-0.69	0.20	0.10	0.14	0.04	0.02
ET Outers – London Travelcard Area	Reduced	1.20	1.00	-	0.71		-0.66	0.19	0.24	0.17	0.17	0.03
London Travelcard Area - ET Outers	Reduced	1.20	1.00	-	0.71		-0.72	0.24	0.30	0.20	0.20	0.03
ET – ET Non-London	Reduced	1.20	1.00	-	0.71		-0.72	0.24	0.30	0.20	0.20	0.03
ET - Other	Reduced	1.20	1.00	-	0.71		-0.72	0.24	0.30	0.20	0.20	0.03
Travelcard Area Flows to / from Zone 1	Seasons	0.28	0.22	1.02	0.16		-0.41	0.20	0.10	0.11	0.05	0.02
Zone 2 - 6 Travelcard Area Flows	Seasons	0.28	0.22	1.02	0.16		-0.41	0.20	0.10	0.11	0.05	0.02
ET Outers – London Travelcard Area	Seasons	-	-	1.30	-		-0.30	-	-	-	-	-
London Travelcard Area - ET Outers	Seasons	-	-	1.30	-		-0.60	0.25	0.30	0.20	0.20	0.05
ET – ET Non-London	Seasons	-	-	1.00	-		-0.60	0.25	0.30	0.20	0.20	0.05
ET - Other	Seasons	-	-	1.00	-		-0.60	0.25	0.30	0.20	0.20	0.05

### 5. Weighting Factors for Central London Employment Growth

As discussed above, Central London Employment growth is weighted by the Base Year business mix across the four core ET destination Central London boroughs, as shown in the table below. This mix was calculated based on analysis of National Rail Travel Survey data (NRTS).

**Table 13: Central London Destination Mix for Essex Thameside Passengers**

London Borough	%
City of London	56%
Tower Hamlets	16%
Westminster	17%
Camden	11%

Source: NRTS

## 6. Crowding, Capacity and Demand

The Department requires Bidders to provide sufficient capacity (the “**Capacity Test**”) to carry their own demand forecasts achieving the Crowding Limits, and to also demonstrate, as a sensitivity test, that their capacity provision would be sufficient to carry an alternative demand forecast derived by replacing **all** the Bidder’s exogenous demand assumptions with the Specified Exogenous Factors (detailed above) in conjunction with the Bidder’s endogenous demand assumptions. The Bidder’s Modelling Suite must be capable of providing this sensitivity test. This sensitivity test seeks to confirm that the Crowding Limits as specified in the ITT are not exceeded with the Bidders’ timetables, train formations and demand projections both with the Bidder’s exogenous assumptions and when these are replaced with the Specified Exogenous Factors for this test.

For this sensitivity test, the method of splitting annual demand between peak / off peak will need to adopt the approach for the Base Year as specified in Table 14.

### **Translating Annual Demand to Peak Demand Growth**

Table 14 shows an analysis of demand split between peak and off-peak based on NRTS data for the Essex Thameside franchise area. Bidders shall submit a model version in which the peak/off-peak splits for the Base Year are materially similar to those specified using this methodology. Bidders should provide their rationale, inputs and assumptions should there be a deviation in the peak / off peak split in future years.



**Table 14 Peak / Off-Peak Split**

Ticket Type	Model Segment	Peak	Off Peak
Full	Travelcard Area Flows to / from Zone 1	68.8%	31.2%
	Zone 2 – 6 Travelcard Area Flows	68.8%	31.2%
	ET Outers to London Travelcard Area	68.8%	31.2%
	London Travelcard Area to ET Outers	0.0%	100.0%
	ET to / from ET Non London	0.0%	100.0%
	ET to / from Other	0.0%	100.0%
Reduced	Travelcard Area Flows to / from Zone 1	13.0%	87.0%
	Zone 2 – 6 Travelcard Area Flows	13.0%	87.0%
	ET Outers to London Travelcard Area	13.0%	87.0%
	London Travelcard Area to ET Outers	0.0%	100.0%
	ET to / from ET Non London	0.0%	100.0%
	ET to / from Other	0.0%	100.0%
Ticket Type	Model Segment	Peak	Off Peak
Seasons	Travelcard Area Flows to / from Zone 1	84.4%	15.6%
	Zone 2 – 6 Travelcard Area Flows	84.4%	15.6%
	ET Outers to London Travelcard Area	84.4%	15.6%
	London Travelcard Area to ET Outers	0.0%	100.0%
	ET to / from ET Non London	0.0%	100.0%
	ET to / from Other	0.0%	100.0%

