



Department
for Transport

West Coast Partnership Franchise

Invitation to Tender

27 March 2018

The Department for Transport has actively considered the needs of blind and partially sighted people in accessing this document. The text will be made available in full on the Department's website. The text may be freely downloaded and translated by individuals or organisations for conversion into other accessible formats. If you have other needs in this regard please contact the Department.

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

© Crown copyright 2018

Copyright in the typographical arrangement rests with the Crown.

You may re-use this information (not including logos or third-party material) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, visit www.nationalarchives.gov.uk/doc/open-government-licence/version/2 or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or e-mail: psi@nationalarchives.gsi.gov.uk.

Where we have identified any third-party copyright information you will need to obtain permission from the copyright holders concerned.

Contents

Section 1: Introduction	8
1.1 Introduction	8
1.2 Form of Contract.....	8
1.3 The Department’s requirements	8
1.4 Communications	9
1.5 Structure of this ITT	9
1.6 Other documents	10
1.7 Franchise Letting Process Agreement	10
1.8 Commencement of the West Coast Partnership Franchise	10
1.9 Liability for costs, updates and termination	10
1.10 Defined terms	11
Section 2: Scope and objectives and summary of ITT architecture	12
2.1 Scope of the West Coast Partnership Franchise	12
2.2 Franchise objectives	12
2.3 Connecting people: a strategic vision for rail and intent for future services on HS2.....	13
2.4 Evaluation of financial robustness	14
2.5 Summary of ITT architecture	15
2.6 Strategic network considerations.....	17
Section 3: Information and instructions to Bidders	19
3.1 Applicability of this document	19
3.2 Accuracy of information and liability of the Department and its representatives.....	19
3.3 Intellectual property	20
3.4 Industry consultation and disclosure of information in Bids.....	20
3.5 Non-compliant Bids.....	21
3.6 Automatic elimination.....	24
3.7 Right to disqualify Bidders	24
3.8 Data Site and AWARD.....	25
3.9 Bidder Clarification Questions	25
3.10 Transparency and freedom of information.....	26
3.11 Competition matters.....	27
3.12 Regulation (EC) 1370/2007	31
3.13 Changes to information or circumstances	32
3.14 Variations to the Franchise Agreement	33
3.15 Pensions	34
3.16 Form of Tender	34

Section 4: Explanation of requirements for Bid submission and overview of process following Bid submission	35
4.1 Preparation of Bids	35
4.2 Franchising timetable and process.....	35
4.3 Structure and format of Bids.....	35
4.4 Page limits, size of text, other formatting.....	40
4.5 Annexes and appendices	41
4.6 Letters of Support	41
4.7 Cross referencing	41
4.8 Bid consistency.....	42
4.9 Language.....	42
4.10 Monetary amounts	42
4.11 Submission of Bids	42
4.12 Presentations.....	44
4.13 Validity of Bids	44
4.14 Process following Bid submission	45
4.15 Voluntary standstill period.....	49
Section 5: Detailed Bid submission requirements - Delivery Plans	51
5.1 Introduction	51
5.2 ICWC and Combined Plans.....	52
5.3 Shadow Operator Plans.....	53
5.4 Residual Value Mechanism	54
5.5 Delivery Plan 0 - Bid Summary.....	59
5.6 Delivery Plan 1 - Leadership and Partnering.....	61
5.7 Sub-Plan 1.1 Franchise Leadership and Management	61
5.8 Sub-Plan 1.2 Partnering	68
5.9 Sub-Plan 1.3 Sustainability and Security.....	74
5.10 Delivery Plan 2 - Train Services and Performance	77
5.11 Sub-Plan 2.1 Train Services.....	77
5.12 Sub-Plan 2.2 Rolling Stock.....	89
5.13 Sub-Plan 2.3 Performance	100
5.14 Sub-Plan 2.4 Supporting HS2 Infrastructure Delivery	103
5.15 Delivery Plan 3 – Revenue	107
5.16 Sub-Plan 3.1 Marketing and Branding.....	107
5.17 Sub-Plan 3.2 Fares and Ticketing	111
5.18 Delivery Plan 4 – Customer Experience and Stations.....	115
5.19 Sub-Plan 4.1 Customer Experience	115
5.20 Sub-Plan 4.2 Stations.....	121

5.21 Delivery Plan 5 – Shadow Operator	125
5.22 Sub-Plan 5.1 Shadow Operator Business Design and Organisation	127
5.23 Sub-Plan 5.2 Shadow Operator Rolling Stock and Operations	129
5.24 Sub-Plan 5.3 Shadow Operator Customer Experience, Fares and Marketing.....	133
Section 6: Detailed Bid submission requirements – Financial	137
6.1 Introduction	137
6.2 Errors in Modelling Suites.....	141
6.3 Financial and operational model requirements for the ICWC Modelling Suite.....	142
6.4 Templates	163
6.5 ICWC Record of Assumptions.....	170
6.6 ICWC Operating Manual.....	179
6.7 Accepted Programme Modelling Suite	180
6.8 Generic Model requirements	187
6.9 Assumptions	190
6.10 Supplementary material.....	191
6.11 Worked examples and modelling Change.....	192
6.12 Reviews and audit of Models.....	197
6.13 Financial Structure and Funding Plan	205
6.14 Updating of EoI financial and economic standing tests (the “Tests”) and submission of updated bond provider letter(s)	212
6.15 Reset Period	213
Section 7: Evaluation criteria and methodology.....	218
7.1 Introduction	218
7.2 Definition of MEAT for the Competition	218
7.3 Quality and deliverability evaluation	221
7.4 Evaluation impact of Inconsistent Initiatives for ICWC and Combined Plans	232
7.5 Modelling Change tests	233
7.6 Compliance with instructions for populating the Reset Period	234
7.7 Evaluation of financial robustness	234
7.8 Evaluation impact of contractual treatment of Bidders’ Initiatives	244
7.9 Interaction between ICWC and Combined Plan evaluation scores and the Financial Robustness Tests.....	247
7.10 Impact of review of financing and funding proposals for ICWC and Combined Plans.....	247
7.11 Conversion of evaluation scores into Quality Scores	248
7.12 Rebid.....	249
7.13 Delivery Plan negotiation	250
7.14 Bid optimisation	252
7.15 Revisions during the Bid window	252

A1.	Appendix 1: Glossary	253
A2.	Appendix 2: Not used	277
A3.	Appendix 3: Risk Adjustment Process	278

ITT ATTACHMENTS

ATTACHMENT A – TRAIN SERVICE REQUIREMENT

ATTACHMENT B – DRAFT FRANCHISE AGREEMENT

ATTACHMENT C – FINANCIAL TEMPLATES

ATTACHMENT D – DRAFT FUNDING DEED

ATTACHMENT E – DRAFT CONDITIONS PRECEDENT AGREEMENT

ATTACHMENT F – FORM OF TENDER

ATTACHMENT G – DRAFT ESCROW LETTER

ATTACHMENT H – SCHEDULE OF DOCUMENTS TEMPLATE

ATTACHMENT I – STAKEHOLDER BRIEFING DOCUMENT

ATTACHMENT J – RV MECHANISM NETWORK RAIL LETTER OF SUPPORT

Section 1: Introduction

1.1 Introduction

- 1.1.1 This Invitation to Tender, its appendices, all documents issued with and in connection with it and all clarification questions and responses relevant thereto (together the “**ITT**”) are issued by the Department for Transport (the “**Department**”) pursuant to the functions of the Secretary of State for Transport (the “**Secretary of State**”) under the Railways Act 1993 and the Railways Act 2005, as amended. All references in this document to the Department, Network Rail or the Office of Rail and Road (“**ORR**”) include, where appropriate and unless the context otherwise requires, references to those bodies’ predecessors and successors. References in this document to a “**Bidder**” means those entities who pre-qualified to Bid for the West Coast Partnership Franchise following the process set out in the Franchise Expression of Interest and Franchise Pre-Qualification Process Document (“**PPD**”) published on 28 February 2017 that had previously pre-qualified for a “**Passport**” under the prequalification system described in the Passport Process Document and the Passport System Notice.

1.2 Form of Contract

- 1.2.1 This ITT invites Bids from Bidders in respect of a service concession contract (as that term is defined in the Concession Contracts Regulations 2016). This ITT forms part of a competitive procurement conducted in accordance with relevant legal requirements including 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 (“**Regulation (EC) 1370/2007**”). This procurement will be conducted in line with the applicable general principles of EU law and the requirements of English law. It will be awarded on the basis of the most economically advantageous tender, determined in accordance with the evaluation criteria and methodology specified in Section 7 (Evaluation Criteria and Methodology).

1.3 The Department’s requirements

- 1.3.1 The Department is seeking ambitious and innovative Bids which are also deliverable.
- 1.3.2 For the InterCity West Coast (“**ICWC**”) and overall management (“**Combined**”) elements of the West Coast Partnership Franchise (“**West Coast Partnership**”, “**WCP**” or “**Franchise**”), the competition evaluates and values quality in two ways:

- a) By offering Bidders the opportunity to meet (and, where indicated, exceed) the Department's minimum requirements for ICWC (Delivery Plans 2 – 4) and Combined Plans (Delivery Plan 1) for the West Coast Partnership Franchise set out in this ITT; and
- b) By assessing the deliverability of the proposals put forward by Bidders based on the evidence they have provided.

1.3.3 For the Shadow Operator-only elements of the Franchise, the competition evaluates and values quality in a different way:

- a) By assessing the deliverability of the plans put forward by Bidders in Delivery Plan 5 based on the evidence they have provided.

1.3.4 More information on how Bids will be evaluated is set out in subsections 7.3.4 and 7.3.5.

1.4 Communications

1.4.1 Save to the extent permitted by this ITT or agreed in advance with the Department (and without prejudice to the provisions of subsection 3.9 (Bidder Clarification Questions)), Bidders must ensure that all communications from or on behalf of Bidders and their Associated Entities with the Secretary of State and/or the Department in respect of this ITT and the West Coast Partnership Franchise are made through AWARD (as described further in subsection 3.9 (Bidder Clarification Questions)) or by email to WestCoastPartnershipFranchise@dft.gsi.gov.uk. No other methods of communication are permitted unless agreed with the Department in advance. For the purpose of this ITT, "**Associated Entity**" shall have the meaning given in the Franchise Letting Process Agreement ("**FLPA**") between the Bidder and the Secretary of State in respect of the West Coast Partnership competition.

1.5 Structure of this ITT

1.5.1 This ITT provides:

- a) The scope and objectives of the West Coast Partnership including a summary of the ITT architecture (Section 2 (Scope and objectives and summary of ITT architecture));
- b) Information and instructions to Bidders (including instructions on how to access the detailed information available regarding the West Coast Partnership Franchise and the processes for enquiries, communications, amendments and clarifications to the

ITT during the Bid period) (Section 3 (Information and instructions to Bidders));

- c) An explanation of the requirements for Bid submission (including the format, content, procedure and timetable for submission of Bids) and of the expected process following Bid submission (Section 4: (Explanation of requirements for Bid submission and overview of process following Bid submission));
- d) Detailed Bid submission requirements - Delivery Plans (Section 5);
- e) Detailed Bid submission requirements – Financial (Section 6);
- f) The evaluation criteria and methodology to be applied to the Bids that are received (Section 7: Evaluation criteria and methodology); and
- g) An explanation of the Department’s Risk Adjustment Process (Appendix 3 – Risk Adjustment Process).

1.6 Other documents

- 1.6.1 For the purpose of the West Coast Partnership competition, this ITT replaces and supersedes in their entirety both the Rail Group - Passenger Services documents “**Franchise Competition Guide**” published on 4 February 2016 and the West Coast Partnership Competition Prospectus published on 16 December 2016. Accordingly, in the event of any inconsistency between either of those documents and this ITT, the terms of this ITT will prevail.

1.7 Franchise Letting Process Agreement

- 1.7.1 This ITT should be read in conjunction with the FLPA which, without limiting any aspect of this ITT, shall continue in full force and effect. Bidders are expected to ensure compliance with the FLPA.

1.8 Commencement of the West Coast Partnership Franchise

- 1.8.1 The Department's aim is for the new West Coast Partnership Franchise to commence operations with effect from 02:00 on 15 September 2019.

1.9 Liability for costs, updates and termination

- 1.9.1 The Department is not and shall not be liable for any costs incurred by those expressing an interest or negotiating or tendering for this contract, their Associated Entities or any other person. The Department reserves the right not to award a contract, to make whatever changes it sees fit to the structure

and timing of the procurement process (including issuing updates and amendments to this ITT), to cancel the process in its entirety at any stage and, where it considers it appropriate to do so, to make a direct contract award pursuant to Articles 5(5) or 5(6) of Regulation (EC) 1370/2007.

1.10 Defined terms

- 1.10.1 Unless the context otherwise requires and save as provided in the glossary at Appendix 1 (Glossary) or as otherwise defined in this ITT, capitalised terms used in this ITT shall have the same meanings given to them in the draft Franchise Agreement provided with this ITT.

Section 2: Scope and objectives and summary of ITT architecture

2.1 Scope of the West Coast Partnership Franchise

2.1.1 The West Coast Partnership Franchise comprises the Franchise Services set out in the Franchise Agreement.

2.2 Franchise objectives

2.2.1 Table 2.1 shows the Franchise objectives.

Table 2.1 Franchise Objectives

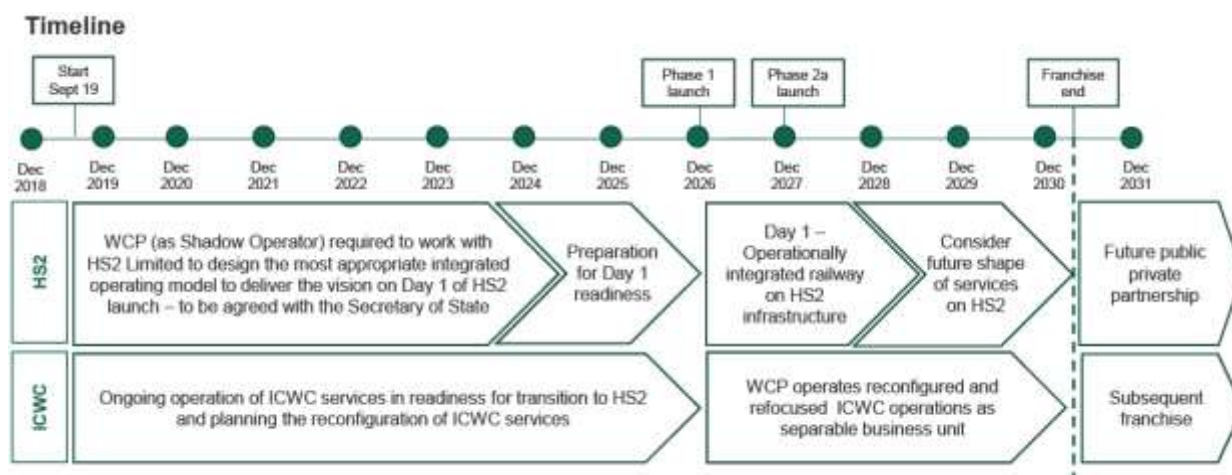
1. **Drive growth in passenger numbers** using the ICWC Services and develop the market for intercity travel between the cities served by the franchise ahead of the introduction of HS2. In doing so, maximise passenger benefits and create the best foundation for the future of the ICWC Services and High Speed Services.
2. **Deliver a step change in customer experience** for passengers on the West Coast, minimising the impact of HS2 construction whilst delivering a new benchmark in passenger satisfaction through the introduction of new technology in advance of HS2.
3. Take full advantage of a **once in a lifetime opportunity** to deliver a transformation in customer experience on HS2 and the existing network.
4. Act as a **partner for Department for Transport, HS2 Ltd, Network Rail** and other relevant bodies to support the development and delivery of the High Speed Services to maximise the long term benefits to passengers and deliver the wider socio-economic benefits associated with HS2.
5. Deliver the benefits of existing investment in the ICWC business whilst developing and **delivering the maximum long term sustainable benefits** for passengers associated with HS2, integrating services with the rest of the rail network by optimising the use of available capacity across the whole geography while taking account of taxpayer interests.
6. **Achieve whole industry benefits** through continued investment in workforce and innovation and partnership working to deliver the services in a cost effective manner.
7. Successfully **deliver the service transition in 2026**, including the ability to respond quickly, in real time, to changes required once high speed and recast conventional services commence.

2.3 Connecting people: a strategic vision for rail and intent for future services on HS2

- 2.3.1 On 29 November 2017 the Department published “*Connecting People: a strategic vision for rail*”,¹ which set out the Department’s vision for the railways and the greater integration and alignment of track and train. As part of this, a new generation of integrated, long-term regional rail partnerships will be established, operated by a single management under a single brand, which will have responsibility for both train services and the track and signals.
- 2.3.2 This document outlined that the West Coast Partnership is to plan and then run operationally integrated services on the new HS2 infrastructure alongside existing West Coast Services. The operator will be required to innovate and maximise passenger benefits on each route during both the preparation and subsequent operation of services on HS2 and act as a champion for passengers. The partnership will bring together, in a single organisation, the design and initial operation of services on HS2 along with the operation of InterCity services on the West Coast Main Line. This new collaborative approach of embedding the passenger experience into the design of future High Speed Services should enable greater alignment of track and train from commencement of High Speed Services.
- 2.3.3 In a statement made on 27 March 2018, the Secretary of State set out his vision for HS2, including the option for an integrated railway operation, in charge of both its infrastructure and its services, or partnership between public and private sectors. The approach to delivering operational integration will be developed in-life through collaboration between the West Coast Partnership, the Department and HS2 Ltd. The model set out at Figure 2.2 below provides an indicative illustration of the roadmap to achieving this outcome.

¹ Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/663124/rail-vision-web.pdf.

Figure 2.2 Example roadmap to greater integration of track and train



2.4 Evaluation of financial robustness

- 2.4.1 The Department has amended its Bid evaluation processes to ensure that Bidders submit ambitious but realistic Bids based on prudent financial assumptions when competing for franchises. In particular, the Financial Robustness Test (defined below in subsection 7.7 (Evaluation of Financial Robustness)) has been amended.
- 2.4.2 The Financial Robustness Test included in this ITT will test Bidders' forecasts based on a Central Risk Adjusted Scenario as well as a Downside Risk Adjusted Scenario, as described in subsection 7.7 (Evaluation of Financial Robustness) and Appendix 3 (Risk Adjustment). The former is based on the Department's reasonable view of the most credible financial outcome and the latter includes a reduction in passenger revenue, using a common algorithm across all Bids, that applies a greater reduction to Bids where significant risk adjustments have been applied to determine the most credible financial outcome. The Department will reduce a Bidder's Evaluated Payments for any forecast net Revenue Support payments in these two scenarios. The outcomes of these scenarios will be equally weighted in the price evaluation. Bidders should note, however, that the Department will eliminate a Bid that is forecast to default in the Central Risk Adjusted Scenario at any point during the Initial Franchise Period and is therefore deemed to have unacceptable financial risk, except as described in subsection 7.7.2.11. However, the calculation and evaluation of Required Parent Company Support will remain unchanged.
- 2.4.3 The Modelling Change requirements set out in subsection 6.11 (Worked examples and modelling Change) have also been amended and Bids may be found to be non-compliant if the ICWC Modelling Suite is not demonstrated to result in transparent and efficient contracting of future

Changes, based on clear and reasonable methodology and credible assumptions. Bidders should also note the requirements set out at subsection 6.5.2l) to provide a detailed explanation of how the opening revenue forecast has been derived in the ICWC Record of Assumptions.

2.5 Summary of ITT architecture

- 2.5.1 Bidders will fulfil the Franchise objectives by meeting the requirements that the Department has articulated in Section 5 (Detailed Bid submission requirements - Delivery Plans) of this ITT.
- 2.5.2 The objective of the West Coast Partnership Franchise is to combine the operation and improvement of the ICWC Services with preparation for the introduction of HS2 (Shadow Operator Services), followed by the integrated operation of both services from the High Speed Start Date until 2031 (Integrated Services). The Franchisee, from the Start Date up to the High Speed Start Date, will be required to operate and improve the ICWC Services. At the same time, the Franchisee will be working closely with the Department and HS2 Ltd as a Shadow Operator of the High Speed Services to shape the future High Speed and ICWC Services, as well as preparing for the HS2 operations. Following the High Speed Start Date, the Franchisee will be required to run High Speed Services and reconfigure and operate the revised ICWC Services on the existing route.
- 2.5.3 Given this unique remit, the Franchise comprises three distinct elements:
- a) The ICWC Services, from the Start Date to the High Speed Start Date;
 - b) The Shadow Operator Services, from the Shadow Operator Start Date to the High Speed Established Services Date; and
 - c) The Integrated Services, from the High Speed Start Date to the Expiry Date.
- 2.5.4 The risk on costs and revenue (subject to revenue risk sharing mechanisms) for operating the ICWC Services is transferred to the Franchisee for the Initial Franchise Period prior to the Integrated Operator Start Date. Without prejudice to the terms of the Franchise Agreement, the Department will retain the large majority of risk on costs and revenue from the Integrated Operator Start Date in relation to the operation of the ICWC Services and the Integrated Services.
- 2.5.5 Bidder's Bids in respect of the ICWC Services will be evaluated in a manner similar to that used in previous rail franchise competitions on the basis of evaluation scores for price and quality.

