



Department
for Transport

Next generation



InterCity East Coast Prospectus

October 2013



Department
for Transport

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

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Foreword

This Government is committed to the principle that partnership between the public and private sector works.

We have seen great improvements on our railways since privatisation, with unprecedented growth in passenger numbers and the best safety record in Europe. We want to further strengthen our partnership with the private sector and continue to build on this growth and deliver world class railways for passengers and best value for the taxpayer.

This Prospectus sets out a major opportunity for us to do just that on the InterCity East Coast franchise. It describes the East Coast business as it stands today - a successful railway that serves a unique mixture of business, leisure and commuter passengers between Scotland and London and the many important destinations between. East Coast passenger rail services have been operated by the public sector since 2009, which has stabilised a business in difficult circumstances so that it is now ready to be transformed by the private sector.

We want to see a revitalised East Coast railway; one that rekindles the spirit of competition for customers on this great route to Scotland and competes with the West Coast on speed, quality and customer service. We need a strong partner to ensure we successfully deliver the investments that we are making on the infrastructure, through our Rail Investment Strategy, and deliver the significant improvements in rolling stock that the InterCity Express Programme will provide. We need a partner with vision, a long term plan and the best team to deliver it. Above all, we are seeking a partner that is wholly committed to putting passengers at the heart of their business, realising the full potential in the franchise.

We will be offering enormous scope for bidders to invest and innovate using their own flair. In return, we want to receive genuinely creative bids for this key rail business. These bids should transform the experience for passengers and provide tough competition for other operators going north. The bids will match passenger demand and improve the long term value of the business to Britain. It will also provide long term certainty and underpin the economies and communities that rely on this historic and successful railway.

I am confident that through the partnership approach my Department is taking in franchising, combined with the skills, investment and innovation of the private sector, we can deliver a new railway for the East Coast. One that meets my three objectives for franchising across the network: that the passenger gains; the industry thrives; and the taxpayer benefits.

Rt. Hon. Patrick McLoughlin MP
Secretary of State for Transport



1. Introduction

This Prospectus has been produced to give information to potential bidders about the sale of the East Coast passenger rail business. East Coast passenger services are currently run by East Coast Main Line Company Limited (ECML) and it is intended that ECML will be sold to the successful bidder who will continue to run the passenger services under a new franchise.

Following the recommendations of the Richard Brown review into Rail Franchising¹, the Department for Transport ('DfT' or 'the Department') is seeking to provide a greater level of information to bidders at the start of the competition. Publication of this Prospectus alongside the OJEU² Notice forms part of this new approach.

1.1 Purpose of this document

In line with UK Government procurement principles, the competition for the East Coast rail franchise includes significant market engagement, where potential bidders are invited to help the Department test its thinking and generate ideas for innovation. As we move closer to publication of the Invitation To Tender (ITT), our aim is to set out the Department's intent with regard to this franchise – while being transparent about the fact that our thinking and final position on a number of areas within the scope of this procurement are still being developed – and to provide relevant and detailed information to the market.

This Prospectus is being issued as part of a suite of documents including the OJEU Notice³, the Pre-Qualification Questionnaire (PQQ) and the Pre-Qualification Process Document (PPD) and is divided into four sections:

PART A

includes the executive summary, some market context and information about the UK rail industry.

PART B

gives information on the existing ECML passenger services and summarises the opportunities presented by this business.

PART C

sets out the Department's requirements and specifications for the franchise and gives detail about the commercial and financial dimensions of the opportunity.

PART D

provides information about the bid process, the evaluation process and the mechanism for the transfer of ownership.

The principal aims of this Prospectus are to:

- Give detail and information about the East Coast franchise opportunity to allow prospective bidders to decide whether they wish to seek pre-qualification, either as a single entity or as part of a consortium
- Communicate what is important to DfT in relation to the franchise which will enable interested parties to begin preparations to bid
- Indicate some of the key areas, risks and responsibilities which bidders will need to consider when preparing their bid

We are seeking feedback from applicants on certain areas of the franchise specification. These feedback requests are highlighted throughout the Prospectus.

Please send your feedback to railfranchising@dft.gsi.gov.uk by 15th November 2013.

¹ <https://www.gov.uk/government/publications/the-brown-review-of-the-rail-franchising-programme>

² Official Journal of the European Union

³ DfT has submitted for publication, a Contract Notice in the Official Journal

The continued success of the rail franchising programme in the UK relies on fair and open competition, contested by as wide a field of participants as possible, bringing a mix of experience and innovation to the franchising market. The Department aims to broaden market interest in the opportunities that rail franchising offers and wants both the continued interest and engagement of current and former market participants as well as expansion of the potential supplier market to suitable organisations. Such organisations may be companies, consortia or other suitable bodies, based within the UK or overseas and will need to demonstrate their capability to operate a business of the scale and challenge of a UK InterCity passenger rail franchise.

1.2 Important notice

This document is not a recommendation by the Secretary of State, or any other person, to enter into a Franchise Agreement or to acquire shares in a current or prospective franchisee. In considering any investment in a franchise, franchisee, franchise operator, prospective franchisee, prospective franchise operator or parent undertaking, you should make your own independent assessment and seek your own professional financial and legal advice. This Prospectus is only intended for investment professionals, high net worth companies, partnerships, associations or trusts and investment personnel of any of the foregoing (each within the UK Financial Services and Markets Act 2000 (Financial Promotion) Order 2005), and any other person to whom it may be lawfully communicated. No other person should act or rely on it. Persons distributing this Prospectus must satisfy themselves that it is lawful to do so.

The information contained in this document does not purport to contain all of the information that a prospective franchisee or shareholder may require.

Neither the Secretary of State, nor any of his employees, agents or advisers (“representatives”), makes any representation or warranty (express or implied) (and no such representatives have any authority to make such representations and warranties) as to the accuracy, reasonableness or completeness of the information contained in this document.

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

Legal, technical and financial advisers will be acting for the Secretary of State in relation to the letting of this franchise and will not regard any other person as their client or be responsible to anyone other than the Secretary of State for providing the protections afforded to their client or for advising any other person on the contents of this document or any matter referred to in it.

The Secretary of State is not and shall not be liable for any costs incurred by those expressing an interest or negotiating or tendering for the Franchise Agreement or any other agreement to be entered into in connection with such agreement. The Secretary of State reserves the right not to award a contract, to make whatever changes he sees fit to the structure and timing of the procurement process, to cancel the process in its entirety at any stage and, where he considers it appropriate to do so, make a direct contract award pursuant to Article 5(6) of Regulation (EC) No 1370/2007 of the European Parliament and of the Council of 23 October 2007 on public passenger transport services by rail and by road and repealing Council Regulations (EEC) Nos 1191/69 and 1107/70 (the “Regulation”).

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

In the event of a discrepancy between this document and the OJEU Notice, the OJEU Notice for the East Coast franchise shall prevail.

A

PART A

2. Executive summary

Since privatisation in 1995, private sector operators have helped to drive huge improvements in the UK's railway, leading to a doubling of passenger numbers and distances travelled, far greater levels of passenger satisfaction, a strong safety record and increased revenues. The East Coast Main Line plays a major part in the franchised railway network.

Existing business

East Coast is one of the two main London to Scotland Railways providing frequent services connecting London with Yorkshire, the North East and Scotland. The East Coast Main Line is an electrified 393 miles (632 km) railway link between London, Peterborough, Doncaster, Leeds, York, Newcastle and Edinburgh. It is one of the fastest conventional lines in the UK with most of the line being cleared for 125 mph (200 km/h) operation. Non-electrified line extends further north into Scotland from Edinburgh to Inverness and Aberdeen. The services meet demand for business travel, particularly between Edinburgh, Newcastle, York, Leeds and London, leisure travel to a variety of destinations and commuter journeys, primarily between Newark, Grantham, Peterborough and London.

There are other train operators running services on the same infrastructure which provide competition on specific sections of the route, for example TransPennine Express and CrossCountry in the North and Thameslink in the South. The route currently has the UK's highest level of open access competition, provided by First Hull Trains and Grand Central.

Since 2009 this business has been operated by ECML, a company owned by Directly Operated Railways (DOR), which in turn is a company owned by the Department for Transport. This arrangement is a temporary measure to fulfil the Secretary of State's obligations under section 30 of the Railways Act 1993, which obliges him to secure continuity of passenger services where a Franchise Agreement has ended and no further Franchise Agreement has been entered into.

DOR and ECML have been running the business as a going concern, working towards obtaining optimum value to the taxpayer at the point of sale. A programme of continual investment in the business has been maintained, staff engagement has been improved and the company is now one of the best safety performers in the UK rail industry.

Despite the economic challenges over the last three years, passenger revenue has grown by 11% between 2009/10 and 2012/13 and journey numbers have increased from 18.1 million in 2009/10 to 19.1 million in 2012/13. This growth is reflected in the £620 million which has been returned to the UK Government in premium payments during DOR's tenure to 31 March 2013.

Why are we refranchising East Coast?

Since 1995 the Government's policy has been to allow the private sector to run public rail services. State control of rail services is considered to represent poorer value for money, restrict investment and therefore growth and to import risk to the taxpayer. The introduction of competition has been proven to drive improvements for the passenger and leave a lower level of financial and technical risk with the Government. When taking over East Coast, a new private sector operator will be incentivised to improve system performance and grow revenues.

In the case of East Coast, ownership by the Government was only ever planned to be a temporary measure, which means that long-term, stable business planning has not been possible. East Coast is an extremely valuable business which has been stabilised both financially and operationally under Government ownership. Building on this, a new private operator will be able to properly plan and deliver improved facilities and services for passengers.

The parallel investment by Government in new InterCity Express (IEP) trains and infrastructure improvements requires an operator who is able to deliver this significant change programme and has the ambition to achieve a step change in the quality of East Coast services.

Our vision and objectives for East Coast

Our vision is for an East Coast franchise that delivers excellence in service quality, enables transformation and becomes a global benchmark for InterCity services.

To realise this vision we have defined six objectives for the new franchise:

1. Deliver consistently high standards in customer service, transforming the daily passenger experience
2. Develop and exploit the full potential of the franchise. Grow new markets, spread demand, improve seat utilisation, simplify ticketing and reduce physical and transactional barriers to travel
3. Deliver consistently high standards in train performance and station facilities
4. Increase the long term value to the taxpayer
5. Achieve whole industry benefits
6. Deliver sustainable, long term socio-economic benefits for InterCity East Coast communities and the wider UK economy

The new franchisee will be expected to deliver improvements throughout the franchise to reflect timetable changes and infrastructure improvements; also, to achieve reductions in journey times and an improved passenger journey experience through high quality, modern IEP trains with greater capacity and comfort and reduced crowding. We encourage bidders to consider the broad range of skills to operate this franchise and team up, where appropriate, with partners and the industry supply chain. To allow the new franchisee sufficient time to introduce the new fleet and to benefit from the infrastructure upgrades, we will set a franchise term of around 8-9 years.

“...that delivers excellence in service quality, enables transformation and becomes a global benchmark for InterCity services.”

To achieve our objectives, bidders will be expected to focus on:

- Placing passenger interests at the centre of all aspects of their business planning and operations
- Real investment in innovation and technology – we aim to give the franchisee freedom to respond to passenger and industry challenges with new and innovative solutions, embracing existing and emerging technologies
- Service quality – particularly around operational performance, train and station presentation, passenger information and ticketing
- Partnering and collaborating with key stakeholders, particularly with Network Rail and Agility⁴. We are seeking a franchisee who can form effective and powerful partnerships with relevant organisations and stakeholders
- An investment in the workforce, building skills and capability, improving employee engagement and demonstrating a genuine pride in developing staff over the long term
- Social responsibility and environmental sustainability – DfT is committed to driving improvements in both these areas and is seeking a franchisee who shares these ambitions – reducing carbon emissions, minimising waste, using resources efficiently and engaging with the wider community
- Stable, profitable franchise – the new franchisee should develop the current business, run the franchise for its full term and, while meeting our objectives, should also aim to maximise returns to the Government to the benefit of taxpayers

Risk sharing

As recommended by the Brown Review, DfT intends to provide partial protection against exogenous revenue risk through a GDP Indexation Mechanism. For its part the franchisee will have to procure:

- Parent company support (PCS), (referred to in the PQQ and PPD as “the Guarantee”) some or all of which must be bonded, reflecting the ambition of the bid
- A season ticket bond, in the form of the current template, calculated in accordance with the Franchise Agreement formula and bonded by a third party
- A performance bond sized to reflect re-letting costs and provided by a third party
- A guarantee for the Angel rolling stock lease, which has been extended to 2018
- Potentially a guarantee reflecting station policy

⁴ Agility Trains is consortium of Hitachi, John Laing, and Barclays Private Equity which has been awarded the contract to design, manufacture and maintain the IEP fleet.

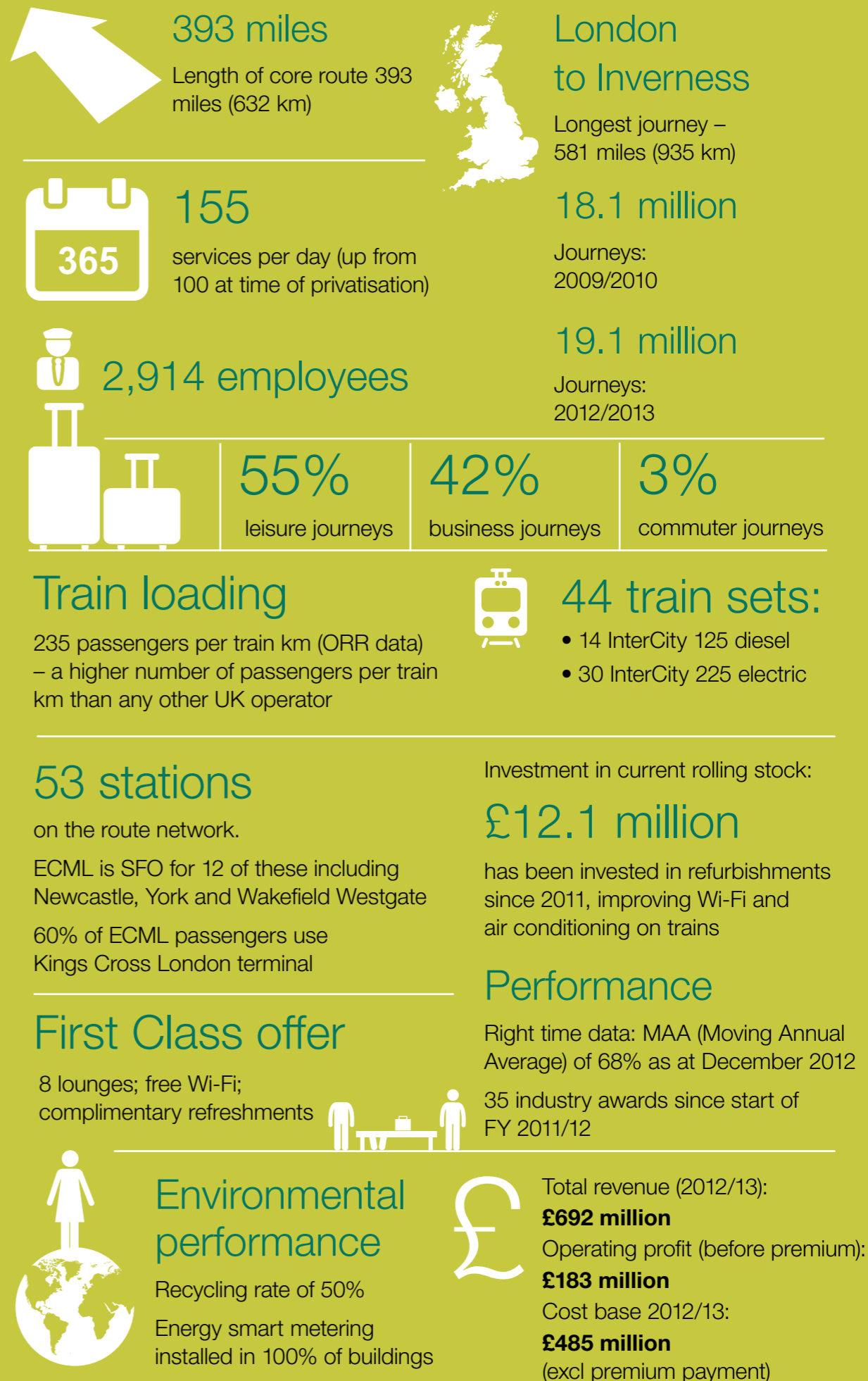
Share sale

The Rail Franchising Competition Guide⁵ sets out the Government's intended process for franchising. However, the circumstances of ECML's current public ownership (i.e. it is not a franchise) mean that we have adopted a different approach to the procurement. The East Coast train assets will be transferred through a sale and purchase agreement for the share capital of ECML between DOR and the successful bidder. This sale and purchase agreement will be completed prior to the Franchise Agreement being signed by ECML. It will enable ECML to become a party to the new Franchise Agreement as franchise operator as soon as the company has been sold to the winning bidder and references in this Prospectus to the 'franchisee' shall include references to ECML as 'franchise operator' where the context requires. The share sale process will be achieved using a "locked box" mechanism whereby the price to be paid for the company is fixed for all bidders (based on its equity value on a defined historical balance sheet date).

It is anticipated a shortlist of applicants who have passed the pre-qualification stage will be confirmed in January 2014 and will be issued the ITT in February 2014. They will then have three months to prepare bids, with operation of the franchise services commencing in February 2015.

⁵ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/208428/franchise-competition-guide.pdf

The East Coast Franchise at a glance. The existing business



The franchise specification

Franchise length

8 9 years with possible extension of up to 2 years callable at DfT's discretion

Geographical area

All existing routes and current stations. The ITT may include a requirement or option for bidders to run services to additional specific locations

Key events impacting franchise

- European Rail Traffic Management System roll out
- Introduction of IEP fleet
- Control Period 5 infrastructure improvements (including IEP enabling works)
- Thameslink programme
- TransPennine works
- Re-letting of TSGN, ScotRail, Northern/ TransPennine, East Midlands and CrossCountry franchises

Capital requirements

Season ticket bond – c. £10 million
Performance bond – c. £20 million
Guarantee for Angel rolling stock lease – up to £7.2 million
Guarantee of up to £10 million (if full repairing station leases option is chosen)
Parent Company Support – minimum amount of £50 million with further funding to be calculated based on proposed premium payments, some or all of which will be required to be bonded

Risk and reward

GDP indexation mechanism provided by DfT to protect against exogenous revenue risk

A profit sharing arrangement will be put in place including a profit cap

Key dates

Bidder shortlist confirmed: January 2014

ITT pack issued to bidders: February 2014

Announcement of winning bidder: October 2014

Contract start: February 2015



3. Background and context

Since the privatisation of the UK railway in 1995, the Government has fulfilled its obligations to provide passenger rail services through creating market competition for franchises.

