



Rail Executive

South Western Franchise Competition Prospectus



An ambitious vision for passengers

November 2015



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Ministerial Foreword

Government is committed to providing a world-class railway that meets the needs of passengers and supports the prosperity of the communities it serves. The huge success of the railway in this country, with its consistently increasing number of passengers, demonstrates how important rail is to the country's economic growth.

It is for that reason that we are making significant investment to ensure that the railway continues to provide services which meet the demands of passengers, communities, and businesses.

The South Western franchise has some of the busiest routes in the country. It serves a wide range of cities and towns across the south coast and the counties of south and west England. It provides vital commuter services into south-west London, as well as connectivity to the ports and airports in the region.

Of course it also transports participants, competitors, and spectators to the numerous major sporting and social events that take place along the routes every year.

That is why the next South Western franchise has such an important role to play in this region, with so many people and businesses relying on the services that it provides.

This prospectus sets out our aims for the franchise. We want to ensure that there is enhancement in the way that services are delivered, and for passengers to feel that they are getting value for money for the cost of their ticket.

We want the next private sector franchise partner to be ambitious with their plans for passengers, propose innovative solutions for meeting the expected demand, and above all put customers at the heart of everything that is offered. We want passengers to benefit from an excellent service, whether travelling to get to their place of work, for leisure, or to visit one of the great destinations in the region.

The next South Western operator will need to work in collaboration with Network Rail, Transport for London, local governments, Community Rail Partnerships, Transport Focus, and other passenger bodies to deliver whole industry benefits, and to seek opportunities to ensure that the railway delivers services for passengers in the best way possible.

And we will be looking for the next private sector franchise partner to invest in its workforce and develop the skills of its staff. We will look for them to encourage new entrants into the industry, particularly from under-represented and diverse backgrounds, through schemes such as apprenticeships.

This is a real opportunity for the right operator to work in partnership with government to deliver services that will contribute so much to the people and communities along the South Western routes.

A handwritten signature in black ink, appearing to read 'C. Perry'.

Claire Perry MP,
Parliamentary Under Secretary
of State for Transport

1. Introduction

1.1 Welcome to the South Western Franchise

South Western is one of the biggest franchises in the UK, operating nearly 1,700 services each weekday. It provides commuter, inter-urban, regional, and long distance services to passengers in south-west London and southern counties of England.

The next franchise will deliver a transformation in the way that it serves the diverse range of passengers along the South Western routes. Our next private sector partner will adopt an ambitious and innovative approach to delivering the capacity and services to meet passengers' needs through increased efficiency and improved effectiveness. We want the operator to work with communities and local groups to deliver services that meet local aspirations, and to work closely with Network Rail to deliver a whole industry approach to railway management. We want the franchise to make a greater contribution to the local economies served, whilst delivering significantly improved levels of passenger satisfaction.

1.2 The Purpose of this Document

As we move closer to publication of the Invitation to Tender (ITT), our principle aims in publishing this prospectus are to:

- give information about the South Western franchise that will help prospective bidders determine whether they wish to seek to pre-qualify and, if so, whether they wish to do so as a single entity or as part of a consortium;
- communicate to potential bidders Rail Executive's aspirations for the South Western franchise;
- provide guidance to potential bidders on franchise issues that will need to be considered when preparing bids; and
- be transparent about the fact that our thinking and final position on a number of areas is still subject to public consultation.

In light of the ongoing consultation and internal work that is taking place (as described further in section 5.3), the information in this document should not be relied upon as a statement of Rail Executive's final requirements for the South Western franchise.

1.3 A View from Passengers

Rail Executive's principal objective is to ensure that franchises meet passengers' needs as effectively as possible. We invited Transport Focus, the independent watchdog representing the interests of rail users nationally, to provide its assessment of those needs.



Promoting passenger perspectives in the South Western franchise competition

Transport Focus welcomes the opportunity to contribute to this Prospectus for the next South Western franchise. In our capacity as the independent watchdog for Britain's rail passengers we want to stress the importance of a franchise that places passenger interests at the heart of planning and operations.

We are a consumer-focused and evidence-based organisation: our research identifies the issues that are important to passengers. On behalf of the DfT we have just completed a series of focus groups and in-depth interviews with passengers across the South Western network. We will use the findings from these structured conversations to build our understanding of current experience and future aspirations. This qualitative research provides additional insight, and adds depth to the hard data derived from the National Rail Passenger Survey¹ and the 2014 Rail Passengers' Priorities for Improvement² study.

Over the coming months we will share all our research evidence with the Department, potential bidders and other stakeholders, and will continue promoting passenger interests to help shape a successful passenger-orientated franchise.

Passengers' priorities for improvement are generally very consistent. However, for South Western two factors are notable at the top of the list. There is a greater emphasis on both the price of train tickets offering better value for money and the desire for trains sufficiently frequent at the times passengers wish to travel than the national picture, or that of the southern regions. These factors, along with passengers always able to get a seat on the train, punctual and reliable services and information during delays are the key priorities for improvement. For a new franchise to be successful and well-respected it will be essential to respond to passengers' aspirations for these important journey requirements.

A wide range of factors influence the overall passenger experience. So, it is vital that the franchise specification recognises the full spectrum of passenger needs and the importance of quality in all aspects of service provision. We will be looking to bidders to respond positively and creatively to the opportunities presented by a new franchise as they develop their proposals for the future.

Our research into passengers' understanding of franchising indicates that passengers want a greater say in the process. 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.

Our recent Rail Passenger Trust Survey³ found that, whilst passengers are fairly positive about rail and their last journey experience, few would recommend it as a way to travel. To build greater trust and confidence amongst passengers it is important not only to deliver a punctual and reliable service, but also to build a stronger relationship with passengers, this being based on communicating openly and honestly and treating customers fairly.

Looking forward, we are pleased that the National Rail Passenger Survey can play a role in harnessing passenger feedback to drive improvements for the future. Positive plans for passenger engagement and a commitment to transparency of information will also help build trust and confidence.

Passenger fares represent nearly two thirds of the income of the rail industry and the South Western franchise plays an important role in many peoples' lives as they make journeys for work, business and leisure. On behalf of all current and future users of these services, we ask that passenger interests are placed squarely at the heart of the new franchise.

¹ <http://www.transportfocus.org.uk/research/publications/national-rail-passenger-survey-spring-2015-train-operating-company-toc-reports>

² <http://www.transportfocus.org.uk/research/publications/rail-passengers-priorities-for-improvements-october-2014>

³ <http://www.transportfocus.org.uk/research/publications/passengers-relationship-with-the-rail-industry>

Part
A

The current franchise and future proposition at a glance, and background to Britain's rail industry

Part
B

The current franchise

Part
C

Rail Executive's vision and objectives for the South Western franchise, and the commercial proposition

Part
D

The franchise competition process and key dates

A photograph of a man in a blue suit and red tie standing on a train platform. He is smiling and looking towards the camera. The train is visible in the background, and the scene is overlaid with a green tint. A large white circle is centered over the image, containing the text 'PART A'.








PART

A

The current franchise and future proposition at a glance, and background to Britain's rail industry.

2. At a Glance

2.1 The Current South Western Franchise

	Trains per day	1,689 – Weekday 1,572 – Saturday 1,044 – Sunday
	Route kilometres operated	1,044k
	Stations operated	186
	Employees	4,760
	Fleet size	370 trains
	Total revenue	£1066 million
	Operating base cost	£661 million

Trains per day, route kilometres operated, and stations operated are from December 2015. Number of actual employees is correct as of September 2015. Fleet size comprises the fleets currently operating on the South Western network, including the 36 Class 458/5 train sets due to complete modification early in 2016, but excludes the 30 Class 707 train sets which will be delivered over the course of 2017. Total revenue and operating base cost taken from Stagecoach South Western Trains Ltd statutory financial statements (53 weeks ending 2 May 2015).

2.2 Outline of the Proposed Franchise Specification

The Department for Transport (DfT)'s Rail Executive is now developing the franchise proposition in detail. We aim to present a proposition in the ITT which reflects the service requirements, whilst leaving maximum scope for the franchise operator to add value in the design and delivery of services to meet the franchise objectives. We are likely to seek to encourage investment which delivers excellent long-term value even where this does not achieve a financial return within the term of the franchise itself, such as through a residual value mechanism.

We want to enable an operator to deliver tailored approaches to the different South Western markets that add value across the franchise, and enhance the overall customer experience. We want a partner who can meet passenger needs in a changing environment, and who can support our aspirations for communities to be placed at the heart of the railway that serves them.

The franchise specification will be set out in detail in the ITT, following consideration of responses to the public consultation. At present Rail Executive is considering the following:

New South Western Franchise

New franchise starts	June 2017
Franchise length	Between 7 and 9 years, with an extension of up to 1 year callable at the Secretary of State's discretion.
Geographical area	Unchanged
Key events impacting franchise	Delivery of 150 new Class 707 train vehicles. Wessex Capacity Upgrades.
Capital requirements	Season ticket bond – expected minimum of £82 million. Performance bond – £15 million. Parent Company Support (PCS) – minimum amount of £45 million, with further funding to be calculated based on proposed franchise premium. Some or all of the PCS will be required to be bonded.
Risk and reward	It is currently anticipated that bidders will be required to take cost and revenue risk. A mechanism may be included to limit the operator's exposure to exogenous risk. It is likely that a profit sharing arrangement will be put in place, including a profit cap.