- 2.5.6 In delivery of the Shadow Operator Services, the Franchisee will be required to apply its experience in high speed rail services to create innovative approaches to preparing the ICWC Services and shaping the HS2 project for integrated operation following the High Speed Start Date. Accordingly, the evaluation of the Bidders' Bids in respect of Shadow Operator Services will be different from evaluation of Bids in respect of ICWC Services. Bids in respect of Shadow Operator Services will be evaluated solely on a qualitative basis, according to the extent to which the Delivery Plans (supported by the Proposed Cost Baseline and the Accepted Programme Modelling Suite) put forward by Bidders give confidence to the Department that the Bidders' approach will enable them to deliver the Department's requirements and achieve the Department's overall objectives. The importance which the Department attaches to the Shadow Operator Services is reflected in the weighting given to this element of the Bids.
- 2.5.7 Reflecting the different nature of the Shadow Operator Services when compared to services delivered under previous rail franchises, the Department's requirements for the Shadow Operator Services are set out in this ITT (with relevant cross-references to the Franchise Agreement) in terms of the studies, plans and deliverables that are expected to be required to be delivered during the Franchise Term. Bidders are encouraged and expected to use their ability, understanding, experience, skills and resources in high speed rail to submit to the Department the methods through which they intend to achieve the overall objectives of each Shadow Operator Delivery Plan, along with evidence of their ability to implement such Delivery Plans in line with the Proposed Cost Baseline. In addition to the evaluation clarification process set out at subsection 4.14.2 (Engagement with Bidders and evaluation clarification process), the Department may choose to negotiate any element of Sub-Plans 1.1, 5.1, 5.2 or 5.3, in which case it will provide feedback to all Bidders setting out the areas that each Bidder may wish to amend as a result of negotiation.
- 2.5.8 In addition to the above, and as part of the quality evaluation of Bids in respect of ICWC Services, the Department encourages Bidders to set out in Delivery Plan 1 (Leadership and Partnering) their proposed approaches to project management across both ICWC Services and Shadow Operator Services, with a view to demonstrating Bidders' approaches to employing the best practices required to achieve successful outcomes across the West Coast Partnership. These principles of coordination and cooperation are reflected in the terms of the Collaboration Agreement and the Partnership Protocol that form part of the overall partnering arrangements supporting the West Coast Partnership.

- 2.5.9 This ITT does not require Bidders to propose Delivery Plans in respect of the Integrated Services. This is because the Department considers that the successful Bidder will have demonstrated its approach to Integrated Services through its proposals for the operation of the ICWC Services and Shadow Operator Services. Between the Shadow Operator Start Date and the High Speed Start Date, the Franchisee will be subject to an Annual Review in which the Department will assess the extent to which the Franchisee has delivered the requirements and met the overall objectives for the Shadow Operator Services. Prior to the High Speed Start Date, the extent to which the Franchisee has performed to the satisfaction of the Department in preparing the West Coast Partnership for the launch of High Speed Services will also be assessed in a Readiness Review.
- 2.5.10 Throughout delivery of the Shadow Operator Services, the Franchisee is expected to continue to develop and implement innovative solutions for service delivery, train performance, customer experience, marketing, branding, fares and other aspects of the services. The Department may elect to discuss and agree to contractualise these solutions, such that they become part of the ICWC Services and/or Integrated Services.

2.6 Strategic network considerations

- 2.6.1 As set out in the Passport System Notice and in paragraph 2.12 of the West Coast Partnership pre-qualification process document, the Department may impose restrictions on certain franchise competitions which may limit the number of franchise competitions which an economic operator may participate in or win. The Department may consider imposing restrictions for a number of reasons, including where it considers this is required to ensure the efficient operation of the rail network. For example, this may be required to ensure that no one or more economic operator(s) are responsible for the operation of too great a proportion of passenger rail services in England, Wales and the cross-border services into Scotland for which the Department is responsible.
- 2.6.2 Bidders should be aware that the Department may impose a restriction on operating both the Franchise and one or more other franchises. If the Department does decide that such a restriction is required in relation to a future competition, further details will be provided in the franchise specific pre-qualification questionnaire (EoI) for that competition. Currently, the Department is considering whether it may need to impose a restriction in relation to the East Coast franchise when that franchise is re-let. The Secretary of State expects to introduce the East Coast Partnership from 2020 and anticipates providing further detail on the process for appointing the operator of the East Coast Partnership later this year.

- 2.6.3 Bidders should be aware that if the Department does decide to impose a restriction on operating both the Franchise and one or more other franchises, that restriction is likely to apply not only to sole operators but also to operators with common joint venture or consortium members. Bidders are encouraged to take the above considerations into account when deciding whether to participate in the competition for this Franchise and future competitions.
- 2.6.4 For the avoidance of doubt, the Department is not imposing any restriction on bidding for the current Franchise, including in relation to the participation of the current operator of the East Coast franchise. The Department also reserves the right not to impose any restrictions on future franchise competitions if it concludes that this is not required.

Section 3: Information and instructions to Bidders

3.1 Applicability of this document

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

3.2 Accuracy of information and liability of the Department and its representatives

- 3.2.1 This ITT is not a recommendation by the Department, or any other person, to enter into any agreement or to make any investment decision. In considering any investment in a Franchise, Bidders should make their own independent assessment and seek their own professional financial and legal advice.
- 3.2.2 Neither this ITT nor AWARD purports to contain all of the information that a prospective Franchisee or shareholder may require. Neither the Department, nor any of its 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, reasonableness or completeness of the information contained either in this ITT or on AWARD.
- 3.2.3 The Department expressly disclaims 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 in, or omissions from, this ITT or the information contained in AWARD, or based on or relating to the recipient's use of it, or the use of it 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 any other decision. In the absence of express written warranties or representations as referred to below, the information in this ITT and the information on AWARD shall not form the basis of any franchise agreement or any other agreement entered into in connection with the replacement or acquisition of a passenger rail franchise.
- 3.2.4 Atkins Ltd, Grant Thornton LLP, Addleshaw Goddard LLP and Slaughter and May are acting for the Department in relation to the award of the West Coast Partnership Franchise. The advisors do not and will not regard any other person as their client in relation to the award of the West Coast Partnership Franchise. They are not, and will not be, responsible to anyone other than the Department for providing the protections afforded to their clients or for advising on the contents of this document or any matter referred to in it.

- 3.2.5 Without prejudice to the provisions of the FLPA and the confirmations given in the Form of Tender, no contract or legal obligation shall result from any disclosure of information or other communication by the Department in connection with this Franchise letting process, including the issue of this ITT, or from the reliance of any person on any information so disclosed or any such communication. No disclosure of information or other communication by the Department in connection with this Franchise letting process will constitute an offer or an acceptance by or on behalf of anyone.
- 3.2.6 Without prejudice to the provisions of the FLPA and the confirmations given in the Form of Tender, the only information provided by the Department 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 Bidder 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 ITT is intended to create a contract between the Secretary of State and any Bidder.

3.3 Intellectual property

- 3.3.1 This document is subject to copyright. The information in this document may be published, transmitted, copied or distributed only in accordance with the terms of the Open Government Licence, including the conditions and exemptions therein. Failure to comply with the conditions of the Open Government Licence shall result in the rights granted to you thereunder ending automatically.

3.4 Industry consultation and disclosure of information in Bids

- 3.4.1 Bidders should be aware that, following the submission of Bids, the Department may consult HM Treasury, ORR, Transport for London, Transport Focus, London TravelWatch, Rail Safety and Standards Board, HS2 Ltd and Network Rail (including without limitation to the extent set out in Section 7 (Evaluation Criteria and Methodology)). The Department may also consult such other persons as it considers necessary or appropriate for the purposes of evaluating Bids (the entities in this subsection being collectively referred to as "**Consultees**" and each separately referred to as a "**Consultee**").
- 3.4.2 Accordingly, the submission of a Bid will constitute permission by the Bidder and its Associated Entities for the Department to disclose to any Consultee all or any of the information contained in, or supplied in connection with, its Bid (including in any response to any clarification query issued by the Department).

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

3.5 Non-compliant Bids

3.5.1 A Bid will be non-compliant if it is submitted late, is incorrect or incomplete, or otherwise fails to follow the Department's instructions set out in this ITT or if one of the elimination events in subsection 3.6 (Automatic elimination) occurs, in all cases whether or not the ITT expressly states that failure to meet a particular requirement will lead to a Bid being deemed non-compliant.

3.5.2 If the Department considers that a Bid may be non-compliant, it may (but it is not obliged to) seek additional information or clarification from the relevant Bidder in accordance with subsection 4.14.2 (Engagement with Bidders and evaluation clarification process).

3.5.3 Where a Bid is found to be non-compliant in accordance with subsection 3.5.1 (if applicable further to the process described in subsection 3.5.2), and except where subsection 3.6 (Automatic elimination) applies, the Department may at its sole discretion reject the Bid and disqualify the Bidder who has submitted that Bid from the competition. For the avoidance of doubt, this subsection does not apply in circumstances where a Bid is found to be non-compliant in accordance with subsections 3.5.10 or 3.5.11 below.

3.5.4 Where a Bid is found to be non-compliant in accordance with subsection 3.5.1 and where the Department decides not to reject the Bid and disqualify the Bidder pursuant to subsection 3.5.3 above, it may start to evaluate the Bid and:

- a) Take into account the effect of the non-compliance in all relevant elements of the evaluation (including, without limitation, in the allocation of evaluation scores and in the Financial Robustness Test); and
- b) May also, where appropriate, correct the ICWC Modelling Suite for the purposes of running the Financial Robustness Test and calculation of the Bidder's Risk Adjusted NPV used in the calculation of the Final Score in accordance with subsection 7.2 (Definition of MEAT for the Competition) as necessary to take into account its reasonable view of the most likely financial impact of the non-compliance on the Department in accordance with subsection 7.7 (Evaluation of Financial Robustness);

except that the scoring of the Bid (including both ICWCP and Q as defined in subsection 7.2 (Definition of MEAT for the Competition)) may not be improved as a result of the process set out in this subsection 3.5.4.

3.5.5 Where a Bid is found to be non-compliant in accordance with subsection 3.5.1 and where the Department decides not to reject the Bid and disqualify the Bidder pursuant to subsection 3.5.3 above, or to complete the evaluation of the Bid and address the non-compliance through the process set out in subsection 3.5.4 above, the Department will at its sole discretion take any other action it considers necessary and appropriate in the circumstances, including but not limited to:

- a) Disregarding the non-compliance; or
- b) Requiring any or all Bidders to adjust or update their Bids so that they are compliant.

In so doing the Department shall have sole discretion as to whether or not any such action would have a material impact on any or all of the Bids such that any element of the evaluation requires to be reopened or Bids are to be adjusted or updated.

3.5.6 Bidders are required, when submitting their Bids, to list in the format set out in the following Table 3.1 (Format of Non-Compliance Statement), all requirements of this ITT with which they are not able to confirm compliance in full at the time of Bid submission. Full details of the reasons for the non-compliance should be given.

Table 3.1 *Format of Non-Compliance Statement*

Requirement of the ITT with which the Bid is non-compliant	Full details

3.5.7 Where the Bid is found to be non-compliant in accordance with subsection 7.5 (Modelling Change tests) (and, for the avoidance of doubt, this includes circumstances in which a Bid is found to be non-compliant in accordance with subsection 7.5 (Modelling Change tests) as a result of the application of the process set out in subsection 3.5.4), the Department will at its sole discretion take any other action it considers necessary and appropriate in the circumstances, including:

- a) Eliminating the Bidder from the competition;
- b) Disregarding the non-compliance;

- c) Adjusting the requirements of this ITT, and giving all Bidders the opportunity to adjust or update their Bids to reflect the revised requirements; or
- d) Requiring any or all Bidders to adjust or update their Bids so that they are compliant.

3.5.8 The disqualification or elimination of a Bidder in accordance with this subsection 3.5 (Non-compliant Bids), subsection 3.6 (Automatic elimination) or subsection 3.7 (Right to disqualify Bidders) will not prejudice any other civil remedy available to the Department and will not prejudice any criminal liability that such conduct by a Bidder may attract.

3.5.9 Bidders should note that, where their Bid is not compliant with the terms of the Franchise Signature Documents as issued by the Department from time to time throughout the competition, they will nevertheless (if successful) be required to execute and comply with the terms of the Franchise Signature Documents as required by the Department.

Non-compliance with Key Sub-Plans

3.5.10 A Bid will also be treated as non-compliant if it receives an evaluation score of less than 4 in respect of either of the following Sub-Plans:

- a) 2.1 Train Services; or
- b) 2.2 Rolling Stock,

together, the “**Key Sub-Plans**”.

3.5.11 Following completion of the evaluation of Bids, the Department will calculate an “**Overall Evaluation Score**” for each Bid, which will be the aggregate of the evaluation scores for each Sub-Plan, weighted in accordance with Table 7.2 (Delivery Plan and Sub-Plan weightings). A Bid will also be treated as non-compliant if it receives an Overall Evaluation Score of less than 4. For the avoidance of doubt, the Overall Evaluation Score will be used only for the purpose described in this subsection 3.5 (Non-compliant Bids), and it will not be used in the calculation of the Bid’s overall Quality Score, which will be determined in accordance with subsection 7.11 (Conversion of evaluation scores into Quality Scores).

3.5.12 If a Bid is found to be non-compliant in accordance with subsection 3.5.10 or subsection 3.5.11, the Department may at its sole discretion either:

- a) Disregard the non-compliance; or

- b) Notify the Bidder of the non-compliance and give the Bidder the opportunity to adjust or update its Bid within a time period specified by the Department so that it is compliant. Only those consequential adjustments to other areas of the Bid that are a direct consequence of the adjustments required to address the non-compliance will, in the sole discretion of the Department, be permitted.

3.5.13 The Quality Score of the Bid (as defined in subsection 7.2 (Definition of MEAT for the Competition)) may not be improved as a result of the process set out in subsection 3.5.12b). If the adjusted Bid results in a change to the Bid's ICWC Modelling Suite, the adjusted ICWC Modelling Suite will be used for the purposes of the Financial Robustness Test and calculation of the Bidder's Risk Adjusted NPV used in the calculation of the Final Score in accordance with subsection 7.2 (Definition of MEAT for the Competition).

3.6 Automatic elimination

3.6.1 Table 3.2 (Elimination events) lists the events which will trigger the automatic elimination of a Bidder from the Bidding process (and for the avoidance of doubt subsection 3.5.7 will apply).

Table 3.2 Elimination events

Elimination event
A Bidder uses MOIRA2 or MOIRA2.2, their component parts or their intermediate outputs for modelling revenue impacts, timetable changes, crowding or for any other purpose.
A Bidder is projected in its Central Risk Adjusted Financial Model to have a Financial Ratio Breach at any point during the Initial Franchise Period, except as described in 7.7.2.11, and therefore the Bid is deemed to have unacceptable financial risk.

3.7 Right to disqualify Bidders

3.7.1 The Department also has the right to disqualify a Bidder (and for the avoidance of doubt subsection 3.5.7 will apply) where:

- a) It has the right to do so under the terms of the FLPA; or
- b) At any time prior to the execution of the Franchise Agreement the Bidder is unable to satisfy the requirements for pre-qualification as set out in the West Coast Partnership Franchise pre-qualification process.

3.8 Data Site and AWARD

3.8.1 The Department has established a web based Data Site for the West Coast Partnership Franchise (the "**Data Site**") and a portal, which are operated by QinetiQ Commerce Decisions and are known as "**AWARD**". The Data Site contains, in electronic form, documents and information specifically relating to the West Coast Partnership Franchise, including incumbent operator information. Additionally, AWARD will be used for Bidder Clarification Questions ("**BCQs**") and Bid submission, evaluation and clarification. Short-listed Bidders have been granted access to AWARD.

3.9 Bidder Clarification Questions

- 3.9.1 All BCQs and requests for additional information relating to this ITT, the West Coast Partnership Franchise and the Franchise letting process must be submitted by Bidders via the AWARD website. BCQs should be accompanied by an explanation of why the relevant question has been raised so that the Department understands the context of the question. BCQs should clearly identify the Data Site folder, document and text for which clarification is being sought.
- 3.9.2 The status of all BCQs raised by each Bidder, including responses when available, will only be provided to Bidders through the AWARD website. Once Bidders have submitted BCQs on the AWARD website a unique BCQ identification number will be generated. Bidders will be able to track the progress of each BCQ that is not designated confidential through the AWARD website, including BCQs raised by other Bidders.
- 3.9.3 The Department will transmit to all other Bidders (without reference to the identity of the Bidder which submitted the question) BCQs raised and responses made, with the exception of those deemed confidential as provided in subsection 3.9.4.
- 3.9.4 A Bidder may request that the Department treats a BCQ and its response as confidential. Confidential BCQs are BCQs where the questions are not made available to other Bidders and the responses will only be shared with the Bidder raising the BCQ. Any such requests must be made clear at the time of submission of the BCQ. The Department will advise the Bidder in advance of providing the answer if it considers that all or any part of the BCQ cannot be treated as confidential, and close that question. The Bidder may either submit an amended question to be treated as confidential, which would be considered by the Department in the same manner as the original question, or raise a new question to be treated as a non-confidential BCQ.

- 3.9.5 Bidders must ensure clarity as to the expected source, scope and format of the material requested pursuant to a BCQ (e.g. passenger count details by period, by service group for the last year).
- 3.9.6 The Department will aim to respond to BCQs expeditiously having regard to the nature, extent and availability of the information requested. The Department will endeavour to respond to BCQs within 15 working days from receipt unless stated otherwise within Section 5.
- 3.9.7 Except as described in subsection 7.13 (Delivery Plan negotiation), Bidders should be aware that BCQs may not be accepted from 20 working days prior to the closing date for Bid submission, save in respect of new information provided after this point. Therefore the last date for the submission of BCQs competition will, in the absence of any extension, be 15 June 2018. Any BCQs received after this point will only be accepted at the sole discretion of the Department.
- 3.9.8 Before submission of Bids, Bidders will have the opportunity to meet with the Department to discuss any points of clarification that are appropriate and necessary in order for Bidders to prepare their Bids. In the event that any answers given in that process, or any information or instructions given in any draft documents conflict with information or instructions given in this ITT then the terms of this ITT will prevail. If, however, Bidders are seeking to rely on any of the information or indication or view imparted during a meeting, they must subsequently submit a BCQ and may rely only on the response provided to that BCQ and not on any information or indication or view imparted during a meeting. Bidders may also have the opportunity to meet with the Department as described in subsection 7.13 (Delivery Plan negotiation).
- 3.9.9 No other notes and/or records of such meetings form part of this ITT and unless confirmed by the Department in response to a BCQ, information or views given by the Department at the meetings shall not be relied upon in the preparation of any Bid.
- 3.9.10 Where a Bidder believes that there is any inconsistency between any documents or information (or ambiguities in those documents) provided by the Department to Bidders or their Associated Entities as part of the bidding process it should seek to clarify the point through the BCQ process rather than make an assumption in its Bid in relation to such matter.

3.10 Transparency and freedom of information

- 3.10.1 Bidders should note that, even where information is identified as commercially sensitive or confidential, the Secretary of State may be

required to disclose such information in accordance with the Freedom of Information Act 2000 ("**FOIA**") and/or the Environmental Information Regulations 2004 ("**EIR**"). The Secretary of State is required to form an independent judgment concerning whether information is exempt from disclosure under the FOIA and/or EIR at the time of any request. In particular Bidders should be aware of the Code of Practice issued by the then Secretary of State for Constitutional Affairs under section 45 of the FOIA which limits the circumstances under which a public authority should agree to hold information in confidence. It could be the case, therefore, notwithstanding notification by Bidders that parts of a response have been provided in confidence or are commercially sensitive, the Secretary of State will be obliged to disclose those parts.

- 3.10.2 Bidders should refer to section 3.5 of the Franchise Pre-Qualification Process Document for information relating to transparency and freedom of information, and should note that the Department will place a copy of the ITT in the public domain at the same time as, or shortly after, it is supplied to Bidders, with redactions where appropriate.
- 3.10.3 In submitting their Bids in response to this ITT, Bidders are invited to identify which parts, if any, of their Bid are provided to the Department in confidence or are commercially sensitive or which may be subject to any other provision of the FOIA or EIR, such that they may be exempt from disclosure under the FOIA and/or EIR. Bidders should provide reasons why such information should not be disclosed in response to any request and an estimate of the period of time during which the Bidders believe that such information will remain exempt from disclosure.

3.11 Competition matters

- 3.11.1 Depending on the identity of the Bidder, the award of the Franchise may constitute a "relevant merger situation" under the Enterprise Act 2002 ("**EA02**") as amended by the Enterprise and Regulatory Reform Act 2013 (i.e. one over which the Competition and Markets Authority ("**CMA**") would have jurisdiction), or a concentration with a European Community dimension under the EU Merger Regulation (Council Regulation (EC) No. 139/2004) ("**EUMR**"), which would be required to be notified to the European Commission ("**EC**").
- 3.11.2 If the award of the Franchise to a particular Bidder would give rise to a realistic prospect of a substantial lessening of competition (under EA02, as amended), or, where EUMR is applicable, raises serious doubts as to its compatibility with the common market, such as would give the CMA, or the EC (as appropriate) cause to subject the award of the Franchise to a substantive (second phase) investigation, this might prejudice the timing of

the Franchise process and/or the ability of the Bidder to operate the Franchise as bid. The CMA and EC also have the power during a first phase investigation to accept remedies in order to address concerns that would otherwise require a second phase investigation.

3.11.3 Generally, a transaction with a Community dimension may not be completed until clearance has been obtained under EUMR. In the context of a relevant merger situation under EA02, the CMA may impose an interim order preventing any action that might prejudice its second phase investigation and/or impede the taking of any remedial action that may be required in respect of the award of the Franchise. It is therefore important for the Department to be able to understand the impact of any potential intervention and any substantive issues (especially if such intervention may involve a second phase investigation) by the CMA or EC in scrutinising the Bids of each Bidder.