3.1 The UK rail industry

Figure 1 on the following page sets out the basic structure of the UK rail industry, showing the relationship between Government (DfT), the independent regulator (ORR), the infrastructure provider (Network Rail), the Train Operating Companies (TOCs) – both franchisees and open access providers - and the independent passenger watchdog (Passenger Focus).

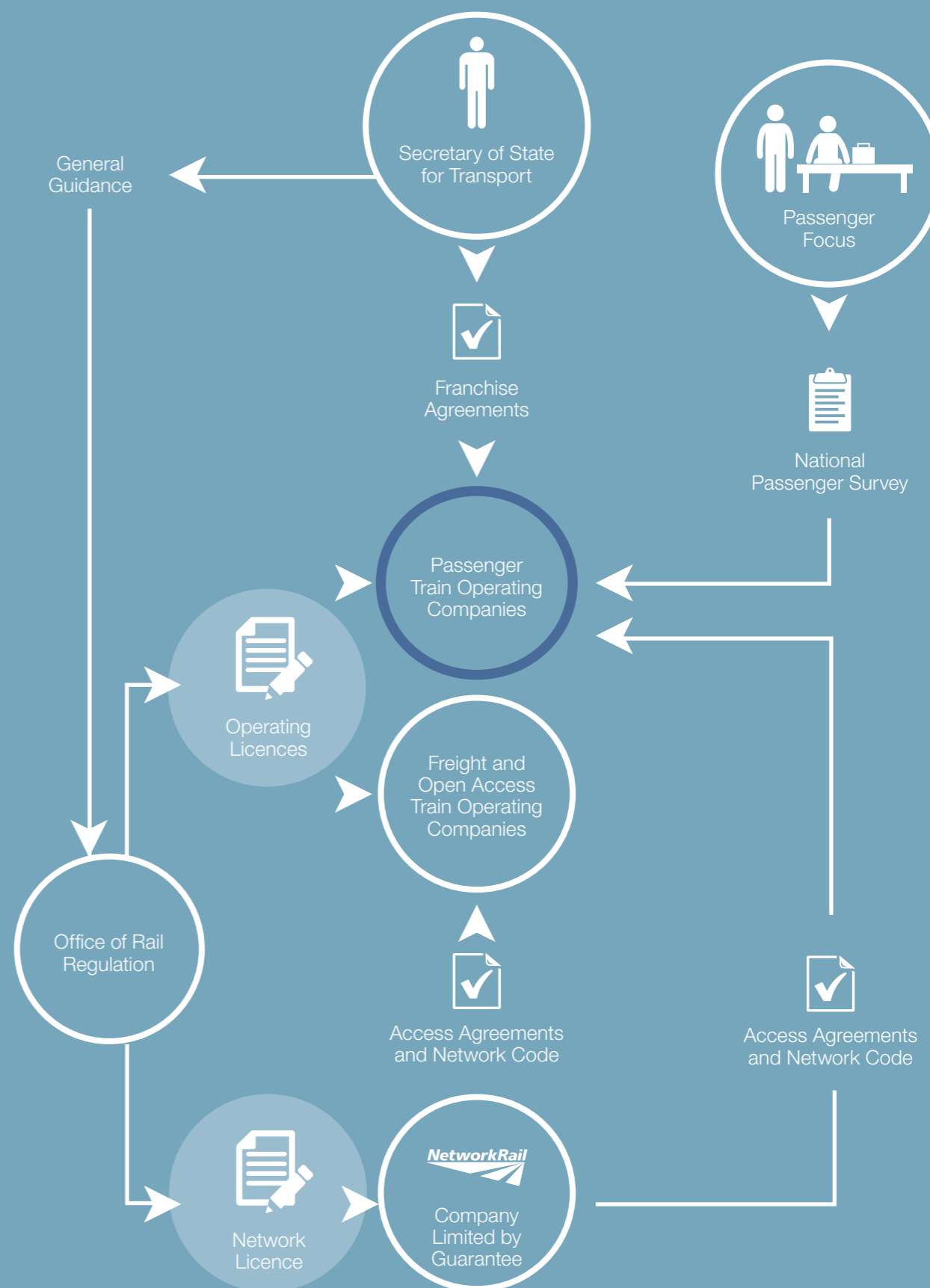
DfT’s role is to provide strategic direction and funding to the railways, to procure and manage rail franchises and major rail projects.

The Office of Rail Regulation (ORR) is the independent safety and economic regulator for Britain’s railways. It is responsible for ensuring that railway operators comply with health and safety law. It regulates Network Rail’s activities and funding requirements, regulates access to the railway network and licences the operators of railway assets. The ORR is also the competition authority for the railways and enforces consumer protection law in relation to the railway. The ORR is a non-ministerial department.

Network Rail is the owner and operator of the national rail infrastructure. It must ensure safe and effective management and development of that infrastructure. As a private sector company, a monopoly owner and operator of an important national asset, Network Rail is accountable to the public through regulation. It must comply with the conditions of the licence from the ORR under which it operates.

Passenger Focus is the independent passenger watchdog for the rail industry. It consults over 50,000 passengers a year to produce the National Passenger Survey (NPS) - a network-wide picture of passengers’ satisfaction with rail travel. Passenger opinions of train services are collected twice a year in spring and autumn from a representative sample of journeys. Passengers’ overall satisfaction and satisfaction with 30 specific aspects of service can be compared between train operators and over time.

Figure 1: Structure of UK rail industry



3.2 The UK market

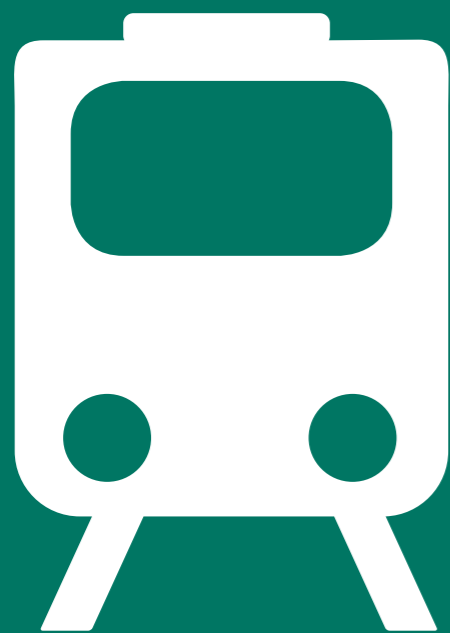
The UK rail industry is high profile and is, by many indicators, on an upward trajectory with passenger numbers increasing faster than in all other major European rail systems. Passenger journeys have increased by 73% since shortly after privatisation in 1995⁶. There have been corresponding rises in passenger kilometres, train frequencies and improvements to punctuality and passenger satisfaction. Revenue earned from passengers has increased in real terms every year since privatisation despite more recent challenging economic conditions.

Forecasts for rail demand to 2023 indicate annual growth of between 2.2 and 3.1%⁷ driven by factors ranging from a reduction in company car usage to improvements in rail industry performance, favourable Government policy and demographic changes such as an increase in urban living.

In 2012/13, franchised train operators received £7.7 billion in revenue from passengers. 32% of this came from off-peak tickets, 28% from anytime/peak tickets, 14% from advance tickets and 25% from season tickets. Revenue has steadily increased in recent years as rail use has increased, doubling in the last ten years⁸.

The UK is one of the best performing EU countries in terms of passenger and workforce railway safety. The European Railway Agency (ERA) assesses the safety performance of European railways against a set of Common Safety Targets (CSTs).

According to the ERA, passenger and workforce fatality rates in the UK were well below the EU average over the five-year period 2007-2011. The ERA uses data from a rolling five-year period to assess performance against the CSTs.



“...passenger numbers increasing faster than in all other major European rail systems...”

⁶ Association of Train Operating Companies (ATOC) growth and prosperity report from July 2013

⁷ DfT figures from Reforming our Railways: Putting the Customer First, March 2012. Network Rail figures: Long distance market study draft for consultation, March 2013. East Coast Forecast

⁸ Figures from Office of Rail Regulation. Additional 1% relates to “other franchised ordinary fares

Figure 2: Passenger kilometres: EU comparison

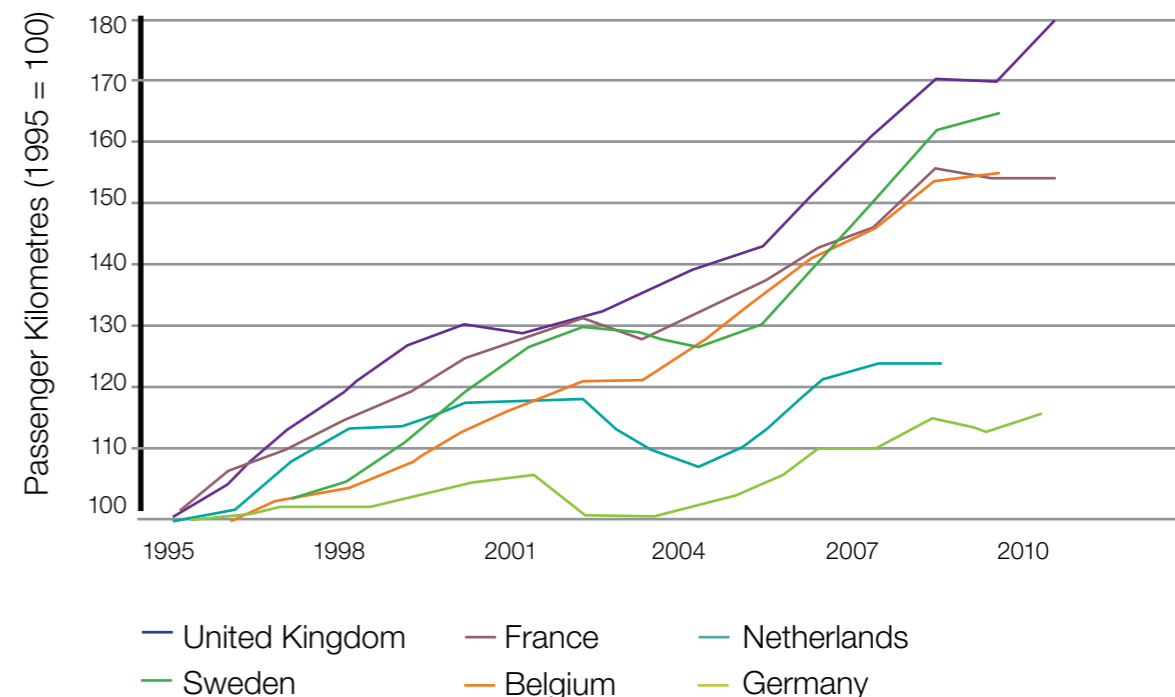
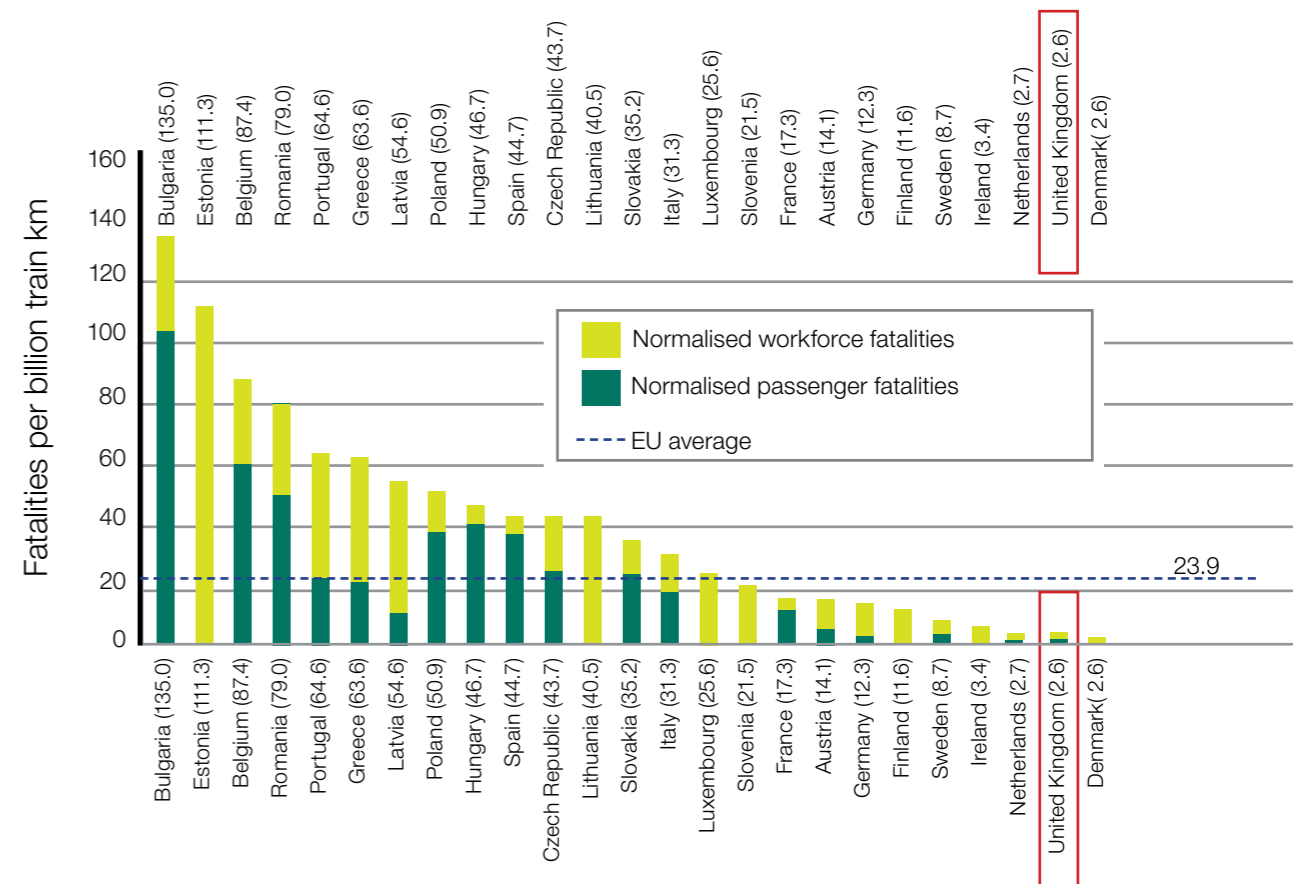


Figure 3: Passenger and workforce fatality rates on EU railways 2007-2011



B PART B



4. The existing business

4.1 Overview

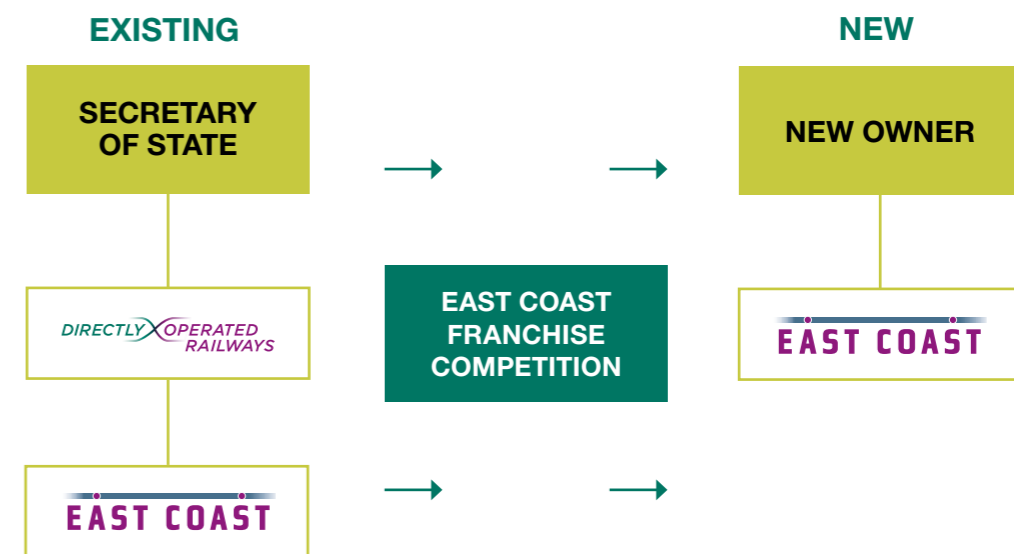
ECML provides frequent long-distance rail services on the East Coast Main Line, running between London King’s Cross and Leeds, York, Newcastle and Edinburgh with extensions to other destinations in Yorkshire and Scotland. A mixed fleet of electric and diesel trains are used, running at speeds of up to 125 miles per hour (200 kilometres per hour). The services facilitate business travel, particularly between Edinburgh, Newcastle, York, Leeds and London, leisure travel to a variety of destinations and commuter journeys, primarily between Newark, Grantham, Peterborough and London. The flagship Flying Scotsman service leaves Edinburgh at 05.40 each weekday morning and is scheduled to arrive at London’s King’s Cross terminal exactly 4 hours later with only one stop at Newcastle.

Since November 2009, East Coast services have been operated by ECML, a subsidiary of DOR which is wholly owned by the DfT. This arrangement will continue until the franchise is re-let (as shown in Figure 4).

DOR and ECML have been running the business as a going concern, working toward delivering a stable business to the market to achieve optimum value to the tax payer at the point of sale. A programme of continual investment in the business has been maintained, staff engagement is at an all time high and the company is now one of the best safety performers in the UK rail industry.

ECML has focused on achieving and maintaining a good working relationship with the trade unions and there have been no major industrial relations issues during DOR’s stewardship of the ECML business. The company maintains strong links with its key industry and Government partners, such as Network Rail, the rolling stock companies (RoSCOs), the supplier and sub-supplier industries and its large stakeholder community.