Source: NRTS

### Base Year Train Loadings

It is acknowledged that Bidders may adopt a number of different approaches to modelling crowding impacts. However Bidders should demonstrate that their modelling approach makes effective use of train loadings data supplied, including for insights into seasonality, load variation along the route and recent demand trends. Bidders should be able to demonstrate that both am and pm

peak period Base Year crowding metrics are calibrated with reference to the Autumn 2012 weekday count data in the Data Site, with justification of their measure of acceptable discrepancy between modelled and actual counts.

# Appendix 4: 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, 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 requires Bidders to carry out the economic appraisal based on the specification in their Bids and to submit the results with their Bids. Only the VfM of the leading Bid will be assessed. VfM will not be used to choose between Bids and will form no other part of the Bid evaluation other than that 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 (the “**VfM Report**”) containing the description and quantification of costs and benefits with supporting record of assumptions and models where these are additional to the Modelling Suite. The Department does not require the VfM Report to be in the form of a ‘5 case model’. The Department requires that the costs and benefits included in the VfM Report are internally consistent with the overall Bid and can be traced back to one or more of the Delivery Plans and Models.

The Department’s economic appraisal of the VfM Report is carried out using a framework set out in the HM Treasury Green Book<sup>1</sup>. Within this framework the Department has developed specific guidance on transport appraisal in WebTAG<sup>2</sup>. Particular attention should be paid to WebTAG unit 3.13 Guidance on Rail Appraisal<sup>3</sup> although the

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<sup>1</sup> HMT Green Book [http://www.hm-treasury.gov.uk/data\\_greenbook\\_index.htm](http://www.hm-treasury.gov.uk/data_greenbook_index.htm).

<sup>2</sup> WebTAG guidance <http://www.dft.gov.uk/webtag/>.

<sup>3</sup> <http://www.dft.gov.uk/webtag/documents/expert/unit3.13.php>

Department will draw on the wider WebTAG guidance and also on values contained in the Passenger Demand Forecasting Handbook V5<sup>4</sup> when considering each VfM Report.

Following guidance set out in WebTAG unit 1.1, the level of detail in the VfM Report must 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 the VfM Reports will be comprehensive but proportionate.

### **Specification of the Benefit Cost Ratio and the Net Present Value**

The VfM Report must 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:

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

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

$$\text{BCR} = \text{PVB/PVC}$$

The test the Department is using requires that the NPV of the Bid<sup>5</sup> is positive, compared to the do-minimum of the existing franchise specification continuing, 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 Bid may involve reduced costs and increased benefits or reduced costs and reduced benefits against the 'do minimum'. Either possibility 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 VfM Report.

Bidders must also note that under WebTAG guidance, all costs and benefits should be presented in real terms converted into 2010 prices and discounted to 2010 values using the HMT Green Book discount rate of 3.5%. Costs and revenues must also be converted to market prices (see guidance in WebTAG 3.13 paragraph 3.4.3)

The VfM Report must cover the period from the Start Date to 16<sup>th</sup> September 2029. 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.

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<sup>4</sup> For fare elasticity bidders must use PDFH v4.

<sup>5</sup> This is incremental NPV relative to the base.

The VfM Report must cover the entirety of the Specification in the Bid. Bidders will not be required to demonstrate that individual parts of the Bid provide value for money only that overall the Bid is value for money.