3.11.4 Each Bidder is therefore required to confirm in its Bid:

- a) Whether the award of the Franchise to it would require notification to the EC under EUMR, and, if so:
 - i) Whether the Bidder proposes to request pursuant to Article 4(4) EUMR that the transaction is referred back to the CMA for consideration and how it views the prospects of such a request being accepted; or
 - ii) In the alternative, the likelihood of the CMA requesting referral back of the case to the UK;
- b) The Bidder's reasoned analysis of the likely competition assessment of the transaction, including its assessment of the prospect of clearance in the first phase of any investigation by the CMA and/or the EC (as applicable) together with a description of the analysis undertaken and evidence reviewed by the Bidder in carrying out such assessment;
- c) The strategy which the Bidder will adopt to minimise any delay or substantive issues which will be caused by the need to obtain clearance from the CMA or EC and which may affect the Bidder's ability to operate, or commence the operation of, the Franchise, in accordance with the requirements of the Franchise Agreement and assuming that an award is made to the Bidder. In particular, the Bidder must:
 - i) Explain how it proposes to approach pre-notification discussions with the CMA or, as the case may be, the EC,

to ensure the notification is complete and that all necessary supporting evidence is included;

- ii) Confirm that it will co-operate fully with the EC and/or the CMA during their investigations, in particular by responding promptly to any requests for information;
- iii) Explain whether or not the award raises any competition concerns including taking into account any existing activities of the Bidder including any tenders;
- iv) Confirm the Bidder's, and any of its Affiliates', willingness to offer undertakings or commitments to the CMA or the EC in order to avoid a second phase investigation, a description of the nature and extent of any such undertakings the Bidder would be willing to offer, and its reasoned analysis as to why such undertakings or commitments are likely to be accepted by the CMA or the EC. If the Bidder considers that it would not be required to offer such undertakings or commitments, then the Bidder must provide its reasoning supporting such conclusion;
- v) Confirm that any such undertakings or commitments given would not impact on the ability of the Bidder and/or any of its Affiliates to operate any other UK rail franchise of which it is the franchisee, or to the extent they would, a detailed assessment of such impact;
- vi) Provide an indication of the likely timetable for securing any required competition clearance, including the preparation of notifications, timing of pre notification discussions, formal notification and clearance; and
- vii) Provide a reasoned assessment of the likelihood of the CMA imposing an interim order on the Bidder in relation to the Franchise, specify the form of any derogations the Bidder would seek from the CMA's standard form interim order in the event that any such order is issued and the Bidder's reasoned assessment of the likelihood of such derogations being granted.

3.11.5 The Department reserves the right to engage with the CMA and it is possible that as part of this ongoing dialogue the Department may wish to disclose to the CMA some of the merger control strategy submitted by the Bidder. In

addition, the Department notes that a paper prepared by a Bidder setting out merger analysis and strategy may potentially be disclosable to the CMA as part of the information to be provided by the parties during the CMA's merger review process.

- 3.11.6 However, the Department acknowledges that early disclosure of certain elements of a Bidder's merger control strategy may be prejudicial to the commercial interests of that Bidder. To deal with this issue, the Department suggests that Bidders consider preparing all or part of their strategy in the form of privileged legal advice. This advice could be provided to the Department on the basis that the Department will treat it as confidential and privileged and will not forward it to a third party without the prior approval of the Bidder. If the Department wishes to discuss with the CMA an element of a confidential and privileged merger control strategy it will first discuss this with the Bidder, with a view to seeking the Bidder's consent to the disclosure in a form that minimises any potential prejudice to the commercial interests of the Bidder.
- 3.11.7 If a Bidder wishes to follow this approach, the Department requests that the Bidder:
- a) Restricts the information which is included in the confidential and privileged legal advice to that which is most sensitive. Information which is likely to be provided to the competition authorities with the merger notification should not fall into this category;
 - b) Marks the confidential and privileged advice as follows:
"Confidential and privileged legal advice - not to be circulated or disclosed"; and
 - c) Submits a shorter standalone high level note marked as "disclosable" which may be disclosed to the CMA. The "disclosable" high level note should set out the Bidder's own assessment of the competition law issues which arise from their proposed operation of the Franchise and how the Bidder intends to resolve these issues.
- 3.11.8 All of a Bidder's competition strategy will be considered by the Department, regardless of whether disclosures are made to the CMA.
- 3.11.9 The Bidder must keep the Department informed of the progress of its notifications to the EC and/or the CMA, including notifying the Department as soon as possible if it becomes aware of the possibility that remedies or a second phase investigation may be required.

3.11.10 Bidders must advise the Department as soon as possible if there is any change in the circumstances from the position as outlined in their Bid which may affect the competition clearance process (for example, if the Bidder acquires or divests another transport operation which is relevant to the competition assessment of the Franchise award). If Bidders fail to do so, their Bid will be deemed to be non-compliant.

3.11.11 If a Bidder does not provide to the Department sufficient evidence to satisfy the Department that a CMA or EC intervention (including a “phase two” intervention) will not prejudice the ability of:

- a) The Bidder to commence operation of the Franchise on the Department's proposed Start Date;
- b) The Bidder otherwise to operate the Franchise in accordance with its Bid; or
- c) Any Affiliate of the Bidder to commence operation of or continue to operate any other UK rail franchise of which it is the franchisee;

the Department, acting reasonably, reserves the right to disqualify that Bidder.

3.11.12 Without prejudice to subsection 3.11.11, the fact that a Bidder's Bid is subject to EUMR clearance or may result in a longer competition clearance process will not of itself be regarded as a negative factor in evaluating the Bid.

3.11.13 Bidders should be aware that the above considerations apply to joint venture and consortium members in the same way as to sole Bidders. In particular, Bidders should note that the EA02 and the EUMR are capable of applying to such joint venture and consortium members where they exercise a form of control known as "material influence" (under the EA02) or "decisive influence" (under the EUMR), both of which are capable of existing well below a 50% interest.

3.11.14 Bidders are strongly encouraged to contact the Department to discuss any merger control concerns as early as possible.

3.12 Regulation (EC) 1370/2007

3.12.1 Pursuant to Article 4(1)(b) of Regulation (EC) 1370/2007 the Department must ensure that the Franchise Agreement to be entered into with the winning Bidder does not result in the overcompensation of the Franchisee for the purpose of the Regulation.

- 3.12.2 The Department will review one or more of the leading Bid(s) to ensure that such Bid(s) will not result in overcompensation for the purposes of Regulation (EC) 1370/2007. It is anticipated that this review may include, without limitation the following:
- a) Confirming that the relevant Financial Templates have been populated correctly;
 - b) Assessing whether the Bid suggests that the Franchisee will be engaging in commercial arrangements which are inconsistent with normal market practice or market rates (including as a result of trading with Affiliates); and/or
 - c) Identifying whether there is any information that is contained within the Bid which indicates either that the operation of the profit share mechanism in the Franchise Agreement will be distorted, or that the Franchisee will be otherwise overcompensated.
- 3.12.3 As part of the review described in subsection 3.12.2 the Department will also consider whether it is appropriate, and reserves the right, to make any amendment(s) to the profit share thresholds in the Franchise Agreement, or take any other steps which, in its discretion, will remove the element(s) of overcompensation identified in the leading Bid(s).
- 3.12.4 Bidders must provide the Department with such information as the Department may request in relation to the review described in subsection 3.12.2.
- 3.12.5 The Department will not award a Franchise which, in its view, will involve overcompensation of the Franchisee, in breach of the Department's obligations under Regulation (EC) 1370/2007.
- 3.12.6 The Department is not imposing a limit or restriction on subcontracting. However, Bidders should note that the Department will be required to ensure that the winning bid complies with the applicable legal obligations in respect of subcontracting (including under Article 4(7) of Regulation 1370/2007).

3.13 Changes to information or circumstances

- 3.13.1 Bidders should note that the sections of the FLPA and the Franchise Pre-Qualification Process Document (PPD) dealing with changes to information and circumstances, including changes in ownership or conflicts of interest, continue to apply. In assessing changes, the Department reserves the right to disqualify the Bidder from the competition and, as applicable, reject that Bidder's Bid, if as a consequence of that change:

- a) The Bidder would no longer pre-qualify to be shortlisted to receive this ITT in accordance with the evaluation process set out in section 4 of the Franchise PPD;
- b) The Passport requirements are no longer met by the Bidder, meaning that a Passport would not be awarded to it on the basis of the evaluation process outlined in section 4 of the Passport Process Document if a fresh application was made at the relevant time;
- c) Where the Bidder's participation in the West Coast Partnership Franchise competition depends on a Temporary Visa, the Temporary Visa would not be awarded to that Bidder on the basis of the Temporary Visa application process outlined in section 5.6 of the Passport Process Document (as referred to by section 5.4 of the Franchise PPD) if a fresh application was made at the relevant time; or
- d) The continued participation of the Bidder in the competition following the change would mean that the Bidder is placed at a competitive advantage, in breach of the principle of equal treatment.

3.13.2 The Department will carry out the Tests described in subsection 6.14 (Updating of EOI financial and economic standing tests (the "Tests") and submission of updated bond provider letter(s)) on receipt of Bids for all Bidders, and immediately prior to the award of the Franchise for the leading Bidder, on the basis of the most recent financial information.

3.14 Variations to the Franchise Agreement

3.14.1 Bidders' attention is drawn to the variation provisions in paragraph 1 of Schedule 9.3A and Schedule 9.3B of the Franchise Agreement and the ability of the Secretary of State to amend the contracted TSR (Train Service Requirement). The Secretary of State reserves the right to require variations to the Franchise Services and/or the manner in which Franchise Services are required to be delivered, and any consequential changes to the Franchise Agreement, acting in compliance with the law. The Secretary of State may also require variations to other contracted provisions or outputs, acting in compliance with the Law.

3.14.2 In particular, variations may result from changes to the specification or timing of committed projects affecting the West Coast Partnership Franchise. Variations will not necessarily be restricted to the effects of committed projects. However, any changes required will be such as a reasonably

competent and professional operator of the West Coast Partnership Franchise could, in all relevant circumstances, reasonably be expected to be able to deliver and will be generally consistent with the overall scope of the West Coast Partnership Franchise proposition taking into account the need to be able to vary the nature, quantity and manner of delivery of West Coast Partnership services in response to circumstances relating to the development of railway infrastructure and services and other relevant financial, economic and technical developments and the implementation of rail policy.

- 3.14.3 Given the duration of the West Coast Partnership Franchise, and the strong likelihood of economic, social, budgetary and operational circumstances changing over the Franchise Term, the Department believes it is likely to make variations to the Franchise Agreement during the Core Franchise Term and any Extension Period. In order to provide an incentive for the Franchisee to develop and implement such changes, it may be appropriate for the Franchisee to receive a reasonable level of financial benefit, if any financial benefit arises from such changes. It may also be appropriate for the Department, or other parties such as Network Rail, to share such benefits with the Franchisee.

3.15 Pensions

- 3.15.1 Bidder's attention is drawn to Schedule 16A and Schedule 16B of the Franchise Agreement which sets out the requirements for pensions. For the avoidance of doubt, the Department will not provide any indemnity regarding any payments that may be required under the Railways Pension Scheme Order 1994 (No. 1433) or otherwise.

3.16 Form of Tender

- 3.16.1 Bidders are required to include in their Bids a Form of Tender as set out in Attachment F (Form of Tender). For the avoidance of doubt, any amendments to the Form of Tender will mean that the Bid is deemed non-compliant, and the provisions of subsection 3.5 (Non-compliant Bids) of this ITT shall apply.

Section 4: Explanation of requirements for Bid submission and overview of process following Bid submission

4.1 Preparation of Bids

- 4.1.1 Bidders are reminded that they are expected to stand behind all aspects of their Bids. In particular Bidders are referred to subsections 4.14.3 (Contractualisation of ICWC and Combined Sub-Plans) and 4.14.4 (Contractualisation of Shadow Operator Sub-Plans).
- 4.1.2 The Department expects to receive Bids that contain no qualifications. Bidders shall not propose amendments to the Franchise Signature Documents (other than to fill gaps denoted by the drafting note 'Bidders to populate'), including by proposing their own Secretary of State Risk Assumptions or any other contractual amendments which seek to transfer risk from the Franchisee to the Secretary of State. For the avoidance of doubt, any failure by a Bidder to comply with the requirements of this subsection shall mean that the Bid is deemed non-compliant, and the provisions of subsection 3.5 (Non-compliant Bids) of this ITT shall apply.

4.2 Franchising timetable and process

- 4.2.1 The remaining stages of the process for appointing the Franchisee together with their indicative timings, are set out in Table 4.1 below.

Table 4.1 Franchising timetable

Description	Party Responsible	Planned Date
Submission of Bids	Bidders	13 July 2018
Evaluation of Bids, clarification, drafting of Committed Obligations	The Department and Bidder(s)	From 16 July 2018
Secretary of State consent to and HMT approval of the West Coast Partnership award	The Department	April to May 2019
Planned Franchise award and preparation for commencement of Franchise	The Department and the Franchisee	May to September 2019
Start of Franchise	Franchisee	15 September 2019

4.3 Structure and format of Bids

- 4.3.1 Bidders are required to provide the material set out in Table 4.2 below when submitting their Bids.

Table 4.2 Structure and format of Bids

Part	Areas	Submission Requirements	Size limit
1	Main text		
	Delivery Plan 0 (Bid Summary)	One electronic copy submitted through AWARD; One un-priced electronic copy submitted through AWARD; One electronic copy submitted in CD or DVD format; One un-priced electronic copy submitted in CD or DVD format	20 pages maximum
	Delivery Plans 1 - 5 as required by Section 5	One electronic copy submitted through AWARD; One un-priced electronic copy submitted through AWARD; One electronic copy submitted in CD or DVD format; One un-priced electronic copy submitted in CD or DVD format	1,000 pages maximum for Delivery Plans 1 – 5 in total, including annexes and appendices, with a maximum page limit of 250 pages for Delivery Plan 5 only
	Letters of Support	One electronic copy submitted through AWARD; One electronic copy submitted in CD or DVD format	Maximum 10 pages each
2	Financial		
	ICWC Operational Models and ICWC Financial Model within the ICWC Modelling Suite as required by subsection 6.3 (Financial and operational model requirements for the ICWC Modelling Suite)	One electronic copy submitted through AWARD; One electronic copy submitted in CD or DVD format; PDF of worksheets of Tier 1 ICWC Operational Models that directly interface with the ICWC Financial Model or other Tier 1 ICWC Operational Models (note: it is only the interface worksheet of each Tier 1 ICWC Operational Model that is required) - one electronic copy of these PDF files through AWARD and one in CD or DVD format	75MB maximum size per Microsoft Excel workbook (see subsection 6.8.1)
	PDFs of the populated financial templates; ICWC Record of Assumptions, required by subsection 6.5 (ICWC Record of Assumptions); plus supporting xls sheets where required; ICWC Operating Manual, required by subsection 6.6 (ICWC Operating Manual)	One electronic copy submitted through AWARD; One electronic copy submitted in CD or DVD format	None

Part	Areas	Submission Requirements	Size limit
	Accepted Programme Financial Model and Accepted Programme Operational Models, required by subsection 6.7 (Accepted Programme Modelling Suite); Accepted Programme Operating Manual, required by subsection 6.7.4 (Accepted Programme Operating Manual); Accepted Programme Product Cost Assumptions Statements, required by subsection 6.7.5 (Product Cost Assumptions Statements)	One electronic copy submitted through AWARD; One electronic copy submitted in CD or DVD format; PDF of worksheets of Accepted Programme Operational Models - one electronic copy of these PDF files through AWARD and one in CD or DVD format	75MB maximum size per Microsoft Excel workbook (see subsection 6.8.1)
	PDFs of the populated Accepted Programme Cost Baseline Templates, required by subsection 6.7.3 (Accepted Programme Cost Baseline Templates); Accepted Programme Operating Manual, required by subsection 6.7.4 (Accepted Programme Operating Manual);	One electronic copy submitted through AWARD; One electronic copy submitted in CD or DVD format	None
	Modelling Best Practice Confirmation, required by subsection 6.12.2 (Modelling Best Practice Confirmation); Financial Structure and Funding Plan, financial adviser's letter, Parent Company Support and Bonding, required by subsection 6.13 (Financial Structure and Funding Plan); Any other term sheets or financing arrangements for projects; Confirmation of bond availability, required by subsection 6.13 (Financial Structure and Funding Plan); Update of financial information to update financial Tests, required by subsection 6.14 (Updating of EoI financial and economic standing tests (the "Tests") and submission of updated bond provider letter(s)); ROSCO term sheets required by Sub- Plan 2.2 Rolling Stock;	One electronic copy submitted through AWARD; One electronic copy submitted in CD or DVD format	None
3	Technical Data		
	The following details should be submitted in support of the	One electronic copy submitted through AWARD;	None

Part	Areas	Submission Requirements	Size limit
	main text of the Bid submission: the technical data required in Sub-Plan 2.1 Train Services in the format described in subsection 4.11 (Submission of Bids)	One electronic copy submitted in CD or DVD format	
4	Legal and compliance		
	Versions (clean and redline mark up against the version of each agreement provided with this ITT or, if subsequently amended, the latest versions uploaded to AWARD) of each of the Franchise Agreement, the Funding Deed, the Conditions Precedent Agreement, Escrow Agreement and any other agreements to be signed as part of the award of the Franchise (together the “ Franchise Signature Documents ”) with those parts marked ‘Bidders to populate’ completed; Non-compliance statements as required by subsection 3.5 (Non-compliant Bids); Statement of competition matters as required by subsection 3.11 (Competition matters); FOIA statement if submitted in accordance with subsection 3.10 (Transparency and Freedom of Information); A completed Form of Tender as required by subsection 3.16; (Form of Tender)	One electronic copy submitted through AWARD; One electronic copy submitted in CD or DVD format	None
5	Schedule of Initiatives, as required by subsection 4.14.3 (Contractualisation of ICWC and Combined Sub-Plans); Proposed Accepted Programme and Proposed Resourcing Plan (as required by Delivery Plan 5 Shadow Operator).	One electronic copy submitted through AWARD; One electronic copy submitted in CD or DVD format	None

4.3.2 Table 4.3 lists the Agreed Documents required as part of the Delivery Plans and Section 5 (Detailed Bid submission requirements – Delivery Plans) and Section 6 (Detailed Bid submission requirements – Financial), and states whether these documents count towards the page limit of the main text.

4.3.3 For the avoidance of doubt, Agreed Documents which form part of a Sub-Plan should not be submitted as an embedded Appendix to that Sub-Plan, but should be submitted as separate files and reference as per subsection 4.7 (Cross referencing).

Table 4.3 List of Agreed Documents that form part of the Delivery Plans and Section 6

Agreed Documents	ITT Section (where applicable)	Included within page limit?
Shadow Operator Resourcing Strategy	Sub-Plan 1.1 (Franchise Leadership and Management)	Yes
Shadow Operator Procurement Strategy	Sub-Plan 1.1 (Franchise Leadership and Management)	No
Shadow Operator Financial Management Strategy	Sub-Plan 1.1 (Franchise Leadership and Management)	No
Partnership Protocol	Sub-Plan 1.2 (Partnering)	No
Alliance Agreement	Sub-Plan 1.2 (Partnering)	No
Train Service Requirement	Sub-Plan 2.1 (Train Services)	No
Bid Fares Strategy	Sub-Plan 3.2 (Fares and Ticketing)	No
Passenger's Charter	Sub-Plan 4.1 (Customer Experience)	No
Customer and Stakeholder Engagement Strategy	Sub-Plan 4.1 (Customer Experience)	Yes
Station Social and Commercial Development Plan	Sub- Plan 4.2 (Stations)	Yes
Proposed Accepted Programme	Delivery Plan 5 (Shadow Operator)	No
Proposed Resourcing Plan	Delivery Plan 5 (Shadow Operator)	No
ICWC Financial Model	Section 6	No
ICWC Record of Assumptions	Section 6	No
Proposed Cost Baseline	Section 6	No
Product Cost Assumption Statements	Section 6	No

4.4 Page limits, size of text, other formatting

- 4.4.1 The size of the main text of Delivery Plans 1-5, including annexes and appendices in accordance with subsection 4.5 (Annexes and appendices) below, will be limited to 1000 pages with a maximum page limit of 250 for Delivery Plan 5. Bidders shall provide a table detailing the page count for each Sub-Plan.
- 4.4.2 One page constitutes one printed side of A4 with 2cm clear margins all round. For main text the minimum font size to be used will be Arial of a minimum size of 11pt and the font type will be standard (i.e. not 'narrow') with minimum line spacing of 13pt. Bidders are encouraged to use a simple presentation style, avoiding colour photographs and other high cost elements of production as this will not add value to the substance of the Bid. Minimum font size for any text in tables will be Arial and of a minimum size of 11pt (standard, not 'narrow'). There is no minimum font size set for graphs.
- 4.4.3 Any pages which do not comply with the criteria in subsection 4.4.2 above, will be reformatted by the Department to comply.
- 4.4.4 The following elements of the Bid will be outside the page limit:
- a) The contents of the financial part as required by Section 6 (Detailed Bid submission requirements – Financial) and described in Table 4.2 (Structure and format of Bids);
 - b) The contents of the technical data part as described in Table 4.2 (Structure and format of Bids);
 - c) The contents of the legal and compliance part as described in Table 4.2 (Structure and format of Bids);
 - d) The contents of the Agreed Documents that are not included in the page limit where stated in Table 4.3 (List of Agreed Documents that form part of the Delivery Plans and Section 6);
 - e) Covers, section dividers and indices where these do not contain substantive parts of the Bid;
 - f) Letters of Support, compliant with subsection 4.6 (Letters of Support), submitted as supporting evidence for a Delivery Plan; and
 - g) The contents of the Schedule of Initiatives template as described in Table 4.2 (Structure and format of Bids).

