



Department  
for Transport

# East Midlands Franchise Prospectus



## Driving growth in the East Midlands

Connectivity as a driver for social and economic prosperity

November 2016



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ISBN 978-1-84864-175-4



Printed in Great Britain on paper containing at least 75% recycled fibre.



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## The Purpose of this Document

This Prospectus accompanies a suite of procurement documents issued by the Department, which are available online<sup>1</sup> and include:

- Rail Franchising PQQ Passport OJEU Notice, sent for publication in the Official Journal of the European Union on 4 November 2016; and
- Rail Franchises – Summary – 4 November 2016.

The principal aims of this Prospectus are to:

- communicate the Department's franchise aspirations to inform potential bidders interested in the East Midlands franchise
- give information about the East Midlands franchise that will help prospective bidders (who are already Passport/Visa holders or applicants for a Passport/Visa and whose application has not been refused) to determine whether they wish to seek pre-qualification as a single entity or as part of a consortium
- provide early guidance to potential bidders on areas to be considered when preparing bids

Potential bidders should note that the information contained in this Prospectus is the Department's initial view and is subject to change, as we incorporate requirements following the public consultation due to commence in December 2016. The Department will publish a public consultation response and its contents will contribute to the specification for passenger services for the East Midlands franchise to be included in the Invitation to Tender (ITT) in due course. The information in this Prospectus should not be relied upon as a statement of the Secretary of State's final requirements for the East Midlands franchise.

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<sup>1</sup> <https://www.gov.uk/government/collections/rail-franchising>

# Ministerial Foreword



In the Midlands, rail connectivity is making a vitally important contribution to the regional economy. By delivering consistently strong levels of performance, the East Midlands rail franchise is contributing significantly to the success of the region and its attractiveness as a place to live and invest.

However, as demand for rail travel continues to grow, and passenger numbers reach record levels, it is vital that we focus relentlessly on ways to further improve delivery. In particular, by opening up new travel opportunities and attracting new passengers, so rail becomes an even stronger driver for sustainable economic growth in this important part of the country.

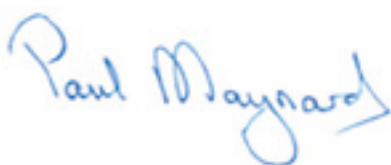
The procurement of a new franchise for the East Midlands is a key moment for doing just that and I am confident the market will share the Government's enthusiasm for the opportunities opened up by this competition.

The major investments we are making for the region send out a clear signal about the importance this Government attaches to strong and reliable rail connections between major cities. However, we understand equally the vital lifelines that trains provide for our towns and villages, where ease of access to mainline services can be a major factor in the success of a local economy. Therefore, stronger local connections for passengers will be one of the most important features of the next East Midlands franchise. We want a transport system that works for everyone.

Underpinning all this must be a strong working relationship between the new train company and the infrastructure provider, aimed at delivering greater benefits to the passengers through close collaboration and the effective alignment of each party's incentives. This will be essential in delivering the government's major investment in infrastructure on the Midland Main Line.

Equally, this government will want to see clear opportunities for greater staff involvement in strategic decision-making at the highest levels in the next franchise, and potentially sharing in its successes. We will be looking for ideas that enshrine this way of working.

I look forward with great enthusiasm to ideas and innovations from bidders which will deliver on these ambitions, and give passengers the safe, efficient, reliable and value for money services that they quite rightly expect from their train operator.

A handwritten signature in blue ink that reads "Paul Maynard". The signature is written in a cursive, flowing style.

**Paul Maynard**

Parliamentary Under Secretary of State  
at the Department for Transport



Part  
A

The New East Midlands Franchise

Part  
B

The East Midlands Franchise –  
The Existing Business

Part  
C

The Competition

PART

A

# 1 The New East Midlands Franchise

## 1.1 Introduction

Last year, the Department for Business, Energy and Industrial Strategy produced ‘The Midlands Engine for Growth Prospectus’<sup>2</sup>. The prospectus set out an exciting vision for the future of the region which has an economy of £222 billion each year and is home to over 11.5 million people. During 2015, private sector employment in the Midlands grew three times faster than in London and the South East, and it is predicted that if the Midlands matches the expected growth rate for the UK over the next 15 years, it could create 300,000 new jobs and boost the national economy by £34 billion.

This is an exciting time to be running one of the largest transport businesses serving the region: The East Midlands franchise.

The following sections set out in greater detail the services and outcomes that the Department wishes to procure for passengers, and outline some of the important franchise aspirations. They set out:

- the fundamental importance to all bidders of **putting the passenger first** and some of the **key passenger improvements** that we expect
- the Department’s **objectives for the franchise** and **the delivery of the franchise** describing some of the key qualities we will look for in our new private sector partner
- a **commercial proposition** that aspires to deliver Government policy and desired outcomes from the rail network, and represents value for money to the fare-paying passenger and the taxpayer
- the **commercial structure** for the franchise that will balance taxpayer and Government interests, against providing incentives for private sector investment and innovation



Joined Up

Open

Confident

Ambitious

Our Mission  
is to lead a **World  
Class Railway** that  
creates **opportunity**  
for people and  
businesses

<sup>2</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/482247/midlands-engine-for-growth.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/482247/midlands-engine-for-growth.pdf)

## 1.2 Putting the Passenger First

The next East Midlands franchise will start in July 2018. This will be in the context of several years of major infrastructure enhancements and improvements in the franchise area. Accordingly, the new franchisee will be expected to work in close partnership with the infrastructure companies to deliver passenger benefits that take full advantage of the significant investment that government and the industry are making in improving the region's rail infrastructure. It will also need to excel at keeping customers and stakeholders fully apprised of changes to train services to accommodate enhancement works.

The Department expects to set out a proposition where the future franchise will have the Rail Sustainable Development Principles developed by the Rail Safety and Standards Board (RSSB) embedded, including:

- building partnerships with local communities and enterprises in order to understand, support and deliver their needs
- connecting the cities and towns served by the franchise with each other, as well as with London and other major transport hubs
- developing the current markets and enabling maximum possible economic growth

In particular, the Department has identified that the regional and local services in this franchise offer opportunities for development, in line with the socio-economic growth in the region, as further set out in the letter from the East Midlands Councils which is presented on page 20 of this Prospectus.