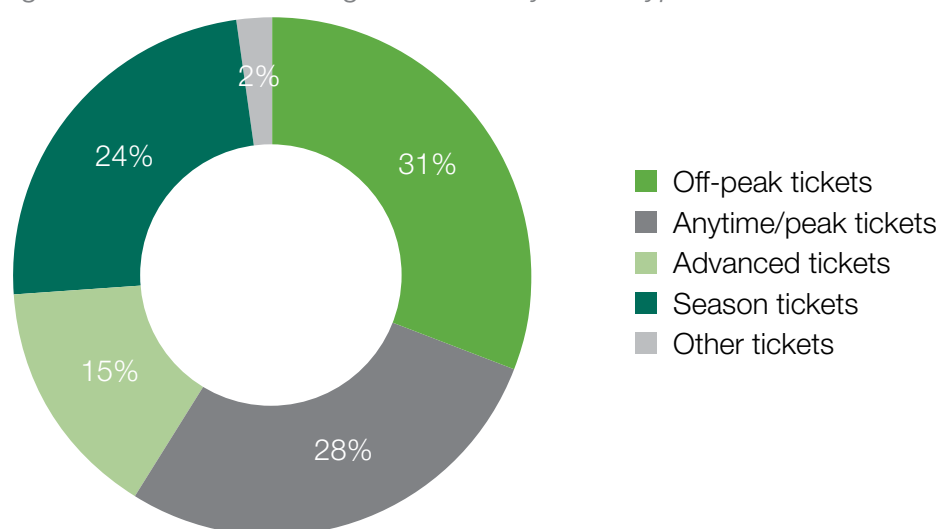
3. Background to Britain's Rail Industry

3.1 The British Passenger Rail Market

Great Britain's rail industry is high profile and is still growing. Since 1997 passenger numbers on the Railway have almost doubled from 845.7 million in 1997/8 to 1.65 billion in 2014/15¹, rising faster than any other major European rail system.

Passenger revenue has increased in real terms every year since rail privatisation in 1995, despite the challenging economic conditions of recent times. In 2014/15 £8.8 billion² was collected in ticket sales from franchised train operators:

Figure 1: 2014/15 Passenger revenue by ticket type



3.2 Structure of the British Rail Industry

The following paragraphs summarise organisations within the British rail industry, and their interactions with train and freight operating companies.

Rail Executive

Rail Executive, within the Department for Transport, was formed on 1 April 2014 to optimise effective and efficient delivery of government rail functions. Rail Executive provides strategic direction, funding to the railways, and management of major rail projects.

¹ ORR statistics for Passenger Journeys by Year – <http://dataportal.orr.gov.uk/displayreport/report/html/02136399-b0c5-4d91-a85e-c01f8a48e07e>

² ORR statistics on Passenger Revenue by Ticket Type – <http://dataportal.orr.gov.uk/displayreport/report/html/52a56c52-6d3f-49ce-8b92-dbb7b9cbad2c>

Passenger Services, a directorate within Rail Executive, brings together all our work on passenger services, including franchise awards, franchise contract management, and rolling stock strategy.

Office of Rail and Road (ORR)

ORR is the independent safety and economic regulator for Britain's railways, and monitor of Highways England.

ORR is responsible for licensing train companies, approving network access agreements, and ensuring train operators comply with health and safety law.

ORR also regulates and licenses Network Rail, holding it to account for delivering high levels of performance and service by setting and monitoring delivery against targets.

Network Rail

As the owner and operator of the national rail infrastructure Network Rail runs, maintains, and develops Britain's rail tracks, signalling, bridges, tunnels, level crossings, and many key stations, whilst complying with ORR's licence conditions.

Since September 2014 Network Rail has been reclassified as an arm's-length central government body, but maintains the commercial and operational freedom to manage Britain's railway infrastructure within regulatory and control frameworks.

Transport Focus

Transport Focus is the independent passenger watchdog for the rail industry. It consults over 54,000 passengers a year to produce the National Rail Passenger Survey (NRPS), a network-wide picture of passenger satisfaction with rail travel.

Passenger opinions are collected twice a year from a representative sample of journeys, and the results are published in spring and autumn reports. The level of passenger satisfaction on 36 headline aspects of service can be compared between train operators and over time. Detailed data on the other elements of the passenger experience is also available.

PART --- B

The current franchise.

4. The Current Franchise

This section gives information on the current South Western franchise. The description of the current franchise should not be seen as an indication that Rail Executive wishes, or does not wish, for activities discussed to continue in their current form in the new franchise. Discussion of Rail Executive's likely requirements for the future franchise appears in Part C of this Prospectus.

4.1 Background

The current South Western franchise, which is operated by Stagecoach South Western Trains Limited (part of Stagecoach Group), started in 2007 and is due to end in 2017. Following the suspension of the franchise programme in October 2012, it was originally intended for a Direct Award franchise to be awarded to the incumbent operator for the period of 2017 to 2019. However in July 2015 DfT announced its intention to re-let the franchise through a competition, with the expectation that the new franchise would commence in June 2017.

4.2 Routes and Services

The franchise serves destinations throughout south-west London and counties in southern England. Operating out of Waterloo Station in central London, the franchise has termini at Portsmouth, Weymouth, Exeter, Bristol, and Reading, and serves a diverse range of destinations in between, including Guildford, Woking, Basingstoke, Southampton, Salisbury, and Clapham Junction, the busiest interchange station in the UK. The franchise also includes the Island Line service on the Isle of Wight.

Figure 4: South Western Franchise – Greater London and Surrounding Network

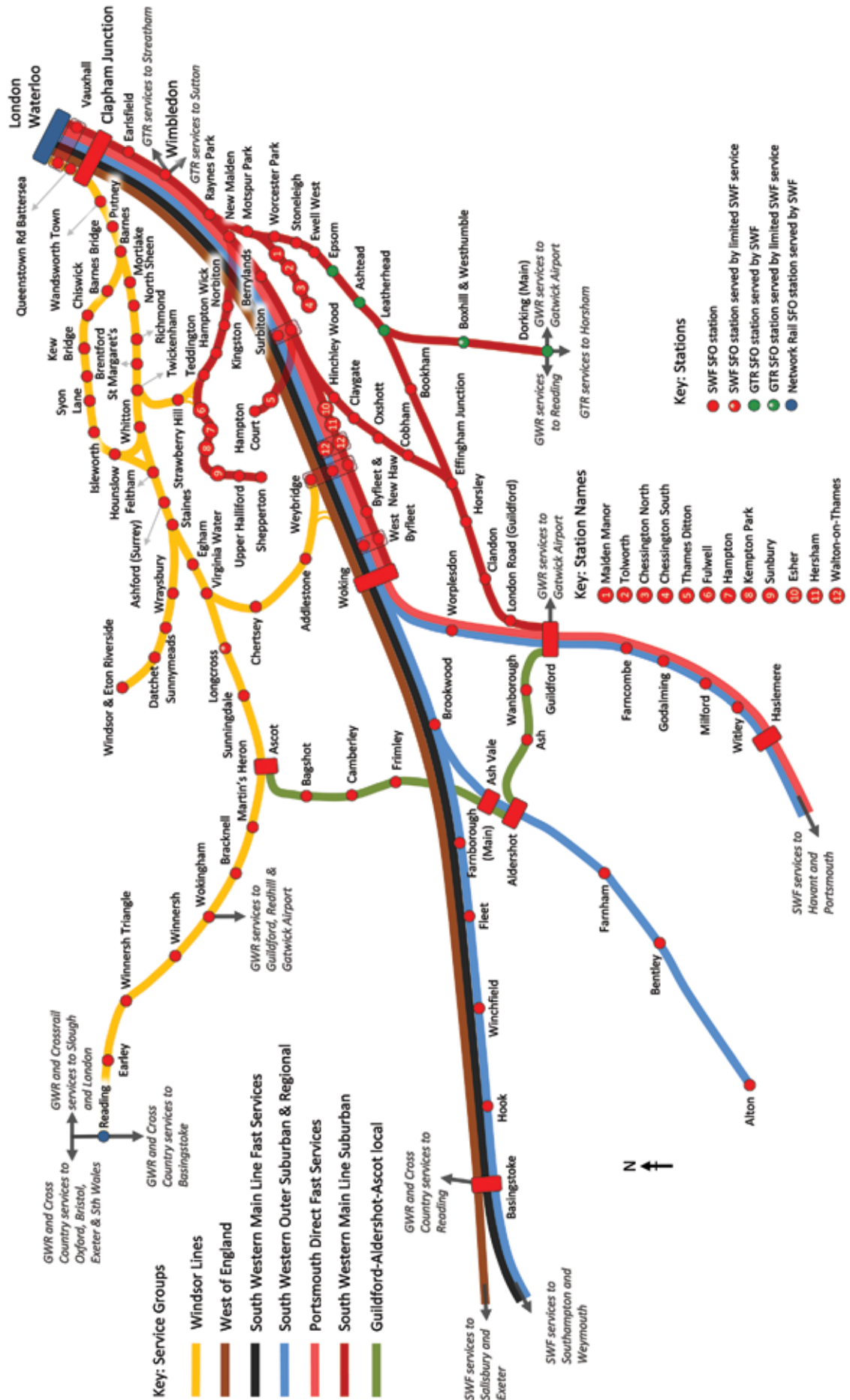
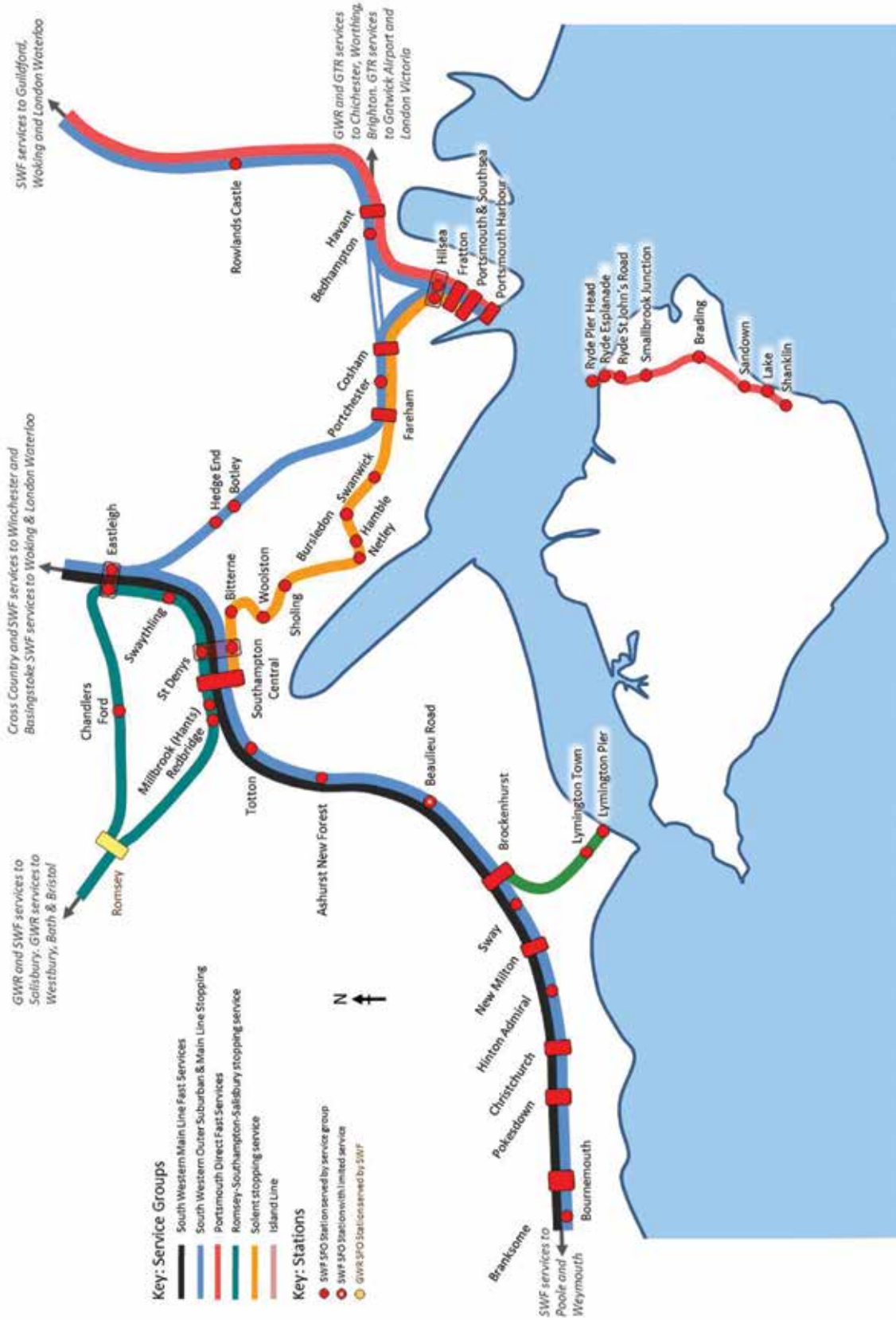