Figure 4: Existing structure and future structure of ECML

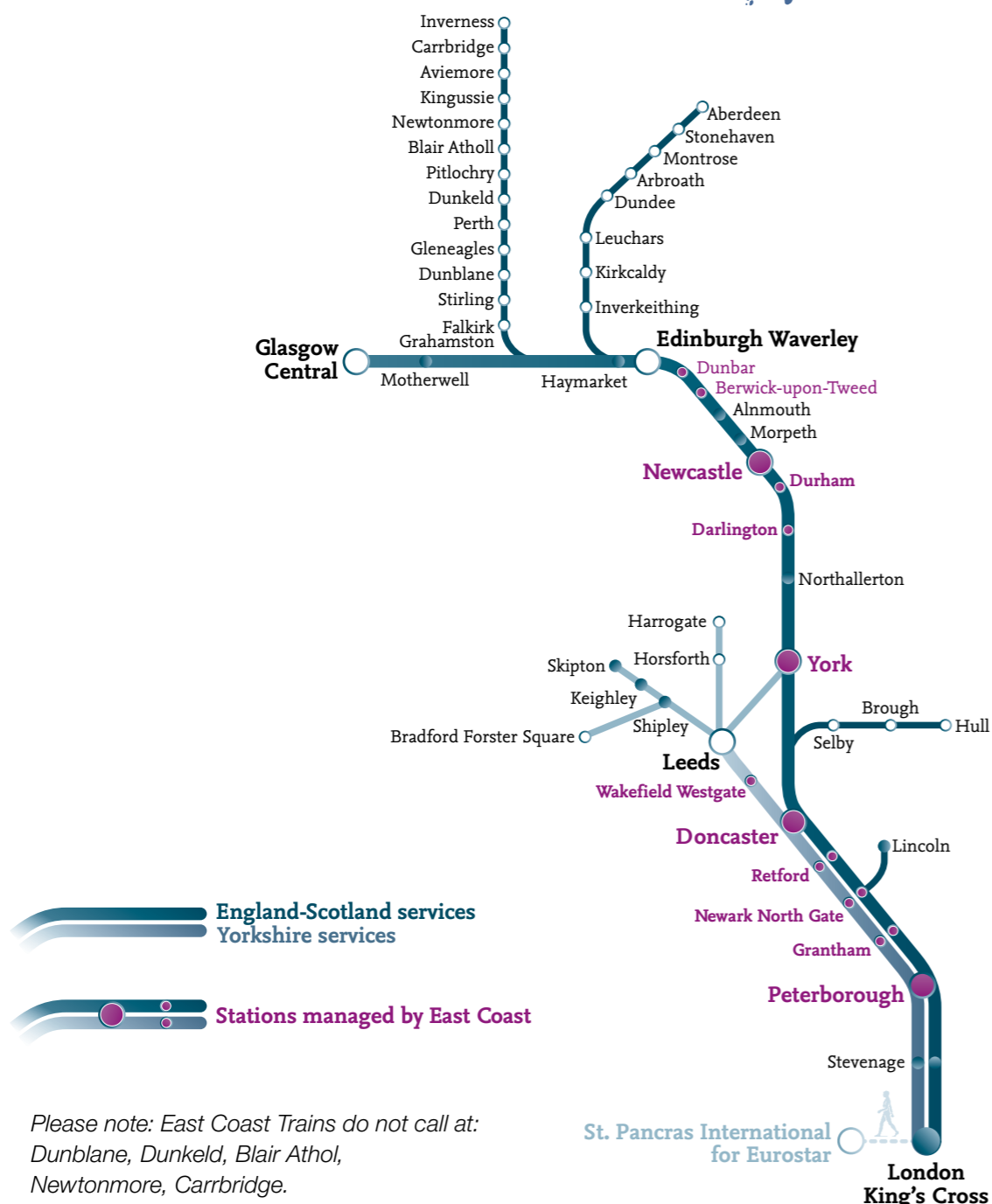


8 hours and 6 mins

The longest single journey is between London and Inverness, a distance of 581 miles (935 kilometres), with a best scheduled journey time of 8 hours and 6 minutes.



Figure 5: ECML route map



4.2 Routes and services

The East Coast Main Line is one of two principal long-distance routes between London and Scotland - the other being the West Coast Main Line (as shown in Figure 5). Intermediate stops on the core London to Edinburgh route include Peterborough, Doncaster, York, Darlington and Newcastle. Regular services also diverge from the main route at Doncaster to service West Yorkshire. Aside from the core routes, extensions are also run to Lincoln, Bradford, Hull, Harrogate, Skipton, Inverness, Aberdeen and Glasgow.

It is one of the fastest conventional lines in the UK with much of the line being cleared for 125 mph (200 km/h) operation. Non-electrified line extends further north into Scotland from Edinburgh to Inverness and Aberdeen.

In terms of passenger markets, the core routes between London and Yorkshire, the North-East, and Edinburgh make up nearly two-thirds of ECML's business. The longest single journey is between London and Inverness, a distance of 581 miles (935 kilometres), with a best scheduled journey time of 8 hours and 6 minutes.

ECML's headquarters are located in York. Other key office locations include London King's Cross, Doncaster, Leeds, Newcastle and Edinburgh. Employees are also located across the route at other stations and at maintenance depots. ECML's operational control is run from a control centre in York where 41 employees are based.

4.3 Key achievements in last 3 years

- The most comprehensive timetable change on the East Coast Main Line since rail privatisation was successfully introduced in May 2011
- Improvements to the First Class service such as the introduction of complimentary food and drink and upgrades to the on-board Wi-Fi have contributed to a significant increase in the number of First Class journeys, where previously this market had been in steep decline
- Passenger revenue has grown cumulatively by 11% since 2009/10, and journey numbers have increased from 18.1 million in 2009/10 to 19.1 million in 2012/13
- £620 million has been returned to the UK Government in premium payments in the three years to 31 March 2013
- Operating performance (train punctuality) reached its highest level since privatisation during the summer of 2012
- The rate of passenger accidents has halved in the last three years and ECML is now one of the best safety performers in the UK rail industry
- Market share against air travel in the key markets has increased as a consequence of an improving product and effective marketing. Improvements have also been made to the yield management system employed to control advance ticket sales, and this is now considered to be market leading

- Staff engagement has increased markedly and the level of employee sickness absence has been almost halved
- Engineering capability has been strengthened with improved skill levels, improved facilities in depots, a better structured organisation and improved leadership. These have delivered much improved fleet availability and reliability

4.4 The East Coast market

The East Coast market is defined by two key distinguishing characteristics:

A largely discretionary travel base – Season ticket sales make up only 3% of ECML's revenue as East Coast is not a major commuter railway, although it serves this purpose for some destinations on its route. Rail travel is therefore discretionary spend for the majority of passengers. With 55% of journeys being made for leisure purposes and 42% for business (in the year to July 2013), the slow economic recovery has impacted on growth.

Intense competition from other transport modes and competition from other rail operators

- In terms of absolute journey volumes, the biggest competitor to ECML is travel by private car with the M1 and A1 running broadly parallel to the East Coast Main Line. Across the core routes to and from London, travel by car accounts for 52% of all journeys. However, this varies considerably by route, with car travel accounting for just 9% of journeys between London and Edinburgh.

Air travel is a major competitor, particularly on long distance routes and primarily between Edinburgh, Newcastle, Leeds and London. While ECML has been successful in attracting customers from the airlines over the last 2-3 years, it is now facing a period of intensified competition. British Airways has recommenced flights between Leeds and London and Little Red, owned by Virgin started to operate on the Edinburgh and Aberdeen to London routes in April 2013.

In addition to facing competition from car and air travel, ECML also competes with other rail operators who run services along the East Coast Main Line. These rail competitors can be split into two groups: open access operators who do not hold a franchise and pay for track access on a path-by-path basis, and franchised operators.

Since open access operators First Hull Trains and Grand Central began operating on the East Coast Main Line in September 2000 and December 2007 respectively, they have taken a significant portion of ECML's revenue: ECML's market share between London and York, Wakefield and Doncaster declined from 91% to 83%; 100% to 93%; and 86% to 70% respectively from 2008 to 2012. ECML's market share on routes on which it competes with open access is now broadly proportional to its share of services on these routes.

The CrossCountry franchise operates long-distance high-speed services along the East Coast Main Line between Doncaster and Aberdeen, with principal calling points at York, Darlington, Durham, Newcastle, Edinburgh and Dundee. First TransPennine Express trains run between York and Newcastle, with lower speeds and more calling points than ECML services. First Capital Connect operates slower commuter services between Peterborough and London. Where ECML shares sections of the route with other franchised operators, its market share is proportionate to the number of services it provides.

4.5 Current employees

ECML currently employs a total of 2,914 people⁹, deployed in the following areas of the business:

Table 1: FTEs by role

Role	FTEs
On Board Crews (incl management & support)	822
Engineering teams , depots, fleet staff (incl management & support)	562
Train Drivers (incl management & support)	363
Train Guards (incl management & support)	234
Service Delivery, Performance & Operations Planning	47
Station Staff (incl management & support)	457
Travel Centre Staff (incl management & support)	211
Revenue, Sales and Marketing	30
Headquarters staff	188
Total	2914

Discretionary travel makes up 97% of ECML's market. Only 3% of revenue comes from season ticket sales.

⁹ Figures correct at 07/10/2013

Since taking over the business in 2009, ECML has made a significant investment in the development of its people. As a result, the Company has achieved the Investors in People Silver accreditation, as well as being awarded the Four Star Recognised For Excellence accreditation by the European Foundation for Quality Management (EFQM).

The focus for staff development has been built around three principal themes:

- Authentic Leadership – aiming to develop inspirational leaders who instil confidence and nurture talent in their teams. All managers receive a minimum of three days training annually
- Ownership and Engagement – aiming to connect staff to business goals and showing how their actions can contribute to wider business success. Levels of staff engagement have increased by 5% since 2011, and are now at 71% – the highest score achieved amongst seven train operators monitored by independent agency Valuentis
- ECML as a Talent Development and Learning Organisation – aiming to deliver robust succession planning and tailored training programmes to allow employees to learn and develop throughout their career at ECML

The level of employee absence due to sickness has reduced significantly since 2009 (as shown in Figure 6).

Figure 6: Chart showing employee absence rates since 1996 and under different operators

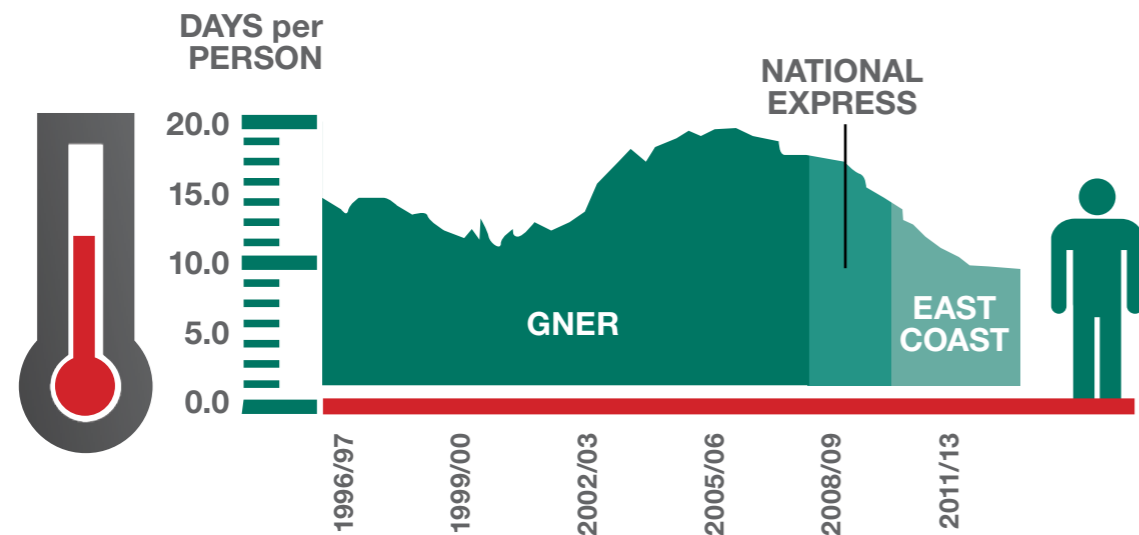


Figure 7: ECML Executive Team

The current executive team structure, and the identities of the individuals currently in these posts.



4.6 Service delivery

4.6.1 The customer offering

ECML's customer proposition has been developed consistently since 2010, delivering improvements in the following areas:



On-board catering

When customers travel First Class with ECML, they now enjoy an at-seat complimentary food and drink service which was introduced in 2011. This offering includes a full meal service on longer journeys, with drinks and snacks on journeys of less than 70 minutes.

A range of hot and cold food, drinks, snacks, confectionary, alcoholic drinks and magazines are available to Standard Class customers from the CaféBar and a trolley service is also provided on each service through the Standard accommodation.

Both First and Standard menus are regularly changed and feature locally sourced produce from along the route, such as bacon and sausages from an award-winning Yorkshire butcher. Popular beverage brands such as Yorkshire Tea and Starbucks Coffee have also been introduced.



In early 2013, ECML completed a £4.2 million comprehensive improvement programme for its on-train air-conditioning systems across the entire fleet in order to tackle a long-standing weakness in effectiveness during hot weather. There has subsequently been a considerable reduction in the volume of customer complaints. At the same time, the company completed a trial to re-fit its fleet with a new on-board CaféBar, which has been re-designed to provide a better experience for both customers and employees. ECML has also introduced a new trolley for the Standard Class at-seat catering provision.

Three years ago, ECML started the process of replacing the out-dated Electronic Point of Sale (EPOS) systems on board its fleet of trains. The roll-out of an improved Cloud-based system with modern handheld terminals, without reliance on an on-board server will be completed by February 2014. The software is the best of its type currently available and has been customised to allow ECML to maintain its advantage as business and customer needs change.

Assisted travel

ECML is committed to developing policies which will help people with disabilities, or those who require extra assistance, to use its services.

The company has a dedicated assisted travel team, which provides advice about stations and helps with planning routes, with buying tickets and reservations and arranging assistance at stations. Members of staff are trained to assist people with disabilities and all trains are able to accommodate people with disabilities or limited mobility. A booklet called "Making Rail Accessible" detailing all the facilities and services available to older and disabled passengers is available at stations, on the website or in audio or large type format from the customer relations team. The company aims to make continuous improvements to the accessibility of its services and stations for all customers.



Station lounge access

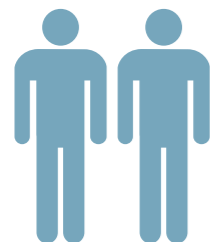
First Class Lounges are available at London King's Cross, Doncaster, Wakefield Westgate, Leeds, Darlington, Newcastle, Berwick-upon-Tweed and Edinburgh Waverley stations and provide complimentary refreshments and free Wi-Fi internet access. A brand new lounge was created as part of the re-development of King's Cross station in March 2012.

There are some restrictions on the types of First Class tickets that give access to the lounges.



Other on-board facilities

The new First Class service on ECML trains has been designed for both business and leisure travel. Complimentary Wi-Fi is available throughout First Class and mobile phone/personal computer plug sockets are fitted to almost all First Class coaches. A competitive Wi-Fi charge is made for Standard Class customers after the first free 15 minutes of usage. There are quiet coaches in both First and Standard Class on all trains.

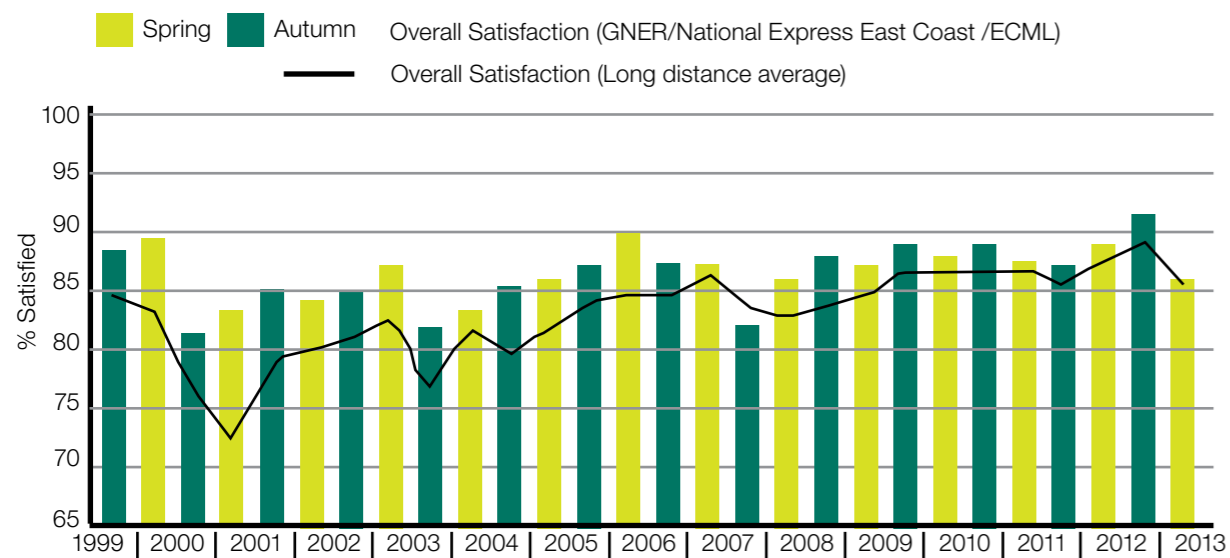


Investment in passenger comfort

ECML has also invested in a number of on-board improvements for its customers. In 2011, this included a £1.2 million investment in a refurbishment project for its InterCity 225 electric fleet, with the installation of new service vehicles, new seating and improved accessibility. During the same year, a further investment of £0.7m was made in on-board Wi-Fi services, and a further £2.4 million is being invested during 2013 to boost bandwidth and to provide even more stable levels of connectivity in order to cater for the huge growth in demand.

4.6.2 Customer satisfaction

Figure 8: Overall satisfaction rating for ECML from National Passenger Surveys



The customer satisfaction survey data for ECML as measured by the Passenger Focus National Passenger Survey, showed that the company has delivered satisfaction scores chiefly in the upper 80% area, peaking in one audit wave at 92% (see figure 8). The result was 5% ahead of the score when measured at the same time in 2011.

The results for the spring wave survey published in June 2013, showed a deterioration in overall satisfaction to 86%. The severe winter of 2012/13 led to infrastructure failures and poor punctuality across all operators around the country and this was reflected in the survey results.

4.6.3 Customer Relationship Management (CRM)

In July 2011 ECML transferred its customer relations provision to Serco and Atos, and established an additional site in Mumbai, India. This change in approach has led to better customer service through an increased number of opening hours and enhanced Passenger Assist booking facilities, as well as a refined method of issuing e-vouchers as an alternative to paper vouchers. In September 2012 an upgraded CRM tool was introduced, using Microsoft Dynamics, which allows more detailed identification of customers' issues, leading to a focus on investment and management effort in customer service improvements.