### **Defining the ‘do minimum’ specification**

Costs and benefits in the VfM Report must be calculated against a counterfactual or ‘do minimum’ case<sup>6</sup>. The ‘do minimum’ reflects what would happen in the absence of the changes proposed in the Bid.

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 16<sup>th</sup> September 2029.

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’ must be rolled forward using demand forecasts based on exogenous and endogenous factors in a manner consistent with WebTAG guidance. The exogenous factors must be consistent between the ‘do minimum’ and the proposal.

The station lease changes must be assumed to be the same in both the ‘do minimum’ and the Bid and these must not form part of the VfM Report.

### **Changes to costs and benefits resulting from the proposal**

In the VfM Report Bidders must calculate the changes in costs and benefits against the ‘do minimum’ that result from the proposed Bid. The changes must 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, subject to the requirements of the Franchise Agreement. However, the VfM Report must 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 VfM Report must be consistent with the Initiatives

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<sup>6</sup> 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’.

and estimated costs and revenues elsewhere in the Bid. A benefit 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 Bidder's Bid, but only where it is the result of a change proposed as part of the Bid. Likewise, unit costs must be assumed to be the same between the 'do minimum' and the Bid unless there is a change as the direct result of the Bid.

### **Changes to costs**

The Present Value of Costs (PVC) estimate must include all costs and revenues that impact on the broader transport budget (in practice mainly those that impact on the premium Franchise Payments received by the Department from this and other franchises). This shows the change in Franchise Payments against the 'do minimum'.

Cost changes from the 'do minimum' are likely to be the result of:

- operating costs and renewals that change as the result of Initiatives;
- revenue changes that change as the result of Initiatives (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 Payments); or
- other changes to Franchise Payments (e.g. for flexibility).

The cost to Government (i.e. the PVC) must also include wider impacts on the broader transport budget Government finances that are not be reflected by a change in the premium from ET Franchise Payments. 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 must 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 VfM Report.
- Crowding costs. Crowding costs must be estimated using PDFH v5. Crowding costs estimated in GJT equivalent units must 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 must be treated as a transfer (of consumer surplus) initially between passengers and the operator and ultimately to Government as premium (if appropriate). Consideration must 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 must use PDFH v4 for fare elasticity. The impact of changes to regulated fares under the fares policy in the bid must be considered as part of this Specification.
- 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 VfM Report.
- 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 analysis of the VfM of the Bid 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 VfM Report
- 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.
  - VfM Report Summary Table.
  - Transport Economic Efficiency table
  - Public Accounts table
  - Assessment of Monetised Costs and Benefits



# Appendix 5: Risk Adjustment Process

## 1 Introduction

- 1.1. This Appendix summarises the approach that the Department will adopt to risk adjustment of Bids.
- 1.2. For the Essex Thameside competition, a specific process has been developed with respect to the risk adjustment of Specified Exogenous Factors and Unspecified Exogenous Factors. The process for this is described at the end of this Appendix. The rest of this Appendix describes the approach to risk adjustment of other factors.
- 1.3. Except with respect to exogenous revenue factors, all Department risk adjustments will be made on the basis of the Department's reasonable view of the most credible outcome, taking into account all of the information available to it, including existing industry / Department guidance and research, and new research and evidence put forward by Bidders where included in associated Delivery Plans or Sub Plans, the Record of Assumptions, or other information submitted with Bids.
- 1.4. The Department will not risk adjust a Bid if it concludes that the evidence that is presented in the Bid is sufficiently credible to convince it that there is not a material risk of a materially different financial outcome, taking into account all of the information available to it.
- 1.5. Guidance on how adjustments will be made can never be complete or apply to all possible situations, as it is not possible to predict in advance of Bid submission how Bidders will construct their Bids and so what issues and risks may be identified with each submission. The approach to adjustments described in this Appendix is intended to provide Bidders with as much transparency as possible about how this principle will be implemented, but the key principle of the Department's reasonable view of the most credible outcome will always be the overriding factor.