Figure 5: South Western Franchise – Solent Network



The franchise can be broadly broken down into six service groups:

- Windsor Lines
- Main Suburban
- Portsmouth Main Line
- Bournemouth and Weymouth Main Line
- West of England
- Island Line

The Windsor Lines and Main Suburban routes primarily serve the inner and outer London suburbs, and towns to the south-west of London, including Reading, Woking, and Guildford. These routes experience very high levels of usage by commuter passengers, a high proportion of whom hold season tickets. The extremely high demand for peak services contributes to Waterloo station regularly ranking as the busiest station in Great Britain³. The station benefits from excellent London Underground links to the rest of London, including the West End. The Waterloo and City line offers a direct link to the City of London, and the Jubilee Line provides connections to Canary Wharf, Westminster, and Stratford.

The Portsmouth, Bournemouth and Weymouth Main Lines, and the West of England Line serve a longer-distance London commuter market, but also provide crucial connectivity for both leisure and commuter passengers to towns and cities in south-west and southern England, as well as links to the ports and airports in the region. These services have a higher proportion of discretionary off-peak passengers than the Windsor and Main Suburban lines.

The Island Line serves a diverse mix of passengers. It is used as a regular commuter service, but also enjoys significant patronage by visitors to the Isle of Wight.

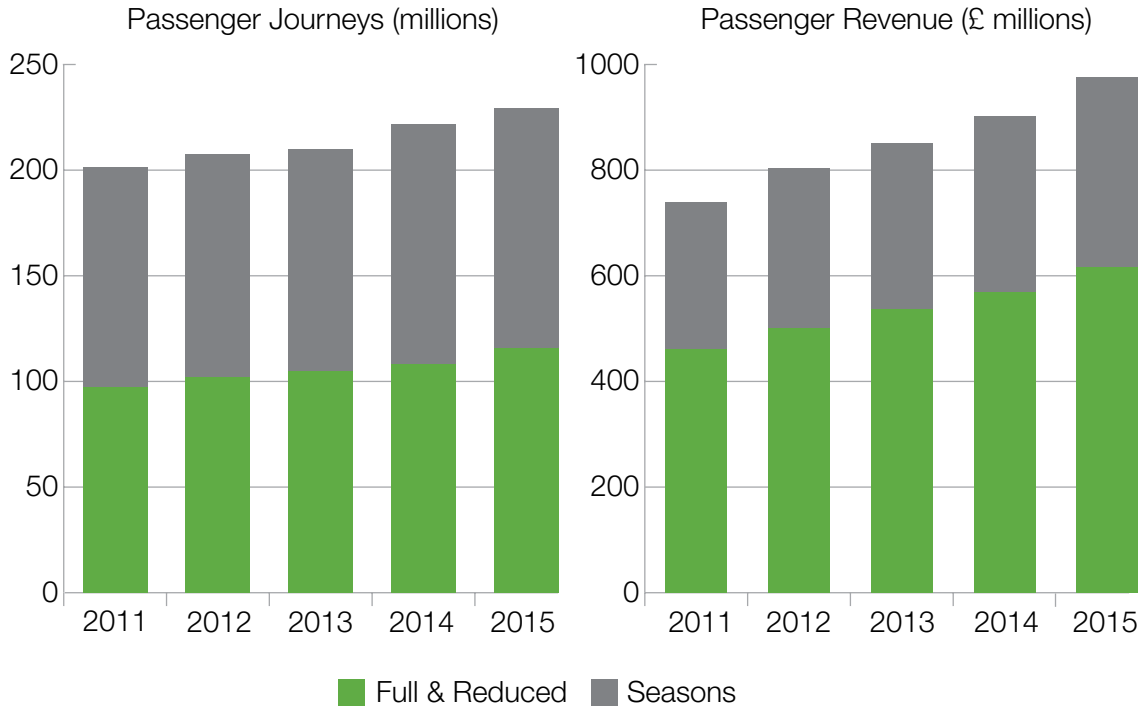
In addition there are a number of local service groups that provide important intra-regional connectivity between towns and cities, which offers local journey opportunities. These include:

- Solent Line services between Portsmouth and Southampton;
- local services between Romsey, Southampton, and Salisbury; and
- train services between Guildford and Aldershot, and onward connections to Ascot.

³ Based on ORR's estimates of station usage.

The charts below summarise the breakdown of recent years' passenger journeys and revenue by ticket type.

Figure 6: South Western franchise historic annual passenger journeys and passenger revenue by ticket type



Source: Lennon data for financial years ending 31 March.



4.3 Financial Information

The following financial information has been extracted from Stagecoach South Western Trains Ltd (SSWT) annual statutory financial statements for 2014/15⁴ and ORR’s data portal. All financial information is represented in nominal terms unless otherwise stated.

Between 2007/08 and 2014/15, passenger journeys increased by 22% and revenues from passenger services have increased by 56%.

Figure 7: SSWT’s passenger revenue and passenger journeys



Passenger Revenue for 2008-09 and 2014-15 has been normalised to calculate an equivalent 52 week figure. Passenger journeys are extracted from ORR calculated from April to March; revenue figures are based on Stagecoach South West Trains Ltd financial years calculated from May to April.

For the year 2014/15, SSWT generated total revenue of £1,066 million. The breakdown of revenue for 2014/15 can be seen in Figure 8.

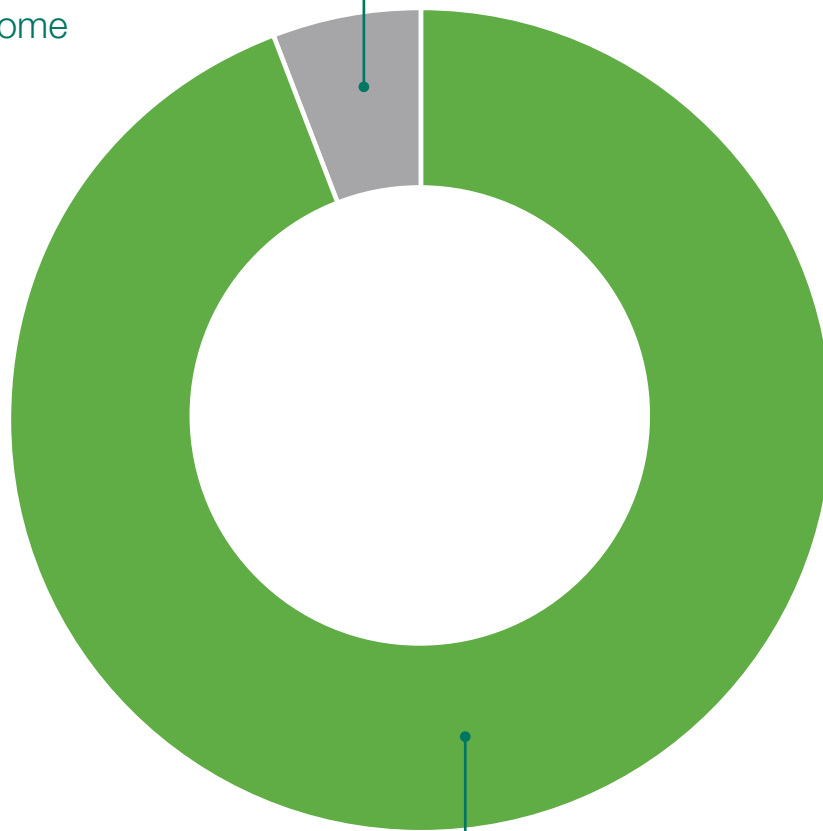


⁴ SSWT statutory financial statements cover 53 weeks, ending 2 May 2015, unless otherwise stated.