4.6.4 Service quality management system

ECML has recently revised its Service Quality Management System so that it is more reflective of customer experience and provides quality data that enables it to drive improvements in service provision. Targets are set and data is obtained through a combination of audits and mystery shoppers on trains and at stations. Specific issues identified can be fed back to relevant managers (with photographic evidence) in real time to allow prompt rectification wherever possible.



The View of Passenger Focus

Passenger Focus welcomes the invitation to contribute to this prospectus for the next East Coast franchise. In our capacity as the independent watchdog for Britain's rail passengers, we are taking this opportunity to place passenger interests at the heart of planning and operation of this franchise.

Our findings are based on research with over 6,000 passengers using services on the East Coast and draw on the findings of other studies into passenger experience.

Passengers' priorities for improvement are remarkably consistent. They want punctual and reliable services, value for money for the price of their ticket and to get a seat. These factors are at the heart of what passengers expect to receive when they pay for, and embark upon, their journey.

Many journeys on the East Coast are lengthy so it's no surprise that passengers are concerned about the length of time their services take, the frequency, and the facilities and services on the train. After punctuality and reliability, one of the biggest drivers of passenger satisfaction on East Coast is the cleanliness and presentation of the inside of the train.

More broadly, it is important that passengers can easily access information about their services, at the journey planning stage, at the station and, particularly during the trip if there is any disruption.

The overall passenger experience is influenced by a wide range of factors. These range from the ease of buying a ticket – and being confident it is the correct type and price for the journey – through getting to and from the station at either end of the trip, and the environment experienced there.

Passengers want a stronger voice in franchising. They want to know what is being purchased on their behalf and they want their views reflected in holding the operator to account for the quality of service they deliver. Positive plans for passenger engagement and a commitment to transparency of information will build trust and confidence.

Passenger fares represent nearly 2/3 of the income of the rail industry and the East Coast plays an important role in peoples' lives as they make trips for work, business and leisure.

On behalf of all passengers, current and future, we ask that passenger interests are placed squarely at the heart of the new franchise.

4.7 Fleet and engineering

ECML currently has 44 train sets made up of: 14 InterCity 125 diesel trains and 30 InterCity 225 electric trains, with nine MkIII and nine MkIV coaches per set, respectively. The average age of the fleet is 28 years – the 125s are c.36 years old and the 225s are c.24 years old.

ECML's fleet is maintained in depots at Bounds Green, in north London, and at Craigentiny, south of Edinburgh. A smaller satellite depot is located at Clayhills, in Aberdeen. At any one time, there are 39 trains in service (40 on a Sunday), with the remainder receiving on-going maintenance.

Since November 2009, depot, track and infrastructure have been upgraded in many places with several major investment schemes. These schemes have included a new wash plant and carriage cleaning facilities at Craigentiny, fuelling facilities at Ferme Park (Bounds Green) with improved mess rooms and offices at Bounds Green. The result of this work is that, despite the age of the current fleet, ECML has been able to deliver increasingly reliable trains. Figures released by ATOC during 2013 showed that ECML's InterCity 125 fleet, and CrossCountry's HST fleet, also maintained at ECML's Craigentiny Depot, were the highest performing of any HST fleet in the industry. In addition, depots are now consistently delivering the right number of trains in the right formation.

The company continues to invest in the current rolling stock to maintain customer comfort and to improve performance and reliability levels. A programme of 'baselining' is progressing on a proportion of the Class 91 electric fleet to improve reliability. Refurbishment currently being undertaken includes a complete renewal of interior items such as seat cushions, covers, carpets, and selected catering equipment.

The cleanliness and appearance of train exteriors have also been addressed in the last year with the application of a 'Chelaguard' treatment to vehicle exteriors which saves 175,000 litres of water a week. Interior cleaning has received much attention with the establishment of standards as well as some new investment in equipment. Where on-train cleaning is contracted out, a clearer output specification has been put in place in the recently re-let contract. A significant amount of overnight servicing is carried out at Bought-In Maintenance depots (BIMs) with approximately one third of the fleet stabled outside overnight at depots managed by other operators. The most significant of these is at Neville Hill depot in Leeds which is operated by East Midlands Trains, and at Heaton depot, Newcastle, operated by Northern. Some additional outside stabling is also undertaken at Polmadie and at Inverness.

Craigentiny depot at Edinburgh maintains a small number of CrossCountry HSTs and manages the overall maintenance of this fleet for CrossCountry. Work on behalf of other operators is also undertaken at Aberdeen for ScotRail, and at Bounds Green, mainly for Hull Trains and Grand Central.

A new asset management system, Maximo, is currently being introduced which gives ECML a completely new way of managing its fleet. Maximo will provide more visible and readily-available maintenance and defect information through

a Microsoft Windows-based platform that is easier to use and replaces current legacy systems that date back to the pre-privatisation British Rail era.

The Maximo system will provide the basis for all of ECML's train maintenance support functions, as well as offering a more cost-effective and efficient maintenance regime. It will ensure that optimum stock levels are maintained, warranty claims are managed, and access to vehicle maintenance history records and performance are improved, helping company engineers to prevent faults.

In parallel, the engineering team is improving fault-finding which will require further development of fault-finding guides. This work is scheduled to take place at the end of 2013 when the bulk of the development work and implementation of Maximo has been completed.

“The company continues to invest in the current rolling stock to maintain customer comfort and to improve performance and reliability levels.”

4.8 Stations

There are 53 stations on ECML's route network and the company directly manages 12 of these: Peterborough, Grantham, Newark North Gate, Retford, Doncaster, Wakefield Westgate, York, Darlington, Durham, Newcastle, Berwick-Upon-Tweed and Dunbar.

King's Cross Station is the London rail terminal for the company, with approximately 60% of all ECML's passengers using the station to start or finish their journey. As the lead train operator at London King's Cross, ECML worked with Network Rail on the station transformation from 2010 to 2012. Since March 2012, passengers have benefitted from a striking new departures concourse, an ECML managed travel centre, a new First Class lounge for ECML passengers, and improved retail choices. During 2010, ECML made an early commitment to upgrade its own-managed travel centre at Edinburgh Waverley station, though a £0.5 million investment. This work was completed by ECML and complements the major £130 million redevelopment programme for the station being undertaken by Network Rail, which is due for completion during 2014.

In 2012 ECML also completed improvements to Peterborough station, delivering better facilities and a smarter look; the £3.3 million investment included a redesigned frontage and concourse.

During 2013, Wakefield Westgate station will become the first newly-constructed station building on the East Coast Main Line for several decades. Through an £8.8 million investment, platforms will now be linked by lifts and a footbridge and the station will benefit from improved retail outlets, a new travel centre, a new First Class lounge, customer reception and information screens.

Newcastle Central, a grade-one listed station, will be modernised through an £8.6 million investment, including new public and retail spaces, which also showcase the building's heritage.

4.9 Timetabling

ECML introduced a new timetable in May 2011, providing faster, higher frequency and a more regular pattern of consistent 'clockface' services. An additional hourly off-peak service was implemented on weekdays, running in alternate hours to York and Newark, and serving Stevenage, Peterborough, Grantham, Newark, Retford and Doncaster. ECML also increased its weekday services from 136 to 155 per day.

4.10 Safety and environment

4.10.1 Safety

Safety performance has been steadily improving over the last few years. The benefits of the introduction of safety initiatives and programmes commencing in 2010 have contributed to this improvement in results for both occupational and operating safety. These improvements have included an increase in safety training and enhanced risk management processes.

4.10.2 Environment

ECML places a high priority on the protection of the environment in which it operates. In 2011, only 8% of ECML's 3,500 tonnes of waste was recycled. During 2012, with the development of local processing facilities for waste management, ECML's recycling rate rose considerably and 50% of all train and station waste is now recycled. The company has moved from having two waste streams at depots to nine separate waste streams at every depot.

From a carbon management perspective, ECML has achieved 100% energy smart metering in buildings, including stations and depots, to enable accurate measurement of energy use. The company has also achieved an independently certified carbon management standard (Carbon Saver Gold). ECML's new station development at Wakefield is the first BREEAM¹⁰ Excellent standard mainline station in the UK.

4.11 Operations

Train punctuality has been one of ECML's most significant challenges since it took over the operation of the services in November 2009. Taking a longer perspective, operational performance for the business has been on an improving trajectory since the post-Hatfield dip in 2000/01, although there have been periods of much poorer performance which correlate closely to the severe winters of 2009/10, 2010/11 and 2012/13.

The Public Performance Measure (PPM) remains the Government's primary metric for measuring and regulating performance. East Coast performance in the first quarter of 2013-14 was 87.2%. However for operational purposes, the industry is moving to measuring performance by 'Right Time,' which helps to enable tighter

management of services to time, is more transparent and a better descriptor of the customer experience. Customers are generally much more interested in the right time arrival and departure of their train than the ultimate arrival of the service at its destination.

In December 2012, the industry published Right Time Data for Train Operating Companies for the first time (calculated over 366 days to 8 December). The result showed that ECML had achieved a Moving Annual Average (MAA) result of 68% and while there is still room for much improvement, this performance was almost 10 percentage points ahead of the long distance average. The result also reflects ECML's continued effort to reduce cancellations and improve timekeeping. This position has deteriorated since, however and the most recent Right Time figure published by Network Rail, for the year to 14 September 2013, is only 56.0%. Network Rail has recently issued a public apology to East Coast for its poor performance on the route.

The performance over this period should also be set against increasing volumes of traffic on the route, with generally much tighter timetables, and less scope for recovery from delays. Current performance constraints for ECML include the age of infrastructure assets and trains and congestion on the East Coast Main Line.

¹⁰ BREEAM (Building Research Establishment Environmental Assessment Method) is the world's longest established and most widely used method of assessing, rating and certifying the sustainability of buildings.



4.12 Marketing and communications

4.12.1 Investment in marketing the ECML brand

In 2011, a major marketing campaign was launched to complement the introduction of the new timetable and improvements to First Class. This campaign comprised a phased introduction of a new multimedia advertising campaign and the development and enhancement of ECML's website. During 2012, ECML's focus was to deliver a vision of placing the customer at the heart of the business.

The company launched its Rewards programme in July 2011 which allows all customers to earn points by booking tickets via the ECML website. These points can then be exchanged for a range of goods and vouchers with well-known retail and leisure brands, as well as for tickets with ECML itself. Currently, the scheme has more than 450,000 members, which represents approximately 57% of ECML's online customer base.

A new advertising campaign has been built for roll-out in the autumn of 2013, with prime slots on television and through other advertising media. This campaign aims to reinforce the ECML brand.

4.12.2 The ECML website

Over the last two years the ECML customer website www.eastcoast.co.uk has undergone a number of fundamental changes to increase its functionality. The launch of a mobile-optimised site provides real-time information, providing details on disruptions and a journey planner for people on the move, as well as a journey planning mobile app for iOS and Android platforms.

A smarter way of purchasing tickets online has also been developed, whilst the introduction of gift e-vouchers provides a new way to generate sales, alongside greater visibility of the Rewards online loyalty scheme.

4.12.3 Social media development

ECML introduced its social media presence during September 2011 and now has one of the highest engagement ratings with customers through Twitter of any train operating company in the UK, and has more recently launched its Facebook page. Social media allows customers to report their experiences in real time and gives ECML the opportunity to address their comments, concerns and complaints more quickly.

4.13 Financial information

Since November 2009, ECML has consistently demonstrated a solid and improving financial position (Figure 9). Some £620m was returned to the taxpayer in the form of premium payments in the three years to 31 March 2013, and a further £62m generated in operating profits.

The majority of ECML's revenue is generated from the sales of rail tickets and associated purchases and during 2012/13 these accounted for 89% of total revenue (£626m). The company has rolled out one of the most advanced revenue management systems in the rail industry, which ensures ticket prices are optimised far better than was previously possible. The system forecasts demand for every journey on each ECML service and enables optimum train usage and passenger comfort. It also controls the allocation of Advance tickets and seat reservations, so that the right balance can be achieved between offering attractive fares for all passengers and ensuring seat availability for passengers without seat reservations.

Of the remaining revenue, (see Figure 10) the major items relate to car parking income, commission receivable on sales of other train operators' tickets, sales of catering products, rental income from property letting at station premises, and sales of maintenance services to rolling stock companies and other train operators. During 2012/13 passenger revenue grew by 4.5%, up from 2.9% in 2011/12. For the year to date, passenger revenue growth is running at 7%.

Figure 9: Year on year growth - Passenger revenue and journeys



“Since November 2009, ECML has consistently demonstrated a solid and improving, financial position...”

Figure 10: ECML annual income by source, £ 000 (2012/13)

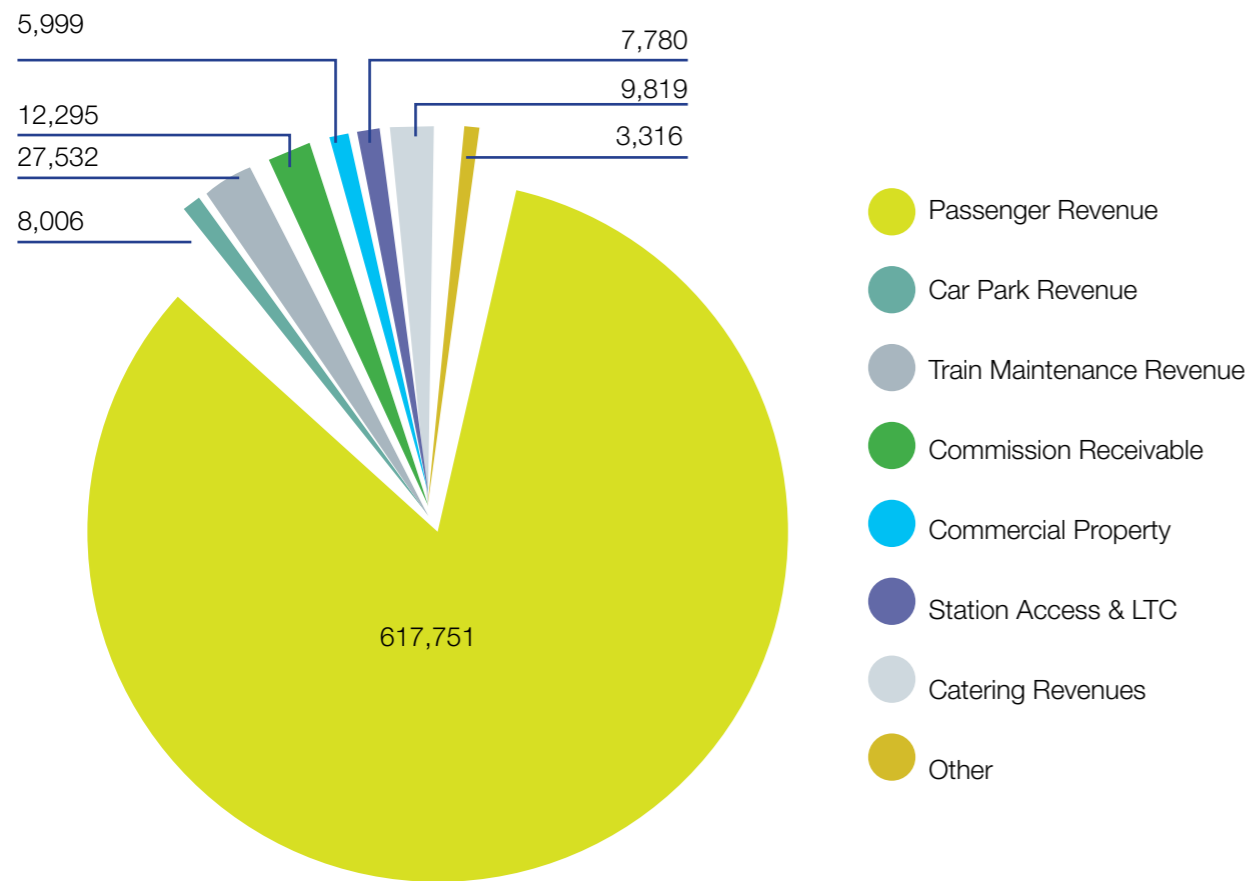
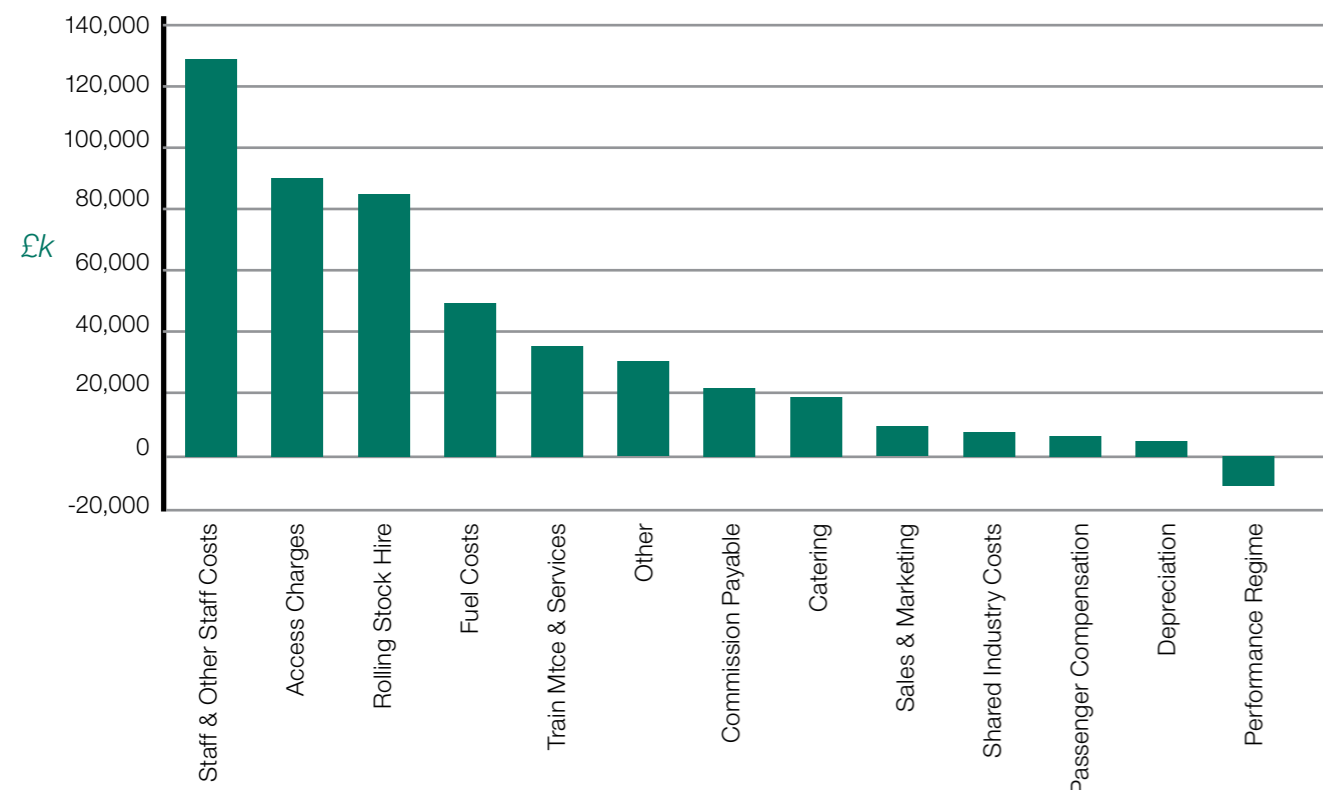


Figure 11: Operating costs for 2012/13 £ 000



During the 2012/13 financial year, ECML reported a cost base of £485.2m, which excludes the franchise premium payment of £202.8. The cost base is comprised of the following elements (Figure 11):

Staff: Covering the salaries and associated employment costs of the 2,914 staff. Pay rises for 90% of the employees are negotiated under collective bargaining agreements with trade unions, with the remaining staff being awarded pay rises based on a combination of company and individual performance measures. The salary change takes place on 1st April each year and current agreements have an RPI increase in place for April 2014.