The Government's franchising programme puts passengers and the sustainability of their rail services at its very heart because they are its priority. Our preparation for the competition for the East Midlands franchise will include significant public engagement where passengers' views are sought, heard and taken into account.

We expect our chosen partner to be keen to work collaboratively with Network Rail and other stakeholders in operating this franchise and to be as excited as we are about the clear opportunities it presents. We expect them to be innovative and ambitious, not only meeting passenger requirements, but also actively seeking to transform them.

The needs and aspirations of passengers should be at the forefront of everything we do and we seek a partner who will listen to what passengers want and will take action accordingly through a passenger-centric and market-led approach. In addition, that partner will be exploring new or improved services that will attract new passengers. In doing so, they will provide further opportunities for growth to the East Midlands as a result.

The Department has commissioned Transport Focus to undertake research in order to establish the views of current passengers, covering leisure, business and commuter markets across the East Midlands franchise.

## Promoting passenger perspectives in the East Midlands franchise competition

Transport Focus is pleased to contribute to this Prospectus for the next East Midlands 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.

Our research identifies the issues that are important to passengers in the East Midlands. Research into rail passengers' priorities for improvement shows that value for money is the highest priority for this franchise. Focus groups across the network explored the types of improvements passengers want to see in this area. Suggestions include clearer communication of ticket options and fares, a simplified ticket structure, new smarter ticket delivery options, a loyalty scheme, and straightforward and well-publicised compensation for delays.

Punctuality and reliability is an area of central importance for the next franchise. The Spring 2016 National Rail Passenger Survey (NRPS) shows that for East Midlands passengers this is the highest driver of satisfaction. Passengers in the focus groups asked for more punctual trains and better communication about delays in advance of arrival at the station.

Passengers also told us they want the next franchise to deliver improvements to their experience both at stations and on trains. Smaller stations need refurbishing, and basic amenities such as toilets, ticket machines, shelter, seating, lighting and CCTV should be provided. There is a desire for new and improved rolling stock with information screens, plug sockets and Wi-Fi. Carriages and toilets must be clean.

Our 2014 Rail Passenger Trust Survey 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. The next East Midlands franchise requires a commitment to positive engagement, honest and transparent communication, and fair treatment of its customers.

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.

The overall passenger experience is influenced by a wide range of factors. It is important that the franchise specification and bid proposals recognise the full spectrum of passenger needs across a diverse territory and the importance of quality in all aspects of service provision. We will be looking to bidders to respond positively and creatively to all the opportunities presented by a new franchise as they develop their proposals for the future.

### 1.3 Key Passenger Improvements

Following major infrastructure enhancements planned to be in place by December 2019, core franchise services from Corby will benefit from an increase of service frequency. This will result in a significant increase in capacity for passengers.

There are plans for significant investment, to improve mainline infrastructure along the length of the Midland Main Line. This will provide the opportunity for the train operator to consider train service improvements, reduced journey times, and capacity increases, and will support a world-class, long-distance train fleet.

While this key infrastructure programme will deliver benefits to the long-distance intercity market share of the franchise, the Department is also keen to see improvements specifically targeted to improve the journeys of customers on local and regional routes. There are other timetable changes being proposed that would improve connectivity between the region's key towns and cities, giving passengers more choice and flexibility in deciding when and where to travel.

The winning bidder will engage in an open and transparent way with their passengers, using passenger insight to inform priorities for future investment and planning decisions. We expect to see enhanced on-board environments for passengers, including better access for people with reduced mobility, free Wi-Fi on all services, and increases in train capacity to meet the anticipated growth in demand for rail travel.

A key outcome of the new franchise will be a greater focus on the RSSB Rail Sustainable Development Principles. The franchisee will be required to proactively develop meaningful relationships with the communities the franchise serves, working with stakeholders across the region to encourage greater social inclusion and contribute to the economic growth of the East Midlands.



#### **1.4 The Department's objectives for the new East Midlands franchise**

Below we set out the Department's objectives for the new East Midlands franchise in high-level terms:

- to support the Government agenda to make the Midlands region an engine for growth, working particularly to develop connectivity within and outside the region; to focus on supporting the region's industry and leisure economy. To improve the quality, frequency and timings of journeys on the east of the franchise network, and to seek to develop new services and connections
- to provide the franchise capacity to address predicted growth in demand, in particular into London St Pancras, but also for local crowded services like Derby-Crewe, working with Network Rail to minimise the impact on passengers and the effective running of train services during any redevelopment works
- to invest in the East Midlands train fleet to bring this up to world class standard of on-train passenger facilities and improve fleet capacity, operating performance and reliability, whilst complying with PRM TSI, and reducing operating costs and the carbon footprint
- to develop a maintenance and stabling strategy for a new proposition for rolling stock, which will be introduced during the next franchise
- to improve passenger satisfaction and public perception of the railway – including the ticket purchasing experience. The range of ticketing media and fulfilment options should see active innovation, including barcode, print at home, smartcard and solutions that support the Government's manifesto commitments to improve compensation arrangements. In addition, in line with passenger expectations and the Department's policy, to deliver high speed Wi-Fi and wireless connectivity to passengers
- to develop fully aligned incentives between management in the TOC and Network Rail to secure the investment and improvement in the route's infrastructure, including the services to Corby, and infrastructure improvement where most needed, to reduce journey times on long distances and achieve a high level of service resilience and reliability
- to invest in the franchise workforce, their training, skills and career development to create an environment that makes this franchise a place its staff are proud to work in. To develop opportunities to give employees a share in decision making in the franchise and the potential to share in the franchise's successes
- to develop coastal, leisure and high value tourist services, including working collaboratively with heritage railways

### 1.5 Delivery of the Franchise

The franchise specification will be set out in detail in the Invitation to Tender (ITT) following consideration of the responses to the public consultation and results from bidder engagements.