Figure 8: Total revenue 2014/15 (53 weeks ending 2 May 2015)

£57 million*

Other income



£1,009 million

Passenger revenue

* Other income excludes revenue support receivable from DfT.

Under the current franchise SSWT has benefited from positive growth in passenger journey numbers, and therefore revenue.



Annual growth,
2007/08 to 2014/15 (CAGR⁵):

+2.9% Journeys

+6.6% Revenue (nominal)

+3.3% Revenue (real)

Revenue growth is calculated from 2007/08 to 2014/15 from SSWT statutory financial statements. 2014/15 has been normalised to calculate an equivalent 52 week figure.

⁵ Compound Annual Growth Rate.

The SSWT franchise is a premium paying operator, paying £386 million over to DfT in 2014/15, net of revenue support, (53 weeks ending 2 May 2015), up 28% from £301 million in 2013/14 (52 weeks ending 26 April 2014). During 2014/15 SSWT reported a cost base of £661 million, excluding the premium paid over to DfT. The breakdown of the 2014/15 cost base can be seen in Figure 9 below.

£7 million

Depreciation and amortisation

These non-cash costs relate to depreciation of tangible assets and amortisation of intangible fixed assets; they amount to 1% of the cost base.

£169 million

Other operating costs

This category accounts for 26% of SSWT's cost base; it includes all remaining costs covering areas such as rolling stock maintenance, stations, and administration expenses.

£140 million

Access and related charges payable to Network Rail

This cost category accounts for 21% of SSWT's cost base. It relates to fixed and variable elements, the quantum of which is set by the ORR under the Periodic Review Mechanism, and also includes Performance Payments.

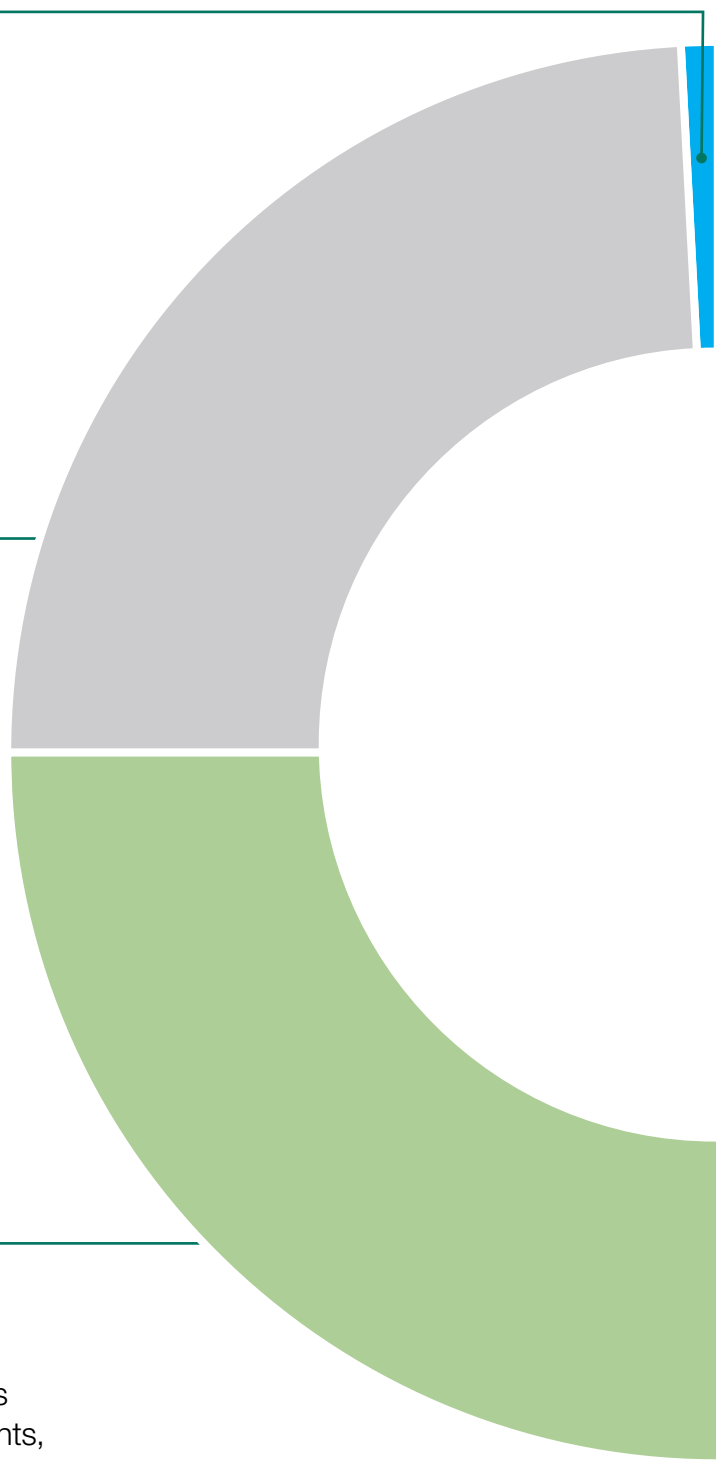
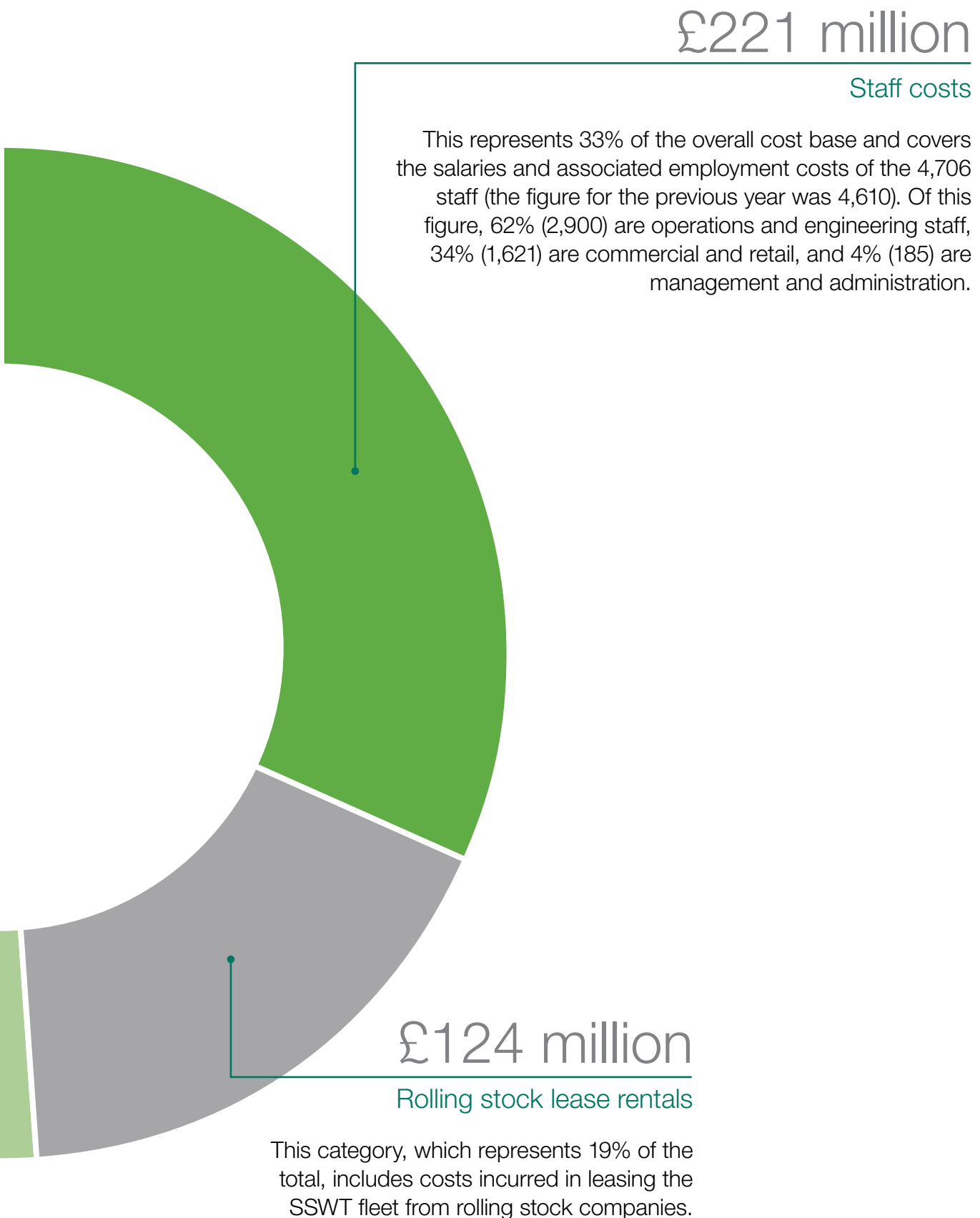


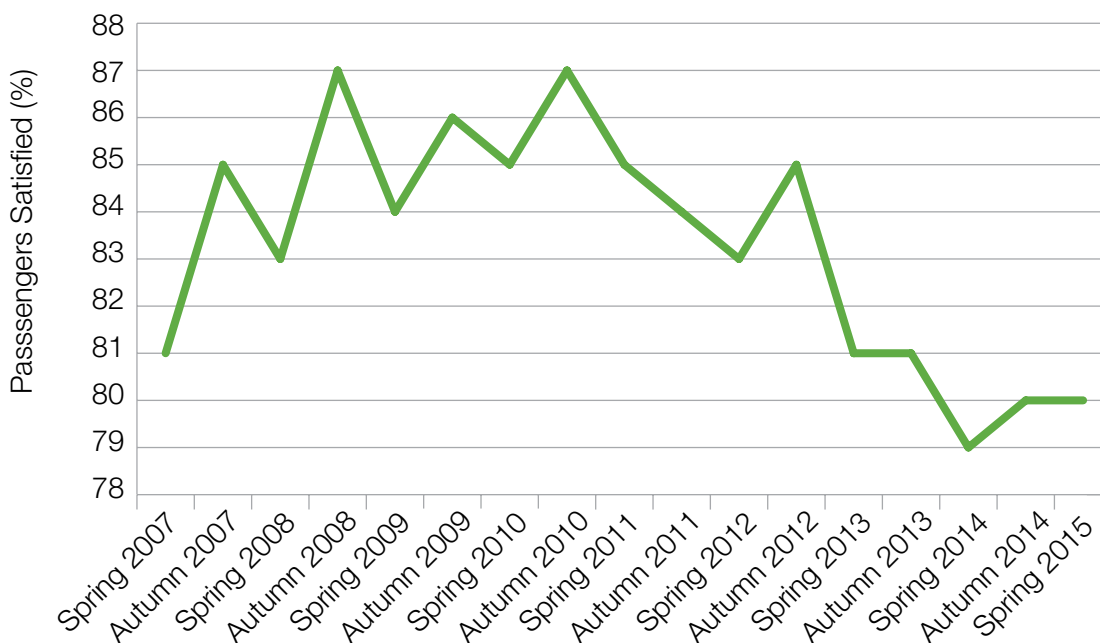
Figure 9: SSWT's Operating costs for 2014/15




4.4 Passenger Satisfaction


In the spring 2015 National Rail Passenger Survey, 80% of passengers were satisfied overall with their journey on SSWT’s services, slightly higher than the 78% for the London and South East sector. However the franchise has experienced an overall steady decline in passenger satisfaction over recent years, falling from 87% of passengers satisfied in autumn 2010.