Access charges: These relate to access to the rail network, and are mainly payable to Network Rail, with both fixed and variable elements. The quantum of costs is set by the ORR under the Periodic Review mechanism.

Rolling stock costs: These relate to the leasing of the ECML fleet from three RoSCOs under operating leases. These are Eversholt for the IC225 electric fleet and a combination of Angel Trains and Porterbrook for the IC125 fleet. In addition, ECML hires a small number of ‘Thunderbird’ rescue locomotives from DB Schenker to provide operational resilience.

Fuel costs: These consist of electric current for traction (EC4T) for the IC225 fleet, and diesel fuel for the IC125 fleet. EC4T is supplied by Network Rail, and purchased via the industry EC4T Scheme Council, administered by ATOC, which makes collective purchasing decisions in order to mitigate cost risk. Diesel fuel is purchased directly from suppliers or from other train operators’ depots. 90% of expected diesel fuel requirements are hedged until December 2014.

Train maintenance, materials and services: This includes the cost of materials to maintain and overhaul the ECML fleet, to the extent that it is required by the respective leases. In addition, ECML pays other depot operators for the provision of services, primarily light maintenance and overnight servicing.

Other costs: These include costs associated with IT systems, repairs & maintenance of buildings, property rentals, contract services for the provision of customer relations and website hosting, and other sundry overhead costs.

Commission payable: The cost of commissions paid to third party retailers and travel agents.

Catering: This is the cost of food and drink sold via on board trolleys and CaféBars, for which revenue is reflected in income. In addition these include the cost of the provision of food and drink as part of ECML’s complimentary First Class offering, and the fixed costs associated with catering logistics, which are provided by Rail Gourmet.

Sales and marketing: This covers the cost of advertising campaigns, market research activity, the running of the ECML loyalty scheme and associated costs.

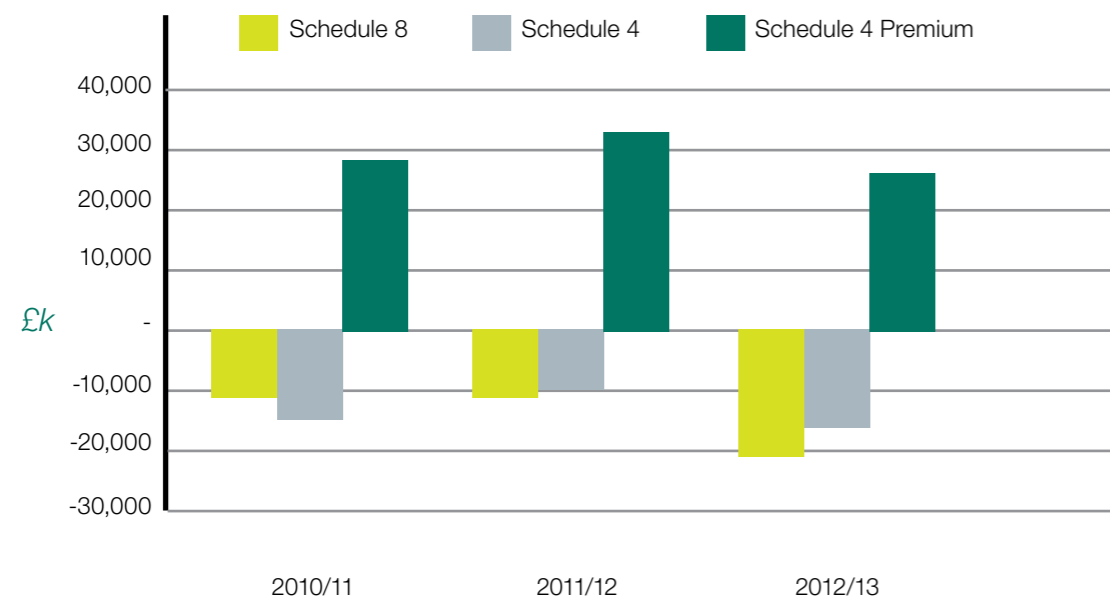
Shared industry costs: The nature of the rail industry in the UK means that certain services are provided by central organisations, such as ATOC and Rail Settlement Plan for settlement of ticket revenues and the British Transport Police for policing on railway property or on-board services.

Passenger compensation: Under the Passenger Charter arrangements, ECML must pay passengers if their journey is delayed beyond defined limits through their Delay Repay scheme. There may also be discretionary compensation payments made if it is felt to be appropriate.

Depreciation: Charged on fixed assets in line with an agreed and stated policy.

Performance regime (Figure 12): This consists of three elements of ECML's Track Access Agreement with Network Rail, Schedule 8, Schedule 4 and Schedule 4 Premium. Schedule 8 is the mechanism through which train operators are compensated for the financial impact of performance attributable to Network Rail and other train operators and is designed to incentivise Network Rail to improve train performance. Schedule 4 compensates ECML for loss of access to infrastructure when maintenance work is being undertaken, and Schedule 4 Premium is a payment to Network Rail to fund the Schedule 4 regime. Schedule 8 can be a payment from or a receipt by ECML, Schedule 4 will always be a receipt by ECML, and Schedule 4 Premium will always be a payment to Network Rail. During 2012/13 the net position was a receipt by ECML.

Figure 12: Performance regime figures 2010-2013 £ 000



4.14 The 5 year plan

Since DOR took over the business in 2009, ECML has been operating under a series of rolling 18 month to 2 year business plans. At the end of 2012, it was agreed to produce a five-year strategic vision with the aim of developing a longer-term view of the business to inform key decisions which could not be postponed, particularly in relation to rolling stock.

This five year plan was developed by ECML, guided by DOR. As well as being a valuable tool for longer term planning, it also provides a clear road-map for the existing ECML management team.

The key aim of the plan is to enhance the value of the franchise through focusing on improving service patterns between London and Leeds, York, Newcastle and Edinburgh, where ECML's analysis indicates there is significant potential for further growth.

4.15 The franchise opportunity

The East Coast business has been successfully turned around and stabilised under Government ownership. However, this was never intended to be a permanent arrangement and is reflected in the relatively short-term planning horizon that the company has been operating under since November 2009. The Government is now committing to significant investment in this route over the next 6 years including the replacement of the current rolling stock fleet and major infrastructure improvements as part of its Rail Investment Strategy (High Level Output Specification¹¹).

In order to build on the achievements that ECML and DOR have delivered over the last four years and steer the company through the next important stage of its development, the Government is seeking a private sector operator for the next 8-9 years. This operator will have the ability to manage these investments with a long term view, deliver them with minimal disruption to customers, and continue to develop the company and its people.

It is crucial the Government selects the right owner for ECML to successfully meet these challenges and to deliver a global benchmark in rail travel and customer service by the end of the next franchise term. The remaining sections of this Prospectus explain this vision in more detail and set out how we intend to procure it as part of the forthcoming competition.

¹¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/3641/railways-act-2005.pdf

C

PART C

5. Franchise requirements

This section presents in greater detail the train services that DfT wishes to procure and outlines some of the important decisions that we have made about the franchise requirements. It sets out a framework for a commercially viable proposition that delivers Government policy and desired outcomes from the rail network and represents value for money to the fare-paying passenger and the taxpayer.

Passengers are at the centre of our approach and, as such, these franchise requirements have been developed following a consultation exercise in 2012. A summary report has been published alongside this Prospectus.

“Passengers are at the centre of our approach.”

5.1. Franchise objectives

The overall vision is for an East Coast franchise that delivers excellence in service quality, enables transformation (of the customer experience, trains and stations) and becomes a global benchmark for InterCity services. To realise this vision we have defined some detailed objectives for the new franchise which require the new operator to:

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

5.2 Franchise length & extension criteria

A key consideration in determining the length of the franchise is the need for the new franchisee to successfully introduce the IEP rolling stock and then to maximise the opportunities afforded by the new fleet and the investments in East Coast infrastructure. This will be achieved through changes to the timetable to improve both journey time and the end-to-end customer journey experience. We therefore intend to let the East Coast franchise for a period of around 8-9 years to enable the franchisee to establish a steady state operating record following the introduction of the IEP fleet and to incentivise the operator to manage the changes in such a way as to minimise customer disruption.

We anticipate that there will be provision for an extension of up to 2 years callable at DfT's discretion.

5.3 Geographical area

Section 4.2 sets out the current routes and services provided by ECML. In light of our objective to grow new markets, we are considering what the geographic scope of the next franchise should be.

We expect the franchisee to timetable services to all stations currently served by ECML and to serve existing routes. Requirements to serve existing routes and stations will be defined in the Franchise Agreement.

The Department is currently evaluating the business case and network impacts of running services to a small number of locations not currently served by ECML. Depending on the outcome of this work, the ITT may include either a requirement or an option for bidders to run services to a number of specific locations in one or more of the following: Yorkshire, the North East, the Midlands and the East of England.

5.4 Key events

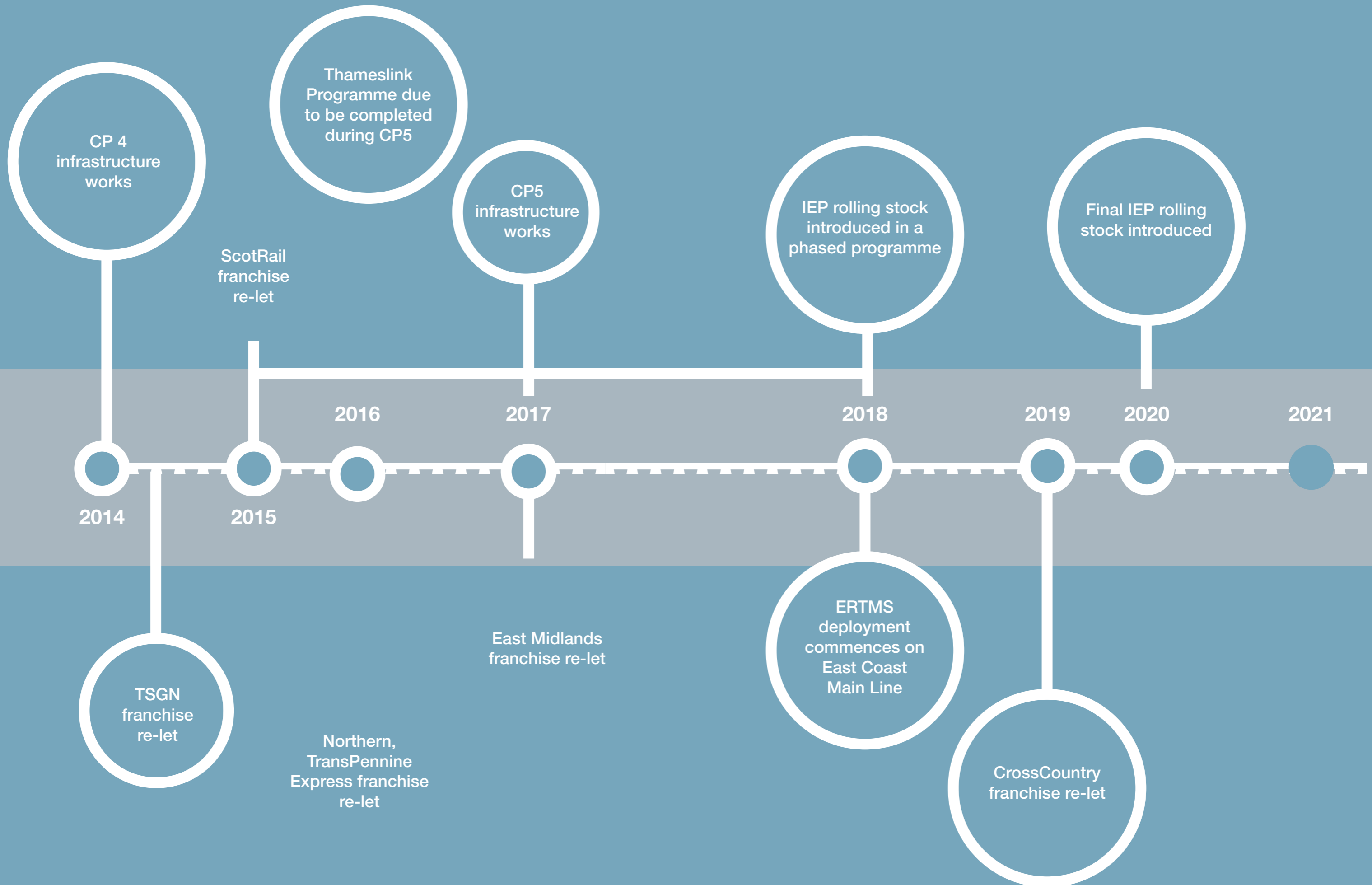
During the tenure of the new franchise a number of pre-planned and significant events will take place which are expected to offer some considerable benefit.

An anticipated timeline of these events is shown in Figure 13 and more information on each event can be found in this section. We will require bidders to demonstrate how they would plan for these events and optimise the benefits that they can bring.



“...the new franchisee to successfully introduce the IEP rolling stock and then to maximise the opportunities afforded by the new fleet and the investments in East Coast infrastructure.”

Figure 13: East Coast timeline of events



Franchise schedule

Five franchises which closely link into the East Coast network will be re-let in the period to 2020:

- Thameslink Southern & Great Northern franchise
- ScotRail (April 2015)
- Northern/TransPennine (February 2016)
- East Midlands (October 2017)
- CrossCountry (November 2019)

The new franchisee will need to work in partnership with DfT and both the incumbent and new operators of these franchises to ensure seamless integration of services and no reduction in the quality of passenger experience. Rail North, the organisation promoting devolution of responsibility for the TransPennine and Northern franchises to local authorities in the North of England, will be another important partner, should Government agree to take forward devolution proposals.

5.5 Service quality

5.5.1 Service quality approach

We are seeking a franchisee who will deliver our objectives for the East Coast franchise, of which delivering excellence in service quality is a key element. In practice, service quality is expected to manifest itself through:

- Operational performance
- Train and station presentation
- Passenger information, before and during the journey including during disruption
- Ticket retail
- The introduction of the new fleet of IEP trains
- Investment in staff

The introduction of the IEP fleet between 2018 and 2020 will provide a step-change in the passenger proposition for the East Coast. The combination of high performance trains, enhanced infrastructure, new and upgraded depots, and a different approach to rolling stock performance management is expected to facilitate faster services, greater capacity, increased passenger comfort, and greater reliability. In addition, following the redevelopment of some key stations along the route, as well as the construction of a brand new station building at Wakefield Westgate, there are now significant opportunities to update and improve the remaining stations and to add to the retail offering.

In developing its new timetable and service proposition the franchisee will need to work in partnership with Agility, DfT, Network Rail and other train operators to enable the benefits of IEP and other major schemes such as the Thameslink Programme and CP5-funded enhancements of the East Coast Main Line to be realised.

The Department expects that bidders will underpin their proposals with commitments to innovation, harnessing new technologies and to delivering improvements in sustainability.

5.5.2 How quality will be delivered through the East Coast franchise procurement

The Department expects that quality will be offered to customers on this franchise through a combination of:

- The commercial incentives incumbent on the franchisee to improve quality, given the largely discretionary nature of travel on the East Coast franchise
- Requirements which will be defined as part of the specification and set out in the IT

We anticipate that the specification of the East Coast franchise will include:

- A Customer Experience and Communities Strategy - We are likely to request that bidders set out how they intend to improve the customer experience. We may also ask bidders to develop a strategy for community engagement focussed on creating links between the community, businesses and the railway
- A Customer and Communities Fund - The Department is considering requiring bidders to set aside a defined amount throughout the franchise term to fund schemes which are developed by the franchisee during the franchise in response to customer and community engagement. Such schemes are either non-commercial or will not generate a commercial return within the remainder of the term. Proposals to spend from this fund would need to meet criteria set out in the Franchise Agreement
- A Passenger's Charter - Bidders are likely to be required to commit to a Passenger's Charter including a Delay Repay compensation scheme at least as beneficial to passengers as the one currently operated by ECML and in line with Regulation (EC) No 1371/2007 on rail passengers' rights and obligations
- A Customer Report - The Department may require the franchisee to produce a regular report, setting out its commitments to customers, its targets and performance against these targets
- Targets such as NPS - The Department may specify one or more targets for passenger satisfaction with the facilities and services provided by the franchise. This would be likely to include one or more indicators drawn from the regular National Passenger Survey conducted by Passenger Focus

“The Department expects that bidders will underpin their proposals with commitments to innovation, harnessing new technologies and to delivering improvements in sustainability.”