#### Train Services

As a part of the development of the specification, in which the public consultation plays a key role, the Department will be listening to feedback from stakeholders, and considering changes to service patterns and service levels that should be made in support of their aspirations for the East Midlands franchise.

These may include additional and faster mainline services, and additional and higher capacity services between London and Corby which will capitalise on the infrastructure enhancements that Network Rail are currently delivering. We expect to be focusing on creating new journey opportunities and better connections for passengers using this franchise.

#### Performance

We are looking for bidders to demonstrate how they will improve current performance levels, to provide consistently strong and more reliable levels of daily performance. This will be especially important during times when the infrastructure is being upgraded, and at other times of change when proactive and planned communication with passengers is paramount for informing them about upcoming work on the railways and its impact on their services.

#### Rolling Stock

The Bidder's rolling stock proposition will need to be able to capitalise on the benefits of the significant investment in the franchise area, be of high quality, and meet the needs of the relevant passenger markets. The fleet will also need to be capable of supporting the needs of passengers with reduced mobility, and will be world-class in delivering the capacity, on-board facilities, connectivity, communication, passenger information, performance and reliability commensurate with the expectations of the different passenger market needs in this franchise.





### **Crowding and Capacity**

Another challenge for bidders will be the management of crowding, both now and into the future, as passenger demand continues to rise.

The Department is looking for a franchisee who can capitalise on the planned infrastructure investment to ensure that there is the appropriate amount of capacity on this network to enable passenger aspirations to be met.

### **Service Quality**

The Department expects the new franchise holder to put customer service and passenger information at the top of its agenda. Current franchise performance is good, but can be better, delivering more choice, more options, more opportunities, better information, and smarter ticketing for the passengers on this railway.

### **Customer Experience and Satisfaction**

The Department expects the franchise holder to take passenger satisfaction seriously and invest in comprehensive passenger research on an ongoing basis, to continuously respond to and communicate with passengers. The franchise holder will need to understand fully what passenger feedback is saying, and then further communicate with passengers to explain what the franchise holder will do to address customer's needs.

We want to make journeys better for passengers. The Department expects the future operator to set a new benchmark for passenger satisfaction. In setting this benchmark, potential bidders should consider Transport Focus' National Rail Passenger Survey (NRPS) results, the outputs of focus groups, consultation responses for the East Midlands franchise, and the Government's commitment to:

- improve services to customers offered on board trains and at stations
- improve the overall quality of service delivery to passengers to encourage new and increased use of the railway
- provide ambitious (mobile-friendly) electronic ticket solutions
- deliver free Wi-Fi<sup>3</sup> and improved mobile coverage as a priority

### **Stations**

Stations play an important role in the passenger experience, and are often an important local focus point for the communities which the franchise serves.

The franchisee will be responsible for the 89 stations currently operated by East Midlands Trains, and this number is set to rise after the re-mapping of the Cleethorpes – Barton-on-Humber service from the Northern franchise.

The new franchisee will need to work closely with Network Rail and other partners to develop a renewal and maintenance programme to improve the condition of stations. The franchisee will also invest in improving the accessibility of rail travel to meet the diverse and changing needs of passengers. The service quality specification in the ITT will embrace station quality as passengers perceive it.

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3 <https://www.gov.uk/government/news/free-wi-fi-to-help-rail-commuters-stay-connected>

## Network Rail

In its selection of a new partner, the Department will also base its choice in part on which bidder best demonstrates how it will develop and implement much closer alignment of incentives to deliver enhancements and day-to-day performance for passengers, and how it will deliver close, effective working arrangements between managers in the franchise and managers in Network Rail. These arrangements will include forming an alliance appropriate to the multi-operator nature of the franchise routes, with the aim of improving safety and performance, and reducing industry costs, to the benefit of both the passengers and the taxpayer.

We would encourage bidders to engage with Network Rail on a number of topics, and would expect them to investigate a number of joint tasks which span the range of Network Rail and the franchisee's business, including but not limited to the following:

- system safety and environment, further improving safety and security for passengers and staff
- improving train service performance
- digital railway
- robust timetable planning and development
- collaborative approaches, including stations, depots and stabling
- joint working on systems interfaces and monitoring
- integrated access planning – taking a strategic and collaborative approach based on whole-industry costs and impacts; opportunities for aligning people, culture and leadership-development initiatives
- any other opportunities to reduce whole-industry costs
- joint working on efficient delivery of projects – a collaborative approach to reach the best whole industry solutions





Over the past ten years, passenger rail use has increased by 40% in the East Midlands and is expected to increase by upwards of 100% into key East Midland cities by 2043. The rail industry's East Midlands Route Study was published in March 2016. The study assessed the baseline rail infrastructure's capacity and capability against industry passenger and freight demand forecasts in order to understand where enhancements may be required over the coming decades. Concepts raised by the Route Study include works to lengthen trains across services in the East Midlands, and the possible benefits of undertaking interventions in the Leicester, Bedford and Derby areas.

**Investment in the route** – Network Rail is delivering major infrastructure enhancements in the East Midlands during CP5, and plans to continue this investment, subject to CP6 funding. By December 2019, infrastructure will be in place for a sixth long-distance high-speed train path each hour between London St Pancras and Corby.

**Midland Main Line Electrification** – Provisions have been made for the Midland Main Line to be electrified between Bedford and Corby by the end of 2019.

**Capacity Works between Bedford and Corby** – Passenger and freight demand on the Midland Main Line continues to grow year-on-year, requiring investment in further capacity. A fourth line is being added between Bedford and Kettering, and a second line between Kettering and Corby. These will allow for increase in capacity to Corby and additional freight route capacity.

**Derby Remodelling** – Remodelling of the track layout to the immediate south of Derby station will enable increased line speeds, and segregate the Long-Distance Cross Country service of the Nottingham – Birmingham service from the Sheffield – London services. Renewal of associated signalling will also improve performance and reliability.

**Line Speed Improvements** – Increases in line speed around Market Harborough, Leicester South, and between Derby and Sheffield will improve the passenger experience, and could reduce passenger journey times on the Midland Main Line.