Figure 10: Passengers’ overall satisfaction with the journey – South Western franchise





In October 2014 Passenger Focus (now Transport Focus) published the results of their research into passengers’ priorities for improvements⁶. The top five passenger priorities for improvement on the South Western franchise were:

- 

1. Price of train ticket offers better value for money
- 

2. Trains sufficiently frequent at the times I wish to travel
- 

3. Passengers always able to get a seat on the train
- 

4. More trains arrive on time than happens now
- 

5. Less frequent major unplanned disruption to your journey

⁶ <http://www.transportfocus.org.uk/research/publications/rail-passengers-priorities-for-improvements-october-2014>

Six other priorities were identified as having greater importance than 'the average'. These were:



fewer trains cancelled than happens now



train companies keep passengers informed about delays



journey time is reduced



accurate and timely information available at stations



free Wi-Fi available on the train



less disruption due to engineering works

4.5 Fleet and Engineering

The following table summarises the composition and ownership of the current fleet.

Table 1: Composition and ownership of current fleet

Class	Type	Units	Vehicles	Build dates	ROSCO / Ownership
158	DMU ⁷	11	22	1989–92	Porterbrook
159	DMU	30	90	1989–92	Porterbrook
444	EMU ⁸	45	225	2002–05	Angel Trains
450	EMU	127	508	2002–05 (some converted 2007–08)	Angel Trains
455	EMU	91	364	1983–85	Porterbrook
456	EMU	24	48	1990–1991	Porterbrook
458/5	EMU	36	180	1999–01	Porterbrook
483	Electric	6	12	1938–43	Franchise Asset
707 ⁹	EMU	30	150		Angel Trains

⁷ Diesel Multiple Unit.

⁸ Electric Multiple Unit.

⁹ Due to be delivered in 2017.

SSWT operates train-care depots for the servicing and maintenance of some of its current fleet. These are at Bournemouth, Clapham, Farnham, Fratton, Ryde, Salisbury and Wimbledon. The Class 444 and 450 fleets are serviced at Northam depot, which is operated by Siemens. When delivered, the new Class 707 trains are planned to be maintained at Wimbledon under a Maintenance Agreement with Siemens until 2019.

4.6 Stations

The South Western franchise serves 203 Stations, and will be the Station Facility Owner at 186 from December 2015, when the new station at Cranbrook is due to open. Network Rail manages London Waterloo and Reading stations.

During the current franchise term, significant investment has been made to enhance the appearance and facilities at a number of key stations along the route, from investment through the franchise and government-sponsored schemes such as the National Stations Improvement Programme (NSIP) and Access for All.

The main terminus for South Western services is London Waterloo. The plans developed for delivery in Rail Control Period 5 (2014–2019) include work at Waterloo to lengthen Platforms 1–4 to accommodate 10-car services, and bring the former Waterloo International Platforms fully into use for commuter services, providing 24 platforms across the whole station for operational passenger use. 150 Class 707 vehicles are under construction, and due to be delivered during 2017, to make use of the improved infrastructure.

Sir Peter Hendy, the Chair of Network Rail, is currently undertaking a review of planned network investments. It should be noted that at the time of drafting this Prospectus document the recommendations from the Hendy Review have yet to be published, and any amendments to Network Rail’s plans will need to be reflected by the new operator.

4.7 Performance

The table below gives SSWT’s Public Performance Measure (PPM) Moving Annual Average (MAA) as measured at the final rail period in each financial year.

Table 2: SSWT’s Performance (PPM MAA)

	2006 / 07	2007 / 08	2008 / 09	2009 / 10	2010 / 11	2011 / 12	2012 / 13	2013 / 14	2014 / 15
PPM MAA (%)	90 ¹⁰	92.3	93.1	92.8	93.6	92.3	91.4	89.7	90.1

The current franchisee’s Performance (PPM MAA) improved in the early years of the franchise (from 90.0% in March 2007 to 93.6% in March 2011). But since then the franchise has experienced a gradual overall decline in Performance, achieving 90.1% at the end of March 2015. Reasons for declining Performance include

¹⁰ Only incorporates two periods of the current franchise, which commenced in February 2007.

infrastructure failures, increased peak-time crowding adding additional dwell time, and a high number of external incidents (including trespass and fatalities).

4.8 Community Rail

Community Rail is a government strategy, supported by the rail industry, which seeks to increase the economic value of local rail by encouraging local communities to play a greater role in the delivery of rail services. Community Rail Partnerships (CRPs) aim to increase revenue and patronage, reduce costs, increase local community involvement and facilitate local social and economic development.

The South Western franchise currently interacts with four CRPs:

- Three Rivers CRP (www.threeriversrail.com)
- Lymington–Brockenhurst CRP (www.lymington-brockenhurstcrp.co.uk)
- East Hampshire CRP (www.easthampshirerail.co.uk)
- Isle of Wight CRP (www.isleofwightcrp.co.uk)

In addition the Purbeck Community Rail Partnership exists to re-establish a regular passenger service between Swanage and Wareham.

Nationally DfT has formally designated a number of community lines and services. Designation of lines encourages appropriate standards and excludes the lines from some elements of EU regulation. It also provides a more flexible approach to the management of the lines, including for timetables and fares.

The South Western franchise currently includes two designated Community Rail routes:

- Island Line (Isle of Wight CRP)
- Lymington Line (Lymington–Brockenhurst CRP)





PART

C

Rail Executive's vision and objectives for the South Western franchise, and the commercial proposition.

5. Franchise Requirements

This section outlines Rail Executive's vision and objectives for the South Western franchise, and describes some of the key qualities we will look for in a new private sector partner. This section sets out the Rail Executive's current thinking on the scope of the specification only. Rail Executive reserves the right to change any aspect of the specification, and our detailed requirements will be set out in the ITT.

5.1 Aims of the Rail Franchising Programme

Through franchising, Rail Executive aims to encourage a flourishing, competitive passenger rail market that secures high performing, value-for-money services for passengers and taxpayers, whilst driving cost effectiveness. We aim to stimulate innovation in order to advance our vision of a world-class railway that creates opportunity for people and businesses, including by promoting continuous improvements in passenger experience and boosting the efficiency and sustainability of the railway.

In particular, our competitions will be aimed at achieving:

- a railway in which passengers are understood and their needs placed at the centre of business planning and operations;
- an excellent experience for passengers, with customer service, train and station facilities and journey information, particularly during disruption, that exceed their expectations;
- seamless travel for all, through improvements in accessibility;
- increased capacity and improved demand planning, alongside the development of existing markets and the cultivation of new ones;
- better, simpler door-to-door journeys, including through greater interconnectivity between rail and other modes of transport;
- an ever-safer environment for passengers and all those who work on the railway by maintaining and improving health and safety standards;
- the smooth implementation of major infrastructure and rolling stock projects and the full realisation of the benefits they offer;
- an increase in the long term value of the railways through investment, cost efficiency and improved management;
- an industry which is sustainable, and a reduction in its environmental impact; and
- an industry which is joined up and works collaboratively with its members, including small and medium enterprises, and with local and national stakeholders to achieve benefits for all, including broad-ranging socio-economic benefits for communities and for the country as a whole.

Our Delivery Partners

Rail Executive will actively be seeking delivery partners who not only support, but embrace our aims for franchising and strive always to achieve them by playing a full and effective role in the passenger rail industry. As well as fulfilling their contractual and other legal responsibilities, we will be looking for delivery partners to exemplify certain behaviours and values which we believe will contribute to the success of our Rail Franchising Programme:

- an inclusive, passenger-centric and market-led approach;
- an eagerness to develop long-term, open and honest relationships and to work collaboratively, not only with Rail Executive but with all public and private industry stakeholders, in order to seek and implement innovative solutions and explore commercial opportunities;
- the dynamism, flexibility and resilience to respond positively to passenger and market developments and to seize opportunities;
- to be forward-looking and have an enthusiasm for innovation;
- a willingness to invest in workforce development and helping to promote the rail industry as a career of choice; and
- a commitment to the sustained success and good reputation of rail franchising and of our railways as a whole.