5.5.3 Innovation

DfT is working with the Rail Enabling Innovation Team and the Transport Systems Catapult to encourage and support innovation throughout the life of the franchise. The objective is to provide bidders and the franchisee with freedom to respond to customer and industry challenges, particularly including those posed in the Rail Technical Strategy¹². We are currently considering the following options:

- An Innovation Fund to support innovation across all franchises
- Seeking plans from bidders in their submissions to embed and deliver innovation through pilots, demonstrators and research

The Department anticipates asking bidders to present an innovation strategy including project proposals likely to deliver benefits to the wider UK rail industry and/or beyond the franchise term. We expect bidders to collaborate with other industry partners and expect them to secure investment and resources.

Bidders may be asked to consider the following as part of their innovation strategy:

- Transforming the daily customer experience
- Simplifying ticketing that seamlessly integrates with other modes
- Improving the door-to-door journey
- Improving cost efficiency and value for money
- Improving the level and consistency of performance
- Providing step changes in environmental performance
- Having a positive impact on local communities
- Enabling data sharing to third parties, supply chain and small and medium enterprises to encourage innovation
- Contributing to agreed cross industry projects

5.5.4 Facilitating investment

DfT has already committed to major investments in infrastructure and rolling stock for the East Coast franchise, but there may also be opportunities to enhance the customer experience through investment in other areas such as stations, incremental infrastructure or rolling stock works, integrated transport and improved passenger information. The ITT may identify particular areas where bidders may be asked to make proposals for investments.

Provision is already made in the standard Franchise Agreements to financially support approved investments proposed during a franchise in recognition of their potential residual value. Where recognition of residual value protection is agreed by DfT, it is likely to be dependent on the incumbent franchisee demonstrating that:

- The relevant asset(s) have a life which runs beyond the end of the franchise
- At the end of the franchise the asset conditions are such that they can be used by the incoming franchisee including, for example, IT-based investments being properly supported and reflecting up to date technology
- The asset(s) are of value for the new franchisee, with a positive business case for the asset over the life of the asset which remains after the franchise
- There is a negative or weak business case over the length of the current franchise

The Department is also aware that in order for bidders to consider making certain types of investment, there could be a case for developing a mechanism to allow the potential residual value of these investments to be a factor in the evaluation of the bid.



The Department would welcome considered proposals for such mechanisms, which could be included in the final ITT.

“DfT has committed to major investments in infrastructure and rolling stock for the East Coast franchise...”

¹² <http://www.future railway.org/RTS/Pages/Intro.asp>

“The stations on the East Coast network are one of the key opportunities for enabling a transformation of the franchise.”

5.5.5 Stations

ECML is SFO at 12 stations on its route network (see section 4.8). The stations on the East Coast network are one of the key opportunities for enabling a transformation of the franchise.

The Department is therefore considering a number of options to encourage longer term investment in stations, including:

- The continuation of the current franchisee tenant/Network Rail landlord model
- A residual value mechanism to enable longer term investment by the franchisee
- A 99 year lease model
- Network Rail managed stations
- The franchisee working with a third party who would take responsibility for station maintenance, renewal and development over the long term



The Department would welcome views on these potential options.

We would expect the franchisee to facilitate the improvement of stations whichever operating model is adopted. Depending on which station model is specified, we may ask bidders to set out in their bid how they will address challenges such as:

- Managing the condition of key station assets
- Utilising station capacity to meet future passenger demand, including unlocking of new capacity
- Matching station facilities to meet passengers' needs
- Ensuring station layouts support the roles and behaviours expected from staff
- Optimising the use of space as operational needs change over time - due to changes in ticketing and dispatch for example

The Department is also considering what station asset condition metric is appropriate for the franchise.



The Department would welcome views on potential metrics which may be used to report station asset condition for the franchise.

It should be noted that station enhancements are not expected to be funded by the use of Network Rail's Regulatory Asset Base (RAB). However bidders should be aware of the ongoing RAB loan facility payments expected for the stations they inherit and make appropriate provision. The Department has yet to determine whether the franchisee will be the SFO for all of these stations under the terms of the new franchise.

5.6 Operations

5.6.1 Train service requirements

The Department considers that a core driver of the East Coast business will be the improvement in journey times to key destinations.

The train services which the Department specifies are at the heart of the franchise specification. Brown recommended that for franchises, TSRs are constructed in such a way as to give flexibility to bidders to offer more resource efficient ways of delivering them. More than one TSR may be specified over the life of the franchise to support the delivery of key initiatives.

For East Coast, the TSR specified by DfT will form the minimum level of service required and may, for example, include:

- Specified first and last trains
- Maximum journey times to key destinations
- Number of station calls per hour/day
- Certain calling patterns

We will require bidders to design timetables that meet the requirements set out in the ITT. DfT will seek to ensure bidders have a range of potential service options, which they can use to exploit the commercial capabilities of the route, but the amount of flexibility is still being considered by the Department and will be set out in the ITT.

“...a core driver of the East Coast business will be the improvement in journey times to key destinations.”

Planned timetable changes on the route

During the life of the franchise, there are expected to be a number of events (e.g. rolling stock introduction, enhancements, ERTMS introduction) which will require and enable changes to be made to the operational timetable. An Event Steering Group will be established for major timetable changes on the East Coast. There are a number of significant timetable changes during the life of the franchise, including the following:

- December 2016 – timetable change to implement services changes resulting from Northern Hub phases 1 and 1.5 permitting 6 trains per hour (tph) between Leeds and Manchester. This timetable change will also introduce a focus on Right Time operations on the East Coast network
- From January 2018 – timetable changes for a new service pattern of TSGN services on the East Coast Main Line between King’s Cross and Peterborough

- December 2018 – timetable change to account for service changes enabled by CP5 East Coast Main Line Connectivity Programme; European Train Control System (ECTS) introduction; Thameslink Key Output 2; Northern Hub Phase 2
- May 2020 – New East Coast timetable following introduction of the entire IEP fleet. This date is currently indicative and the franchisee may be able to implement an earlier timetable change which does not require the entire IEP fleet to be in operation

Interaction with other services

Due to the complexity of operations on the route, and the difficulties this may present when developing a timetable, the Department anticipates it will provide guidance in the ITT to enable bidders to timetable services to fit in with the other operators.

In particular, the East Coast Main Line south of Peterborough is intensively used by ECML, the Thameslink, Southern and Great Northern (TSGN) operator, freight and open access operators. Interested parties should consult the TSGN ITT and any amendments to it, which can be found at:

<https://www.gov.uk/government/publications/thameslink-southern-and-great-northern-2013-invitation-to-tender>

5.6.2 Infrastructure works

A number of major infrastructure works will take place on the East Coast Main Line over the projected life of the franchise. For bidders this will mean considering how they might work closely with civil engineering firms, including alliancing with Network Rail to enable these vital improvements.

European Rail Traffic Management System (ERTMS)

ERTMS will be the standard technology for re-signalling schemes, and an important consideration for the East Coast franchise. The franchisee will be responsible for ensuring that its rolling stock is ready to operate under ERTMS control and fitted with ERTMS train-borne equipment. The franchisee will also be responsible for the supply, installation, testing, commissioning, approvals, maintenance and warranty support for any ERTMS train-borne equipment they propose to retrofit to rolling stock. If required, arrangements for retrofitting of rolling stock will be outlined in the ITT. DfT is seeking bidders who will work collaboratively with Network Rail in the deployment of ERTMS and to maximise the benefits of the new signalling system.

“DfT is seeking bidders who will work collaboratively with Network Rail in the deployment of ERTMS.”

TransPennine electrification

As part of Network Rail's programme of electrification, certain TransPennine routes will be electrified by the end of 2018, which will enable the introduction of new rolling stock and new service patterns for the operators using these routes. These services interact with East Coast and may require alterations to the East Coast service pattern.

The current milestones for TransPennine electrification are as follows:

- December 2013 Manchester to West Coast Main Line and Newton le Willows
- December 2014 Newton le Willows to Liverpool Lime Street
- May 2016 Preston to Blackpool
- December 2016 Manchester Victoria to Preston
- December 2018 Stalybridge to York and Selby

Thameslink Programme

The Thameslink Programme (and Thameslink Rolling Stock Programme) is due to be completed during CP5, providing a major increase in capacity for cross-London train services. It is anticipated that through services between stations on the East Coast Main Line, central London and stations in the South and South East will commence in 2017.

CP 4 infrastructure

By the end of CP4 (to 31st March 2014) a number of infrastructure projects will have been implemented:

Hitchin Flyover services introduced: The flyover will enable trains between London and Cambridge to travel over the main line, removing one of the main bottlenecks on the East Coast Main Line. This will increase capacity and make the line more reliable.

Great Northern Great Eastern Line: Works are under way between Peterborough and Doncaster to improve the efficiency and flexibility of the East Coast Main Line. The works will increase capacity and bring better performance and reliability to the route.

North Doncaster chord: A new railway flyover at Shaftholme to the north of Doncaster will enable freight trains to be routed up and over the East Coast Main Line.

Peterborough station: The £43m improvements at Peterborough station will see the addition of a new station building and new platform access. The works include installing two new platforms to the west side of the station and lengthening platforms 2, 3, 4 and 5 and the provision of a platform face on the Up fast line. The result of this will be improved train services and shorter journey times.

Alexandra Palace to Finsbury Park: Reinstating and extending the disused east platform at Finsbury Park station and extending platforms 3 and 5 will accommodate the longer 12-carriage trains required for TSGN. More platform and concourse space will reduce overcrowding at stations.

CP5 infrastructure

The Rail Investment Strategy (High Level Output Specification) published in 2012 set out the Government's intention to ring fence up to £240 million to be spent on further improvements in capacity and reduction in journey times on the East Coast Main Line;

The Secretary of State recognises the importance of the East Coast Main Line in linking Scotland, the North East, Yorkshire and Eastern England with London. In addition to the schemes already funded, the Department seeks further improvement in capacity and reduction in journey times and believes there are good business cases for both. The industry should develop plans to deliver works within a maximum CP5 expenditure of £240m. These plans should include suitable efficient capacity for the crossing flows of passenger and freight traffic at Peterborough.

The Department has written to Network Rail to outline the network outcomes that it seeks from this fund;

The overriding output required by DfT from the investment authorised for CP5 in East Coast Main Line infrastructure is the achievement of a material reduction in journey times between London and the key East Coast Main Line cities – namely Leeds, York, Newcastle and Edinburgh. It is anticipated that these journey time reductions will be achieved through a combination of:

- *New rolling stock*
- *A timetable recast*
- *Infrastructure improvements that allow slower trains (passenger and freight) to be cleared from the paths of faster trains*

A second output would enable new markets to be opened up. This objective could also be expressed as a desire to see growth in East Coast Main Line flows that are, in volume terms, comparatively small. It is anticipated that this second objective is likeliest to be met by:

- *Retention of a number of 'off-route' destinations similar to those offered today*
- *Improvement of connections at key stations, both by timetabling interventions and by improvement of station facilities to make both rail and road connections as easy as possible*

“...up to £240 million to be spent on further improvements in capacity and reduction in journey times on the East Coast Main Line.”

In its letter to Network Rail, the Department also set out the outcomes it seeks from the fund with regards to the East Coast franchise:

Long Distance/ High Speed (LDHS)

In order to meet the outputs it is anticipated that capacity would need to be available for a minimum of 7 LDHS services per hour. Throughout the day there would be two very-limited-stop services per hour between London and each of Leeds and Edinburgh, augmented by two semi-fast services (one each to Leeds and Newcastle) that would call at the intermediate stations and provide connections at key stations with the fast trains. The seventh service would be an additional semi-fast core route service in the peaks and an 'off-route' service off-peak. The present 'beginning and end of day' extensions to off-route destinations would continue to apply.

The allocation of expenditure of the fund is being developed and approved by the East Coast Programme Board, which has approved the following works so far:

- £72m approved for Peterborough GN/GE southern access
- £20m approved for Doncaster station area east side enhancements

Further proposed schemes will be presented to future East Coast Programme Boards to allocate the remainder of the fund. We expect bidders to engage with Network Rail on maximising the benefit delivered through the CP5 fund and including the achievement of the outputs DfT is seeking, as outlined above.

“We expect bidders to engage with Network Rail on maximising the benefit delivered through the CP5 fund and including the achievement of the outputs DfT is seeking.”

IEP enabling works

In preparation for the introduction of the IEP fleet in 2018 there will be considerable IEP enabling works taking place on the East Coast Main Line, including a power supply upgrade. Gauge clearance work will also be undertaken for specific routes by Network Rail. Routes that have been cleared for IEP operations are defined in Appendix F to Schedule 1 to the Master Availability and Reliability Agreement (MARA).

Bidder proposed infrastructure schemes

Bidders may be invited to propose additional infrastructure schemes for the Department to take into account when evaluating bids. It may be possible to use RAB-based financing for these schemes subject to meeting the criteria of the ORR and Network Rail. We would also expect any bidder proposing such a scheme to have worked closely with Network Rail on development of the scheme along with any associated costs and benefits, and to have engaged with the ORR.

5.6.3 Rolling stock

Rolling stock is the principal passenger interface with the railway and we will be seeking a franchisee who can enhance the passenger experience through the deployment of rolling stock during the franchise.

DfT will seek a franchisee who is able to;

- Seamlessly manage the introduction of the new IEP fleet, minimising disruption to passengers
- Manage the depot and maintenance transfer, ensuring continuity of performance and train availability
- Maximise the capacity and commercial value of the fleet through its service offering

Current fleet

ECML's current fleet consists of:

- 14 diesel IC125 High Speed Trains, comprised of 32 Power Cars and 131 Mark 3 trailers owned by Angel (116 vehicles) and Porterbrook (47 vehicles)
- 30 electric IC225 trains comprised of 31 Class 91 Locos and 302 Mark 4 Trailers owned by Eversholt

The franchisee will need to deliver the ongoing maintenance and operation of the fleet. We would expect bidders to propose a consistently high standard of interior and exterior presentation, exploit the timetable changes and infrastructure improvements prior to the introduction of the IEP fleet from 2018.

The rolling stock contracts with Eversholt and Porterbrook expire on 31 March 2015. DfT is considering whether to renew these leases. The contract with Angel trains has recently been extended to 2018 to align with the delivery of the first phase of the IEP fleet. Updated details of the current fleet and its leasing arrangements will be made available to pre-qualified bidders in the ITT. DfT fleet requirements will be set out in more detail in the ITT.

A further issue for consideration by the successful bidder is that a new form of maintenance contract will be introduced along with the IEP fleet. There will be a period of parallel operation, with different maintenance contracts in place for the pre and post IEP fleets.



“Train capacity will be 18% higher than at present...”

“The reliability of the fleet will be 50,000 miles per incident.”



InterCity Express Programme

IEP is a major public-private partnership project providing for the design, build, finance and maintenance of rolling stock. The programme will deliver a fleet of trains for the Great Western line, and a fleet for the East Coast Main Line. Bimode trains will be capable of operating over non-electrified parts of the network, continuing to provide through connectivity between electrified and non-electrified routes. The IEP fleet is also enabled for driver only operation (DOO). Initial sets will be operational from September 2018, with the last sets in service by February 2020¹³.

Nearly 600 vehicles will be built to replace Britain’s fleet of InterCity 125 High Speed Trains along the Great Western and East Coast Main Lines that were originally deployed by British Rail in the 1970s and 1980s. A further 270 vehicles will be purchased to replace the electric InterCity 225 fleet which currently runs on the East Coast Main Line with a fleet of new, high quality, modern, higher capacity class 800 series 9-car electric trains.

Bidders will need to consider how they will bring the new trains into service. The exact delivery dates are contained in the redacted version of the MARA (see below). Bidders should propose the method of introduction and any intermediate changes in the timetable or other opportunities that can be exploited. Bidders should ensure value for money through having the IEP fleet and the existing fleet whilst both fleets are in operation.

Table 2 - Number of seats in each train type

Train Type	Number of seats in First Class	Number of seats in Standard Class
9 car	101	526
5 car	45	270



We are currently reviewing the ratio of first to standard class seating and **would welcome evidence-based feedback** on the proposed ratios along with supporting revenue projections if the proposed ratios differ from the current Departmental position.

Passengers will see improvements to their travelling experience, including more reliable services, improved telecommunications connectivity, increased leg room (which does not compromise luggage storage), and a greater chance of getting a seat. Train capacity will be 627 seats per 9-car train, 18% higher than at present, which will mean that the class 800 series deployment in total will increase the

¹³ These dates may be subject to change.

number of seats into Kings Cross in the morning peak. The reliability of the fleet will be enhanced under the IEP contract with a benchmark that broadly equates to 50,000 miles per incident.

Journey times between London, Leeds and Edinburgh will also be reduced by several minutes due to improved acceleration. The new trains will be capable of running at 140mph, which would lead to further journey time reductions, although operation at this speed will require signalling and infrastructure upgrades.

IEP contracts

The MARA, a contract between the Secretary of State for Transport and Agility Trains East Limited (Agility) is the contract for the design, build, owning, maintaining and making available of the East Coast IEP fleet. The MARA defines the responsibilities of the franchisee and the Franchise Agreement sets out how certain rights and obligations, such as those relating to train acceptance, will be performed or exercised by the franchisee. Maintenance of the sets will be carried out by Hitachi Rail Europe on behalf of Agility.

The East Coast franchisee will be required to enter into the Train Availability and Reliability Agreement (TARA) with Agility. Under the TARA, Agility is obliged to repair and maintain the fleet and to make available a specified number of sets each morning. The franchisee is obliged to pay Set Availability Payments (SAPs) for these sets, whether or not all of the sets are required for a particular day. The TARA specifies the Rules of the Fleet and the Rules of the Depot which are relevant to how the franchisee will be able to set its dispatch requirements.

There are a number of adjustments to the SAPs including where Agility does not meet certain availability, reliability and key performance indicators (e.g. standards of cleanliness and presentation). There are also adjustments if the actual mileage of the sets is outside certain baseline mileage figures set out in the contract.

Other agreements

The East Coast franchisee will be required to enter into the Relevant Operator Direct Agreement (RODA) with Agility and agree to be bound by the Dispute Resolution Agreement (DRA) with Agility and the Secretary of State. The RODA provides for the enforcement by Agility of certain obligations which the franchisee has as the Relevant Operator under the MARA. The form of the RODA and DRA to be signed by the franchisee is set out as appendices to the MARA.

If the franchisee requires additional rolling stock, above and beyond the IEP fleet, in order to deliver the proposed train service specification then this should be included in the bid.