**Long-Distance High-Speed Train Lengthening** – Provision of station infrastructure to support 240m trains on selected services will help to accommodate forecast levels of passenger demand on the Midland Main Line.

**Other Programmes** – The culmination of the Thameslink Programme will result in increased services through the London core and improvements to stabling facilities in the southern section of the Midland Main Line. As part of the North of England Programme of upgrades, the single line between Dore West and Dore Station Junction will be doubled.



These areas will be covered during initial meetings that Network Rail will arrange with each shortlisted bidder prior to publication of the ITT, and subsequent bilateral discussions that Network Rail will facilitate through the nominated Single Point of Contact during the bid period.

### **Communities, Businesses and Local Government**

The East Midlands franchise serves some of the largest towns and cities in Great Britain, as well as providing economically important services to communities across the region. Partnership working between the train operator and the local community can stimulate interest in and use of the railway, and can enable improvements in quality which would not otherwise have been affordable.

The Department will expect the interests of local communities to be embedded in decision making during the lifetime of the next franchise, so that those who depend on and benefit from the railway, can play a greater part in supporting and improving it. Bidders will be encouraged to expand the interaction with local government, business and with Community Rail Partnerships (CRP), as well as promoting station adoption and supporting local social enterprise schemes; for example, through the use of redundant space in station buildings.

#### **East Midlands Councils**

East Midlands Councils (EMC) represents the interests of 45 local authorities in the East Midlands region. In preparing for the franchise competition, the Department is working closely with EMC to ensure that the views of the local authorities in the region can be fully considered. In its statement below EMC shares its own vision for the franchise:



## Our Vision for the Future

EMC has already undertaken an initial stakeholder consultation exercise to determine key outcomes for the franchise, which has been endorsed by the EMC Executive Board.

The strategic objective for the new franchise must be to **drive economic growth in the East Midlands by increasing connectivity**, consistent with both the Midlands Engine and Midlands Connect initiatives.

**Improved connectivity to London** remains a key priority. In particular, securing regular journey times from Nottingham in less than 90 minutes and from Leicester in less than 60 minutes. We want to see **high quality modern rolling stock** that can make the most of the massive investment in track infrastructure and the planned electrification of the MML to Corby and Sheffield. The addition of a 'sixth train path' is an opportunity to meet both commuter and long-distance demands more effectively.

However, there is also major potential to develop a **'Regional Express Network'** in the East Midlands based around four 'hubs': Derby, Leicester, Lincoln and Nottingham. This should not only drive improved connectivity and agglomeration between these cities, but also with key economic centres elsewhere, such as Birmingham, Cambridge, Leeds, Liverpool and Manchester. We think there is an opportunity to re-map or code share some Cross Country services that link Birmingham with the East Midlands to help deliver this.

The franchise needs to recognise that we are increasingly moving towards a **7-day economy** – and that improving weekend services will be important to both the consumers, and providers of goods and services.

Finally, we recognise that things will change over time in ways that will be difficult to predict. We are therefore looking for provision for **incremental service improvements and station enhancements** during the lifetime of the franchise.

For further information on our ideas, please visit:  
<http://www.emcouncils.gov.uk/Infrastructure>

### **Facilitating Change and Investment**

The Department's vision for passengers is to see continued long-term development of railway services in the East Midlands through the franchisee investing in the workforce, community and working conditions, and also through improving previously unloved stations and keeping them in good condition. We will therefore be looking for bidders to identify these and other potential opportunities to enhance the customer experience beyond those associated with the significant investment in infrastructure already planned for the main line.

### **Improving Efficiency**

The Government is committed to promoting a railway which makes a greater contribution to the prosperity of the towns and cities served by the East Midlands franchise. This underpins the planned investment in new infrastructure and the commitments to increased capacity set out in the Rail Investment Strategy. However, this contribution will need to be delivered in a sustainable, efficient and affordable way. The Department sees improved efficiency as a key element in transforming the franchise.

### **Innovation**

Improving innovation has been identified as a priority for the rail industry, in particular in developing effective learning and in applying techniques and ideas from other industries. The Department will look for a private sector partner that will be proud to benchmark themselves against the best in UK industry, setting the bar for the rail industry in all areas. As a minimum we will be looking for commitments that demonstrate exceptional customer service, efficient operation, and the reduction in whole industry costs.



## 1.6 The Commercial Proposition

The Department wishes to see the new East Midlands franchise characterised by investments in continuous improvement, providing:

- a transformation in passenger and public perceptions of this railway
- an enhancement in infrastructure and capacity
- an opportunity for rolling stock targeted to maximise the benefits of infrastructure investment and designed to meet the different market needs at work in this new franchise
- an opportunity to better design customer and train services, and address areas of overcrowding

We will be seeking a partner that will champion growth in the economy of the East Midlands by offering high quality rail services to, from and across the franchise. We will look for a partner that seeks to find ways for new services to unlock communities, attracting new passengers to the franchise. Service levels will need to reflect the specific needs of the different markets served, including non-London, intra-regional flows, while working within the affordability constraints on public funding.

We aim to stimulate innovation in order to advance our vision of a world-class railway that creates opportunity for people and businesses; we will propose mechanisms which will enable our partner to invest in the correct measures to deliver the improvements that boost the efficiency and sustainability of the railways.

The Department intends to propose a commercial structure that puts the interests of all passengers at the very heart of the franchise. That commercial structure will provide the basis for the interested parties to bring forward their solutions to deliver the railway we want to see in the East Midlands.

Factors we expect to see bidders take into account include:

- supporting the local economy
- putting rail within the reach of customers
- being an employer of choice
- adopting a customer-driven attitude
- providing a positive social impact

These important factors and others will be further described in the ITT, but can be found on the RSSB website<sup>4</sup>.

### **Intercity, Outer Suburban Commuter Services**

The significant investment in the infrastructure on the Midland Main Line and the Corby Line will give opportunities for bidders to deliver passenger benefits in terms of rolling stock specification and timetable development.