5.2 South Western Franchise Objectives

Rail Executive's vision is for the South Western franchise to deliver better services for passengers, and greater benefits for stakeholders, whilst becoming more efficient. In particular Rail Executive's objectives for the franchise are to:

- support the economy of the South Western franchise area by offering high quality rail services to, from and across the franchise with service levels that reflect the specific requirements of the different markets served, including non-London, intra-regional, and London-radial flows, while working within the affordability constraints on public funding;
- increase capacity to meet current demand and future growth, supporting the delivery of planned infrastructure works and rolling stock investments, whilst minimising disruption to passengers;
- deliver an excellent experience for passengers which leads to significantly improved passenger satisfaction. Particular consideration should be given to innovative solutions to improving the ticket purchasing experience, the expansion of smart ticketing, the quality of the station environment, on-train facilities, the punctuality and reliability of train services and the commitment to improve compensation arrangements;
- secure whole industry efficiencies and help reduce overall industry costs by working in partnership across the rail industry;
- secure short, medium, and long term benefits from collaborative working practices and partnering with industry stakeholders such as Department for

Transport, Network Rail, and Transport for London, including supporting the development of emerging schemes such as Crossrail 2;

- work with stakeholders to support local communities to deliver local transport integration, local regeneration and investment in and around stations through Community Rail Partnerships and other organisations;
- work with the Isle of Wight Council to secure a long-term sustainable solution to the future of the Island Line during the course of the next franchise that will enable it to become a self-sustaining business; and
- improve social and environmental sustainability to reduce carbon emissions, use resources effectively, and build skills and capability within the business and supply chain.

5.3 Developing the Franchise Specification

The development of the South Western franchise specification involves a process of analysis and assessment of options. The key activities are summarised below.

Government Policy

The starting point for developing the South Western franchise specification is to consider wider government policies, and the opportunity to secure the expected benefits through a new Franchise Agreement. Relevant policy areas include:

- sustainability and the environment;
- equality;
- smart ticketing; and
- working with Small and Medium Enterprises (SMEs).

Market Assessment

Rail Executive undertakes an assessment of the existing South Western franchise to look at its operating and financial performance, and identify options and opportunities that could be included as part of the next franchise. This process also includes discussions with industry stakeholders to understand particular aspirations and requirements for the next franchise.

Options

Following the market assessment we undertake assessment and selection of initial options that could be considered for inclusion as part of the franchise specification, including consideration of the options presented in Network Rail's Wessex Route Study.

Public Consultation

The consultation provides passengers, members of the public, and any other interested party with an opportunity to put forward their views on how future franchise services should be delivered. The South Western franchise consultation commenced on 12 November 2015 and is due to be completed on 9 February 2016. The consultation process will support the development of the specification that will be given to bidders in the ITT.

Specification

The final franchise specification is included in the ITT, and details what we expect the next operator to deliver during the course of the franchise.

5.4 Key Events

A number of projects and events will take place during the next franchise. The table below shows the anticipated dates for these events and the commencement of neighbouring franchises (although some of these dates are still subject to DfT review and the Hendy Review, and so may change).

We will require bidders to demonstrate how they would plan for these events and optimise the benefits that they could bring, whilst taking into account both the substantial passenger growth that is expected to continue, and the need to maximise the value from the franchise.



Table 3: Franchise Key Events – Expected Dates

Event	Expected Date
150 new Class 707 vehicles	December 2016 (first units arrive for testing)
Award of new South Western franchise	February 2017
South Western franchise starts	June 2017
Platforms 20–24 in the former Waterloo International Terminal available	July 2017
Work to lengthen Waterloo Platforms 1–4 planned to commence	August 2017
Crossrail Services commence	Late 2018
End of Island Line lease from Network Rail	March 2019
Great Western franchise starts	March 2019
Cross Country franchise starts	October 2019

Crossrail 2

Crossrail 2 is a proposed new railway that would serve London and the wider South East. It would connect the National Rail networks in Surrey and Hertfordshire via new tunnels and stations between Wimbledon, Tottenham Hale, and New Southgate. Current proposals include links with London Underground, London Overground, Crossrail, and national and international rail services and it is argued that the scheme would add capacity to the regional rail network.

The newly established National Infrastructure Commission will consider Crossrail 2 as part of its work to define the best approach to large-scale investment in London's transport infrastructure, and therefore no government decision has yet been made on investing in the scheme.

If there is a decision to progress with the scheme, construction work may impact on South Western services during the term of the next franchise.

Transport for London and Network Rail commenced a consultation on their proposals on 27 October 2015. Details of the proposed scheme and an outline of the next steps in the process can be found online¹¹.

¹¹ www.crossrail2.co.uk.

5.5 An Excellent Service for Passengers

Delivering excellence in service will be a key element in achieving our objectives for the next South Western franchise. A focus on improving the service for passengers should be incorporated into all areas of franchise bids.

Customer Experience, and Customer and Stakeholder Engagement Strategy

Bidders are likely to be requested to set out how they intend to improve the customer experience. They may also be asked to develop a strategy for customer and stakeholder engagement, and to set out how they will use this engagement to inform business decisions and improve customer services.

Passenger Satisfaction Targets

Rail Executive is likely to specify one or more targets for passenger satisfaction with the facilities and services provided by the franchise, drawing on measures from the regular National Rail Passenger Survey conducted by Transport Focus. This may be supplemented, if necessary, by quality specifications for some service attributes, supported by an inspection-based regime.

Passenger's Charter and Delay Repay

It is expected that bidders will be required to commit to a Passenger's Charter, with a Delay Repay compensation scheme which makes compensation arrangements easier for passengers.

Improving Access and Security

We welcome proposals for improving access for all sections of society who want to use the railway but need assistance to do so.

We also welcome proposals for improvements to personal security, and crime prevention and reduction both on trains and at stations at all times. We would expect a continuation of arrangements with the British Transport Police to be part of the solution.

5.6 Crowding and Capacity

Providing sufficient capacity is a key element of passenger satisfaction and a driver of passenger demand. Rail Executive is likely to require bidders to aim to meet its capacity standards (as will be specified in the ITT), based on their own forecasts of demand.

Bidders are likely to be asked for proposals to make the best use of the additional capacity planned to be delivered under the Waterloo Capacity Scheme, including the lengthening of platforms 1–4, the re-commissioning of the Waterloo International platforms, and the delivery of an additional 150 train vehicles.

As previously noted, any amendments to Network Rail's plans as a result of the Hendy Review will need to be reflected by the new operator.

Bidders are also likely to be asked to innovate and develop proposals for delivering additional capacity, including for the longer-distance services, during Control Period

6. In developing these proposals, consideration should be given to the options presented in Network Rail's Wessex Route Study, published in August 2015.

5.7 Facilitating Change and Investment

Rail Executive wishes to see continued long-term development of the railway. The ITT may identify particular areas where bidders are asked to make proposals for investments, but bidders may be invited to put forward their own investment proposals in other areas. We expect that the Franchise Agreement will include provision:

- to encourage the operator to propose investments through alternative benefit sharing arrangements where the timescales for implementation limit the benefit to the operator, or the payback period is longer than the franchise term (through a Residual Value mechanism); and
- to incentivise the operator to propose changes which achieve savings and improved financial performance during the term of the franchise.

5.8 Improving Efficiency

Government is committed to promoting a railway which makes a greater contribution to the prosperity of the communities served by the South Western franchise. This underpins the investment in new infrastructure and commitments to increased capacity in the Rail Investment Strategy. However this needs to be done in an efficient and affordable way. Consistent with the themes of the Rail Technical Strategy¹², Rail Executive sees improved efficiency as a key element in transforming the franchise; bids that do not offer significant change in support of this objective are unlikely to succeed.

While we expect bidders to generate their own ideas and plans, the following areas are likely to offer opportunities.

Staffing

Research by Transport Focus shows that passengers value the presence and availability of staff, for example to provide reassurance to infrequent travellers, assistance when services are disrupted, and as a deterrent to fare evasion and antisocial behaviour on trains. We may encourage bidders to develop proposals which make best use of customer-facing staff.

Ticket Retailing

Rail Executive may ask bidders to propose more modern approaches to smarter ticket retailing, including utilising new technologies for the provision of tickets and information, so that station staff are free to adopt a more customer-facing role.

Ticketless Travel

Bidders are expected to be asked to make proposals for revenue protection activities to reduce the incidence of ticketless travel, for the benefit of both the franchise's finances and the fare-paying passenger.

¹² The Future Railway – The Industry's Rail Technical Strategy 2012 was published by the Technical Strategy Leadership Group (TSLG).

5.9 Partnerships

Communities, Businesses and Local Governments

The South Western franchise provides a wide range of socially and economically important services to communities across the region. Partnership working between the train operator and the local community stimulates interest in and use of the railway, and enables improvements in quality which would not otherwise have been affordable.

Rail Executive intends the community to be placed at the heart of the railway that serves it, so that those who depend on and benefit from the railway can play a greater part in supporting and improving it. Bidders may be encouraged to expand Community Rail Partnerships and station adoption as well as supporting local social enterprise schemes.

There might also be opportunities for more local input to the specification of services in Devon and Cornwall, and the creation of a dedicated Devon and Cornwall business unit within the franchise. The Department will consider the report from the Peninsula Rail Task Force that sets out ambitions for rail services affecting Devon and Cornwall, of which the South Western franchise area contributes in part.

Network Rail

Rail Executive will expect bidders to develop close and collaborative working arrangements with Network Rail, with the aim of exploring opportunities for improving the service provision, whilst reducing industry costs and maximising value. There are likely to be opportunities for collaborative working across a number of joint tasks which span the range of Network Rail and the operator's, business such as:

- improving connectivity through alternative approaches to planning;
- seeking opportunities to deliver journey time improvements, particularly on the Main Lines;
- reducing operational costs, including at stations;
- reducing strategic asset management costs, including at stations;
- reducing whole-industry project costs and increasing project value; and
- improving train service performance.

We would encourage those seeking to express an interest in the South Western franchise to engage with Network Rail on a number of topics, including how they would achieve this collaborative working. Following Expression of Interest submission and prior to shortlisting, 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.

Transport for London

Rail Executive recognises that opportunities exist for greater local focus and involvement within the South Western franchise. In particular, there is an intention



to work more closely in partnership with Transport for London (TfL) to understand how the needs of those passengers travelling on inner London-based services can best be served. Such collaboration might extend to common standards, ticketing, strategic planning, and working together to deliver projects. We may require bidders to establish business units within the franchise that enable a more locally-focussed approach to managing parts of the network, supporting the principle of closer working with TfL.