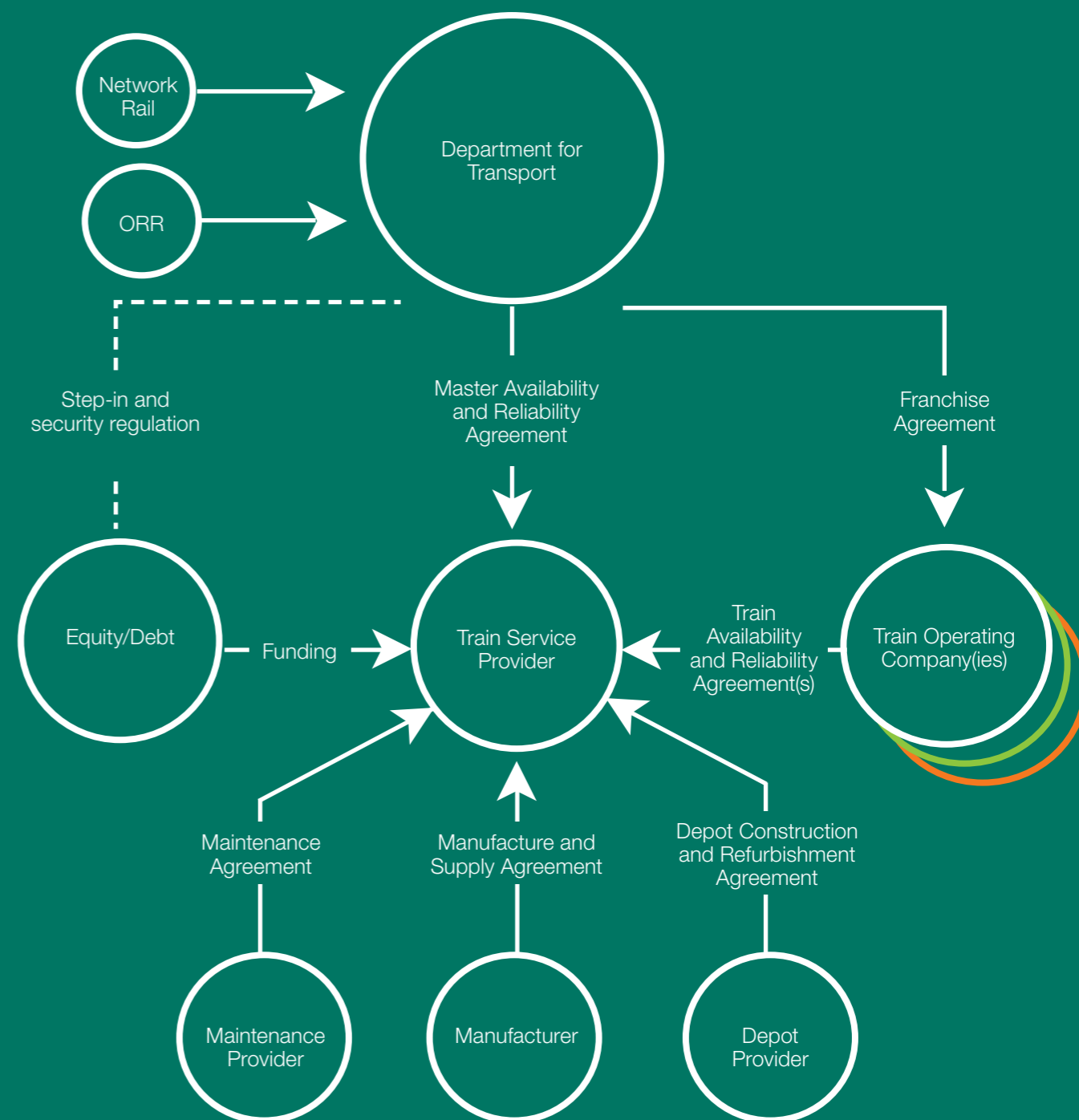
While the franchisee will be expected to develop, agree and implement any contingency arrangements, if any trains are late and the delay is not attributable to the franchisee, they will not then be responsible for payments. If the delay is the fault of Agility then no SAP is payable until the IEP Set is accepted. In other cases the franchisee should not expect to be financially disadvantaged.

The relationship between the organisations involved with the IEP fleet and the role played by the various contracts and agreements is set out in Figure 14. The current East Coast MARA and TARA can be found (with certain commercial information redacted) at:

<https://www.gov.uk/government/publications/InterCity-express-programme-technical-specification-and-contracts>

The MARA and TARA will be amended and restated and appropriately redacted executed versions will be provided to bidders when they are available.

Figure 14: IEP contract structure



Variations to agreements

Any variations that the franchisee wishes to propose would need to be funded by the franchisee, supported by a strong business case and would need our agreement. The costs of any changes and the cost of returning the train to the design state would need to be presented to the Department for it to make a decision.

Following selection at PQQ stage, bidders will be invited to discuss their ideas for variations to the train design with Agility. We anticipate that shortlisted bidders will be able to visit the design mock-up and meet with representatives of Hitachi.

While the Department is willing to consider a range of variations, the changes that we would accept will be limited. We would be open to variations in the ratio of first to standard class accommodation and to changes in kitchen layout for example. We would be unlikely to consider any variation which delivers a worsening of passenger experience such as a reduction in passenger or luggage space or a reduction in train capacity. If bidders wish to propose variations, it is anticipated all such proposals should be presented with the full cost to implement the change and the cost of returning the train to the state as designed. It is unlikely that the Department would consider significant structural or engineering changes which would result in the East Coast and Great Western fleets no longer being considered homogeneous, changes that would be very expensive to undo (e.g. etching logos into windows) or changes to the exterior of the trains beyond the areas for customisation that are being considered and which will be communicated to bidders in due course.

As well as the costs for enacting and reversing proposed variations, bidders should include confirmation from Agility that they are able to support such changes for the variation to be considered at the ITT stage.

5.6.4 Performance

DfT is considering a symmetrical target regime under which the franchisee receives a financial payment for out-performing its TOC-on-self delay minute target, and makes a financial payment for under-performing. We anticipate that there would be two rates for the payment, depending on whether the PPM target is also being achieved. The payment to the franchisee would be paid at a higher rate if the franchisee is out-performing its TOC-on-self delay minute target and meeting its regulatory PPM trajectory. There would also be a symmetrical regime for TOC-on-Self cancellations, which would work in the same way as the TOC-on-self delay minute regime. In this case, the payment may be at a higher rate if the franchisee is also meeting its regulatory Cancellation and Significant Lateness (CaSL) trajectory. In addition, there may be a regime for payment by the franchisee for short-formations. DfT would set the performance targets based on advice from the ORR on regulatory performance targets for CP5.

The Franchise Agreement is likely to include three levels of benchmark for each metric:

- An 'incentive' target, as outlined above, which will form the basis for calculation of a bonus/penalty payable to/by the franchisee where they over/underperform
- A 'breach' threshold, with failure to meet this triggering a formal Remedial Plan process
- A 'default' threshold with failure to meet this over a defined period constituting an Event of Default

During the course of the franchise a number of initiatives will provide the opportunity to achieve a significant improvement in the performance and reliability of East Coast services, notably:

- The Train Service Provider (TSP) for IEP will be responsible for providing a specified number of trains to the franchisee on a daily basis and financially incentivised to deliver a highly reliable train fleet
- ERTMS will provide greater flexibility in the signalling and control of train operations and is expected to facilitate improved performance resilience of the route

Benchmarks will be set to reflect the expectation of a significant improvement in performance once the new IEP rolling stock and post ERTMS operations have bedded in. We are unlikely to invite bidders to propose higher benchmark levels for inclusion in the contract; instead, the payment regime will provide the incentive for the franchisee to exceed the benchmarks where this can be achieved at reasonable cost.

Furthermore, bidders will be asked to set out their strategy for working in partnership with Network Rail to take joint action to achieve shared objectives for whole-industry performance (e.g. PPM, CaSL, collective delay minutes). As a minimum, the franchisee will be required to collaborate with Network Rail to develop and implement a Joint Performance Improvement Plan (JPIP). The franchisee will be encouraged to actively participate and share data in relation to improving Right Time operations at origin, destination and at key nodes. At the heart of this concept is the adoption of metrics that measure the proportion of train movements that are early or on time compared with the planned timetable.

“Benchmarks will be set to reflect the expectation of a significant improvement in performance...”



“...capacity is
a key driver
of passenger
satisfaction and
demand...”

5.6.5 Capacity and crowding

Providing sufficient capacity is a key driver of passenger satisfaction and passenger demand, and using capacity by filling empty seats improves the efficiency of the railway.

The Department will encourage bidders to develop proposals that provide capacity where it is needed most and mitigate crowding on East Coast services. Bidders will be required to give due regard to accommodating growth in demand and will be expected to make best use of the additional capacity provided by the IEP fleet and to exploit any other opportunities to deliver additional capacity including that which might be enabled by infrastructure improvements.

5.6.6 Access rights

Considerable investment is being made in the route that will create additional capacity and opportunities to improve journey times during the course of the franchise. The Department wishes to ensure that the franchisee has secured access rights that will enable it to fully exploit this additional capacity and also thereby protect the value for money of the investments for the taxpayer.

ECML is planning to apply to ORR to:

- Extend its existing access rights to 2019
- Obtain quantum rights for an additional hourly service from 2019, further to the introduction of IEP

Bidders will need to apply for any additional access rights that will be required to deliver their planned train services. It is unclear whether ORR will have decided on ECML's application by the time that the ITT is issued. The Department is therefore evaluating how the financial risk associated with obtaining access rights should be shared between the Department and the franchisee. Further details of the process for securing access rights can be found in Section 2 of the Network Statement as published by Network Rail

5.7 Fares and ticketing

DfT expects bidders to put forward innovative proposals that set a high standard in the retailing of all products and services, from ticket search and acquisition to on-board and at-station services, through investment in the workforce and in new and more accessible technologies. Tickets need to be easily accessible and their pricing, availability and time of use transparent in order to facilitate seamless travel across boundaries with other transport authorities.

We expect bids to be based on the current regulated fares policy, including the outcome of the Fares and Ticketing Review¹⁴. Should Government policy change during the re-franchising competition, the Department reserves the right to ask bidders to change the assumptions underpinning their bid. We welcome innovation to meet the objectives of the franchise, where it is in line with this policy, as well as bids which can demonstrate convincingly how passenger satisfaction in relation to ticketing/retail will improve and how they will deliver efficiency savings. In doing so, we will expect bidders to provide passengers with widespread and easy access to the full range of tickets and to ensure that passengers have the information they need to select and purchase the most appropriate ticket for their journey.

We will also expect the franchisee to:

- Participate in the South East Flexible Ticketing programme (SEFT) which will be delivered by the successful bidder. Currently the SEFT programme covers Peterborough and King's Cross stations for the East Coast franchise
- Cooperate with any future DfT-led and funded schemes to implement smart ticketing on a geographical basis
- Work in partnership with local authorities within the franchise area who wish to implement smart rail and/or multi-modal ticketing
- Ensure that any new smart ticketing infrastructure (such as new gates, gate upgrades or validators) will be capable of recognising both ITSO and contactless EMV

¹⁴ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/249001/fares-ticketing-next-steps.pdf



5.8 Commercial structure

5.8.1 Capital requirements

The Brown Review concluded that a requirement for large sums of capital from franchisees would restrict competition and did not represent value for money. Brown noted that franchisees cannot manage exogenous revenue risk and recommended that exogenous risk should be retained by the Department as far as practicable.

Brown also proposed that an operator should be obliged to provide financial support for the level of endogenous risk incorporated in its bid but that the Government should not seek to insure the risk of default in full in the financial markets.

The East Coast franchise will incorporate key principles proposed by Brown. DfT intends that the franchisee will have to procure:

- A season ticket bond, in the form of the current template, calculated in accordance with the Franchise Agreement formula and bonded by a third party, estimated to be in the region of £10 million
- A performance bond in the region of £20 million, sized to reflect re-letting costs and bonded by a third party
- A guarantee for the Angel rolling stock lease which has been extended to 2018, up to a maximum of £7.2 million. This guarantee is linked to the maintenance obligations associated with the dry lease that has been entered into between ECML and Angel trains. Full details will be available to prequalified bidders
- A guarantee if full repairing station leases are adopted of up to £10 million
- A parent company support (PCS), some or all of which must be bonded by a suitable bond provider with a financial rating of A-/A3 or higher. PCS will be calculated as a percentage of the excess of franchise payments bid over a defined profile of payments. However there will be a minimum amount of £50 million PCS required. Such bond(s) will only be called where the provider of the PCS does not fulfil its obligations

5.8.2 Maintenance of liquidity ratios

We anticipate that the liquidity ratio tests to be applied to the new franchise will be the same as those set out in Schedule 12 of the Franchise Agreement used for recent franchises and will define trigger points for lock-up (where the operator will be prevented from making equity distributions) and for an event of default.

5.8.3 GDP indexation mechanism

As recommended by the Brown Review, DfT intends to provide protection against exogenous revenue risk. Such protection is likely to be partial in nature, reflecting the diversity of exogenous factors that might impact the delivery of financial projections for a rail franchise, and the availability of reliable, published measures.

This risk sharing mechanism on East Coast is expected to be symmetrical (i.e. adjusting for both up side and down side in a similar manner) and will be based around deviations in national GDP growth between a forecast provided for GDP at the time of bidding and actual GDP growth (as determined from a defined index).

DfT currently expects that the GDP indexation mechanism will:

- Cover around 90% of the difference between exogenous revenue resulting from applying assumed levels of GDP growth and exogenous revenue, calculated from using actual levels of GDP growth
- Have a nil band reflecting a minimum amount of deviation before the risk sharing mechanism applies. The nil bands being investigated are up to +/-2% around the value of the calculated index
- Assume a level of responsiveness of exogenous revenue growth to GDP growth. The calibration factor to be applied will be defined in the Franchise Agreement and is likely to be in the range 1.2 - 1.4

We contacted potential bidders who had expressed interest in the franchise to comment on the proposed revenue risk sharing regime and the parameters. We are considering these responses and will set out our concluded policy in the ITT.

“As recommended by the Brown Review, DfT intends to provide protection against exogenous revenue risk. Such protection is likely to be partial in nature, reflecting the diversity of exogenous factors that might impact the delivery of financial projections for a rail franchise, and the availability of reliable, published measures.”

5.8.4 Profit share

We recognise that profit is the reward for the risks that a franchisee takes in delivering a franchise. However, Article 4 (Mandatory content of public service contracts and general rules) of EC Regulation 1370/2007 (EC 1370 of the European Parliament and of the Council of 23 October 2007 on public passenger transport services by rail and by road) states that, in relation to public service contracts awarded in accordance with EC 1370/2007:

“the parameters on the basis of which the compensation payment, if any, is to be calculated...”. must be “established in advance in an objective and transparent manner....in a way that prevents over compensation.”

The Franchise Agreement is subject to Regulation 1370/2007; accordingly, it will include a profit sharing arrangement and a profit cap. There will be no sharing arrangement where the operator incurs losses.

5.8.5 Mobilisation and migration

Full details of the mobilisation process for the transfer of ownership can be found in section 8.

5.9 Sustainability

The sustainable development of rail is a key focus for the Department. We strongly support the Rail Industry Sustainable Development Principles and wish to see them embedded in the East Coast franchise. Within the ITT we are likely to ask for consideration of:

Environmental impacts

- A focus on waste reduction and continuing to increase the proportion of waste sent for recycling
- Improved energy and carbon management performance, with respect to both traction energy (building on the introduction of the IEP) and non-traction energy
- Increased focus on reducing water and resource consumption
- Adoption of sustainable procurement policies and practices

Socio-economic impact

- Demonstrable support for economic growth
- Engagement and empowerment of local communities, involving them in decisions which affect their lives

End-to-end journey

- Investment in information and infrastructure to enable passengers to make sustainable end to end journeys
- Working in partnership with other modes and Local Authorities

Workforce development

- Supporting equality, diversity, health and wellbeing of the workforce
- Developing skills so that rail has the right people with the right skills for the long term

“The sustainable development of rail is a key focus for the Department.”

5.10 Community rail partnerships

We would expect the new franchisee to work in partnership with DfT, Network Rail, the Association of Community Rail Partnerships, the relevant Community Rail Partnership and/or other relevant parties to develop initiatives to support any Community Rail Route.

The following lines and services which interface with the ECML services have been formally designated under the Department’s Community Rail Strategy:¹⁵

- The Poacher Line between Nottingham, Grantham and Skegness
- The Bishop line between Bishop Auckland and Darlington

Although the following lines and services have not been formally designated under the Department’s Community Rail Strategy they are recognised by the Department as having active partnerships:

- The Yorkshire Coast Line between Hull and Scarborough
- Tyne Valley (Hadrian’s Wall Line) between Newcastle and Carlisle

¹⁵ <https://www.gov.uk/government/policies/expanding-and-improving-the-rail-network/supporting-pages/community-rail>

“DfT is seeking ways in which to reduce whole industry costs.”

5.11 Branding

In line with the recommendations of the McNulty Review, DfT is seeking ways in which to reduce whole industry costs. We are still considering how best to incentivise bidders to reduce costs associated with rebranding at the end of a franchise. Our current policy thinking is set out below:

ECML will retain its brand and marks when it is sold to the winning bidder. If the winning bidder continues to use the East Coast brand throughout the franchise it will be required to transfer the brand and marks to the successor franchisee at a fair market value, and will not be under any obligation to remove any branding at the end of the franchise.

Alternatively, a bidder may seek to rebrand the franchise if it identifies a positive business case to do so. If the winning bidder chooses to rebrand, it will be responsible for all costs associated with removing the current branding, and implementing a new brand. It will, however, be required to transfer the ownership of the East Coast brand to the successor franchisee to potentially use at zero cost.

If a bidder rebrands then at the end of the franchise it can choose either to:

- (i) sell the new brand to a successor operator for a fair market value (and incur no costs in connection with the removal of branding at the end of the franchise) or
- (ii) retain the new brand and incur the cost of removing the brand at the end of the franchise.

If the winning bidder wants to sell its brand to the successor operator but the successor operator does not want to acquire the brand, then the winning bidder will be responsible for the costs of removing its brand at the end of the franchise.

Bidders will be encouraged to propose solutions that minimise the transitional costs at the end of the franchise. For example bidders may propose a modular brand approach whereby the parent company name can be removed in isolation from trains and stations leaving the remainder of the brand identity in place.

“We are seeking a franchisee who will create, develop and manage high performing partnerships, alliances and arrangements with industry and other key stakeholders...”