These services are already well performing products, but with opportunities for improvement from a passenger perspective, as demonstrated by the findings of

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<sup>4</sup> <http://www.rssb.co.uk/>

the NRPS. A further improvement of the train journey experience in peak times, and with regard to station presentation and staff interaction, particularly during times of disruption, is something we also seek to see addressed.

There is an opportunity to further invest in and develop the commuter market between South Leicestershire and London from December 2019 onwards, following the addition of a sixth path from St Pancras to serve Corby. This will allow bidders to consider how the provision of services can be used to enhance additional capacity for commuters on this route, while also creating journey time improvements on services to Nottingham and Sheffield.

### **Regional and Local Services**

In line with East Midlands Councils' aspirations, we are keen to explore how regional and local train services could benefit from better timetabling and/or from new routes, which aim to drive growth in the East Midlands and improve travel options by connecting the passenger to communities, whether for business or leisure purposes.

The Department wishes to see services connecting passengers between key towns and cities, allowing improved connections further afield to mainline routes. These can be delivered via new through-journeys or improved connectivity on existing routes, and need to be targeted to provide more travel opportunities for existing passengers and to attract new passengers.

The Department is looking for improvements to rolling stock – in terms of quality and capacity, and also for improvements to station environments. This second objective should not be limited to the main stations, but should also address the station environments perceived as 'unloved'.





## 1.7 The Commercial Structure

The Department 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. Therefore, the Department seeks bidders that will meet the challenges in the following important areas:

### Franchise Length



In determining the length of rail franchises, the Department balances a number of factors, including the wider franchising programme and the operator's ability to bear financial risk over time. While no firm decision has been made at this time, we envisage letting the East Midlands franchise for a period **as short as 7 or as long as 15 years**. An optional extension period may also be considered. This is to incentivise the operator to invest where appropriate for continued and improved services for passengers.

### 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 (presently expected to be at least £9 million) and bonded by a third party
- a performance bond of £15 million, sized to reflect re-letting costs and bonded by a third party
- Parent Company Support (PCS) (referred to in the EOI Questionnaire and Pre-qualification Process Document (PPD) as 'the Guarantee'), assumed to comprise of a fixed PCS amount, plus a further variable PCS amount which will depend on the level of the franchise payments bid; it is likely that up to 50% of this PCS will be required to be bonded by a suitable bond provider with a financial rating of A-/A3 or higher, providing that the parent company passes the financial tests as set out in the Pre-Qualification Process

### 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.

### Cost and Revenue Risk



It is currently envisaged that the franchisee will substantially take both cost and revenue risk for the duration of the franchise. The Department is considering a range of options for a mechanism to limit the operator's exposure to revenue risk.

### Residual Value Mechanism



In order to promote long-term investment, the Franchise Agreement will include a mechanism for recognising the residual value of investments which have a longer useful economic life and a commercial value beyond the term of the franchise, but which may not provide a commercial return during the life of the franchise. The exact parameters of this mechanism will be outlined in the ITT and in the draft Franchise Agreement.

### Profit Share



We recognise that profit is the reward for the risks that a private sector partner takes in delivering a franchise. The Department expects that this franchise will be viewed as a proposition with excellent potential for prospective investors. In considering a profit share mechanism we will also consider the appropriate level of returns commensurate with the risks taken.

### Change Mechanism



An appropriate change mechanism is also being considered to ensure that the franchisee is able to react appropriately to unanticipated changes in circumstances, technology and infrastructure delivery.












A photograph of a railway track in a rural landscape, overlaid with a large white circle containing the text 'PART B'. The track runs diagonally from the bottom left towards the top right. The background shows green fields and some buildings under a blue sky. The text 'PART' is in a thin, outlined font, and 'B' is in a larger, bold, outlined font, separated by a horizontal line.

PART

B

## 2. The East Midlands Franchise – The Existing Business

### 2.1 At a Glance

	<b>Train services (working day)</b>	470
	<b>Number of employees</b>	2,095
	<b>Fleet size</b>	94
	<b>Stations</b>	89 managed 133 served
	<b>Passenger journeys</b>	26m
	<b>Farebox split</b>	6.3m full fare 5.0m season tickets 14.7m reduced fare
	<b>Average fare</b>	£14 (approx.)
	<b>Total revenue</b>	£407m (2015/16)
	<b>Passenger satisfaction NRPS</b>	86% (Spring 2016)

Source: 2015/16 Management Accounts; EM Franchise Market Review 2016.



## 2.2 Overview of the Current Franchise

The East Midlands rail franchise covers passenger services essential for linking several of England's most important cities, not only to London, but to one another. The franchise includes the Midland Main Line, with its terminus at London St Pancras running services to Derby, Leicester, Sheffield and Nottingham. It also includes a network of local lines serving destinations such as Grantham, Lincoln and Mansfield. The routes included also provide services to Luton Airport and East Midlands Parkway.

The current franchise is a Direct Award to East Midlands Trains Limited, which commenced on 18 October 2015. It is due to end on 4 March 2018, although the Secretary of State may extend it by up to a year. It is currently intended that such notice will be given and the new franchise is scheduled to commence on 22 July 2018.

This section gives information on the current East Midlands franchise. Discussion of the Department's current thinking on the likely requirements for the future franchise appears in Part A of this Prospectus.

### Routes and Services

The franchise serves destinations throughout the East Midlands. Its Midland Main Line Services operate out of London St Pancras station. The franchise serves several large towns and cities, including Sheffield, Nottingham and Derby. It serves a number of important airports, like London Luton Airport, East Midlands Airport, Liverpool John Lennon Airport and Doncaster Sheffield (Robin Hood) Airport. The franchise also has connecting services to destinations such as London Euston, Birmingham, Glasgow, Preston and Carlisle.

### Remapping

At the date of publication of this Prospectus the Secretary of State has yet to make a decision to significantly remap any East Midlands services, either by transferring existing services to or from another franchisee. However, the Department is aware of the following changes:

- **The Northern Franchise Agreement** provides that with effect from the commencement of the new East Midlands franchise, the East Midlands franchisee will assume responsibility for passenger services between Barton-on-Humber and Cleethorpes; this includes the transfer of 12 stations
- **The TransPennine Express Franchise Agreement** contains a provision requiring its franchisee to conduct a feasibility study into future service patterns in the event that the Secretary of State elects to give it responsibility for operating all or some of the services between Liverpool and Nottingham

This issue and that of other possible re-mapping, will be considered as part of the public consultation.