5.10 Operations

Train Services

During the development of the franchise specification Rail Executive will consider the most appropriate means of specifying train services that meet the needs and requirements of passengers. It is likely that the specification will be broadly based on current service patterns, but Rail Executive would be open to considering proposals for new journey opportunities. Detail will be included in the ITT.

Performance

The punctuality and reliability of trains is an area that affects the concerns of most passengers and is a key driver of dissatisfaction, as well as how train companies deal with delays. Rail Executive currently expects that bidders will be incentivised to achieve and exceed the PPM target for train services, as set by the ORR.

Interaction with other operators

The South Western franchise shares parts of its network with other Train and Freight Operating Companies, with significant volumes of freight traffic on the route from Southampton to Basingstoke. Rail Executive would expect bidders to adopt a collaborative approach to working with other operators.

Health and Safety

The Pre-Qualification Passport process assesses applicants' performance and policies on health and safety. Rail Executive intends that its new private sector partner should have a proactive, positive, open, and inclusive health and safety culture, with each staff member feeling that they have an important part to play in achieving the highest levels of health and safety for customers, staff, and suppliers.

5.11 Rolling Stock

The spring 2015 NRPS survey shows that 78% of South West Trains' passengers were satisfied with their overall experience on-board the train, which is equal to the national average. The main areas of dissatisfaction for trains are toilets, sufficient room to sit or stand, space for luggage, and the availability of on-board staff. We will be seeking a private sector partner who can enhance the passenger experience, and develop rolling stock plans to address these issues as appropriate.

The new franchise provides an opportunity for bidders to make proposals for the optimised deployment of rolling stock to meet the objectives for the franchise, subject to the ITT specification. Bidders will need to assess the suitability of the existing rolling stock to meet the requirements of the specification, and alternative proposals will be considered by Rail Executive, if appropriate.

An additional fleet of 150 new Class 707 train vehicles is expected to be introduced during the second half of 2017. Bidders are expected to be required to facilitate the introduction of the new fleet.

WiFi

Rail Executive expects that all franchised train fleets across England and Wales should be fitted with free Wi-Fi by 2018. Bidders will need to ensure that this commitment is reflected in their bids.



Technical Specification for Interoperability for Persons with Reduced Mobility (PRM TSI)

Full compliance with the accessibility requirements in the Rail (Interoperability) Regulations 2011 for Persons with Reduced Mobility will be required by no later than 1 January 2020, unless a derogation or dispensation is granted.

Plans are in place for all classes of rolling stock within the current South Western fleet, within scope of the regulations, to be PRM TSI compliant by 1 January 2020. The Class 483 rolling stock, operated on the Island Line, are excluded from the requirements of these regulations.

European Rail Traffic Management System (ERTMS)

As a consequence of Network Rail's Digital Rail Programme, it is likely that there will be some deployment of ERTMS during this franchise. Bidders will be required to work with Network Rail in the development of any deployment plans and support first in class fitment of rolling stock.

Controlled Emission Toilets (CET)

It will be an essential requirement that where there are toilets on trains they should be fitted with tanks to prevent discharging effluent onto tracks. 100% of the current relevant fleet is fitted with CET.

5.12 Stations

Stations are an important part of the rail travel offer, and effective management in this area will be a crucial element of any franchise bid.

With relatively low footfall stations, it can be hard to justify significant expenditure when considering the railway in isolation. However where local partnerships with local government and/or voluntary groups have taken an active role, station condition has improved and the station has sometimes come to play a wider role in the community it serves. Rail Executive is likely to expect the new operator to find ways of extending community involvement in stations, and introducing more third-party trading activity, so that stations provide a better experience for passengers. This includes ensuring that stations are accessible and facilitate onward travel, such as through the provision of car parking and adequate facilities for cyclists.

Bidders are also expected to consider proposals for alleviating crowding at stations with significant pedestrian flows, so that this does not become a safety concern.

Our 'service quality' specification is likely to embrace station quality as it is perceived by passengers. We may also specify requirements supported by an inspection-based regime to ensure that these assets are managed for the longer-term at the required quality level.

5.13 Fares and Ticketing

The Fares and Ticketing Review published in October 2013 set out the government's vision for a modern and customer-focused fares and ticketing system. The Review sought to reduce the impact of fares increases on passengers, to improve the flexibility of fares on offer, and to enable passengers to have a better experience of rail.

Bids are expected to be based on the regulated fares policy that has been set at RPI+0% until 2020, and RPI+1% from 2021.

Rail Executive expects bidders to create new, more flexible products that could benefit passengers, including introducing tickets that will benefit those who work or commute part-time. Bidders are likely to be required to put forward proposals for the improved retailing of products and services, ensuring customers have better information on the fares available, and easier ways of searching for and buying tickets. Such improvements could occur online, on-board, or at stations through improvements to the station retailing offer at ticket offices and ticket machines.

Tickets should be easily sold on the widest variety of media (smartphones, tablets, print-at-home) with transparent information on their pricing, availability, and time of use in order to facilitate seamless travel across boundaries with other transport operators. It will also be expected that tickets will be easily accessible for all, so that purchasing a ticket does not become a barrier to travel.

Rail Executive is likely to look for bids to include an innovative fares and ticketing strategy, which will lead to improvements in passenger satisfaction, and will deliver efficiency savings. Through innovation and smart procurement there is the expectation for a reduction in costs while also providing passengers with widespread and easy access to the full range of tickets. Passengers should also be provided with the information they need to select and purchase the most appropriate ticket for their journey.

Smart and Integrated Ticketing

Rail Executive remains committed to introducing smart ticketing across the rail network. It wants the whole experience of travelling by rail to be modern, seamless, and easy, starting with buying a ticket to travel.

It is Rail Executive's intention to seek the commitment of the South Western operator to a significant increase in the usage of smart ticketing across its section of the network, working with the DfT, local authorities and other stakeholders towards ultimately withdrawing magnetic stripe ticketing. We will be looking to bidders to suggest ways of accomplishing this.



Where specific arrangements for smartcard acceptance by station gate lines and validators are already in place, the operator will be expected to continue acceptance and retail of these, and bidders should be clear as to how they will achieve this.

Where local authorities are already developing multi-operator, multi-modal smart ticketing-enabled products across their conurbations, the operator should be prepared to cooperate with these initiatives to maximise the opportunities for seamless integrated door-to-door journeys for the benefit of passengers, in line with Rail Executive objectives.

We will be looking to bidders for the new franchise to propose solutions which encourage a spreading of passenger demand to meet available capacity.

5.14 Island Line

A key objective for Rail Executive is to secure an appropriate, sustainable, long-term future for the Island Line, so that that passengers, employers, and visitors to the Isle of Wight continue to benefit from its services.

However the line currently runs at a significant loss, and faces costly requirements for upgrades to maintain the integrity of the infrastructure.

Ministers have stated their expectation that the next private sector operator should develop ideas to turn the Island Line into a separate self-sustaining business during the life of the franchise. The Isle of Wight Council will lead this initiative, working with the new operator and potential third-party investors. Bidders will be required to work with all relevant stakeholders to support this aim.

5.15 Innovation, Sustainability and Skills

Innovation

The rail industry is very much alive to the concept of innovation playing its part in delivering a great customer experience and driving performance up. Rail Executive is looking for a private sector partner that will contribute, by embedding innovation throughout its South Western business, in order to meet our aspirations.

Rail Executive continues to work with Innovate UK, Transport Systems Catapult, Future Railway, National Skills Academy for Railway Engineering (NSARE) and Rail Safety and Standards Board (RSSB) to build a comprehensive support framework for innovation in the rail sector.

Rail Executive expects to pick up a strong theme of innovation woven throughout bids, with examples of how bidders will work in partnership with a wide range of stakeholders to undertake research, run pilots and demonstrators, and develop great services and products that will benefit its customers and the wider rail industry. This might include proposals for working with Network Rail to seek opportunities through the Digital Railway programme, or collaborating with the supply chain in bringing new technologies, processes, and products to the rail market that become viable during the course of the franchise.



We are looking for innovation in bids and throughout the life of the franchise. Investment in innovation is likely to be encouraged, and we will help facilitate this, for example through the Residual Value mechanism. Rail Executive may expect bidders to seek other funding sources for innovation, including from its own revenues. FutureRailway will be working with Rail Executive to identify potential suitable innovations which could be piloted or adopted (depending on technology readiness level (TRL)).

Sustainability

Rail Executive is looking for a private sector partner who puts sustainable development at the heart of its proposition, improving the sustainability of its own operations, and focusing on the positive impact it can have on the communities it serves. The operator should also have a long-term outlook to deliver benefits beyond the life of the franchise.

It is expected that bidders will be asked to:

- develop a sustainable development strategy;
- meet challenging targets on carbon emissions, waste and recycling, resource consumption, and adopting sustainable procurement practices;
- deliver an integrated transport offering, invest in infrastructure and information, and work with other providers;
- proactively support and work in partnership with Community Rail Partnerships, local communities, and disadvantaged groups to have the greatest impact and deliver a more-inclusive, affordable and accessible service; and
- improve the local socio-economic impact of the franchise by using franchise assets to deliver community and business benefits.



Skills

Rail Executive believes that investment in workforce, building skills and capability, improving employee engagement, and demonstrating a genuine pride in developing staff over the long term is central to the vision of a world-class railway.

Rail Executive expects that it will be looking for the private sector partner to not just maintain overall capability, but also to grow capability and improve productivity to deliver all aspects of the business throughout the term of the franchise.

In addition to supporting and increasing the equality, diversity, health and wellbeing of the workforce, the operator should look to develop careers and skills throughout the organisation.

The new private sector partner will be encouraged to attract new talent, with particular attention to increasing staff diversity, and improving the proportion of women in the workforce.

Rail Executive would welcome firm commitments to offering apprenticeships, traineeships, and other development schemes, particularly where they would attract talent from currently under-represented groups, so that the workforce is more representative of the community and passengers it serves.



6. Commercial Structure

Rail Executive intends to put in place a commercial structure for the franchise that balances taxpayers' and Government interests against providing incentives for private sector innovation, efficiency and delivery of change.