- 4.4.5 Delivery Plan 0 shall not fall within the page limit, but shall be limited to 20 pages. If Delivery Plan 0 exceeds 20 pages, it will not be passed to evaluators.
- 4.4.6 Bidders are required to confirm in response to the relevant question on AWARD whether the listed documents are within or outside the page count limit set out in subsection 4.4 (Page limits, size of text, other formatting) and confirm that the Bid is no greater than the page count limit. Bidders must not submit additional or supplementary information which is not expressly permitted by this ITT or accepted by the Department in accordance with the evaluation clarification process. Any pages which exceed the page count limit and any additional or supplementary information will be disregarded for evaluation purposes and will constitute a non-compliance.

4.5 Annexes and appendices

- 4.5.1 Bidders may include attachments, annexes and appendices to their response that should be clearly referenced in the main text. Any attachments, annexes or appendices are included within and subject to the size limits described in subsections 4.3 (Structure and format of Bids) and 4.4 (Page limits, size of text, other formatting).
- 4.5.2 Agreed Documents which form appendices to Sub-Plans, as described in Table 4.2 (Structure and format of Bids), will be included within the page limit where specified in Table 4.3 (List of Agreed Documents that form part of the Delivery Plans and Section 6). These Agreed Documents will be evaluated as part of the relevant Sub-Plan and therefore Bidders do not need to repeat or summarise the content of these Agreed Documents elsewhere within the relevant Sub-Plan.

4.6 Letters of Support

- 4.6.1 Letters of Support must not exceed 10 A4 pages in length. Any pages over the 10 page limit will be disregarded for evaluation purposes. Each letter must be submitted in pdf format. The text and formatting requirements as described in subsection 4.4 (Page limits, size of text, other formatting) do not apply to Letters of Support.

4.7 Cross referencing

- 4.7.1 The Department's evaluators will follow cross references to specifically identified components of other Sub-Plans and Letters of Support. The Department's evaluators are not required to follow unspecific general references (for example, "further evidence on this issue is provided in our Fleet Strategy Sub-Plan") or cross references to elements of the Bid which are subject to, but not included in, the page limit provided in subsection 4.4

(Page limits, size of text, other formatting). Bidders should therefore endeavour to make cross references as specific as possible.

4.8 Bid consistency

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

4.9 Language

4.9.1 All responses must be in English. This requirement does not apply to any requested information which has not been created for the Bid (e.g. company financial reports), but a translation into English must be provided for any requested information submitted in a language other than English and such translation shall not fall within the page limit described in subsection 4.4 (Page limits, size of text, other formatting).

4.10 Monetary amounts

4.10.1 All financial information supplied as part of the Bid must be clearly denominated in Pounds Sterling. This requirement does not apply to any requested information which has not been created for the Bid (e.g. company financial reports), which should use the original currency. Where financial information is supplied as part of the Bid in a currency other than Pounds Sterling, and the Department wishes to convert the relevant information into Pounds Sterling, it will use the closing mid exchange rate published in the Financial Times on the day this ITT is published.

4.11 Submission of Bids

4.11.1 Bidders are required to submit their Bid to the Department, prepared in accordance with the requirements listed in Table 4.2 (Structure and format of Bids), and in accordance with the following requirements:

- a) Each CD or DVD shall be labelled clearly with the Bidder's name. The Department requires that an index is provided for the electronic information. Electronic information is required to be saved using the Open XML Standard format supported by Microsoft Office 2010 or later (but fully compatible with Microsoft Office 2010). Specifically, spreadsheets must be saved using the Microsoft Excel 'xlsx', 'xlsb' or 'xlsm' file extension and documents as Microsoft Word 'docx' files;

- b) All material which forms part of the "Main text" in Table 4.2 (Structure and format of Bids) must be provided using Microsoft Word 'docx' files with the exception of Agreed Documents and Letters of Support;
- c) Unless specifically stated otherwise, documents should only be submitted in PDF if they are not available in their original format. PDF versions should be searchable electronically. Where Microsoft Word documents are specifically requested a duplicate PDF version will not be required;
- d) The un-priced electronic copies shall be submitted through AWARD and in CD or DVD format clearly labelled with the Bidder's name and an index of the contents of each CD or DVD. The un-priced CD or DVD should be distinguishable from the priced electronic copy referenced above. Information is required to be saved using the Open XML Standard format supported by Microsoft Office 2010 onwards; and
- e) Bidders must submit three DVDs each containing:
 - i) The MOIRA1 output files (and any intermediate files which process these output files) which input changes in demand to the ICWC Revenue Model; and
 - ii) The version(s) of MOIRA1 that have been used to populate the ICWC Revenue Model, if they do not use the version of MOIRA1 supplied on the Data Site.

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

4.11.3 Bids (both the CD or DVD copies to be provided and electronic copies to be submitted through AWARD) must be received by the Department by 13 July 2018. A Bid is submitted late for the purposes of this ITT if any part of the Bid or copy in any format required by this ITT is submitted after the above deadline. For the avoidance of doubt, Bids submitted late will be treated as being non-compliant, and the provisions of subsection 3.5 (Non-compliant Bids) of this ITT shall apply.

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

WCPF_ [Bidder name] Delivery Plan [2.1 Train Services] – File X of Y

4.11.5 CD or DVD copies of Bids are to be submitted to:

Dale Ward
Document Manager
Rail Group Passenger Services
Department for Transport
4th floor Great Minster House
33 Horseferry Road
London
SW1P 4DR.

4.11.6 No other documents or information shall be submitted with the Bid. CD or DVD copies of the Bid must be marked 'CONFIDENTIAL – West Coast Partnership Bid submission 13 July 2018'. The boxes should not be marked in any way that would indicate the identity of the Bidder. Bidders will be issued with a formal receipt for the submissions from the Department at the time of the submission of their Bid. It will be the Bidder's responsibility to ensure the safe transfer of Bid submissions to the Department.

4.12 Presentations

4.12.1 Bidders are required to meet with the Department to discuss their ICWC Modelling Suite and their Accepted Programme Modelling Suite on a working day specified by the Department no earlier than 7 working days and no later than 15 working days following Bid submission. Meetings will not be scored and are for information only. The sole purpose of these meetings is to assist the evaluation teams in understanding how their ICWC Modelling Suite and their Accepted Programme Modelling Suite work (i.e. from a functional and practical perspective) and not to discuss any aspects of the contents of the Bidder's ICWC Modelling Suite and Accepted Programme Modelling Suite. In the event that there is any difference between what is discussed at the meeting and the Bid, then the copy of the Bid submitted through AWARD shall take precedence.

4.13 Validity of Bids

4.13.1 All Bids including the terms, Bid price, and any subsequent changes agreed shall be held valid for a period of 365 calendar days from the date of Bid submission. Bidders are required to confirm this in their Form of Tender.

4.14 Process following Bid submission

4.14.1 Bid evaluation

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

4.14.2 Engagement with Bidders and evaluation clarification process

4.14.2.1 The Department is subject to obligations under EU and English law, including the obligations of equal treatment and non-discrimination. Subject to this, the Department reserves its rights to seek clarification in any form from, and/or to engage in any other way with, any or all of the Bidders at any time during the process, including in order to assist in its consideration of a Bid. For the avoidance of doubt, this includes the process described in subsection 7.13 (Delivery Plan negotiation).

4.14.2.2 The Department reserves the right not to take any further information received into account in the evaluation where to do so would be contrary to the Department's obligations under EU and English law, including the obligations of equal treatment and non-discrimination.

4.14.2.3 When replying to questions from the Department, Bidders may only respond to the question posed, and may not provide information additional to that requested in the question. Where:

- a) A Bidder's response includes information in addition to that specifically requested in the question; or
- b) A Bidder's response purports to correct or would have the effect of correcting an error in its Bid;

the Department is entitled not to consider or take into account in the evaluation any such additional information or purported correction provided in the Bidder's response as appropriate.

4.14.3 Contractualisation of ICWC and Combined Sub-Plans

4.14.3.1 The Department expects the winning Bidder to deliver everything set out in its Bid in the ICWC and Combined Sub-Plans. The Department will wish to contractualise Initiatives that have contributed to the score awarded to a Sub-Plan to ensure that the Franchise Agreement covers the factors that have been taken into

account in awarding the Franchise. The scope of these commitments will cover at least the Initiatives and level of detail that have contributed to selection of the winning Bidder (including, as appropriate, inputs, outputs and expenditure).

- 4.14.3.2 Where a Sub-Plan contains a significant number of relatively small Initiatives, Bidders are encouraged to group Initiatives for the purposes of identifying inputs, outputs and expenditure where appropriate.
- 4.14.3.3 Should an Initiative be contracted, and where the Residual Value Mechanism does not attach to an asset, the Department reserves the right to designate an asset as a Primary Franchise Asset to transfer at nil value at the end of the Franchise to the Successor Operator.
- 4.14.3.4 If elements of the Bid are dependent on factors outside of the Bidder's control for which the Bidder is unwilling to be contractually responsible ("**Contingent Initiatives**"), this should be clearly expressed within the Sub-Plan. Contingent Initiatives should be avoided to the maximum extent possible. If no comment is made about whether an Initiative is a Contingent Initiative the Department will assume that it is not, and will expect the Initiative to be contracted on an unconditional basis (i.e. absolutely and without qualification).
- 4.14.3.5 Bidders may not propose the text of Committed Obligations as part of their Bids. For the avoidance of doubt, any text proposed by the Bidders in respect of Committed Obligations will not be taken into consideration in evaluation or when the Department is determining the level of contractualisation required.
- 4.14.3.6 Bidders may offer commitments to invest a nominated sum of money to deliver the required outcome for a Sub-Plan, supported by a Specimen Scheme, rather than an absolute commitment to a particular scheme. When scoring Sub-Plans containing such Initiatives, the Department does not distinguish between a Specimen Scheme and a similar initiative which is not described as a Specimen Scheme, and reviews and allocates scores for the extent to which the Specimen Scheme will fulfil the Department's requirements in the relevant Sub-Plan. In the Franchise Agreement the Franchisee will be obliged to spend the nominated sum to deliver either the Specimen Scheme or another scheme of equal or better value than the Specimen Scheme. If the Department and the Franchisee are unable to agree such a

scheme, the Department retains the right to require delivery of the Specimen Scheme. Any such schemes should be clearly identified as such in the Bid including the ICWC Modelling Suite.

4.14.3.7 For the avoidance of doubt, where a Bidder proposes a Specimen Scheme as part of an Initiative, the Bidder must state clearly if the scheme is a Contingent Initiative or not.

4.14.3.8 For each Initiative proposed, Bidders should, in their Sub-Plans:

- a) Specify the date by which the relevant Initiative will be completed and, where applicable, commenced;
- b) Specify how long the relevant Initiative will be maintained for (in the absence of any dates being specified, the relevant Initiative will be required to be maintained from the Start Date to the end of the Franchise Term);
- c) Where it contains a commitment to spend a specified amount (an 'expenditure commitment'), clearly set out that amount and what types of expenditure may be counted towards such expenditure commitment (such as capital expenditure, operating expenditure, project management costs etc.), whether the amount is inclusive or exclusive of VAT and the date(s) by which the expenditure will be spent;
- d) Include details of any matters which require that the Initiative is a Contingent Initiative, together with details of the impact of the occurrence of such matters and the identity of any person the Initiative is dependent on;
- e) Cross-refer (where applicable) to the relevant provision of the Franchise Agreement which specifically obliges the Bidder to comply with or perform the relevant Initiative; and
- f) Cross refer to the ICWC Record of Assumptions, Financial Structure and Funding Plan.

The Schedule of Initiatives is required to record the obligations, including timing and where appropriate spend, Bidders have committed to undertake and will be used to inform the drafting of committed obligations. Accordingly, Bidders should submit a Schedule of Initiatives, following the example set out in Table

4.4. Each Initiative should conform to the template layout provided for this purpose, West Coast Partnership Example Initiative template, located in folder (01 ITT and Bidder Consultation Documents) in the Data Site. Bidders must note that the Schedule of Initiatives must not contain anything which is not also set out in the relevant Sub-Plan. As set out in subsection 4.3 (Structure and format of Bids), the Schedule of Initiatives shall fall outside the page limit.

Table 4.4 Schedule of Initiatives

Detail required for each Initiative
Name
Sub-Plan and section of Bid where detailed
ICWC Record of Assumptions reference
Components of the Initiative, including a description of the quality, nature or standard achieved by the Initiative
Cost of each component of the Initiative both capital and operating costs, in totality and by year
Revenue and benefits of the Initiative in totality and by year
Start date and/or completion date for each component of the Initiative
Whether the Initiative is a Specimen Scheme
Whether the Initiative is a Contingent Initiative and what the dependencies are
Whether the RV Mechanism is applied and the value of the relevant asset at the end of the Initial Franchise Period

4.14.4 Contractualisation of Shadow Operator Sub-Plans

4.14.4.1 The Department expects the winning Bidder to deliver everything set out in its Bid in the Shadow Operator Sub-Plans, although the Department retains flexibility under Schedules 9B and 18 of the Franchise Agreement to modify and add to its requirements in-life. The Department will wish to contract the plans that have contributed to the score awarded to a Shadow Operator Sub-Plan to ensure that the Franchise Agreement covers the factors that have been taken into account in awarding the Franchise. These plans are expected to be contained within each Bidder's Proposed Accepted Programme. The scope of the Proposed Accepted Programme is set out in section 5.21 (Delivery Plan 5 - Shadow Operator).

4.14.5 Intention to award

4.14.5.1 Without prejudice to the Department's rights pursuant to subsection 1.9 (Liability for costs, updates and termination), following completion of evaluation, the Department will inform the Bidder with the most economically advantageous tender (as determined in accordance with Section 7 (Evaluation Criteria and Methodology) that the Department intends to award the Franchise to it.

4.14.6 Signature of the Franchise Signature Documents

4.14.6.1 Following notification by the Department that it intends to award the Franchise to it, the preferred Bidder will be required to sign (but not date) the Franchise Signature Documents on the basis of such escrow arrangements as the Department may require, including the Escrow Agreement. There will be no award of the Franchise at this point, and award of the Franchise will not take place until confirmed by the Department to the preferred Bidder.

4.14.7 Announcement to the London Stock Exchange and information to unsuccessful Bidders

4.14.7.1 Following the notification to and delivery of the signed (but not dated) Franchise Signature Documents by the preferred Bidder, it is anticipated that an announcement will be made to the London Stock Exchange at 0700 hours on the next morning on which it opens, setting out the Department's intention to award the Franchise following the voluntary standstill period.

4.14.7.2 On the same date that the announcement is made to the London Stock Exchange, the Department will send to each unsuccessful Bidder a letter confirming that they have been unsuccessful, and providing that Bidder's scores from the evaluation process, relative to the preferred Bidder's scores. The sending of these letters will commence the voluntary standstill period of at least 10 calendar days. The closing date of that period will be identified to the preferred and the unsuccessful Bidders. The Department will invite each Bidder to a meeting held on the same day as the announcement is made to the London Stock Exchange, at which the Department will provide feedback on the Bidder's Bid.

4.15 Voluntary standstill period

4.15.1 The Department intends to run a voluntary standstill period of at least 10 calendar days in respect of this procurement (although it concludes that it

is not presently obliged to do so by Law) and accordingly the basis of such a standstill process shall be as set out in this ITT or as otherwise advised by the Department to Bidders.

Section 5: Detailed Bid submission requirements - Delivery Plans

5.1 Introduction

- 5.1.1 Bidders are required to submit five Delivery Plans (the "**Delivery Plans**") as part of their Bids.
- 5.1.2 Each of the Delivery Plans (other than Delivery Plan 0 Bid Summary) is split into a number of Sub-Plans. A list of the Delivery Plans and their associated Sub-Plans is set out in Table 5.1 below.

Table 5.1 Delivery Plans and Sub-Plans

Delivery Plan	Sub-Plan
Delivery Plan 0 - Bid Summary	Not applicable
Combined ICWC and Shadow Operator requirements	
Delivery Plan 1 – Leadership and Partnering	Sub-Plan 1.1 Franchise Leadership and Management
	Sub-Plan 1.2 Partnering
	Sub-Plan 1.3 Sustainability and Security
InterCity West Coast requirements	
Delivery Plan 2 - Train Services and Performance	Sub-Plan 2.1 Train Services
	Sub-Plan 2.2 Rolling Stock
	Sub-Plan 2.3 Performance
	Sub-Plan 2.4 Supporting HS2 Infrastructure Delivery
Delivery Plan 3 - Revenue	Sub-Plan 3.1 Marketing and Branding
	Sub-Plan 3.2 Fares and Ticketing
Delivery Plan 4 – Customer Experience and Stations	Sub-Plan 4.1 Customer Experience
	Sub-Plan 4.2 Stations
Shadow Operator requirements	
Delivery Plan 5 – Shadow Operator	Sub-Plan 5.1 Shadow Operator Business Design and Organisation
	Sub-Plan 5.2 Shadow Operator Rolling Stock and Operations
	Sub-Plan 5.3 Shadow Operator Customer Experience, Fares and Marketing

- 5.1.3 Details of the Department's requirements for each Sub-Plan are set out in part (A) under each Sub-Plan in this Section 5.
- 5.1.4 Bidders must not propose Initiatives funded by the Network Rail Regulatory Asset Base ("**RAB**"). Bidders must confirm that any additional capital expenditure proposed is not funded in this way. Bids will be considered non-compliant if Network Rail RAB expenditure is proposed.
- 5.1.5 Bidders must also read the contents of the Franchise Signature Documents provided with this ITT which contain provisions relevant to meeting the requirements specified in this Section 5. As part of this procurement, Bidders are not permitted to mark up the Franchise Signature Documents other than to fill gaps denoted by the drafting note 'Bidders to populate'. It is an overarching requirement that Bidders' proposals set out in each Delivery Plan and Sub-Plan are compliant with the Franchise Signature Documents. For the avoidance of doubt, any Initiative contained within a Bidder's response to this Section 5 which is non-compliant with the Franchise Signature Documents will not meet the Department's requirements, and will result in a Bid being treated as non-compliant. In addition such Initiatives, and any other Initiatives which are contingent upon them, will not attract evaluation credit.
- 5.1.6 Bidders' attention is drawn to subsection 4.7 (Cross referencing) of this ITT.

5.2 ICWC and Combined Plans

- 5.2.1 In order for the Department to assess the extent to which each Bid meets, or, where appropriate, exceeds each of the requirements set out in part (A) under each ICWC and Combined Sub-Plan, Bidders shall provide relevant and credible evidence that supports their proposals, and the delivery of those proposals, for each ICWC and Combined Sub-Plan. Such evidence must include, as a minimum (the "**Minimum Evidential Requirements**"):
- a) The Initiatives that the Bidder proposes to undertake in order to deliver each of the requirements set out in part (A) under each Sub-Plan. Bidders should note subsection 4.14.3 (Contractualisation of ICWC and Combined Sub-Plans);
 - b) Information which demonstrates the relevance of each Initiative in delivering, or where appropriate, exceeding the requirements set out in part (A) under each Sub-Plan;
 - c) A statement of the Net Present Values and annual values of revenues and operating and capital costs associated with each

Initiative in respect of which any of these elements exceeds £1,000,000 in 2018/19 prices in any Franchisee Year, along with cross references to the relevant sections of the ICWC Record of Assumptions;

- d) Full supporting evidence of how those Initiatives will be resourced, managed and delivered, including a project plan, and where possible projected outputs, as appropriate;
- e) Details of the risks pertaining to the delivery of those Initiatives, and how these risks will be mitigated; and
- f) A statement or letter setting out the commitment (and, if relevant, any qualifications on that commitment), views or comments of any third party that the Bidder is relying on in delivering or exceeding these requirements.

5.2.2 The Department cannot and does not wish to be prescriptive in all areas about how Bidders may seek to exceed the Department's requirements. However, without seeking to constrain innovation in any way, the Department has set out in part (C) under most ICWC and Combined Sub-Plans, examples of how a Bidder may exceed the Department's requirements. These examples are illustrative only and therefore neither exhaustive nor mandatory. Where no examples are given, Bidders may still provide additional Initiatives, but note subsection 5.2.3. Bidders should note, where additional Initiatives are proposed, that each one of them must align with the relevant requirements for the Sub-Plan and be supported by credible implementation plans.

5.2.3 Details of how each ICWC and Combined Sub-Plan will be evaluated (including Table 7.3 (InterCity West Coast and Combined Sub-Plan marking framework and guidance)) are set out in subsection 7.3.6 (Scoring methodology).

5.3 Shadow Operator Plans

5.3.1 In order for the Department to assess the extent to which each Bid meets each of the Shadow Operator requirements set out in part (A) under each Delivery Plan 5 Shadow Operator Sub-Plan, Bidders shall provide relevant and credible evidence that supports their approach and their consequential ability to deliver the requirements for each Delivery Plan 5 Sub-Plan. Such evidence must include, as a minimum (the “**Shadow Operator Minimum Evidential Requirements**”):

- a) The approach that is proposed to be used to deliver the requirements set out in part (A) under each Delivery Plan 5 Sub-Plan;
- b) A Sub-Plan programme including a Gantt chart consistent with the approach and showing the specific activities that Bidders propose to deliver the requirements set out in part (A) under each Delivery Plan 5 Sub-Plan, together with delivery milestones where appropriate. Each Sub-Plan programme should feed into the Proposed Accepted Programme and any interdependencies with activities in other Sub-Plans should be identified;
- c) A Sub-Plan resourcing plan setting out what skills and capabilities will be deployed to deliver the requirements set out in part (A) under each Sub-Plan, the level of resources required to meet these requirements consistent with the Proposed Cost Baseline and how these resources will be delivered and managed. Each Sub-Plan resourcing plan should feed into the Proposed Resourcing Plan;
- d) Supporting evidence for the approach proposed, including case studies where appropriate and an explanation of any tools or systems;
- e) Details of the robustness of the approach, any risks pertaining to the delivery of the approach, and how these risks will be mitigated; and
- f) A statement or letter setting out the commitment (and, if relevant, any qualifications on that commitment), views or comments of any third party that the Bidder is relying on in delivering these requirements.