### 2.3 Financial Information

The following financial information has been extracted from periodic management accounts as supplied to the Department. All financial information is represented in nominal terms unless otherwise stated, and relates to the Department’s financial years (ending 31 March annually) unless otherwise stated.

Farebox income, as part of the total revenue, has improved, with revenues from passenger services increasing by 23% between 2011/12 and 2015/16. For the year 2015/16, East Midlands generated passenger revenue of £360.2m, which represented 88.5% of annual turnover.

Figure 1: Passenger Revenue

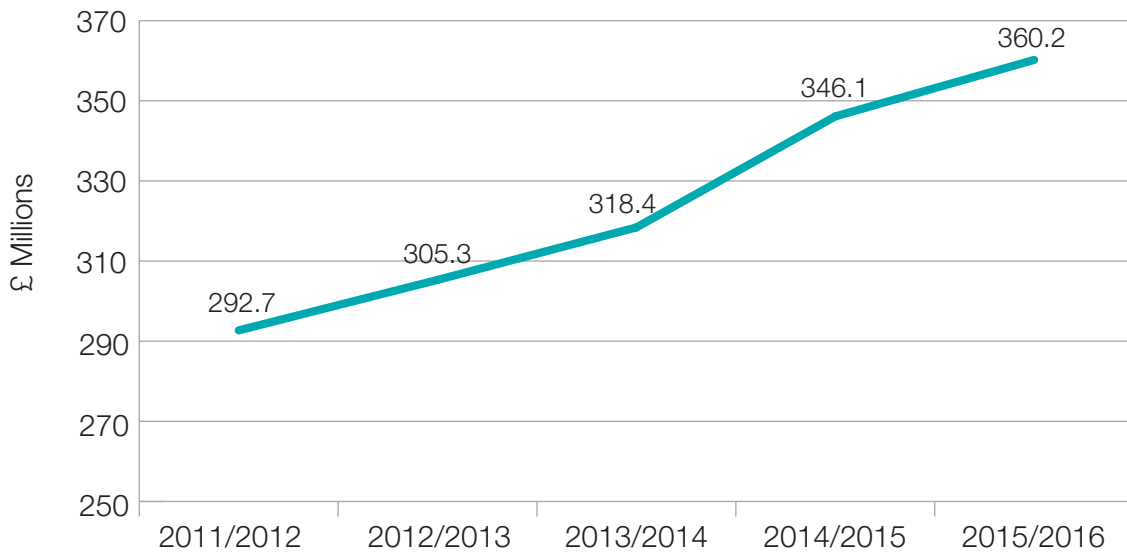
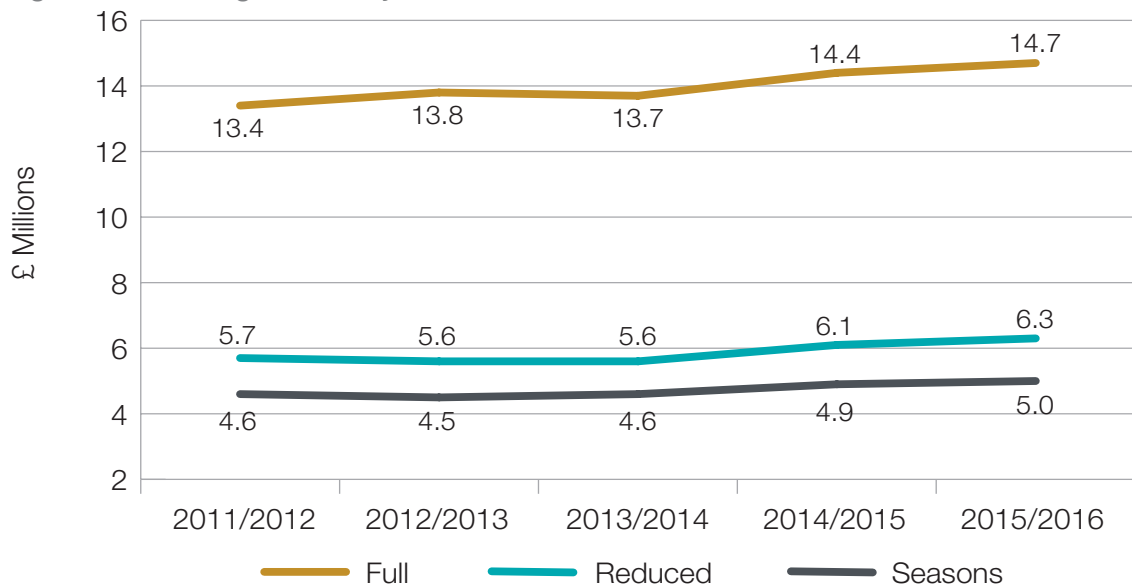