5.12 Improving efficiency

5.12.1 Cost reduction plans

One of the key findings from the Rail Value for Money study, published in May 2011, was that the industry should be aiming to achieve a 30% reduction in unit costs (i.e. costs per passenger-km) by 2018/19 in order to give a fair deal to passengers and taxpayers. Reducing the cost of the railway is therefore an important objective for DfT. We are seeking a franchisee who will create, develop and manage high performing partnerships, alliances and arrangements with industry and other key stakeholders throughout the franchise term to deliver the requirements of the ITT efficiently and effectively whilst achieving improvements in whole industry cost efficiency.

We expect bidders to consider how the costs of running the railway can be reduced to secure a sustainable and efficient railway for the future. Bidders may be asked to propose how they would reduce the unit costs of the existing operations to improve efficiency and how they plan to reduce the unit costs that they can control during the life of the franchise, whilst delivering a quality service.

5.12.2 Partnering with Network Rail

DfT expects bidders to work with Network Rail to develop closer working arrangements by collaborating to reduce industry costs and maximizing value including by forming an alliance. We consider that a framework alliance (a ‘lighter’ form of alliance, which does not require a change to the Franchise Agreement) is the most suitable alliance given the nature of the route (multi operator) and the degree of alignment between Network Rail and East Coast’s businesses and organisations.

After PQQ submission, we would expect applicants to engage with Network Rail on a number of topics including alliancing. Following PQQ submission and prior to shortlist, Network Rail would only expect to engage with applicants through one high level meeting per applicant. Once bidders have been shortlisted, more frequent engagement would occur during the bid period under confidentiality agreements.

We are seeking bidders to engage with Network Rail on investigating a number of joint tasks for implementation which span the range of Network Rail and the franchisee’s business. As well as any joint tasks that a bidder may develop with Network Rail, we would expect bidders to form an alliance with Network Rail around the following areas:

- Deploy ERTMS – developing suitable options for deployment of ERTMS in order to realise benefits to train operations from deployment of the new technology
- East Coast Connectivity Fund – engage with Network Rail to provide input into the industry decision of how best to deploy the remaining HLOS funds, in order to deliver journey time improvements. Bidders should work with Network Rail through the development of schemes, including plans for engineering access to deliver schemes at lowest net industry cost



- Introduce the IEP fleet –develop plans for the introduction of the IEP fleet (and cascade of existing rolling stock) which minimises performance risk and disruption to the passenger
- Develop performance initiatives – joint working through the JPIP process to improve performance levels on the route with a commitment to adopt Right Time Railways principles

ECML and Network Rail currently undertake a number of joint tasks to deliver industry efficiencies and improve the performance of both businesses. We would expect bidders to engage with Network Rail regarding the continuation of the following current ECML and Network Rail alliance projects:

- Falcon data – ECML shares performance data from its Falcon system with Network Rail in order to increase understanding on sub-threshold delay and Right Time performance
- Set swaps – analysis of the cause and impact of the number of set swaps undertaken at Kings Cross to deliver ECML's service, so to reduce the number of set swaps required
- Industry access planning – joint working to identify the optimum access patterns to deliver the renewals and enhancements workbanks which provide the highest net industry benefit
- Joint working at depots – closer working and alignment of incentives at depots
- Right Time Railways groups – actively participate and share data in relation to improving Right Time operations at origin, destination and at key nodes
- Support the ongoing trial of Unattended Overhead Monitoring System fitted to Class 91 loco and explore further opportunities for train-borne infrastructure monitoring equipment
- Support the ongoing trial of Train Bearing Acoustic Detection

5.12.3 Transparency

The Department is committed to openness and transparency and would require a franchisee to publish data about its operations. In the ITT we will outline the data we would require to be published, which may include operational performance data, such as Right Time operations, as well as cost reduction data.

5.12.4 Safety

Bidders should show that they will build on the initiatives introduced over the past few years in order to demonstrate continuous safety improvement. They should develop a proactive positive safety culture which is open and inclusive so that every member of staff feels that they have an important part to play in achieving the highest levels of safety for customers, staff and suppliers.

D

PART D



6. The bid process

“We intend that the successful bidder will purchase ECML, at a price and on terms determined by DfT, and that ECML will become a party to a Franchise Agreement agreed between the successful bidder and the Department.”

6.1 Background

The re-franchising process for the East Coast franchise began with the publication of a public consultation in June 2012. It was then paused whilst the Laidlaw and Brown reviews were undertaken but continued with the publication of the Rail Franchising Prior Information Notice (PIN) in March 2013, which set out dates for the publication of the OJEU, ITT, contract award and franchise start.

The Rail Franchising Competition Guide, published in June 2013, describes the generic processes the Department intends to follow for a franchise competition. The competition for the East Coast franchise will be run broadly in line with these processes although the particular circumstances surrounding the existing ownership of ECML and the lead-in period to this competition have led to a number of modifications to the process described in this guide. Sections 6, 7 and 8 of this Prospectus should be read in conjunction with the Rail Franchising Competition Guide. In the event of any discrepancy between the Guide and the Prospectus, the Prospectus shall prevail.

As set out in section 8, East Coast passenger services are currently provided by ECML which is wholly owned by DOR which in turn is wholly owned by the Secretary of State. We intend that the successful bidder will purchase ECML, at a price and on terms determined by DfT, and that ECML will become a party to a Franchise Agreement agreed between the successful bidder and the Department. We anticipate that there will be an umbrella agreement which will cover the process including the purchase of ECML from DOR through a Share Purchase Agreement and the execution by ECML of the IEP contracts, including the TARA and RODA.

6.2 Procurement approach

The two overarching concepts presented in the Rail Franchising Competition Guide are:

Buying “the right thing” - deciding what to buy and on what commercial terms to give the best outcome, and demonstrating that the proposition for the purchase is fully sound. In order to buy “the right thing”, the development of the specification for the East Coast franchise involves systematic and detailed analysis and optioneering of the main aspects. In line with other major projects, DfT uses the rigour and discipline of the 5-Case Transport Business Case to justify and test the efficacy of the specification. In addition, we consult extensively with stakeholders and have engaged potential suppliers early in the process to test our thinking and to get ideas and feedback.

Buying it in the “right way” - running a procurement process that provides confidence to all parties. Such a process complies with applicable procurement law, is transparent and predictable to the market and the public and is operated with full integrity. It introduces the commercial tension required to obtain best price and quality response from the market. Assurance and approval are built in to every stage of the franchise competition.

6.3 The procurement timeline

The proposed franchise letting timetable for the East Coast franchise is given below. This is intended as a guide and we reserve the right to depart from the timetable at any stage.

Table 4: Franchise letting timetable

Stage	Description	Date
Pre-qualification	Issue PQQ Pack and submitted OJEU Notice for publication	25th October 2013
	Return of PQQ	2nd December 2013
	Confirm Bidder shortlist	January 2014
Bid Preparation and Negotiation of Bids	ITT pack issued to Bidders	February 2014
	Receipt of ITT submissions	May 2014
	Announcement of winning Bidder	October 2014
Mobilisation	Contract Start	February 2015

6.4 The procurement process

The DfT has submitted for publication, a Contract Notice in the Official Journal. The franchise contract to be let is a 'public services contract' (in the form of a concession) within EU Regulation EC 1370/2007 ("1370/2007"). The Government aims to award all public service contracts on the basis of a competitive tendering procedure in accordance with Article 5(3) of that Regulation except where it considers that the use of the exceptions in Articles 5(5) and 5(6) of the same Regulation is in fact necessary.

This contract will be awarded in accordance with the requirements of Article 5(3) which requires that 'the procedure adopted for competitive tendering shall be open to all operators, shall be fair and shall observe the principles of transparency and non-discrimination.' The Contract Notice which the Department is publishing is entirely voluntary.

Regulation 1370/2007 does not prescribe the procedures which are to be followed when selecting a new franchisee. It is therefore open to the Department to set its own procedure, provided that it meets the principles of transparency and equal treatment.

“The PQQ questions seek evidence of previous experience to demonstrate a competency required to deliver this contract.”

DfT states in the Contract Notice that it will follow a 'negotiated procedure' but makes it clear that this will not be a 'negotiated procedure' as it is understood under Directive 2004/18/EC of the European Parliament and Council of 31 March 2004 on procedures for the award of public works and other contracts.

The procedure the Department intend to adopt to evaluate bids will be set out in more detail in the ITT but we anticipate that once bids have been submitted there will be some limited clarification of bids, following which we will enter into discussion with one or more of the leading bidders, to ensure that the final contract reflects the key committed obligations set out in the bid.

The Department is required under Section 26(3) of the Railways Act 1993 not to issue an ITT to any person unless it considers that such person has the appropriate financial position and managerial competence, and is otherwise suitable to be the franchisee. Accordingly, the Department will hold a PQQ process from which a shortlist of persons who will receive the ITT will be made.

We have prepared a PQQ which addresses these competencies in the context of East Coast. The PQQ questions seek evidence of previous experience to demonstrate a competency required to deliver this contract. The specific nature of the East Coast franchise necessitates competency in the delivery and introduction of a new passenger transport fleet and in management of station enhancements. Specific questions have been prepared to address these issues, which form part of the Service Delivery competency area.

The Pre-Qualification Process Document describes the process for pre-qualification for receipt of an ITT. This includes details of how potential Applicants register; raise clarification questions; prepare their response to the PQQ and submit the application. Applicants are required to sign a Franchise Letting Process Agreement before they can either access the clarification portal or submit their proposal.

In addition, we anticipate the emerging specification will be made available for Applicants for comment before the Bidder shortlist has been confirmed.

Following the issue of the ITT (currently planned for publication in February 2014), shortlisted bidders will have a three month window to prepare their bids.

7. Evaluation process

The franchise will be awarded to the bidder who submits the most economically advantageous tender. The award criteria will take into account the price, quality and deliverability of the bid. More details about the award criteria, including the weighting, will be published in the ITT.

7.1 Delivery plans

Bidders will be required to demonstrate, through submission of a number of Delivery Plans, how they will meet our specification for the franchise. We will use these plans and other supporting evidence submitted by bidders in accordance with the ITT to assess quality and deliverability. The specific requirements for Delivery Plans will be published in the ITT. We do not anticipate that there will be a separate Delivery Plan for each objective, but instead the objectives are required to be reflected in the Delivery Plans. The subjects are likely to include:

- Rolling stock strategy pre-IEP and the successful delivery and implementation of IEP
- Timetable planning
- Infrastructure and stations proposals
- Customer service
- Operational performance
- Marketing, fares, ticket sales and revenue protection

Bids will be evaluated by DfT with support, as appropriate, from our technical, financial and legal advisors and Network Rail. We also reserve the right to ask clarification questions at any stage during the evaluation process and may decide to hold one or more clarification meetings with each bidder. If clarifications are made, the evaluation will be of the clarified bid.

7.2 Financial deliverability

The evaluation process will include an assessment of the financial robustness of each bid. The Department is finalising the details of this assessment but we expect it may include an adjustment to the price used in the award decision to take into account our assessment of the financial risk arising from the bid. We also currently expect that we will not select a bid if we consider that there is a material risk to its financial stability whilst new IEP trains are scheduled to be introduced. The details of the financial robustness assessment will be included in the ITT.

7.3 Quality of bids

The Department is seeking ambitious and innovative bids. If appropriate, the evaluation criteria for the competition may offer bidders the opportunity to exceed the Department's minimum requirements in certain areas. The evaluation of bids is likely to take into account quality, in terms of the credibility of meeting and, if appropriate, exceeding DfT's requirements, the benefits that will be delivered and the robustness and resilience of the plans. The 'quality' requirements and process for evaluating it will be set out in the ITT.

7.4 Contracting committed objectives

DfT will wish to contractualise initiatives taken into account in scoring Delivery Plans, to ensure that the Franchise Agreement includes factors taken into account when awarding the franchise. The process and detail of this will be set out in the ITT but we anticipate that this will include at least:

- Major initiatives
- Schemes which the bidder will not have a commercial incentive to deliver
- Initiatives required to ensure compliance with the specification

8. Transfer of ownership

8.1 Why there is to be a share sale

East Coast passenger services are currently run under a services agreement between ECML, DOR and the Secretary of State for Transport.

This agreement was put in place to fulfil the Secretary of State's obligation under section 30 of the Railways Act 1993 to ensure the provision of passenger services where a Franchise Agreement has been terminated and no new Franchise Agreement has been entered into.

Ordinarily when a franchise is awarded, the winning bidder will have formed a company which will operate the franchise and franchise assets (i.e. certain assets needed to run the passenger services) will be transferred to this new franchisee from the existing franchisee.

Such a transfer takes place in accordance with section 12 of the Railways Act 2005 which gives the Secretary of State the power to make a scheme for the transfer of franchise assets from a franchisee to a successor franchisee or to a company owned by the Secretary of State or to specified other persons.

This transfer scheme provision is reflected in standard Franchise Agreement provisions which set out the scope of the transfer scheme and oblige the franchisee to transfer certain property to a successor operator at the end of the franchise. This provision provides a power to override certain third party rights to transfer property, rights and liabilities from an existing franchisee to ensure that franchise assets are available to a new operator.

Section 12 is only available where a franchise is in place. The services agreement currently in place is not a Franchise Agreement and so cannot use this mechanism. We will therefore use a share sale as the mechanism to ensure that the assets held by ECML remain available to be used for the provision of East Coast passenger services once a new franchise has been awarded. The share sale will ensure that all assets and liabilities are transferred to the new private sector owner. ECML will continue to run the services and will be a party to a new Franchise Agreement with the Secretary of State.

The share sale has a number of advantages over the usual transfer scheme. It removes the need for protracted mobilisation activities such as the transfer of employees and provides a straightforward mechanism for valuing the assets which will be acquired. It provides continuity and enables the existing operator to continue to run the passenger services rather than having a new operator at the beginning of the franchise.

8.2 Due diligence

DfT expects to make an online data site available to pre-qualified bidders promptly once they have pre-qualified. The site is anticipated to include information covering the following areas:

- Financial and commercial (long form report, statutory accounts, budget/ assets/cash management, management accounts)
- Data and marketing information (fares, revenue allocation, Lennon and MOIRA data, passenger crowding data)
- HR Staff development and communication
- Health, safety, quality and environment
- Rolling stock and fleet management
- Depots
- Stations
- Performance (delay/repay, passenger survey results)
- Rolling stock, real estate and commercial contracts

We will expect bidders to complete all due diligence prior to the submission of their bid.

8.3 The share sale agreement

The share sale agreement is expected to contain the following features:

8.3.1 Locked Box mechanism

A "locked box" mechanism will be used whereby the price to be paid for ECML will be based on its equity value on a defined historical balance sheet date.

DfT will set the acquisition price in the ITT and our current intention is that the locked box balance sheet date will be 7 December 2013. The balance sheet will be prepared on a consistent basis with the statutory accounts of ECML to UK GAAP standards and will be audited by DOR's reporting accountants (PwC). This will ensure that the balance sheet, reflecting the assets and liabilities of the company, is available to bidders when the data site opens in early 2014. The sale price of the business will be a fixed equity price determined through the locked box mechanism and will be published in the ITT. At present, our expectation is that it will be no more than £20 million.

For the period from the locked box balance sheet to the date of the completion of the share sale, there will be customary leakage protections for the eventual buyer and ECML will carry on its business in the ordinary course. ECML will be permitted to make certain payments in the period from the locked box date to completion (these items are so called 'permitted leakage'). We also propose that the terms of the share sale agreement will include a mechanism whereby any profit generated by ECML between the locked box date and completion will be for DOR's account. Full details of this locked box mechanism will be described in the ITT.

The arrangements relating to the locked box and prohibited and permitted leakage will be written into the terms of the share sale agreement to be executed by DOR and the purchaser.

“The sale price of the business will be a fixed equity price determined through the locked box mechanism and will be published in the ITT. At present, our expectation is that it will be no more than £20 million.”

8.3.2 Warranties

Given the quality and transparency of information that we expect to make available to pre-qualified bidders in the data site, we expect to give only limited warranties.

8.4 ECML as franchise operator

ECML will continue to provide the East Coast passenger services once the company has been sold and ECML is a party to a Franchise Agreement.

ECML's existing regulatory licences will remain in force (subject to any change of control notification provisions being fulfilled) and we anticipate that key supplier and employment contracts will continue in accordance with their terms. There will therefore be more limited conditions precedent to be met during the period following contract award.

The successful bidder will be required to address any competition issues during this period. All shortlisted bidders will be required to identify any competition issues, and to outline their proposals for addressing any competition issues, when they submit their bids.

We anticipate that there will be an umbrella agreement which will govern the sequence and commencement of the different agreements which are to be executed and will specify any conditions precedent required. This will cover the share sale agreement, the Franchise Agreement, the various bonds or guarantees which may be required under the Franchise Agreement and any funding deed. We intend to issue a draft of each of these documents with the ITT.



Glossary

ATOC	Association of Train Operating Companies	NPS	National Passenger Survey
CaSL	Cancellation and Significant Lateness	OJEU	Official Journal of the European Union
CP	Control Period	ORR	Office of Rail Regulation
CRM	Customer Relationship Management	PCS	Parent Company Support
CST	Common Safety Target	PPD	Pre-Qualification Process Document
DfT	Department for Transport	PPM	Public Performance Measure
DOO	Driver Only Operation	PQQ	Pre-Qualification Questionnaire
DOR	Directly Operated Railways	RAB	Regulatory Asset Base
DRA	Dispute Resolution Agreement	RODA	Relevant Operator Direct Agreement
ECML	East Coast Main Line Ltd	RoSCO	Rolling Stock Company
EFQM	European Foundation for Quality Management	RSP	Rail Settlement Plan
EPoS	Electronic Point of Sale	SAP	Set Availability Payment
ERA	European Railway Agency	SEFT	South East Flexible Ticketing
ERTMS	European Rail Traffic Management System	SFO	Station Facility Owner
ETCS	European Train Control System	TAA	Track Access Agreements
FTE	Full Time Equivalent	TARA	Train Availability and Reliability Agreement
GDP	Gross Domestic Product	TOC	Train Operating Company
GNER	Great North Eastern Railways	TSGN	Thames Southern Great Northern
HLOS	High Level Output Specification	TSR	Train Service Requirements
HST	High Speed Train	TSP	Train Service Provider
ICEC	InterCity East Coast		
IEP	InterCity Express Programme		
ITT	Invitation to Tender		
JPIP	Joint Performance Improvement Plan		
LD/HS	Long Distance/High Speed		
MAA	Moving Annual Average		
MARA	Master Availability and Reliability Agreement		