5.3.2 Details of how each Shadow Operator Sub-Plan will be evaluated (including Table 7.4 (Shadow Operator marking framework and guidance) are set out in subsection 7.3.6 (Scoring methodology). If Bidders propose additional requirements or activities beyond those set out in Sub-Plans 5.1, 5.2 and 5.3, these additional requirements or activities will not be taken into account in the evaluation scores. However, interim deliverables may be proposed for the requirements set out in in Sub-Plans 5.1, 5.2 and 5.3 if Bidders consider there is a case to do so.

5.4 Residual Value Mechanism

5.4.1 The Department has developed a residual value mechanism (the "**Residual Value Mechanism**" or "**RV Mechanism**") to promote investment in assets

where there is a return over a period greater than the Initial Franchise Period. The Residual Value Mechanism may only be used to promote investment in Sub-Plans 2.2 (Rolling Stock) and 4.2 (Stations). In order for any asset proposed by a Bidder to be covered by the RV Mechanism and designated as a Primary Franchise Asset, the Bidder must conform to all, without exception, of the following requirements:

- a) Any asset or collection of related assets (such collection referred to here as a “**Scheme**”) proposed, must contribute towards meeting or exceeding the requirements of the relevant Sub-Plan set out in part (A) of that Sub-Plan, and continue to do so following the introduction of High Speed Services;
- b) Any asset or Scheme proposed must not exceed a capital cost of £70m (2019/20 prices). The residual value of the asset payable at the end of the Initial Franchise Period may only take account of the capital costs of the asset (which shall only include the cost of the asset and installation). On-going operating costs and project management costs incurred by the Franchisee during the ICWC Term must be borne by the Franchisee and may not be passed on to a Successor Operator or included as Actual IOC Costs;
- c) The useful economic life of the asset or each asset comprised in a Scheme must be greater than the Initial Franchise Period remaining at the time the asset is brought into use;
- d) The Bidder may propose up to 7 assets or Schemes within its Bid, where the RV Mechanism is to be used. The total value of all of the assets or Schemes subject to the RV Mechanism must not exceed £120m (2019/20 prices);
- e) Any asset or Scheme proposed shall be delivered and brought into use at least three years prior to the end of the Initial Franchise Period, and either generate revenue or reduce costs which would otherwise be incurred from that time;
- f) The transfer value of the asset at the end of the Initial Franchise Period will be calculated based on an assumption that the asset will be fully depreciated on a 'straight line' basis over a maximum of 15 years from the point at which the asset or Scheme is brought into use or such shorter time period equivalent to the useful economic life of the asset (using FRS 101, FRS102 or IFRS accounting assumptions where appropriate to the asset) should that period be less than 15 years. The Bidder should ensure that such transfer is also reflected in the capital allowance

pool and in respect of any deferred tax recognised in the balance sheet in the ICWC Financial Model tax calculations;

- g) The asset or Scheme must be financially positive (i.e. generate revenue or cost savings in excess of the cost of the asset or Scheme, for the avoidance of doubt a positive nominal payback) over the maximum of 15 years or such other shorter period as is equivalent to its useful economic life and should not abstract revenues from other train operating companies. For the avoidance of doubt, the case for the asset or Scheme proposed (which illustrates that the asset or Scheme is financially positive) should be based on the financial assessment associated with the asset or scheme itself and not relative to possible alternative assets or schemes which the Franchisee could have proposed to meet the Department's requirements. In addition, the remaining return following the asset transfer to the Successor Operator and/or at the end of the Initial Franchise Period must exceed the transfer value calculated in accordance with these instructions and provided in the Bidder's mark-up of the Franchise Agreement referred to below;
- h) The Bidder may propose the use of third-party funding to purchase such assets or Schemes, but such funding may not bind a Successor Operator, the Franchisee or the Department from the end of the Initial Franchise Period. This means that any liabilities associated with any third-party funding and such funding arrangements must end at the end of the Initial Franchise Period and must not have a value attributed to them for the purposes of the Franchise Agreement. Such funding must clearly be defined in the Financial Structure and Funding Plan and ICWC Record of Assumptions;
- i) With the exception of Network Rail Fixture Assets (the requirements for which are described in the Franchise Agreement), the relevant asset or Scheme (which for this purpose and without limitation includes all related software licences and intellectual property relating thereto) must remain the unencumbered property of the Franchisee throughout the Franchise Term and be capable of unencumbered transfer to the Successor Operator at the end of the Franchise Term (and this principle will apply even where the asset is funded in whole or in part by one or more third parties). This means that, with the exception of Network Rail Fixture Assets, assets which are fixed to property and become the property of the landlord, or any items

on rolling stock which become the property of the owner are not capable of inclusion in the RV Mechanism. Bidders may not propose rolling stock under this RV Mechanism;

j) The relevant asset or Scheme shall be designated as Primary Franchise Asset(s) in accordance with and subject to the Franchise Agreement; and

k) The Bidder must submit the evidence set out in subsection 5.4.4.

5.4.2 If the Bidder fails to comply with these requirements with respect to any asset or Scheme the Department:

a) Reserves the right to remove any references to the residual value of the relevant asset(s) and not to designate any such asset as a Primary Franchise Asset;

b) Will otherwise evaluate the Bid on the basis that the Initiative(s) associated with the introduction of the asset or Scheme are included in the Bid and will be committed to by the Bidder (subject to subsection 4.14.3); and

c) May take into account the fact that the RV Mechanism will not apply to the asset or Scheme in all relevant elements of the evaluation (including, without limitation in the allocation of evaluation scores and in the Financial Robustness Test).

5.4.3 Bidders must populate the relevant parts of the Appendix to Schedule 14.6A of the Franchise Agreement and Supplemental Agreement forming part of the Franchise Agreement, detailing the asset and the expected value for transfer under the Transfer Scheme upon the end of the Initial Franchise Period (as Schedule 14.6A provides for the effect on the transfer value of an asset if the switch is later than 1 April 2026).

5.4.4 Bidders must submit the following evidence in respect of any asset or Scheme under the RV Mechanism in the Sub-Plan response where the asset or Scheme is being proposed:

a) Commercial justification of the asset or Scheme (including evidence of the satisfaction of the requirement at subsection 5.4.1g) using its forecast revenues and costs and any non-financial information in line with WebTAG guidance (though Bidders should note the requirement that the asset or Scheme must be financially positive over a maximum of 15 years from the point at which the asset or Scheme is brought into use, or such

shorter period equivalent to the useful economic life of the asset should that period be less than 15 years);

- b) Detailed description and capital cost of each asset or Scheme, operating costs and project management costs;
- c) Demonstration (with supporting evidence) of the useful economic life of the asset or Scheme, which must be greater than the Initial Franchise Period remaining at the point when the asset is brought into use but will not be taken into account to the extent that it is longer than 15 years, when calculating the residual value of the asset;
- d) The terms of any third party funding for the asset or Scheme;
- e) Evidence that the asset (or in the case of a Scheme each asset within it) will be and remain the unencumbered property of the Franchisee for the Franchise Term and will transfer to the Successor Operator unencumbered at the end of the Franchise Term or that the RV Mechanism asset will qualify as a Network Rail Fixture Asset, including, where the proposed asset is to be located on Network Rail land, a supporting letter from Network Rail in the form of the template at Attachment J; and
- f) A strategic case for each asset or Scheme, demonstrating how the asset or Scheme will contribute towards meeting or exceeding the requirements of the relevant Sub-Plan set out in part (A) of that Sub-Plan following the introduction of High Speed Services.

5.4.5 If the Department considers that the evidence supplied by the Bidder is insufficient to justify the inclusion of the asset or Scheme within the RV Mechanism or the transfer value attributed by the Bidder to an asset, the Department may (but it is not obliged to) seek additional information or clarification from the relevant Bidder in accordance with subsection 4.14.2.

5.4.6 The Department wishes to ensure that Bidders' RV Mechanism proposed Schemes align with HS2 Ltd's development work. It is not practicable to provide Bidders with access to all relevant HS2 Ltd information to enable them to assess whether their proposals do so align. Therefore, in order to ensure that Bidders' proposed assets or Schemes align with HS2 Ltd's plans, Bidders are required to submit a confidential BCQ by no later than 1 June 2018 with a description of each proposed asset or Scheme in sufficient detail for the Department to determine whether any conflict with proposals for HS2 Ltd are likely to arise.

- 5.4.7 Within 15 days of receipt of each confidential BCQ, the Department will respond in one of the following ways:
- a) Request further information about the proposed application of the RV Mechanism;
 - b) Confirm that the proposed application of the RV Mechanism aligns with HS2 Ltd's plans; or
 - c) Reject the proposed application of the RV Mechanism on the basis that it is not aligned with HS2 Ltd's plans, with an explanation of the reasons for this rejection.

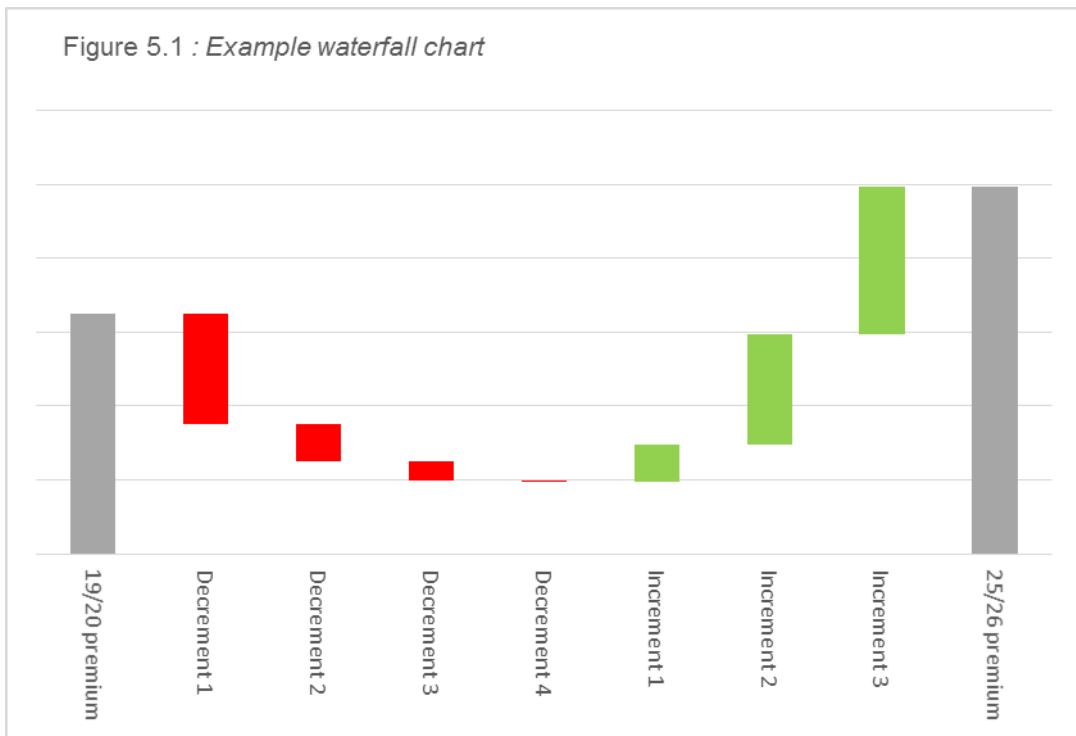
Where the Department requests further information in accordance with subsection 5.4.7a) above, once it has received sufficient information to enable it to do so (and the Department reserves the right to request further information on more than one occasion) it shall either confirm that the proposed application aligns with HS2 Ltd's plans in accordance with subsection 5.4.7b) above or it shall reject the application in accordance with subsection 5.4.7c) above.

- 5.4.8 If the Bidder proposes to include in its Bid an asset or Scheme that has been rejected in accordance with subsection 5.4.7c) above, the Bid will be treated as non-compliant and subject to the provisions of section 3.5 (Non-compliant Bids) of this ITT.
- 5.4.9 When responding to a Bidder's confidential BCQ, the Department may provide confidential information regarding HS2 Ltd construction plans or plans for the introduction of High Speed Services to that Bidder.

5.5 Delivery Plan 0 - Bid Summary

- 5.5.1 The Department requires Bidders to summarise their Bids, including ICWC, Combined Plans and Shadow Operator proposals. This summary shall include:
- a) The Bidder's overarching strategy and objectives for the Franchise including for the Shadow Operator Services;
 - b) The Bidder's view of the market, its opportunities and challenges for ICWC;
 - c) A programme summarising key business activities, including a delivery schedule which shows the dates of:

- i) Key actions which the Franchisee needs to take in order to deliver the principal Initiatives included in the Delivery Plans;
 - ii) Any significant events that will affect the operations, costs or revenues of the Franchise;
 - iii) The high level Proposed Accepted Programme; and
 - iv) Key risks and how they will be mitigated; and
- d) A waterfall chart summarising the changes in revenue and cost (and consequently Franchise premium) between 2019/2020 and 2025/26 such that the impact of any significant Initiatives is highlighted. The chart shall only disaggregate factors greater than £10,000,000 and shall be in 2019/20 prices. An example waterfall chart is shown in Figure 5.1 below.



5.5.2 Bidders should prepare a priced and unpriced version of Delivery Plan 0. In the unpriced version of Delivery Plan 0 the Bidder should redact any elements that create a possible inference about Bid price including waterfall charts, subsidy or premium per passenger mile, generalised statements about long term trends in subsidy or premium.

5.5.3 Bidders should be aware that the Bid Summary will not be scored, but, subject to subsection 4.4.5, that all evaluators will be provided with a copy of it to aid their understanding of the Sub-Plans that they will evaluate.

5.6 Delivery Plan 1 - Leadership and Partnering

5.7 Sub-Plan 1.1 Franchise Leadership and Management

5.7.1 This Sub-Plan is designed to test the Bidder's proposals for delivering the requirements of the West Coast Partnership Franchise including the delivery of ICWC Services and Shadow Operator Services. For the avoidance of doubt, this Sub-Plan will be evaluated by reference to the marking framework set out in Table 7.3 (InterCity West Coast and Combined Sub-Plan marking framework and guidance).

5.7.2 Please note the requirements in this Sub-Plan cover the period of the Initial Franchise Period unless explicitly stated otherwise.

(A) REQUIREMENT

5.7.3 The Department requires a Franchisee who will lead, structure and manage its organisation to design and successfully launch the High Speed Services, to effectively transform the passenger experience on the ICWC Services and to deliver the obligations and objectives of the Franchise, including by:

- a) Establishing a business structure that provides an effective delivery model for the West Coast Partnership Franchise, including the delivery of ICWC Services and the Shadow Operator functions;
- b) Establishing and maintaining effective corporate management systems and an efficient organisational structure, ensuring consistent and efficient operations across the Franchise, including the delivery of ICWC Services and the Shadow Operator roles;
- c) Establishing and embedding a set of values, behaviours and a culture to support the delivery of high performing ICWC Services and the Shadow Operator roles;
- d) Developing and deploying effective change management expertise to implement innovative and diverse approaches to delivering organisational, operational and cultural change while minimising disruption to staff, passengers and services that may arise as a result of any change; and
- e) Managing contractors, sub-contractors and consortium members proactively, where it relies on such organisations to deliver or support key aspects of the Franchise.

5.7.4 The Department requires a Franchisee who will invest in the Franchise workforce, their training and skills, including by:

- a) Developing and deploying enhanced management, leadership, succession and skills planning at all levels throughout the organisation;
- b) Increasing the capability of the workforce to address skills gaps, including by enhancing its innovation capability through leadership, employees, systems, processes and collaboration with other organisations in order to support the delivery of the Rail Technical Strategy;
- c) Embedding the Shadow Operator skills and expertise into the long-term business, including through knowledge transfer, collaboration across the business, training and recruitment policies;
- d) Promoting a high level of employee engagement and management recognition among the workforce;
- e) Employing people in fulfilling, worthwhile and contractually secure roles and creating new opportunities for employment and careers;
- f) Promoting diversity and equality across all grades of the workforce, and attracting and recruiting people who are new to the rail industry, particularly from under-represented groups;
- g) Supporting the delivery of the Government's Transport Infrastructure Skills Strategy (published in January 2016) and the Rail Sector Skills Delivery Plan (produced by the National Skills Academy);
- h) Supporting and improving the health and wellbeing of the Franchise workforce, including by monitoring, managing and improving occupational health risks, staff engagement, morale and general wellbeing; and
- i) Developing opportunities to give employees a share in decision making in the Franchise.

5.7.5 The Department requires a Franchisee who will deliver the Shadow Operator requirements in a way that enables the successful introduction of High Speed Services and the realisation of the HS2 Strategic Goals, including by:

- a) Implementing a leadership team that ensures the necessary challenge, rigour, objectivity and experience is brought to the Shadow Operator role;
- b) Planning and ensuring provision of the necessary skilled and experienced resources to deliver the Shadow Operator requirements;
- c) Reacting responsively to provide additional or different resources when required as the Shadow Operator requirements evolve and change over time when required;
- d) Working with the Department to confirm the detail of the Integrated Operator Contract and the associated confirmation of contractual obligations in the Franchise Agreement; and
- e) Effectively planning and managing the transition to the contractual terms of the Integrated Operator Contract.

5.7.6 The Department requires a Franchisee who will deliver the Shadow Operator requirements in a way that ensures Value for Money including by:

- a) Developing a budget for Shadow Operator activities that can be demonstrated to be efficient and appropriate; and
- b) Developing and implementing financial management and procurement strategies that will provide ongoing assurance on Value for Money, including by working with suppliers.

(B) EVIDENCE BIDDERS SHALL PROVIDE

5.7.7 In addition to the Minimum Evidential Requirements, Bidders' responses shall include:

- a) Their business structure, or delivery model, for the West Coast Partnership Franchise, including the day-to-day roles that will be played by staff employed by bidding group companies and key sub-contractors;
- b) Their organisational structure, including:
 - i) Full-time equivalent staff numbers (split between employees, secondees and agency staff) for delivery of ICWC Services plus Shadow Operator Programme Management Office ("PMO") with broad grade, role and location at the Start Date together with an explanation of how the staff numbers were calculated;

- ii) Proposed usage of different employment contract types, including explanations for any use of zero hours contracts and how their remuneration and contracting plans compare against the Living Wage; and
 - iii) Where the Bidder proposes any material change in staff headcount for the ICWC Services organisation, the reasons for that change and the way in which it will be managed, highlighting any impacts on operations and customer contact;
- c) Evidence of how the Bidder will develop the capability and diversity of their workforce to support delivery of the Transport Infrastructure Skills Strategy and the Rail Sector Skills Delivery Plan and to deliver the obligations and objectives of the Franchise, including:
- i) Their approach to continuous skills gap analysis and a workforce pipeline strategy to address skills gaps and improve the diversity of the workforce across all levels and grades, including how they will attract young people into rail and how they will support Government targets to ensure that by 2020 20% of new entrants to engineering and technical apprenticeships are women and that there is a 20% increase in the number of BAME candidates undertaking apprenticeships; and
 - ii) Details of how progress in employee health, wellbeing and engagement will be monitored and improved, including any metrics that will be used;
- d) Evidence of the Bidder's approach to managing the programme of Shadow Operator activity, including:
- i) The proposed structure and formation of the Shadow Operator leadership team, including the skills and experience of each role, and how continuity will be assured until the launch of the High Speed Services;
 - ii) How advice will be provided to the Department and to HS2 Ltd in a demonstrably objective and unbiased manner, avoiding any real or perceived conflicts of interest in the advice given;
 - iii) The organisation structure for the PMO and how this will ensure the delivery of the PMO Services as set out in

Schedule 18.1 of the Franchise Agreement, but noting that the PMO is not required to include the resourcing of the Shadow Operator requirements set out in Sub-Plans 5.1, 5.2 or 5.3;

- iv) The skills and capabilities that will be provided through the PMO;
 - v) How accommodation will be provided for the PMO and for staff working on the activities set out in the Proposed Accepted Programme with sufficient flexibility for future additions to the Accepted Programme;
 - vi) The approach to programme and project planning to demonstrate how the Department can be assured that the Shadow Operator requirements, including those that have not yet been identified, will be delivered in a timely way;
 - vii) How the Shadow Operator scope will be reviewed on a regular basis, in conjunction with the Department, HS2 Ltd and Network Rail, in order to identify any additional or amended activities required to enable the launch of High Speed Services;
 - viii) How progress will be monitored and reviewed, reporting regularly to the Department, including for the Shadow Operator Annual Reviews; and
 - ix) How the IOC Modelling Suite will be developed, where appropriate using the ICWC Modelling Suite as a starting point, in a way that provides the Department with sufficient flexibility and transparency for future management of IOC;
- e) A Shadow Operator Resourcing Strategy which sets out the principles for and approach to:
- i) How the required capabilities, skills and experience will be identified and secured by the Bidder in order to deliver the Shadow Operator activities, including the rationale for drawing on staff from within the ICWC organisation, from within the Bidder or its supply chain, from parent groups of the Bidder and any use of consultants or contractors;
 - ii) How the Bidder will make use of the expertise available within the ICWC Services organisation in delivering the

Shadow Operator outputs without compromising delivery of the Bidder's ICWC franchise proposals; and

iii) How the Bidder will provide the flexibility to respond to evolving and new Shadow Operator requirements;

f) A Proposed Cost Baseline, summarised in the main body of the Sub-Plan, which:

i) Provides a fully resourced budget for all activities contained within the Proposed Accepted Programme (as set out under subsection 5.21 (Delivery Plan 5 Shadow Operator));

ii) Is provided in the form set out in subsection 6.7 (Accepted Programme Modelling Suite); and

iii) Is underpinned by detailed pricing assumptions in the Product Cost Assumptions Statements for the budget costs and the underpinning resource and price levels for any Accepted Programme Specific Requirements that commence in Year 1 or Year 2, in a way that will provide a clear basis for reaching early agreement with the Department on the Cost Baseline for these Accepted Programme Specific Requirements;

g) A demonstration of how the preparation of the Proposed Cost Baseline delivers Value for Money, including:

i) How it has been developed in accordance with the Bidder's Shadow Operator Financial Management Strategy;

ii) How it has been developed in accordance with the principles in the Bidder's Shadow Operator Procurement Strategy;

iii) Benchmarking against normal market rates for similar types of resource;

iv) How efficiencies will be identified and captured, delivering financial savings in-life; and

v) How a clear separation is made from the PMO Costs included within the on-risk ICWC financial submission;

- h) A Shadow Operator Financial Management Strategy for Accepted Programme and Transitional Programme activities, which includes:
- i) The approach to budgeting and forecasting Shadow Operator costs, in support of the processes set out in Schedule 18.5 of the Franchise Agreement;
 - ii) Processes and controls for managing and reporting costs transparently in-life in support of the processes set out in Schedule 8A and Schedule 8B of the Franchise Agreement; and
 - iii) The approach to providing transparency on the provision and costs (including direct costs and overheads) of suitable resources from within the ICWC Services organisation and within the parent groups of the Bidder, as well as on the need and attributed costs of backfilling such resources provided to support Shadow Operator activities; and
- i) A Shadow Operator Procurement Strategy which will be applied to any Shadow Operator-related procurements and which includes:
- i) Procurement processes and controls for different procurement types (covering operational / transactional purchasing, one-off purchases, strategic purchasing approaches, and purchase of urgent and exceptional requirements);
 - ii) Demonstration of how Value for Money will be achieved and evidenced, including approaches for controlling and managing activity provided from within the parent groups of the Bidder or any companies owned by or affiliated to the parent groups of the Bidder and from key sub-contractors;
 - iii) Compliance with current best practice, with processes for regular review and update;
 - iv) Provides for regular audits of procurement processes; and
 - v) A supply chain strategy that outlines the principles and standards they will apply when sourcing and working with suppliers for key market sectors, for the delivery of the Shadow Operator Services.