Figure 2: Passenger Journeys





Breakdown of total revenue for 2015/16

Farebox – £360.2m

Other income – £47.0m



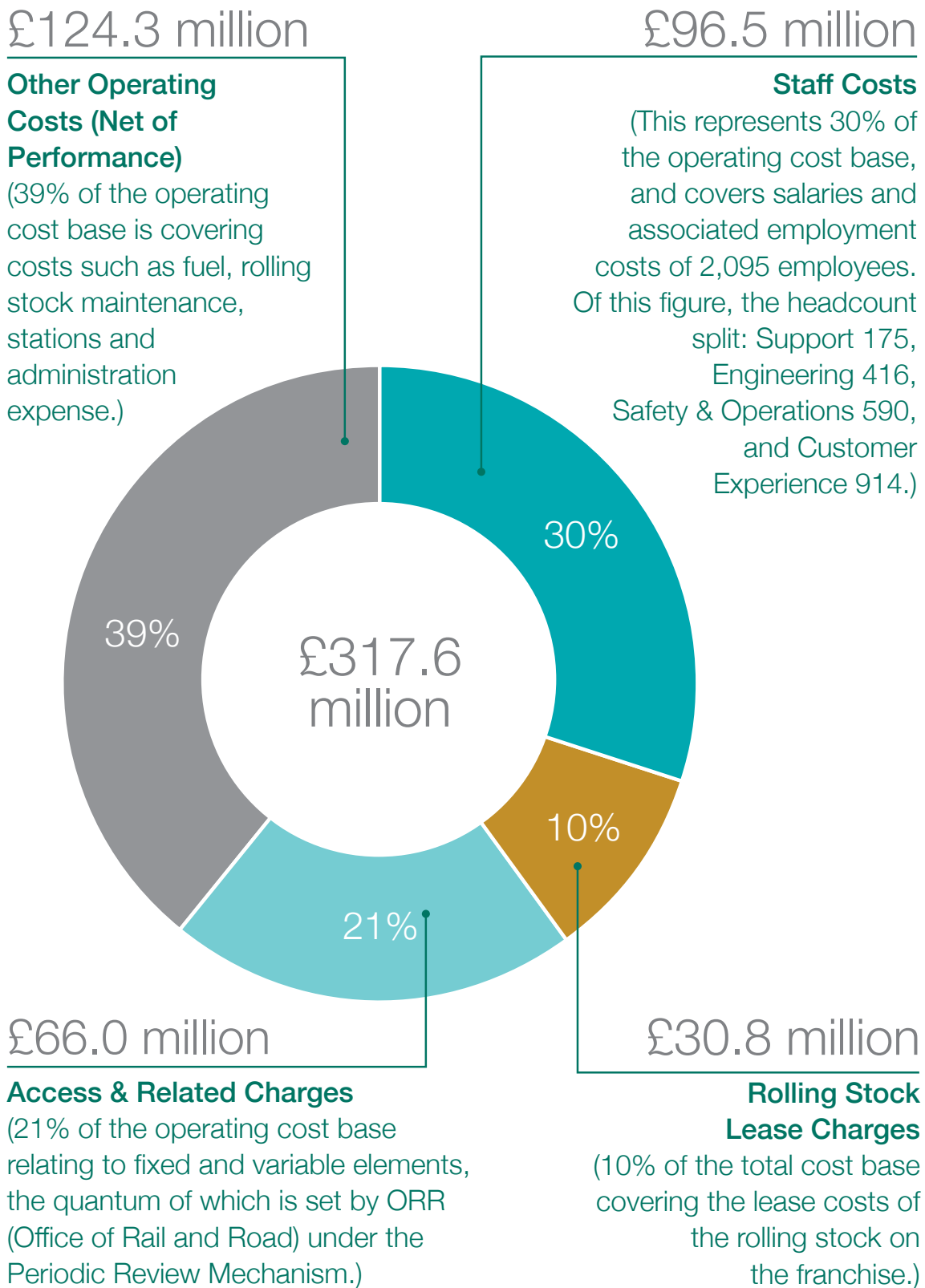
Annual growth 2011/12 to 2015/16 (CAGR):

+5.3% Farebox

+2.4% Journeys



Figure 3: Operating costs (excluding performance regime) in 2015/16\*



Source: 2015/16 Management Accounts.

\* Also excludes DfT Franchise Premium Payments, Group Charges and Exceptional Expenditure



## 2.4 East Midlands Geographical Map



Source: Department for Transport, Network Conditions and Geography Statistics Branch  
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PART



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## 3 The Competition

### 3.1 The Procurement Timetable

An indication of the proposed franchise letting timetable for the East Midlands 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 of the stages, or adding one or more additional stages at any time.

#### Franchise Letting Timetable

Publication of this Prospectus	November 2016
Bidder Day	November 2016
Public consultation starts	December 2016
Franchise Expression of Interest (EOI) Pack released	December 2016
Deadline for receipt of completed EOI Packs	January 2017
Identification of short-listed bidders	March 2017
Issue ITT to bidders	May 2017
Receipt of ITT submissions	August 2017
Contract award	March 2018
Anticipated franchise start date	22 July 2018

### 3.2 The Procurement Process

The Secretary of State is required under Section 26(3) of the Railways Act 1993 not to issue an ITT to any person unless he considers that such person has the appropriate financial position and managerial competence, and is otherwise suitable to be the franchisee.

The re-franchising process for the East Midlands franchise commenced with the publication of the Rail Franchising Passport Pre-Qualification Questionnaire OJEU Notice in May 2016<sup>5</sup>. This set out the scheduled dates for applying for a Passport, the availability of the Expression of Interest (EOI) Pack, publication of the ITT, contract award and franchise start.

The Department is holding a two-part pre-qualification process to determine, amongst other things, financial position, managerial competence and suitability. The first part of this pre-qualification process required applications for a Passport to be submitted by 30 September 2016. Further detail of this part is available from the Passport Process Document and the Pre-qualification Questionnaire Passport Process Document copies of which can be found on the Department's website<sup>6</sup>.

Bidders that have applied for a Passport in time, and have not been notified that their application was unsuccessful, may participate in the second part of the pre-qualification process, this involves responding to the franchise Expression of Interest (EOI) Pack. This Pack is planned to be available to download during December 2016<sup>7</sup>. It includes a set of further questions that are specific to the East Midlands franchise. Please note that a bidder that has applied for a Passport and is subsequently notified that their application was unsuccessful will not be eligible to participate further in the East Midlands process, even if they have by then submitted a response to the franchise EOI Pack.

The evaluation of the completed EOI Pack responses (with possible down selection depending on how many compliant EOIs are received) will result in a shortlist of bidders to whom the Invitation to Tender (ITT) will be issued. The ITT for the East Midlands competition is scheduled to be issued in May 2017. Bids received from those shortlisted will be evaluated according to the procedure set out in that ITT.

The Franchise Agreement to be let is a 'public services contract' (currently envisaged to be in the form of a services concession contract) for the purposes of Regulation (EC) 1370/2007. The re-franchising process for the East Midlands franchise will be conducted in accordance with the requirements of Article 5(3) of Regulation 1370/2007, 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". Article 5(3) also permits negotiations in order to determine how best to meet specific or complex requirements.