## 2 Overview of process

- 2.1 Subject to **paragraph 1.3** and except with respect to Specified Exogenous Factors and Unspecified Exogenous Factors for which a separate approach is described below, the approach that will be followed is:

2.1.1 Bidders' Modelling Suites will be reviewed (including by reference to the Department's comparator model), to identify whether there are any issues in the methodology or assumptions used for the cost, revenue or other modelling which in the Department's reasonable view might generate a material risk of a materially different financial outcome from that projected in the Bidder's Modelling Suites (upside or downside).

2.1.2 In addition to reviewing the Delivery Plans and Sub-Plans to assess the overall deliverability and quality of the bid, the Department will identify whether it has concerns that any of the plans generate a material risk of a materially different financial outcome. Circumstances where these could arise include where:

- there are concerns about the operational, commercial or management arrangements set out for the franchise, and therefore concerns as to whether the franchise will require additional costs in order to deliver the Committed Obligations, or whether it will generate the expected revenue that has been forecast;
- there are concerns about the implementation strategy for a particular Initiative, and therefore there is a risk that higher costs or lower revenue will arise than forecast; or
- there are concerns about whether the revenue or cost attributed to an Initiative is achievable, even if the Initiative is implemented successfully, because of concerns about the methodology or assumptions used in the modelling of the impact of the Initiative.

2.1.3 If necessary and appropriate the Department may seek clarification under the clarification process described in **paragraph 4.7.2** (Engagement with Bidders and Evaluation Clarification Process).

2.1.4 Further to the reviews described above, the Department will identify the risk adjustment(s) it intends to make to that Bidder's Models ("**Proposed Risk Adjustments**"). The basis for such risk adjustments is described below.

2.1.5 The Department will review the consistency of the Proposed Risk Adjustments individually and in aggregate.

2.2 Before finally determining any risk adjustment(s) (other than the risk adjustments referred to in paragraph 7 of this Appendix) the Department shall inform the Bidder of

the Proposed Risk Adjustments, provided that, where the Proposed Risk Adjustments would not result in a Bidder being projected in its Risk Adjusted Financial Model to breach the Financial Ratios at any point during the Core Franchise Term, the Department reserves the right not to follow the process referred to in this paragraph 2.2 in respect of that Bidder (on the basis that, in such circumstances, the risk adjustment process will have no impact on the outcome of the evaluation of the relevant Bidder's Bid). Where the Department informs a Bidder of the Proposed Risk Adjustments:

- it may also raise further questions in relation to the Proposed Risk Adjustments;
- the Bidder will have 5 working days (or such longer period as the Department may specify) to respond to any such questions;
- the Bidder must only reply to the questions in its response; and
- the Department will determine the risk adjustments ("**Final Risk Adjustments**") after receipt of responses or, where no responses are provided, after the date by which responses were to be provided.

2.3 The Final Risk Adjustments will then be run through each Bidder's Models as appropriate to produce each Bidder's Risk Adjusted Financial Model.

### **3 Approach to determining adjustments**

3.1 Subject to **paragraph 1.3**, this section describes the approach to determining risk adjustments to factors other than exogenous revenue, such as:

- revenue forecasts from Initiatives; and
- operating, financing and capital cost forecasts.

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

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

- 3.4 Where a Bidder includes contingency costs and/or revenues in its Financial Model they will be removed from the Financial Model for the purpose of the risk adjustment process.
- 3.5 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 Initiative.
- 3.6 Risk adjustments may be either positive or negative, both individually and in aggregate.
- 3.7 To demonstrate risk adjustment, examples of risk adjustment are provided at the end of this Appendix.