(C) SCORING

- 5.7.8 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (InterCity West Coast and Combined Sub-Plan marking framework and guidance).
- 5.7.9 Without prejudice to the generality of subsection 7.3.6 (Scoring methodology), specific examples of how the above requirements may be exceeded are set out below:
- a) Proposals that commit to adopting new or innovative approaches to improving the leadership and capability of the workforce;
 - b) Proposals that provide assurance that the cost and levels of resource included within the Proposed Cost Baseline are efficient and appropriate to the nature and scale of the Shadow Operator activity; and
 - c) Proposals for the dissemination and sharing of innovative approaches or tools arising from the delivery of Shadow Operator Services in a way that adds wider value to the rail industry.

5.8 Sub-Plan 1.2 Partnering

- 5.8.1 This Sub-Plan is designed to test the Bidder's proposals for delivering the requirements of the West Coast Partnership Franchise including the delivery of ICWC Services and Shadow Operator Services. For the avoidance of doubt, this Sub-Plan will be evaluated by reference to the marking framework set out in Table 7.3 (InterCity West Coast and Combined Sub-Plan marking framework and guidance).
- 5.8.2 Bidders should note that the following requirements in respect of collaboration to support HS2 infrastructure delivery, including delivery of the HS2 on-network works (and associated infrastructure and station works) on the West Coast Mainline ("**HS2 Works**") are covered in Sub-Plan 2.4 (Supporting HS2 Infrastructure Delivery) and therefore specific examples of the following will not be scored here:
- a) Possession strategies and the provision of information to support decision-making with regard to possession strategy; and
 - b) Minimising the potential impacts of HS2 Works on passengers, including passenger handling, coordinating activities at stations, diversionary measures and ensuring joined-up and accurate information is provided to passengers regarding the implications of HS2 Works.

- 5.8.3 Bidders should note that Sub-Plan 2.3 in subsection 5.13 has a number of specific requirements relating to joint working with Network Rail. Bidders should provide their responses to these specific requirements under Sub-Plan 2.3, where they will be evaluated.
- 5.8.4 For the purposes of this Sub-Plan, reference to ‘Stakeholders’ includes, but is not limited to, the following: Office of Rail and Road, other train operators, freight operators, Network Rail, HS2 Ltd, Rail Delivery Group, British Transport Police, Local Authorities on the Route, Transport for London, passenger groups (including Transport Focus and London TravelWatch) and the Franchisee’s wider supply chain, including SMEs.
- 5.8.5 Please note the requirements in this Sub-Plan cover the period of the Initial Franchise Period unless explicitly stated otherwise.

(A) REQUIREMENTS

- 5.8.6 The Department requires a Franchisee who will collaborate effectively with HS2 Ltd to support the successful delivery of high performing and customer-focused High Speed Services including by:
- a) Entering into a Partnership Protocol with HS2 Ltd, which will include the approach to joint and collaborative working to enable the Franchisee to deliver effectively its responsibilities under the Franchise Agreement and follow the processes set out in the Collaboration Agreement; and
 - b) Monitoring and maintaining the performance of the joint and collaborative working arrangements.
- 5.8.7 The Department requires a Franchisee who will enter into and maintain an Alliance Agreement with Network Rail in accordance with Schedule 6.4A of the Franchise Agreement which reflects the objectives of the alliance, which are, as a minimum, to collaborate with Network Rail to:
- a) Improve passenger satisfaction;
 - b) Improve the operational performance of the Franchise;
 - c) Improve the efficiency of operations, maintenance, renewals and enhancements on relevant parts of the network;
 - d) Improve whole system integration of the railway; and
 - e) Carry out the necessary preparatory work for the successful commencement of High Speed Services.

5.8.8 The Department requires a Franchisee who will establish joint and, where possible, co-located working arrangements with Network Rail, which include but may not be limited to:

- a) Operational control of the train services and track operation;
- b) Performance, including managing responses to delays and service recovery; and
- c) Passenger and Stakeholder communications regarding incidents, delays, unplanned disruption or planned disruption for maintenance or renewals, ensuring that messaging is clear, timely and consistent.

5.8.9 The Department requires a Franchisee who will establish collaborative working arrangements with Network Rail, which include but may not be limited to:

- a) Maintenance planning and maintenance of infrastructure including sharing of data from on-train monitoring equipment;
- b) Station operation and customer service;
- c) Possession planning for maintenance and renewals;
- d) Development of the use of capacity, train service and timetable recast for Integrated Services; and
- e) Preparation for the commencement of High Speed Services, including the development of operational standards and performance criteria for the future operation of High Speed Services on Network Rail infrastructure.

5.8.10 The Department requires a Franchisee who will use reasonable endeavours to develop and implement a joint route scorecard, joint key performance indicators and to establish a joint committee to monitor and improve the performance of the joint and collaborative working arrangements under the Alliance Agreement.

5.8.11 The Department requires a Franchisee who will embed a culture of partnership working at all levels between the Franchise and Network Rail, including by:

- a) Developing a joint approach to the training and development of staff to enable greater understanding of each other's business; and

- b) Fostering a culture of increased transparency, and effectively and proactively sharing accurate and up to date information with Network Rail and other operators on the Route to enable more effective decision-making.

5.8.12 The Department requires the Franchisee to participate proactively in the London North Western Route Supervisory Board.

5.8.13 The Department requires a Franchisee who will collaborate and engage with Stakeholders to;

- a) Support wider industry strategies, including improvements to passenger experience and safety, to achieve whole-industry benefits;
- b) Deliver improved strategic planning at industry level between passenger service and freight operators;
- c) Introduce innovation, including new technologies, processes and business models, to deliver benefits for passengers, the Franchise and the wider industry; and
- d) Advocate the benefits of HS2 and provide updates on progress during the HS2 Works.

(B) EVIDENCE BIDDERS SHALL PROVIDE

5.8.14 In addition to the Minimum Evidential Requirements, Bidders' responses shall include:

- a) Their approach to establishing, managing and improving collaborative working relationships with the Department, HS2 Ltd, Network Rail and other key stakeholders;
- b) Details of the proposed joint and collaborative wording arrangements with HS2 Ltd, including:
 - i) A near-final form Partnership Protocol, which includes principles of collaborative engagement, such as transparency and accountability, and a summary of joint and collaborative working arrangements with HS2 Ltd in line with these principles and how these partnership arrangements will support the processes set out in the Collaboration Agreement and facilitate joint decision-making as far as possible;

- ii) The approach to the on-going assessment, review and update of the Partnership Protocol; and
 - iii) Written confirmation from HS2 Ltd setting out its support for the Partnership Protocol and the Bidder's proposals for collaborative working with HS2 Ltd;
- c) Details of the proposed joint and collaborative working arrangements with Network Rail, including:
- i) A near-final form Alliance Agreement which may take the form of the Joint Party Framework Agreement template in Data Site folder (11.08 Alliancing);
 - ii) Organograms, organisation charts and process maps to illustrate the proposed arrangements, including job descriptions for identified roles and named individuals where it is practical to do so;
 - iii) How they will approach the ongoing assessment and review of the collaborative arrangements in order to monitor performance, identify areas for improvement and assess opportunities for further collaboration during the current Franchise and beyond;
 - iv) How they will increase transparency, and effectively and proactively share accurate and up to date information with Network Rail and other operators on the Route; and
 - v) Written confirmation from Network Rail which sets out its support for the Alliance Agreement and the Bidders' proposed initiatives; and
- d) Their approach to engaging with Stakeholders, including:
- i) How they will capture, assess, prioritise and implement ideas for innovation from employees, passengers, communities, Industry Partners and the supply chain; and
 - ii) The organisational approach for engaging with Stakeholders (making reference, where necessary, to the Customer and Stakeholder Engagement Strategy).

(C) SCORING

5.8.15 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (InterCity West Coast and

Combined Sub-Plan marking framework and guidance). Without prejudice to the generality of subsection 7.3.6 (Scoring methodology), specific examples of how the above requirements may be exceeded are set out below:

- a) Particularly strong proposals for collaborating with HS2 Ltd, with evidence of HS2 Ltd support for the proposals, which could include:
 - i) Embedding jointly agreed objectives or key performance indicators in the West Coast Partnership business;
 - ii) Establishing joint, and/or where appropriate, virtual or co-located teams; and
 - iii) Working with HS2 Ltd to develop a joint approach to the training and development of staff to enable greater understanding of each other's business and to embed partnership working at all levels.

- b) Particularly strong proposals for collaborating with Network Rail, with evidence of Network Rail support for the proposals, which could include:
 - i) Responses that will provide a significant degree of coordination between the Franchisee and Network Rail at an executive level;
 - ii) Initiatives that commit to staff secondments for key operational roles between the Franchisee and Network Rail to enable a greater understanding of each other's business;
 - iii) Jointly agreed key performance indicators that are reflected in executive pay incentives and/or promote the application of innovative ways of joint working to deliver improved performance; and
 - iv) Well-defined arrangements for sharing any efficiency benefits that are realised through collaboration between both parties. Proposals should not include risk sharing arrangements or reciprocal benefit share mechanisms based around aligning or integrating business-level profits and losses and any such proposals will not be taken into account in evaluation; and

- c) Specific plans and commitments to collaborate with academic institutions, including with research centres and universities, to foster innovation.

5.9 Sub-Plan 1.3 Sustainability and Security

- 5.9.1 This Sub-Plan is designed to test the Bidder's proposals for delivering the requirements of the West Coast Partnership Franchise including the delivery of ICWC Services and Shadow Operator Services. For the avoidance of doubt, this Sub-Plan will be evaluated by reference to the marking framework set out in Table 7.3 (InterCity West Coast and Combined Sub-Plan marking framework and guidance).
- 5.9.2 Please note the requirements in this Sub-Plan cover the period of the Initial Franchise Period unless explicitly stated otherwise.

(A) REQUIREMENT

- 5.9.3 The Department requires a Franchisee who will embed the Rail Industry Sustainable Development Principles, through its leadership, management and operations, including by:
 - a) Building the capacity and competence of leadership and management in sustainable development;
 - b) Implementing a sustainable procurement strategy that;
 - i) Is independently assured as being in accordance with ISO 20400; and
 - ii) Enhances customer experience and delivers good Value for Money, including by preventing unethical behaviour and stimulating competition in the supplier market through competitive tendering;
 - c) Reducing the environmental impact of the Franchise by meeting the targets set out in Schedule 11.2 of the Franchise Agreement;
 - d) Integrating regional, local economic and development plans into service plans and delivery; and
 - e) Contributing to the economic development and sustainability of the localities and communities served by the Franchise, including schemes to increase the accessibility of rail to vulnerable groups and communities, which includes those seeking work or recently returned to work, rural communities, groups unfamiliar with rail

and those with limited access to private transport, such as young adults.

5.9.4 The Department requires a Franchisee who will safeguard the security of:

- a) Passengers and staff working across the Franchise, including by:
 - i) Taking steps to reduce the incidence and fear of crime and antisocial behaviour against staff; and
 - ii) Ensuring that staff are suitably trained and prepared to support better security outcomes and to respond effectively in the event of a terrorist attack or other major incident; and
- b) Internal and passenger-facing IT systems, and who will take appropriate steps to minimise and manage the risk of a cyber-attack on those IT systems for which the Franchisee is responsible and which are required to deliver an operational railway (including internal and passenger-facing systems) in accordance with the Department's Rail Cyber Security – Guidance to Industry and the RDG Rail Cyber Security Strategy.

(B) EVIDENCE BIDDERS SHALL PROVIDE

5.9.5 In addition to the Minimum Evidential Requirements, Bidders' responses shall include:

- a) Details of the Bidder's approach to embedding the Rail Industry Sustainable Development Principles, including:
 - i) The governance processes, resources and capabilities that will be utilised to deliver the Bidder's Sustainable Development Strategy;
 - ii) The Bidder's sustainable procurement strategy, including:
 - A) The principles and standards they will apply when sourcing and working with suppliers for key market sectors (including, but not limited to, ticketing systems and equipment); and
 - B) Their approach to complying with relevant legislation (including but not limited to the Competition Act 1998, the Bribery Act 2010 and the Modern Slavery Act 2015);

- iii) The processes by which the Bidder will ensure that the Rail Industry Sustainable Development Principles will be considered and implemented in the delivery of the Shadow Operator requirements;
 - iv) The Bidder's plans for improving the socio-economic impact of the Franchise; and
 - v) The Bidder's approach to monitoring, measuring and improving the impact and effectiveness of the initiatives proposed, including any key performance indicators or metrics that will be used in addition to the environmental targets set out in Schedule 11.2A of the Franchise Agreement; and
- b) The Bidder's approach to managing security risks, including the approach the Bidder will adopt in order to:
- i) Promote a security-conscious culture within the Franchise and effectively prepare staff to support better security outcomes and to respond in the event of an incident; and
 - ii) Minimise and manage the risk of a cyber-attack in accordance with the latest relevant Cyber Security Guidance, including how they will identify critical systems, continually assess potential vulnerabilities and regularly test their capability to respond to a cyber incident.

(C) SCORING

- 5.9.6 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (InterCity West Coast and Combined Sub-Plan marking framework and guidance).
- 5.9.7 Without prejudice to the generality of subsection 7.3.6 (Scoring methodology), specific examples of how the above requirements may be exceeded are set out below:
- a) Proposals to encourage increased diversity and inclusion within the Bidder's supply chain;
 - b) Proposals to deliver (including via third-party investment) significant improvements in the environmental impact of the Franchise, which exceed the targets set out in Schedule 11.2A of the Franchise Agreement and/or deliver improvements to energy efficiency and carbon impacts at industry level (excluding

proposals to reduce fuel consumption or emissions, or to minimise diesel operation on electrified routes);

- c) Commitment to specific independent standards on environmental or social issues, such as the Ethical Trade Initiative Base Code and Living Wage employer accreditation or certification by the Marine Stewardship Council or the Forest Stewardship Council, or equivalent;
- d) Innovative proposals to support socio-economic growth which are targeted at localities served by the Franchise where there is social deprivation;
- e) Proposals to commit to funding or to sourcing third party funding for Community Rail Partnerships in addition to the funding requirements set out in Schedule 13.1, paragraph 2 of the Franchise Agreement; and
- f) Proposals to enable British Transport Police to remotely access CCTV on board trains.

5.10 Delivery Plan 2 - Train Services and Performance

5.11 Sub-Plan 2.1 Train Services

5.11.1 Please note the requirements in this Sub-Plan cover the period of the Initial Franchise Period unless explicitly stated otherwise.

5.11.2 This Sub-Plan should be read alongside the Train Service Requirement (TSR), contained in Attachment A (Train Service Requirement) to this ITT. The TSR sets out the minimum level of service that Bidders should provide. In order to enable Bidders to consider innovative timetables, new calling patterns to improve connectivity and create new journey opportunities, the Department has provided some flexibility on journey times.

5.11.3 For the avoidance of doubt, this Sub-Plan will be evaluated by reference to the marking framework set out in Table 7.3 (InterCity West Coast and Combined Sub-Plan marking framework and guidance).

(A) REQUIREMENTS

5.11.4 The Department requires a Franchisee who will plan and operate train services that meet the needs of markets and passengers, including by:

- a) Offering fast journey times between key destinations which are not unduly extended from today's level;

- b) Providing connectivity which supports local economies, businesses, communities and other stakeholders;
- c) Meeting the minimum train service requirements described in the TSR; and
- d) Allowing paths for other operators' services in accordance with the instructions set out in section (D) below.

5.11.5 The Department requires a Franchisee whose Train Plan and timetables will target the capacity of the train fleet where and when it is needed most, in order to minimise the extent of crowding and will address known instances of crowding for example around peak services, seasonal demand and special events.

5.11.6 The Department requires a Franchisee who will build up and maintain an establishment of trained and experienced safety-critical train crew and who will:

- a) Reduce to a minimum the need for rest-day working and/or overtime working where these are currently a necessity to deliver the Plan of the Day prior to May 2023, noting that this does not preclude the proposed use of overtime to cover unexpected events, emergencies or to provide cover for services providing for the uplift in passenger demand that may occur seasonally or during special events from time to time;
- b) Operate an associated recruitment plan to meet current and future headcount demand for the Initial Franchise Period and beyond; and
- c) Regularly report to the Department on the build-up and maintenance of its train crew establishment.

(B) EVIDENCE BIDDERS SHALL PROVIDE

5.11.7 In addition to the Minimum Evidential Requirements, Bidders' responses shall include:

- a) A summary of up to two pages in length of the Bidder's proposal under this Sub-Plan, including an overview of the key benefits to passengers;
- b) A description of the principal proposed changes to train service patterns at any time during the Initial Franchise Period, compared to the May 2018 timetable;

- c) A description of how the Bidder's train services in the round, combined with their allocation of rolling stock and approach to fares and marketing, will meet their forecast demand and address known instances of crowding across the franchise including, for example, crowding on evening departures from Euston (particularly on Thursday and Friday evenings), around peak services and short distance journeys;
- d) Evidence of a proactive approach for planning and providing for extra public demand, particularly considering seasonal variation and for special events, detailing how the Bidders (as far as reasonably practicable) intend to identify and provide for this demand, covering areas such as train capacity, changes to the Plan of the Day and/or Timetable, and how local authority liaison, organiser / police co-operation, station and passenger demand management will be handled;
- e) A description of how the Bidder's timetables and operational plans (including its approach to management, diagramming and deployment of rolling stock and train crew) will support delivery of its proposed train service and better train service performance, including how the performance impact of new service patterns or timetables will be assessed and mitigated where necessary;
- f) The Bidder's approach to train crew establishment, which should include:
 - i) Its high level strategy (including an industrial relations plan) to phase out the need for planned / rostered rest-day working and/or overtime working to deliver its Plan of the Day by May 2023;
 - ii) Its proposed train crew establishment, along with supporting evidence that its train crew establishment minimises the need for rest-day working and/or overtime working either based on the Rail Delivery Group Guidance Note on Driver Establishment Calculation or an equivalent methodology. Bidders should note that this should reflect expected service uplifts and make adequate allowance for any issues affecting train crew availability, including sickness absence, turnover, time off for training / trade union release, annual leave (and other time off arrangements), and any local agreements affecting (but not limited to) rostering, shift lengths, working hours and train crew availability;

- iii) How the Bidder will regularly report to the Department progress on phasing out current levels of any essential reliance on planned / rostered overtime or rest-day working to deliver its Plan of the Day by May 2023; and
 - iv) How the Bidder will regularly report to the Department on its train crew establishment including metrics and KPIs such as vacancies as a percentage of establishment spend on overtime working as a percentage of the overall train crew cost; and
- g) A Technical Annex and the further operational data described in subsections 5.11.8 to 5.11.9 below (all of which are to be excluded from the page count).

Technical Annex

5.11.8 The Technical Annex, to be supplied in a single MS Word document, shall contain:

- a) A brief summary of the key points in the Bidder's Sub-Plan 2.1 submission that relate to:
 - i) Proposed changes to train service frequency, service patterns and calling patterns. This should include a narrative description of any planned train service changes that are not covered by the timetables that are required to be submitted by the Bidder by virtue of subsection 5.11.9 below;
 - ii) Proposed changes to rolling stock types deployed on each route served by the Franchise;
 - iii) Changes in infrastructure functionality that the Bidder is assuming, their proposals for funding and delivering them (where appropriate), and evidence of Network Rail support (and for the avoidance of doubt this evidential requirement would also apply to any plans that rely on ETCS and/or traffic management deployment at any time during the Initial Franchise Period); and
 - iv) Proposed additions to the geographic scope of the franchise set out in Schedule 1.1A of the draft Franchise Agreement. Such additions are permissible only if they have been approved by the Department in a response to

a Bidder Clarification Question, as set out in part (D) below;

- b) The following further information (which should be briefly summarised in the Bidder's Sub-Plan 2.1 submission but does not need to be replicated there in full):
- i) Any changes to the Engineering Access Statement (Section 4), signal box opening hours and Timetable Planning Rules that have been assumed (including details of the approach used, supporting evidence and the views of Network Rail);
 - ii) A description of where revised Sectional Running Times have been applied for any rolling stock deployed that is not currently published in Network Rail's 'B' Plan (including details of the approach used, supporting evidence and the views of Network Rail); and
 - iii) A description of any flexing of other passenger and freight operators' services that has been assumed necessary to deliver a public timetable that is compliant with the TSR; and
- c) A brief summary of the approach to crowding modelling, and the principal strengths and weaknesses of this approach.