5 [www.gov.uk/government/publications/rail-franchising-pqq-passport-documentation](http://www.gov.uk/government/publications/rail-franchising-pqq-passport-documentation)

6 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/464050/Passport\\_Process\\_Document.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/464050/Passport_Process_Document.pdf)  
<https://www.gov.uk/government/publications/rail-franchising-pqq-passport-documentation>

7 Bidders wishing to access the EOI Pack will first need to complete a Franchise Letting Process Agreement which the Department will make available.

Regulation 1370/2007 does not prescribe the detailed procedures which are to be followed by the Secretary of State when selecting a new private sector partner. It is therefore open to the Department to set its own process for the East Midlands re-franchising, provided that the process meets the principles of transparency and equal treatment and non-discrimination, and otherwise complies with the requirements outlined above.

### **3.3 The Evaluation Process**

The Department currently intends that the Franchise Agreement will be awarded to the bidder who submits the most economically advantageous offer. The award criteria will take into account the quality, price, viability, sustainability and deliverability of the bid. More details about the award criteria, requirements and evaluation will be published in the ITT.

#### **Delivery Plans**

The Department anticipates that bidders will be required to demonstrate, through submission of a number of Delivery Plans, how they will meet its specification for the franchise. It 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 the Delivery Plans will be published in the ITT.

#### **Quality Aspects of Bids**

The Department is seeking bids that combine ambition, innovation and sustainability. The evaluation criteria for the East Midlands competition will 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 the Department's requirements), the benefits that will be delivered, and the robustness and resilience of the plans. The 'quality' requirements and the process for evaluating them will be set out in the ITT.

#### **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 it currently envisages that it may include provision for risk adjustments within the evaluation process, if appropriate, to take into account its assessment of the financial risk arising from the bid (unless changed by finance policy). The details of the financial robustness assessment will be included in the ITT.

#### **Committed Obligations**

The Department will wish initiatives for which quality points were awarded to the leading bidder during bid evaluation to be included as contractual Committed Obligations in the Franchise Agreement. The Department's current intention is that the Department 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
CP5	Control period 5 (2014-2019)
CP6	Control period 6 (2019-2024)
CRP	Community Rail Partnership
DfT	Department for Transport
EM	East Midlands
EMC	East Midlands Councils
EOI	Expression of Interest
ITT	Invitation to Tender
MML	Midland Main Line
NRPS	National Rail Passenger Survey
ORR	Office of Rail and Road
PCS	Parent Company Support
PPD	Pre-Qualification Process Document
PQQ	Pre-Qualification Questionnaire
PRM TSI	Persons of Reduced Mobility Technical Specification for Interoperability
RSSB	Rail Safety and Standards Board
TOC	Train Operating Company

# Useful Links

Department for Transport

<https://www.gov.uk/government/organisations/department-for-transport>

Office of Rail and Road <http://orr.gov.uk>

Rail Safety and Standards Board <http://www.rssb.co.uk>

Rail Delivery Group <http://www.raildeliverygroup.com/>

Network Rail <http://www.networkrail.co.uk>

Transport Focus <http://www.transportfocus.org.uk>

Association of Community Rail Partnerships <http://acorp.uk.com/>

Disabled Persons Transport Advisory Committee (DPTAC)

<http://www.gov.uk/government/organisations/disabled-persons-transport-advisory-committee>



# Important Notice

This Document is issued by the Secretary of State pursuant to his functions and duties under the Railways Act 1993. It forms part of a competitive procurement conducted in accordance with relevant legal requirements including Regulation 1370/2007. It is being issued to all qualified Passport Holders and Temporary Visa Holders, and any organisation that applied for a Passport or Visa before 30 September 2016 and has not been told that their application was unsuccessful.

This Document is not a recommendation by the Secretary of State, or any other person, to enter into any agreement or to make any investment decision. In considering any investment in a franchise, recipients of this Prospectus should make their own independent assessment, and seek their own professional financial and legal advice.

Neither this Document, nor any other information provided to a prospective bidder for the East Midlands franchise (or any of their affiliates or shareholders) purports to contain all of the information that a prospective bidder or shareholder may require, nor has it been independently verified. Neither the Secretary of State, nor any of his employees, agents or advisers, 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 or completeness of the information contained in this Prospectus or other information provided.

The Secretary of State expressly disclaims any and all liability (other than in respect of fraud or 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 Prospectus or other information, or based on or relating to the recipient's use of this Prospectus or other information, or the use of this Prospectus or other information by the recipient or 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 any other decision.

The only information which will have any legal effect and/or upon which any person may rely will be such information (if any) as has been specifically and expressly represented and/or warranted in writing to a successful franchisee in 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.

Legal, technical and financial advisers will be acting for the Secretary of State in relation to the letting of the East Midlands 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 Prospectus or any matter referred to in it, or any other information provided to a prospective bidder or shareholder or any of its/their affiliates at any time in connection with the East Midlands franchise.



The Secretary of State is not and shall not be liable for any expenses, costs or liabilities incurred by those expressing an interest, submitting a completed EOI Pack, or negotiating or bidding for a Franchise Agreement or any other agreement entered into in connection with such Franchise Agreement, or any such costs incurred by their associated entities, affiliates or any other person. In particular, the Secretary of State is not and shall not be liable for any expenses, costs or liabilities incurred by prospective bidders in responding to the East Midlands franchise EOI without knowing the outcome of their Passport or Visa application.

The Secretary of State reserves the right not to award the East Midlands Franchise Agreement, or any contract, to make whatever changes he sees fit to the structure and timing of the East Midlands franchise letting process (including issuing updates and amendments to this Prospectus and any other information provided), to cancel the process in its entirety at any stage and, where he considers it appropriate to do so, to make a Direct Award pursuant to Regulation 1370/2007.

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 Prospectus and the documentation in the EOI Pack, the EOI Pack documentation shall prevail.

ISBN 978-1-84864-175-4



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