#### **4 Revenue - excluding exogenous**

- 4.1 Risk adjustments may be made in respect of any of a Bidder's endogenous revenue projections (i.e. the resultant predicted outcome of the inputs, assumptions and values used by the Bidder). For these purposes, endogenous revenue includes revenue from Initiatives, non-farebox revenue, and any other element of its revenue projections other than exogenous.
- 4.2 In determining any risk adjustment, the factors that the Department will take into account may include, but shall not necessarily be limited to:
- the demand forecasting guidance in PDFH v5 (except for fares, for which PDFH v4 will be used);
  - WebTAG Rail Passenger Demand Forecasting Methodology;
  - other published analysis;
  - the credibility of the delivery proposals, including resources and delivery timescales;
  - any analysis provided by the Bidder to justify the methodology and assumptions that it has used;
  - any analysis provided by another Bidder with its Bid, to the extent that it is relevant and credible; and

- an assessment of whether total projected revenue growth is credible (taking into account the aggregated impact of different factors and Initiatives proposed).

## 5 Cost

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

5.2 Subject to **paragraph 1.3**, in determining any risk adjustment, the approach which will be adopted will be as follows:

- where costs do not depend on Bidder Initiatives or management action (for example, EC4T unit rates), equivalent values will be used in the risk-adjusted forecasts for all Bidders, unless a Bidder provides credible evidence to convince the Department, in its reasonable view, that it will achieve a different outcome. Where relevant, the common values will be based on the Department's comparator model assumptions, unless the Department determines that there is credible alternate evidence that it should revise these assumptions.
- where costs depend on Bidder Initiatives or management action, the Department will make a case-by-case assessment.

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

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

## 6 Examples of risk adjustments

6.1 This section provides examples of risk adjustments. Both the nature of the Initiatives described, and the types of adjustments set out, should be considered as illustrative only. The Department will undertake risk adjustments in accordance with the

description in this Appendix and these examples should not be taken to limit how the Department will undertake this.

- 6.2 A Bidder proposes to invest in equipment at a TOC depot, to enable it to avoid having to send trains away to another depot for certain types of heavy maintenance. In addition to claiming an ongoing reduction in the cost of this activity, the Bidder claims that avoiding sending units away will enable an improvement in fleet availability so as to enable a further unit to be diagrammed in traffic from within the existing fleet. In the context of further vehicles being required to accommodate forecast passenger growth, this means that the Bidder avoids the lease of one additional 4 car unit. Risk adjustment could be appropriate, for example:
- the timing of implementation could be considered to be unrealistically ambitious, and risk adjustment could result in a delay to the timing of benefits and costs;
  - the projected capital cost of the equipment could be considered unrealistically low, and therefore risk adjustment could increase the capital costs accordingly;
  - the assumed avoidance of an additional 4 car unit through a higher fleet availability could be considered over-ambitious, and therefore risk adjustment could add in the cost of securing an additional unit to achieve a realistic fleet size to deliver the Bidder's required diagrammed vehicles;
  - the additional staff required to carry out this work in-house could have been underestimated, in which case risk adjustment could add additional staff costs;
  - one-off transition costs could have been overlooked, for example costs in relation to staff recruitment and training to carry out this specialist work in-house could have been omitted, in which case risk adjustment could add in cost provision for these one off items.
- 6.3 A revenue protection Initiative is proposed in order to improve financial performance. This Initiative includes purchase of new equipment which, together with additional revenue protection staff and improved processes such as revised deployment of revenue protection officers, is projected to achieve a reduction in ticketless travel and therefore an ongoing increase in revenue with no change to the quantum of passengers actually travelling. Risk adjustment could be appropriate, for example:
- the timing of implementation could be considered to be unrealistically ambitious, for example if there is insufficient time to recruit and train new staff,

and therefore risk adjustment could result in a delay to the timing of benefits and operating costs;

- the scale of ongoing costs for the additional staff could be considered unrealistically low, and risk adjustment could increase these costs accordingly;
- the scale of the ongoing revenue gain could be considered over-ambitious, and risk adjustment could scale back the additional revenue claimed;
- one-off transition costs may have been overlooked, for example staff recruitment and training costs, and risk adjustment could add in cost provision for these one off items.