Operational data

5.11.9 Bidders must provide the operational data set out in Table 5.2 (Operational data required as part of Bids) as part of their Bids.

Table 5.2 Operational data required as part of Bids

ITEM	TIME PERIOD(S)	NOTES	FORMAT(S)
Timetables	December 2020 (if material differences compared with that inherited at the Start Date) and any other material changes.	All services (SX, SO and SuO). To include paths allowed for other operators' services and ancillary movements. SX, SO, SuO – Working and Public timetables are required. Working and Public timetable files must be labelled clearly, indicating the line sections covered. PIF and SPG files must be provided for all SX, SO and SuO timetables. Bidders' timetables must comply with the technical requirements set out in the document entitled "Technical Guidance for Timetable Submissions" in Data Site folder (01 ITT and Bidder consultation documents).	PDF (Public and Working timetables) plus PIF and SPG technical interface files.
Train Plans and loading forecasts	December 2020 (if material differences compared with that inherited at the Start Date) and any other material change date.	Train Plans must contain all services in their SX, SO and SuO timetables, including loading forecasts where applicable (as set out in subsection 6.3.4.22).	Excel (template on Data Site)
Rolling stock diagrams	December 2020 and any other material change date.	Rolling stock diagrams to be included for SX, SO and SuO timetables.	Text and/or Excel
Fleet availability table	December 2020 and any other material change date.	Table to cover SX, SO and SuO, showing the percentage fleet availability assumed for each rolling stock type.	Excel (template on Data Site)
Train Fleet table	Throughout Initial Franchise Period		Excel (template on Data Site)

ITEM	TIME PERIOD(S)	NOTES	FORMAT(S)
Platform working (Euston)	December 2020 and any other material change date.	A narrative demonstrating how the Bidder's proposed platform working for its proposed services and other operator services (in accordance with subsections 5.11.14 to 5.11.19) is compatible with the reduced availability of platforms at Euston from December 2018.	Text and/or Excel

(C) SCORING

5.11.10 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (InterCity West Coast and Combined Sub-Plan marking framework and guidance).

5.11.11 Without prejudice to the generality of subsection 7.3.6 (Scoring methodology), specific examples of how the above requirements may be exceeded are set out below:

- a) Bids that, taking the train service proposition in the round, generate additional passenger and economic benefits above those required by the TSR and address the needs and priorities of passengers or Stakeholders which could include:
 - i) Innovating and working with Network Rail to deliver improved headline journey times between key destinations served by the Franchise, working towards the following aspirational journey time between London and: Chester in 1 hour 55 minutes or less (and on to North Wales); Manchester Piccadilly in 2 hours or less; Liverpool Lime Street in 2 hours or less; and/or Glasgow in 4 hours 15 minutes or less;
 - ii) Additional services (which could include bank holiday services, or earlier first or later last trains);
 - iii) Additional services which are aligned with the future use of capacity for High Speed Services;

- iv) Bids that preserve, provide new, or enhance existing direct journey opportunities that are important to passengers but are not specified in the TSR; and
 - v) Commitments which increase the passenger carrying capacity of the fleet or demonstrably provide additional capacity to address known instances of crowding or cater for increased demand resulting from special events or seasonal demand; and
- b) Bids that include commitments to fund and deliver enhancements to the railway infrastructure that will deliver passenger benefits and/or increase franchise value beyond the Initial Franchise Period, including by increasing line speeds and reducing journey times.

5.11.12 For the avoidance of doubt, any proposals for new or enhanced services, increased capacity, enhanced journey times or enhanced railway infrastructure may be considered to exceed the above requirements only if there is likely to be sufficient passenger demand to justify the enhancements and their primary impact is likely to be to increase rail passenger volumes rather than to transfer demand away from other train operators.

(D) FURTHER INSTRUCTIONS TO BIDDERS

Evaluation

5.11.13 The Department's evaluation of the deliverability of the Bidders' train service proposals will include consideration of:

- a) The extent to which the Bidder's proposed timetables comply with the Timetable Planning Rules (including Sectional Running Times) published by Network Rail at the date of issuing this ITT;
- b) The credibility of evidence provided by the Bidder (including any evidence of Network Rail's views) that supports the SRTs used in the preparation of their timetables, where these are different from those published by Network Rail from its 'B' Plan system; and
- c) The credibility of evidence provided by the Bidder (including any evidence of Network Rail's views) to justify any departures from the Timetable Planning Rules.

Other operators' services and freight

5.11.14 Bidders must maintain paths for all other passenger and freight operator services as they appear in the May 2018 timetable, except as otherwise stated below and with the further exception of services affected by northern electrification completing in December 2018, which should be assumed to be in their expected December 2018 paths, where this information has been provided by Network Rail and is available in the Data Site.

5.11.15 Bidders may flex existing services, subject to:

- a) The quantum rights of passenger operators being maintained as described in their Track Access Agreements with Network Rail;
- b) Full compliance with freight access rights, including departure and arrival windows and minimum turnaround times, where stated; and
- c) Complying with the requirements set out in Table 5.3 (Further requirements in respect of the future West Midlands services).

5.11.16 If proposing to re-time another operator's services, Bidders must provide sufficient evidence to demonstrate:

- a) That the other operator's services will still be deliverable without material adverse impacts on calling patterns, service intervals, journey times or turnaround times for those services;
- b) Why any changes are being proposed; and
- c) The industry and passenger benefits, where applicable, for proposing this change.

Bidders should note that it is not possible to define what constitutes a "material" adverse impact, as this will depend upon the nature of the service in question. But Bidders should be aware that the scoring of their train service proposals will take account of the extent to which their proposals can be expected to affect (for better or for worse) the quality of the paths available for other operators.

5.11.17 Bidders are also reminded of the requirement under national Timetable Planning Rules that capacity needs to be provided on the network to facilitate Network Rail's National Delivery Service operations for the distribution of materials for engineering work on the network, network measurement trains and the seasonal / railhead treatment trains, and so a commentary should be provided explaining how this is to be achieved.

5.11.18 In respect of the Wales and Borders operator, in addition to the May 2018 timetable, Bidders should provide paths for 1 train per hour between Liverpool and Chester via Runcorn and the Halton Curve from December 2018. This service should be timed for a Class 150.

5.11.19 In respect of the West Midlands operator, Table 5.3 (Further requirements in respect of the future West Midlands services) provides further requirements, in addition to the May 2018 timetable requirements.

Table 5.3 Further requirements in respect of future West Midlands services

Instructions apply for the hours 0700-2059 SX, SO and SuO unless otherwise stated.

Class 350 110mph timing load to be assumed unless stated otherwise.

Stafford to Crewe (via Madeley (Staffs), not via Stoke-on-Trent)

Bidders must provide paths for the West Midlands operator to operate 1 train per hour in each direction on the Main Line. This is the existing London Euston – Crewe service which will be diverted to run via Madeley (Staffs) between Stafford and Crewe and not run via Stoke from December 2018.

Birmingham New Street to Crewe

Bidders' timetables must provide paths for the West Midlands operator to operate one train per hour from Birmingham New Street to / from Crewe via Stafford and Stoke-on-Trent from December 2018. This is in addition to the West Midlands London Euston – Crewe service which will run main line via Madeley (Staffs) rather than via Stoke – as above.

This service is an extension of an existing Birmingham New Street to Wolverhampton stopping service, which currently terminates at Wolverhampton.

Rugby to Birmingham New Street

Bidders' timetables must provide paths for the West Midlands operator to operate two trains per hour SuO from May 2021.

Birmingham New Street to Liverpool Lime Street

Bidders' timetables must provide paths for the West Midlands operator to operate two trains per hour SuO from May 2021.

Birmingham New Street to Shrewsbury

Bidders' timetables must provide paths for the West Midlands operator to operate two trains per hour from Birmingham New Street to / from Shrewsbury from December 2018. Between Shrewsbury and Wolverhampton, one service shall call at Codsall, Shifnal, Telford, Wellington and Shrewsbury and the other calling at all stations to Shrewsbury. These services should be timed for a Class 170. This represents one additional service between Birmingham New Street and Wolverhampton per hour compared to May 2018.

Note that on SuO from December 2018 only the stopping service is operated by West Midlands and the fast service is not introduced on Sundays until May 2021. The Wales and Borders Sunday shuttles between Wolverhampton and Shrewsbury are withdrawn in December 2018 but Wales and Borders will continue to serve the intermediate stations on through services as now until May 2021.

December 2018

The West Midlands operator is currently working with Network Rail to develop the December 2018 timetable. Bidders should work with Network Rail to understand the emerging opportunities from this timetable change. As the Department is unable to provide assumptions on the December 2018 and other future timetables, unless direction and agreement is made with Network Rail, Bidders should assume that the InterCity West Coast services operate as they do in May 2018 and that West Midlands services operate as they do in May 2018 and that neither are affected by this change, except where explicitly stated in the deconfliction rules above.

Timetable Planning Rules and Sectional Running Times

- 5.11.20 In preparing their Bids, Bidders must use version 4.1 of the Timetable Planning Rules published by Network Rail on 15 September 2017 and the 2018 Engineering Access Statement, except where changes to the Timetable Planning Rules are proposed by the Bidder to be agreed with Network Rail.
- 5.11.21 Where the Bidder is proposing to deploy rolling stock types for which suitable SRTs and TPRs have not been supplied by Network Rail or can demonstrate that existing SRTs/TPRs are inappropriate, details of the approach used and Network Rail's views on their proposed approach must be provided.

Geographic Scope

5.11.22 Schedule 1.1A, paragraph 6.1(a) of the Franchise Agreement issued to Bidders alongside this ITT sets out the routes on which the Franchisee will be permitted to operate Passenger Services. If a Bidder wishes to propose extensions to the geographic scope as set out in that Schedule, they must raise a confidential BCQ with the Department at the earliest opportunity. The Department will consider such proposals against the following criteria:

- a) The extent to which the proposal addresses a clear priority for passengers and/or other stakeholders;
- b) The likelihood of generating additional passenger demand, as opposed to abstracting revenue from another franchise;
- c) The likelihood of the service, or a broadly comparable service, being able to continue to operate beyond the Initial Franchise Period;
- d) The extent to which the Franchisee would be better placed than the operators of other franchises to satisfy that demand; and
- e) The likely impact of the proposed services on other operators' services, for example: in relation to train service performance or in creating or restricting opportunities for other operators to offer a more attractive service to their passengers.

5.11.23 In raising a BCQ, Bidders should therefore set out clearly:

- a) The additional route(s) that they would propose to add to the geographic scope of the Franchise;
- b) The nature of the train service they propose to operate on the additional route(s), e.g. in terms of frequency and calling patterns; and
- c) The rationale for proposing to do so, including any evidence they consider relevant to the criteria identified above.

5.11.24 In responding to the BCQ, the Department will inform the Bidder either:

- a) That the proposed extension to the geographic scope would be permissible (and in doing so the Department may specify conditions that it would require to be met in order for the proposed extension to be permissible); or

- b) That the proposed extension would not be permissible (and in doing so the Department may identify particular features of the proposal that render it unacceptable. In this situation it would be acceptable for the Bidder to submit a revised proposal via a further confidential BCQ).

(E) CONTRACTUALISATION OF TRAIN SERVICE PROPOSALS

5.11.25 The provisions of this subsection apply in addition to the provisions of subsection 4.14.3 (Contractualisation of ICWC and Combined Sub-Plans) and subsection 7.8 (Evaluation impact of contractual treatment of Bidders' Initiatives).

5.11.26 The Department will prepare amended versions of the TSR to reflect the positive features of one or more train service proposals from the Bidder that the Department wishes to contract while avoiding undue inflexibility.

5.11.27 In preparing an amended TSR, the Department or its technical advisers may (at the Department's discretion) consult or otherwise involve the relevant Bidder during the process.

5.11.28 The Department will issue the amended TSR to the Bidder, asking it to confirm that it would be prepared to enter into the Franchise Agreement on the basis of that amended mark-up. If the Bidder is not prepared to do so, subsection 7.8 (Evaluation of impact of contractual treatment of Bidders' initiatives) shall apply.

5.12 Sub-Plan 2.2 Rolling Stock

5.12.1 Bidders may propose the use of existing or newly-built rolling stock under this Sub-Plan.

5.12.2 Bidders may propose assets to be funded by the Residual Value Mechanism under this Sub-Plan, but may not propose the procurement, lease or modification of rolling stock under the Residual Value Mechanism.

5.12.3 Please note the requirements in this Sub-Plan cover the period of the Initial Franchise Period unless explicitly stated otherwise.

5.12.4 For the avoidance of doubt, this Sub-Plan will be evaluated by reference to the marking framework set out in Table 7.3 (InterCity West Coast and Combined Sub-Plan marking framework and guidance).

(A) REQUIREMENT

5.12.5 The Department requires a Franchisee who will implement a rolling stock fleet solution, supported by depot, maintenance, stabling and train presentation strategies, that together:

- a) Deliver the train service proposals set out in Sub-Plan 2.1 (Train Services);
- b) Meet the performance benchmarks in Schedule 7.1A of the Franchise Agreement and the Train NRPS Benchmarks set out in Schedule 7.2A of the Franchise Agreement;
- c) Apply continuous monitoring, assessment and improvement processes to drive efficiency and effectiveness, particularly in delivering the train services, to deliver consistently high standards of rolling stock availability, reliability and presentation, including on-board facilities;
- d) Are compatible with the technical and operational constraints of the infrastructure;
- e) Comply with the additional requirements set out in part (E) below;
and
- f) Minimises operational disruption from, and ensures timely completion of, any necessary rolling stock enhancement works.

5.12.6 The Department requires a Franchisee who will provide rolling stock that meets the needs of intercity passengers, with appropriate interior layouts and seating configurations to suit the Franchise's leisure, business and commuting passengers, for example providing luggage storage and bicycle spaces.

5.12.7 The Department requires a Franchisee who will not at any point during the Initial Franchise Period reduce the number of standard class seats provided by the Train Fleet below that calculated from the figures shown in Table 5.4 (Capacities of rolling stock for bidding purposes) below.

5.12.8 The Department requires a Franchisee who will measure and improve the environmental performance of the rolling stock fleet solution including improving energy efficiency and reducing waste.

(B) EVIDENCE BIDDERS SHALL PROVIDE

5.12.9 In addition to the Minimum Evidential Requirements, Bidders' responses shall cover as a minimum:

- a) A summary of up to two pages in length of the Bidder's proposal under this Sub-Plan, including an overview of the key benefits to passengers;
- b) Their fleet plans, to include:
 - i) An explanation of how the composition of the Train Fleet is proposed to change over the course of the Initial Franchise Period;
 - ii) How the introduction of newly-built or cascaded fleets into the Franchise will be managed so as to avoid disrupting services for passengers and meet standards of punctuality and reliability performance;
 - iii) Evidence that their proposed fleets will be compatible with the technical and operational capabilities of the infrastructure; and
 - iv) A summary fleet plan using the Excel templates provided to Bidders in the Data Site;
- c) Their approach to depot, maintenance, stabling, and train presentation (including plans for financing and delivering any significant investment in upgrading depot and stabling facilities in order to support those strategies);
- d) Term sheets for any rolling stock forming part of the Bidder's Train Fleet within the Franchise and evidence to support proposals for newly-built rolling stock, including any offer letters from manufacturers (which should include project plans), maintainers and financiers (which should include assumptions around maintenance reserves). Maintenance reserves should demonstrate that maintenance and overhaul costs are balanced throughout the Initial Franchise Period, and the burden will not fall beyond the Initial Franchise Period or on future operators of an increased maintenance reserve to make up for charges not applied in the Initial Franchise Period and the remainder of the Franchise Term. For clarity the maintenance reserves amounts should be clearly shown and identified in the bid assumptions and the ICWC Financial Model. This applies to newly-built rolling stock and existing fleets. These term sheets will be excluded from the page count;

- e) Demonstration of deliverability of fleet programmes, including (if proposed) refurbishment, and the impact on fleet availability during their implementation;
- f) Details of potential key suppliers on whom the Franchisee will depend to maintain, clean and (if proposed) refurbish the Train Fleet;
- g) Plans for how and when modifications will be delivered (any consequent impacts on passenger services should be detailed in Sub-Plan 2.1 (Train Services) and cross-referenced here); and
- h) If the Bidder's proposed Train Fleet includes vehicles that at the time of issuing this ITT are in operation, or are planned to be brought into operation, on another franchise (and also see part (E) below), then the Bidder must provide:
 - i) An explanation of their reasons for being confident that the current or successor operator of the 'donor' franchise will be able to secure sufficient suitable alternative rolling stock to continue to operate their train services to current standards and not worsen the quality of the passenger facing facilities;
 - ii) Details of how any cascades into the Franchise will be managed; and
 - iii) An explanation of what mitigation the Bidder would use should the incoming cascaded stock be delivered later than assumed in the Bid (bearing in mind the provisions relating to Cascaded Rolling Stock in Schedule 2.2A of the Franchise Agreement) or in an unsatisfactory condition. This must include identification of the alternative rolling stock that the Bidder would lease in the event of the Secretary of State requiring the rolling stock to be leased back to the donor franchise under Schedule 2.2A.

(C) SCORING

5.12.10 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (InterCity West Coast and Combined Sub-Plan marking framework and guidance).

5.12.11 Without prejudice to the generality of subsection 7.3.6 (Scoring methodology), specific examples of how the above requirements may be exceeded, are set out below:

- a) Initiatives to enhance the quality, presentation and on-board environment of the Train Fleet substantially beyond the requirements set out in part (A) above, including addressing areas of passenger dissatisfaction such as the condition of the on-board toilets (for example addressing ongoing issues such as odour and toilet failures in service – particularly user accessible toilets), issues with seat reservation systems and provision of sufficient luggage space;
- b) Initiatives to develop, test or implement new and emerging technologies within the Train Fleet, where such technologies have clear potential to benefit the Franchise and its passengers;
- c) Initiatives to deliver customer and operator facilities, services and benefits, through integration of on board and trackside people / process / and technology solutions, with such equipment and systems being capable of cost efficient upgrade, such as:
 - i) Integrated train to shore passenger / customer information systems;
 - ii) Vehicle loading and passenger boarding / alighting systems which provide greater granularity of information over and above the requirements in Schedule 1.5A of the Franchise Agreement; and
 - iii) Passenger announcements and train crew calls using train crew smart phones / tablets;
- d) Proposals that will enable persons with physical, mental, sensory or cognitive impairments to travel by train confidently, comfortably and independently (should they wish to do so);
- e) Proposals to improve significantly the environmental performance of the Train Fleet through reduced fuel consumption and emissions or minimising diesel operation on electrified routes; and
- f) Innovative proposals to improve the environmental performance of the train fleet when not using electrified infrastructure, including commitment to work with suppliers to develop and trial zero emission at the point of use solutions such as hybrid fuel-cell

power packs and report back to the Department with results and recommendations.

(D) FURTHER INFORMATION

5.12.12 The provisions of this subsection apply in addition to the provisions of subsection 4.14.3 (Contractualisation of ICWC and Combined Sub-Plans) and subsection 7.8 (Evaluation impact of contractual treatment of Bidders' Initiatives).

Newly-built rolling stock

5.12.13 For any newly-built rolling stock that a Bidder proposes to be included within the Train Fleet, the Bidder must indicate clearly within their Bid the date or dates by which they intend that this rolling stock will become part of the Train Fleet ("**the Target Date(s)**"). Bidders may propose phased entry into service, with different Target Dates for each batch of new vehicles. Their ICWC Financial Model must be consistent with the rolling stock becoming part of the Train Fleet on the Target Date(s).

5.12.14 When contractualising any proposal for newly-built rolling stock, the Department will incorporate into the Franchise Agreement:

- a) An obligation on the Franchisee to use all reasonable endeavours to bring the newly-built rolling stock into passenger service by the Target Date(s);
- b) An obligation on the Franchisee to secure that the rolling stock has been brought into passenger service no later than twelve months after the Target Date(s); and
- c) Provisions to address the financial consequences of the newly built rolling stock entering into service sooner than, or later than, the Target Date(s), which will confirm that:
 - i) There will be no adjustment to the Franchise Payments in consequence of the newly-built rolling stock entering into passenger service earlier than the Target Date(s);
 - ii) In the event that the newly-built rolling stock does not enter into passenger service until after the Target Date(s), then (without prejudice to any other remedies that may be available to the Secretary of State) the net financial effect of the delay to the Franchisee will be assessed. If the net financial effect of the delay is a saving to the Franchisee, then the Franchise Payments will be adjusted in the

Secretary of State's favour by the amount of the saving. If the net financial effect of the delay is an increase in the cost to the Franchisee, then the Franchisee will bear the cost; and

iii) The assessment of the net financial effect will take account of:

- A) Any liquidated damages that any third party is liable to pay to the Franchisee in relation to the delay in the lease, maintenance and other operating costs avoided or deferred by the Franchisee in consequence of the delay (including costs relating to the provision of depot facilities in relation to the newly-built rolling stock);
- B) Any additional lease, maintenance, and other operating costs reasonably incurred by the Franchisee as a result of extending the leases on other rolling stock within the Train Fleet beyond the lease expiry dates specified in Schedule 1.6A of the Franchise Agreement, or leasing in other rolling stock to substitute for the newly-built vehicles (the Franchisee having used all reasonable endeavours to minimise such costs);
- C) Any loss of revenue suffered by the Franchisee as a consequence of the delay (such loss being calculated in accordance with industry standard revenue forecasting guidance and practices); and
- D) Any other cost savings enjoyed by the Franchisee as a consequence of the delay. The performance benchmarks in Schedule 7.1A of the Franchise Agreement and the NPRS Benchmarks in Schedule 7.2A of the Franchise Agreement will not be amended in consequence of any delay and the assessment of the net financial effect of the delay will take no account of any changes to the payments arising under Schedules 7.1A and 7.2A of the Franchise Agreement that are a consequence of the delay.