6.1 Franchise Length

In determining the length of rail franchises, Rail Executive balances a number of factors, including the wider franchising programme and operator's ability to bear financial risk over time.

Balancing these factors, we intend to let the South Western franchise for a period of between 7 and 9 years, to incentivise the operator to invest where appropriate for continued and improved services for passengers.

There may also be an extension period of up to 1 year, callable at the Secretary of State's discretion.

6.2 Capital Requirements

The franchise is expected to incorporate key principles proposed by the Brown review of the Rail Franchising Programme.

We currently expect that the private sector partner will have to procure:

- a season ticket bond calculated in accordance with the Franchise Agreement formula and bonded by a third party;
- a performance bond of £15 million, sized to reflect re-letting costs and bonded by a third party; and
- PCS, of which up to 50% must be bonded by a suitable bond provider with a financial rating of A-/A3 or higher, providing that the parent passes the financial tests set out in the Pre-Qualification Process Document (PPD); if the parent fails these financial tests, then 100% of the support must be bonded; such bond(s) will only be called where the provider of the PCS does not fulfil its obligations; 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 £45 million PCS required.

6.3 Maintenance of Liquidity Ratios

We currently 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 distributions) and for an event of default.

6.4 Revenue Risk

It is currently envisaged that the operator will take cost and revenue risk for the duration of the franchise. Rail Executive is considering the appropriateness of including a mechanism to limit the operator's exposure to exogenous risk.

6.5 Residual Value Mechanism

The franchise agreement may include a mechanism for recognising the residual value of investments which have a commercial value beyond the term of the franchise, but which may not provide a commercial return during the life of the franchise.

6.6 Profit Share

We recognise that profit is the reward for the risks that a private sector partner takes in delivering a franchise. However Rail Executive is required to ensure that the operator is not overcompensated for the provision of services.¹³ It is therefore likely that there will be a profit sharing arrangement and profit cap.



¹³ 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 overcompensation'.



PART D

The franchise competition process and key dates.

7. The Bid Process

7.1 Background

The re-franchising process for the South Western franchise commenced with the publication of the Prior Information Notice for Rail Franchising Programme in March 2013, which was updated most recently on 7 July 2015 and set out dates for the publication of the ITT, contract award and franchise start.

The Rail Franchising Competition Guide, published in July 2015, describes the generic processes Rail Executive intends to follow for a franchise competition. It may be updated from time to time. In a change to the currently published guide, Rail Executive has commenced a Passport Pre-Qualification process, which replaces the pre-qualification described in the Rail Franchising Competition Guide. Further information is in the sections below and on the Department for Transport's website¹⁴.

Any further deviation from the published process will be communicated with bidders at the earliest possible point and the final process will be set out in the ITT. In the event of any discrepancy between the Rail Franchising Competition Guide, the Prospectus, and the ITT, the ITT shall prevail.

We intend that the successful bidder will become a party to a Franchise Agreement agreed between the successful bidder and the Secretary of State. Rail Executive reserves the right to change its process at any time. The process set out in this Prospectus is an indication of Rail Executive's current intentions only. The final process will be set out in the ITT.

¹⁴ www.gov.uk/government/publications/rail-franchising-pqq-passport-documentation

7.2 The Procurement Timeline

An indication of the proposed franchise letting timetable for the South Western franchise is given below. This is intended as a guide and we reserve the right to depart from the timetable, including omitting one or more stages, or adding one or more additional stages at any time.

Figure 11: Franchise letting timetable



Franchise letting timetable

PQQ Passport OJEU QSN	September 2015
Publish Prospectus	November 2015
Issue Expression of Interest	November 2015
Bidder Day	November 2015
Issue ITT to bidders	April 2016
Contract Award	February 2017
Franchise Start	June 2017

7.3 The Procurement Process

Rail Executive has submitted for publication a Qualification System Notice (QSN) in the Official Journal of the European Union which provides more information about the procurement process and the PQQ Passport process. Bidders may seek to prequalify for this procurement if they applied by 30 October 2015 for a Pre-Qualification Passport to be issued by the Department for Transport.

The procedure that Rail Executive intends to adopt to evaluate bids will be set out in more detail in the ITT.

The franchise contract to be let is a 'public services contract' (in the form of a services concession contract) within the Regulation. The Government aims to award all public service contracts on the basis of a competitive tendering procedure in accordance with Article 5(3) of the Regulation except where it considers that the use of the exceptions in Articles 5(5) and 5(6) of the Regulation apply.

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'.

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

The Secretary of State 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 operator. Accordingly, Rail Executive will assess competence by evaluating the PQQ Passport and Expressions of Interest (EOI) applications, from which a shortlist of persons who will receive the ITT will be made.

The Passport Process Document describes the process for pre-qualification to receipt of an ITT. This includes details of how potential applicants register, raise clarification questions, prepare their responses to the Passport PQQ questionnaire and submit the application. Details for the EOI process are included in the PPD. A Passport Process Agreement (PPA) must be signed and returned before an applicant can receive the Passport PQQ pack. A Franchise Letting Process Agreement (FLPA) will need to be signed and submitted before an applicant can receive the EOI documentation.

Pre-Qualification

In September 2015 the Department for Transport launched the Pre-Qualification Passport. Parties who successfully apply for this Passport by passing its eligibility requirements may proceed to express an interest in this competition.

Those parties that have applied for the PQQ Passport will be able to request access to the specific South Western franchise competition EOI documentation, including an EOI Questionnaire and the PPD which explains the process that will be followed, including any requirement for down-selecting the number of bidders. Rail Executive will evaluate the EOIs submitted and announce the successful shortlisted bidders.

ITT

The ITT will be issued to shortlisted bidders. It will include the franchise specification, the criteria by which Rail Executive will evaluate the submitted bids, and the process that will be followed to identify the winning bidder.

Evaluation

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.

Rail Executive anticipates that 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.

Rail Executive is seeking bids that combine ambition, innovation and deliverability. If appropriate, the evaluation criteria for the competition may offer bidders the opportunity to exceed our 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 Rail Executive requirements), the benefits that will be delivered, and the robustness and resilience of the plans. The 'quality' requirements and process for evaluating them will be set out in the ITT.

The evaluation process will include an assessment of the financial robustness of each bid. Details of the assessment will be included in the ITT.

Contracting Committed Obligations

Rail Executive may wish to contractualise initiatives taken into account when scoring Delivery Plans. Our current intention is that Rail Executive will be responsible for the drafting of committed obligations based on bidders' submissions. The process and detail of this will be set out in the ITT.

Glossary

CAGR	Compound Annual Growth Rate
DfT	Department for Transport
DMU	Diesel Multiple Unit
EMU	Electric Multiple Unit
EOI	Expression of Interest
ERA	European Railway Agency
ERTMS	European Rail Traffic Management System
ETCS	European Train Control System
ITT	Invitation to Tender
MAA	Moving Annual Average
NRPS	National Rail Passenger Survey
OJEU	Official Journal of the European Union
ORR	Office of Rail and Road
PCS	Parent Company Support
PIN	Prior Information Notice
PPD	Pre-Qualification Process Document
PPM	Public Performance Measure
PQQ	Pre-Qualification Questionnaire
PRM	Persons with Reduced Mobility
QSN	Qualification System Notice
ROSCO	Rolling Stock Company
RSSB	Rail Safety and Standards Board
SFO	Station Facility Owner
TOC	Train Operating Company

Important Notice

This document is not a recommendation by the Secretary of State, or any other person, to enter into a Franchise Agreement.

The information contained in this document has been prepared in good faith but neither it nor any other information provided to a prospective franchisee or shareholder or any of its Affiliates at any time in connection with the South Western franchise purports to contain all of the information that a prospective franchisee or shareholder may require nor has it been independently verified. 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 adequacy, accuracy, reasonableness or completeness of the information contained in this document or other information provided.

All such persons or entities expressly disclaim any and all liability (other than in respect of fraudulent misrepresentation) based on or relating to any such information or representations or warranties (express or implied) contained in, or errors or omissions from, this document or other information or based on or relating to the recipient's use of this document or other information, or the use by any of its Affiliates or the respective representatives of any of them in the course of its or their evaluation of any franchise or the shares of any franchisee or prospective franchisee or any other decision. In the absence of express written warranties or representations as referred to below, the information in this document or other information shall not form the basis of any Franchise Agreement or any other agreement entered into in connection with the replacement of a passenger rail franchise or acquisition of shares in a franchisee.

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 franchisee in the relevant Franchise Agreement or in any other relevant agreement entered into at the same time as the Franchise Agreement is entered into or becomes unconditional. Nothing in this document is intended to create a contract between the Secretary of State and any bidder or prospective bidder.

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.

No contract or legal obligation shall result from any disclosure of information or other communication by the Secretary of State in connection with this Prospectus, including the issue of an ITT, or from the reliance of any person on any information

so disclosed or any such communication. No disclosure of information or other communication by the Secretary of State in connection with this franchise letting process will constitute an offer or an acceptance by or on behalf of anyone.

The only obligations which are intended to come into existence pursuant to this Prospectus are those intended to arise from a duly executed written agreement on the face of which it is apparent that such an agreement is intended by all parties thereto to be a Franchise Agreement for the purposes of the Railways Act 1993 and the Railways Act 2005 and any contracts ancillary to such an agreement. No legal relations are intended to arise until such a resulting Franchise Agreement is signed. The subject matter of this Prospectus shall have contractual effect only if and to the extent it is contained in the express terms of the Franchise Agreement and any ancillary documents.

The Secretary of State is not and shall not be liable for any expenses, costs or liabilities 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 or their associated entities or any other person.

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 Articles 5(5) or 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'). Rail Executive 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 or to change its requirements for the franchise and franchise competition.

For the avoidance of doubt, this document is not a 'Prospectus' to which the Prospectus Rules as enforced by the Financial Conduct Authority apply.

In the event of a discrepancy between this document, the Passport OJEU Notice, and the Expression of Interest documents, the Expression of Interest documents for the new South Western franchise shall prevail.

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