6.4 A station enhancement investment programme initiative is proposed, to improve passenger satisfaction at a portfolio of suburban stations, and therefore to increase passenger revenue. The scope of the programme includes creation of new ticket offices, mobility impaired access, additional car parking, waiting room and toilet facilities at these stations, and replacing or augmenting existing facilities which are deemed to be inadequate. Risk adjustment could be appropriate, for example:

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

- 6.5 A Bidder proposes enhancements to the customer proposition, in order to generate additional revenue. Examples could include revised branding, refreshment of rolling stock, and provision of enhanced passenger information systems. Risk adjustment could be appropriate, for example:
- the timing of implementation could be considered to be unrealistically ambitious, for example there could be inadequate time to implement the enhancement, and therefore risk adjustment could delay the timing of revenue and costs associated with the Initiative;
  - the costs assumed to implement the enhancements could be considered unrealistically low, and risk adjustment could increase the costs assumed accordingly;
  - the scale, timing, build-up or trend of passenger revenue resulting from the enhancements could be considered over-ambitious, for example if the assumptions used are not consistent with PDFH, and risk adjustment could scale back the revenue benefits claimed;
  - transition impacts may have been overlooked, for example any staff training, or loss of rolling stock availability whilst modifications are being carried out. Risk adjustment could take account of any impacts during transition.
- 6.6 Marketing campaigns are proposed that represent a significant increase from the previous levels on this TOC, but the claimed rate of return is abnormally high and not supported with sufficient evidence. Risk adjustment may scale back the passenger revenue benefits claimed.
- 6.7 The Bidder proposes ticket office closures, to be enabled by new ticketing technology and equipment, but the rate of deployment is considered to be too ambitious. Risk adjustment may delay the envisaged level of staff reductions and add back staff costs accordingly.
- 6.8 The Bidder plans to operate all trains as DOO. To achieve this, it proposes investment in new equipment and revised operational arrangements. It is considered that the Bidder has underestimated the costs of the new equipment that is required and excluded any crew training costs. Risk adjustment may add to the costs of equipment or staff training, and delay the realisation of any benefits.
- 6.9 The Bidder assumes low rates of wage increases and does not provide evidence that this is consistent with market rates and therefore that it will be able to recruit and



retain staff with this level of wage increase. Risk adjustment may increase staff costs in line with forecast economic indicators and market trends

- 6.10 The Bidder proposes to reduce levels of staffing to such an extent that this is considered to represent a risk to ongoing deliverability of the Bidder's commitments in one or more area of the business. Risk adjustment could add in additional staff and associated costs.
- 6.11 The Bidder assumes growth in EC4T unit rates materially lower than is considered realistic. Risk adjustment could increase these costs to reflect alternative forecasts of the trend in energy costs.
- 6.12 The Bidder assumes significant benefits from alliancing that are not adequately justified. Risk adjustment may reduce any claimed benefits or cost savings to the extent that these are considered over-ambitious.

## **7 Approach to risk adjustments: exogenous revenue**

- 7.1 The Department has provided Bidders with a view of certain of the factors affecting exogenous demand over the life of the Essex Thameside Franchise set out in **Appendix 3** (Specified Exogenous Factors). Prior to the issue of this ITT, Bidders were given the opportunity to provide the Department with comments on these Specified Exogenous Factors.
- 7.2 Bidders should bid their own views of Specified Exogenous Factors and Unspecified Exogenous Factors and the impact of the same on their Financial Modelling Suites.
- 7.3 The Department requires Bidders' Models to have functionality to adjust any Specified Exogenous Factors assumed by Bidders which differ from the Department's view of the same as set out in **Appendix 3** (Specified Exogenous Factors) to the level set out in **Appendix 3**; and to remove the impact of any Unspecified Exogenous Factors assumed by Bidders.
- 7.4 For the purpose of the Financial Robustness Test, the Department will adjust any Specified Exogenous Factors assumed by Bidders which differ from the Department's view of the same as set out in **Appendix 3** (Specified Exogenous Factors) to the level set out in **Appendix 3** and will further adjust the Models to remove the impact of any Unspecified Exogenous Factors assumed by Bidders.