Rolling stock capacities – existing fleets and layouts

5.12.15 Table 5.4 (Capacities of rolling stock for bidding purposes) sets out for information the standard class capacities of the unit types in the Train Fleet as inherited from the Start Date. Bidders shall assume the capacity is the number of standard class seats plus wheelchair spaces in standard class accommodation and shall assume these capacities for the purposes of their Bids (except insofar as proposals to modify rolling stock interiors will affect capacity). First class seats and wheelchair spaces in first class accommodation are shown for reference only and do not count towards total capacity.

Table 5.4 Capacities of rolling stock for bidding purposes

Class	Units	Vehicles	Standard seats (wheelchair spaces) per unit	Total capacity per unit	First class seats (wheelchair spaces) per unit
390/1	35x11 car	385	444 (2)	557	145 (1)
390/0	21x9 car	189	370 (2)	464	99 (1)
221	20x5 car	100	230 (1)	289	26 (1)

Rolling stock capacities – newly-built or reconfigured rolling stock

5.12.16 Where a Bidder is proposing to reconfigure the interior layout of any existing rolling stock covered by Table 5.4 (Capacities of rolling stock for bidding purposes) above, or to cascade in rolling stock or to procure newly-built rolling stock, an assessment will need to be made of the passenger-carrying capacity of that reconfigured, cascaded or newly-built stock.

5.12.17 Seating and standing capacities of any rolling stock will be assessed on a carriage-by-carriage basis.

5.12.18 Bidders' proposals must maintain as a minimum the total number of standard class seats detailed in Table 5.4 (Capacities of rolling stock for bidding purposes) throughout the Initial Franchise Period in their proposed Train Fleet.

5.12.19 The seated capacity of any carriage will be assessed by counting the following:

- a) Fixed seats in standard accommodation;
- b) Wheelchair spaces in standard accommodation; and

- c) Tip-up seats in standard accommodation which provide lumbar support and a standard-sized base, and which are capable of being used when the wheelchair spaces are occupied.

5.12.20 Where Bidders require greater certainty about the treatment of a particular layout, they may submit a BCQ asking the Department to provide a view. Such a question must be accompanied by a fully-legible A3 scale drawing of each carriage, showing:

- a) Key dimensions (including internal and external vehicle length and width, aisle widths, dimensions of vestibule areas and the width of door apertures when open);
- b) Its interior layout (including fixed and tip-up seats; grab-poles, hand-holds etc.);
- c) The areas designated for use by wheelchair users (with a clear indication, where applicable, of which tip-up seats are still available for use when the wheelchair spaces are occupied); and
- d) Which areas are designated first class accommodation and so are excluded from the calculation of the number of seats.

5.12.21 The Department will endeavour to respond within 8 working days of receipt of such a BCQ and fully-legible scale drawing as indicated above.

(E) FURTHER INSTRUCTION AS TO ROLLING STOCK REQUIREMENTS

Lease terms for conventional rolling stock

5.12.22 Beyond the Initial Franchise Period, the Department wishes to retain a reasonable degree of flexibility in rolling stock lease arrangements in the event of failure of the Readiness Review, entering the Reset Period or switching to IOC and transition to post High Speed Services.

5.12.23 Bidders should plan to enter into firm leases for the duration of the Initial Franchise Period only. The leases should be secured with the option to extend beyond the Initial Franchise Period up to the Core Franchise Term on the following basis:

- a) The capital rental cost will not increase in nominal terms after the Initial Franchise Period up to the latest possible end date of the contract (2034);
- b) Where investments in rolling stock are funded through the lease, these should be clearly identifiable in the lease costs be fixed in nominal terms in the same way as in subsection a) above. For

the avoidance of doubt, the Department is not offering any Section 54 undertaking; and

- c) The option to extend beyond the Initial Franchise Period should be callable in any length.

Rolling stock characteristics

5.12.24 All passenger carrying rolling stock must be capable of operating at 125mph as a minimum.

5.12.25 When procuring newly-built trains or installing or upgrading on-train CCTV systems on existing trains, these proposals should reflect the principles outlined in RDG's "National Rail & Underground Closed Circuit Television (CCTV)" and British Transport Police's "Output requirements from CCTV Systems" guidance documents.

5.12.26 Any newly-built rolling stock must be fitted with the equipment necessary to enable the trains to be operated in driver controlled operation in Passenger Service.

5.12.27 All newly-built rolling stock must be fitted by no later than 31 December 2022, with enhanced passenger information systems in each carriage that include (in addition to relevant regulatory requirements) the capability to:

- a) Acquire and display (in a user-friendly format) real-time travel and delay information, including estimated arrival times at calling points, information on connecting rail and bus services where relevant, and summaries of departures from major stations;
- b) Interface and integrate with other remote information systems (including systems providing real-time information about onward connections by rail and other modes, and where applicable on-train passenger loading measurement and SDO systems); and
- c) Display information from those systems that is relevant to passengers' journeys.

Deconfliction instructions

5.12.28 This section sets out further instructions to Bidders which are aimed at ensuring, so far as possible, that:

- a) Bidders for future franchise competitions can have reasonable certainty about the diesel rolling stock that will be available to them; and

- b) Any plans for inward cascades into the Franchise do not leave the donor TOC without realistic options to maintain their existing service offer for their passengers.

5.12.29 Where Bidders are contemplating inward cascades of fleets from other Franchises, they are invited to set out their proposals to the Department, via a BCQ, as early as possible in the Bidding process. The Department will consider any such proposals against the impact on the donor franchise, and may provide a view as to whether the Department is likely to have concerns if the Bidder includes this rolling stock in their proposed Train Fleet. Any such view would be provisional and without prejudice to the Department's evaluation of the Bid once submitted. Such a view would not be communicated to other Bidders, as this may reveal one Bidder's rolling stock strategy to the other Bidders, but it is open to any Bidder to approach the Department on this issue.

5.12.30 To that end, only the following rolling stock may be proposed by Bidders for inclusion within the Train Fleet:

- a) The rolling stock that is comprised within the Train Fleet at the date of issuing this ITT;
- b) Electric or diesel or bi-mode or hybrid multiple units, locomotives, driving van trailers and coaching stock of any class that are leased by a Relevant Operator other than the current ICWC Franchisee at the date of issuing this ITT and that either:
 - i) Will be demonstrably surplus to the requirements of that Relevant Operator because:
 - A) Newly-built rolling stock is being procured to replace it;
 - B) Other rolling stock is due to be cascaded in to the donor franchise to replace it; or
 - C) The Bidder proposes to release suitable alternative replacement stock from the Franchise that could be used by the donor franchise;
 - ii) Will not be demonstrably surplus to the requirements of that Relevant Operator, but the Bidder can demonstrate that it will be feasible for that Relevant Operator to secure alternative rolling stock in sufficient time to enable that Relevant Operator to maintain the operation of its train services to at least current standards; and

- iii) Alternative rolling stock must be capable of delivering comparable or better operational performance characteristics, and of achieving comparable or better levels of passenger satisfaction. For these purposes the Bidder must demonstrate that it has allowed an appropriate lead time for any modifications that may be needed to the alternative rolling stock to enable it to meet the stated operational and quality requirements, for the training of drivers, and a reasonable contingency margin;
- c) Electric or diesel or bi-mode or hybrid multiple units, locomotives, driving van trailers and coaching stock of any class that are not leased at the date of issuing this ITT by any Relevant Operator; and
- d) Any newly-built rolling stock that the Bidder commits to procure.

5.12.31 Where a Bidder proposes rolling stock falling within subsection 5.12.30b), their Bid must:

- a) Demonstrate that the conditions in subsection 5.12.30b) are met; and
- b) Explain how the Bidder would handle a delay to the proposed inward cascade. Such explanation must set out:
 - i) How they would continue to meet the TSR in spite of such a delay; and
 - ii) If applicable, which of their proposed service enhancements over and above the TSR would have to be deferred or cancelled in the event of such a delay.

5.13 Sub-Plan 2.3 Performance

5.13.1 This Sub-Plan is designed to test Bidders' approach to meeting the Department's requirements for operational performance and for managing and responding to unplanned disruption. The management of changes to the Train Services and the impact of these changes on performance is covered in Sub-Plan 2.1, and the management of planned disruption is covered in Sub-Plan 2.4.

5.13.2 Please note the requirements in this Sub-Plan cover the period of the Initial Franchise Period unless explicitly stated otherwise.

5.13.3 For the avoidance of doubt, this Sub-Plan will be evaluated by reference to the marking framework set out in Table 7.3 (InterCity West Coast and Combined Sub-Plan marking framework and guidance).

(A) REQUIREMENTS

5.13.4 The Department requires a Franchisee who will:

- a) Deliver the performance benchmarks in Schedule 7.1A of the Franchise Agreement;
- b) Design and implement business continuity processes for the operational aspects of the business, setting out how the Franchisee will engage with Industry Partners to minimise delay and unplanned disruption for passengers and improve the ability to effectively recover from perturbation whilst keeping passengers moving;
- c) Work with Network Rail and other Industry Partners to:
 - i) Develop and maintain an ‘on-time’ railway culture across the Franchise;
 - ii) Analyse performance failures to root-cause and use this information to drive decision making throughout the business; and
 - iii) Continually improve performance, particularly focussing on sub-threshold delay, reactionary delay, poor performing routes, high delay impact locations and areas of passenger interchange; and
- d) Procure, install and operate a stock and crew system that is developed to include an interface prepared for configuration to a future traffic management system via LINX or another similar interface, that as far as practicable delivers the specification at Data Site folder (14.16 ‘Stock & Crew’) and which may include the implementation or adaptation of an existing stock and crew system.

(B) EVIDENCE BIDDERS SHALL PROVIDE

5.13.5 In addition to the Minimum Evidential Requirements, Bidders’ responses shall include:

- a) A summary table of the key initiatives and impacts on operational performance;

- b) Their overall strategy for operational management, covering issues such as: how they will manage and organise their operational control functions, performance management, business continuity, for the operational aspects of the business and engineering and service recovery arrangements;
- c) How their rolling stock strategy, train crew establishment and Train Plan will enable them to meet these requirements;
- d) How they will monitor performance data, how results will be analysed, and how this information will be used and shared with Industry Partners to make decisions on the priorities for improvement;
- e) For each performance initiative proposed, a description of how the initiative will contribute to delivery of the performance benchmarks in Schedule 7.1A of the Franchise Agreement, including:
 - i) Problem identification;
 - ii) The proposed solution; and
 - iii) Evidence of the scale of the impact on performance;
- f) How they will minimise the impact of unplanned engineering work and Challenging Circumstances on the provision of services, including by:
 - i) Maintaining the provision of passenger rail services (for example by working with Network Rail and other operators to maximise the scope for trains to continue running while engineering work is taking place, and/or by using suitable diversionary routes where available to provide a train for as much of the journey as possible);
 - ii) Developing and implementing appropriate arrangements to ensure the continued comfort and welfare of passenger; and
 - iii) Developing and implementing contingency plans including both the maintenance of existing and development of new diversionary routes; and
- g) Details of the proposed stock and crew system, including plans for implementation of the stock and crew system and any anticipated

performance improvements resulting from the operation of the system.

(C) SCORING

5.13.6 For meeting overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (InterCity West Coast and Combined Sub-Plan marking framework and guidance).

5.13.7 Without prejudice to the generality of subsection 7.3.6 (Scoring methodology) specific examples of how the above requirements may be exceeded are set out below:

- a) Commitments to work with Network Rail and other operators in respect of actions which can be taken in the management and operation of the Franchise to deliver whole-industry benefits beyond achieving the requirements in part (A), for example proposals to implement on-train infrastructure monitoring equipment where these proposals are supported by Network Rail;
- b) Innovations, including trial schemes or demonstrator projects that are intended to deliver whole-industry benefits, with a commitment to reporting back to the Department on the success (or otherwise) of these proposals;
- c) Plans to introduce technological and process improvements that deliver improvements in the way disruption is managed; and
- d) Plans and processes which promote a passenger-focused approach to operational performance, for example, proposals for passenger loadings to influence decision making.

5.13.8 For the avoidance of doubt, a proposal to exceed the performance benchmarks in Schedule 7.1A of the Franchise Agreement will not be considered sufficient to exceed the above requirements.

5.14 Sub-Plan 2.4 Supporting HS2 Infrastructure Delivery

5.14.1 This Sub-Plan is designed to test Bidders' approaches to supporting the efficient delivery of the HS2 Works whilst minimising the impacts of such works and other planned disruption on passengers and the operation of the Franchise.

5.14.2 Bidders should note that the Department's requirements for managing and responding to unplanned disruption are covered in Sub-Plan 2.3

Performance in subsection 5.13 and Bidders should provide their responses to these requirements under this plan, where they will be evaluated.

5.14.3 Please note the requirements in this Sub-Plan cover the period of the Initial Franchise Period unless explicitly stated otherwise.

5.14.4 For the avoidance of doubt, this Sub-Plan will be evaluated by reference to the marking framework set out in Table 7.3 (InterCity West Coast and Combined Sub-Plan marking framework and guidance).

(A) REQUIREMENTS

5.14.5 The Department requires a Franchisee who will effectively collaborate with Industry Partners to support the successful, timely and efficient delivery of the HS2 Works, including by;

- a) Providing a dedicated, suitably staffed and experienced Project Support Office (“**PSO**”) to assess the implications of and coordinate the Franchisee’s response to the HS2 Works, including by:
 - i) Planning and scheduling the Franchisee’s activities to support the delivery of the HS2 Works;
 - ii) Identifying and managing risks;
 - iii) Reporting on progress;
 - iv) Attending relevant boards, forums, groups or meetings regarding the HS2 Works; and
 - v) Managing and communicating information about the HS2 Works to affected areas of the business to ensure that the interaction with their area is understood and to enable a co-ordinated response;
- b) Participating in planning for possessions and mitigation measures, ensuring that all input and challenge to proposals is reasonable, constructive and is raised as early as possible so that alternative approaches to delivery of the HS2 Works and maintaining the passenger experience during the works can be explored; and
- c) Promoting a culture of transparency and proactive information sharing with Network Rail and HS2 Ltd (such as passenger loadings or financial impact) in order to enable fully informed decision making regarding the planning and delivery of the HS2 Works.

5.14.6 The Department requires a Franchisee who will effectively collaborate with Industry Partners to minimise the impacts of HS2 Works on passengers and the Franchise while ensuring that the works can still be effectively undertaken, including by:

- a) Taking passenger and Stakeholder needs into account when participating in the development and challenge of plans for possessions and mitigation measures;
- b) Developing and implementing an appropriate and effective passenger handling strategy for periods of planned disruption, including works at or around Stations, to ensure the continued comfort and welfare of all passengers, including persons with physical, mental, sensory or cognitive impairments;
- c) Maintaining the provision of passenger rail services (for example by working with Network Rail and other TOCs to maximise the scope of trains to continue running while planned engineering work is taking place, and/or by using suitable diversionary routes where available to provide a train for as much of the journey as possible and ensuring that diversionary route knowledge is maintained among train crew) and to regularly review the effectiveness of the approach taken;
- d) Delivering accurate, consistent, timely and joined up communications to passengers and Stakeholders regarding the impacts of HS2 Works; and
- e) Engaging with Network Rail, other TOCs, other transport providers and Transport for London to coordinate activities at stations where works are being undertaken at or around the station, and where the Franchisee is Station Facility Owner and/or has passenger-facing responsibilities.

(B) EVIDENCE BIDDERS SHALL PROVIDE

5.14.7 In addition to the Minimum Evidential Requirements, Bidder's responses shall include:

- a) A detailed proposal for their PSO that includes:
 - i) Details of where the PSO will sit within the Franchisee's organisation, including how the PSO will be embedded within the business and empowered to make decisions;

- ii) Details of the organisational structure of the PSO, including job descriptions, key competencies, capabilities and experience of the PSO staff;
 - iii) Details of how the resources and costs associated with the PSO change over time to reflect the HS2 Works;
 - iv) An overview of the remit and responsibilities of the PSO; and
 - v) An outline of the key processes and systems it will use;
- b) How they will increase transparency and proactively share accurate, up to date and relevant information with Network Rail and HS2 Ltd, to enable effective planning and better decision-making regarding the infrastructure works; and
- c) Details of the Bidder's proposed passenger handling strategy and approach to minimising the impact of planned disruption associated with the HS2 Works on passengers, including;
- i) How they would deliver communications regarding the works that are accurate, timely and joined up with the messaging of Network Rail, HS2 Ltd and other TOCs;
 - ii) How they will enable passengers to complete their journeys as far as possible by rail, minimising the use of rail replacement bus services as much as practical when access to any part of the network is reduced, including how they will develop and maintain diversionary route knowledge (should appropriate diversionary routes be identified and proposed); and
 - iii) Their approach to working with Industry Partners to minimise passenger disruption at stations during the HS2 Works and station rebuild works, including how they will ensure that all passengers, including those with physical, mental, sensory or cognitive impairments, can easily find their way around the station, to and from their trains, and interchange with other modes.

(C) SCORING

5.14.8 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (InterCity West Coast and Combined Sub-Plan marking framework and guidance). Without prejudice to

the generality of subsection 7.3.6 (Scoring methodology), specific examples of how the above requirements may be exceeded are set out below:

- a) Proposals to enable alternative London termini to be used until the HS2 Works are complete that do not detrimentally impact other TOCs; and
- b) Proposals which, in response to short notice or unanticipated disruption, would enable mitigation measures to be delivered which maintain the service and passenger experience. For example:
 - i) The short notice provision of contingency staff including train crew and/or increased station staffing;
 - ii) Delivery of proactive information and communication to passengers about changes to their services and alternative options for completing their journey by rail; and
 - iii) Contingency funding to enable investment to improve wayfinding or to deliver minor improvements to station facilities.

5.15 Delivery Plan 3 – Revenue

5.16 Sub-Plan 3.1 Marketing and Branding

5.16.1 Please note the requirements in this Sub-Plan cover the period of the Initial Franchise Period unless explicitly stated otherwise.

5.16.2 For the avoidance of doubt, this Sub-Plan will be evaluated by reference to the marking framework set out in Table 7.3 (InterCity West Coast and Combined Sub-Plan marking framework and guidance).

(A) REQUIREMENTS

5.16.3 The Department requires a Franchisee who fully understands the value of investment in marketing and who will:

- a) Grow the business and expand the market for intercity travel ahead of the launch of High Speed Services through effective marketing strategies to generate growth in revenue (farebox and non-farebox) and passenger journeys, including by attracting new or infrequent rail users;

- b) Promote the benefits of HS2 during the HS2 Works, ensuring that messaging is aligned to the wider joint communications strategies with Network Rail and HS2 Ltd;
- c) Enhance the public perception and reputation of the Franchise, including by promoting the benefits of the Franchise to passengers and Stakeholders and publicising any corporate philanthropy, charity or community-based schemes that will be delivered by the Franchisee;
- d) Partner with Stakeholders (including local businesses, tourism industries and heritage railways) to deploy joint marketing and branding strategies to contribute to economic growth in the localities and communities served by the Franchise; and
- e) Deliver their marketing campaigns via multiple channels, including but not limited to digital and social media, ensuring that campaigns can effectively reach all passengers (including those who may not have access to technology and those who may be visually or hearing impaired).

5.16.4 The Department requires a Franchisee who will implement a striking, high quality and modern intercity brand for the ICWC Services that:

- a) Reflects the partnership nature of the Franchise and the collaboration with Network Rail, HS2 Ltd and other Stakeholders to deliver positive outcomes for passengers;
- b) Reflects the communities and regions served by the Franchise, the importance of the route to passengers and Stakeholders, and the premium nature of the Franchise;
- c) Reflects the values and culture of the Franchise;
- d) Is applied consistently across the Franchise livery, rolling stock interiors, Stations, staff uniforms, website and other digital platforms, retail and marketing materials, internal and external communication materials from the Start Date or as soon as is reasonable practicable; and
- e) Has regard to the overall costs and benefits of branding, including the return on investment and any potential future costs of de-branding.

(B) EVIDENCE BIDDERS SHALL PROVIDE

5.16.5 In addition to the Minimum Evidential Requirements, Bidders' responses shall cover as a minimum:

- a) Details of how they will use marketing techniques to grow the business, including how they will use customer data to deliver targeted marketing campaigns and offers to passengers, and to reward loyalty;
- b) Details of how they will promote the benefits of HS2 during the HS2 Works;
- c) Details of how they will enhance the reputation and public perception of the Franchise, including how they will communicate the benefits of the Franchise to passengers and Stakeholders;
- d) Details of how they will partner with Stakeholders to support economic growth in the localities and communities served by the Franchise, including how they will develop further partnerships; and
- e) Their branding strategy for the ICWC Services, including as a minimum:
 - i) The name, colour scheme, typeface and logo of the brand;
 - ii) A programme for implementation of the brand; and
 - iii) Examples of the application of the brand to livery, rolling stock interiors, Stations, staff uniforms, website and other digital platforms, retail and marketing materials, and internal and external communications materials.

5.16.6 For the avoidance of doubt, Bidders should include costs within their Bid for de-branding at the end of the Initial Franchise Period, in accordance with paragraph 3.3 of Schedule 14.2A of the Franchise Agreement. These costs should be clearly identified in the ICWC Record of Assumptions.

(C) SCORING

5.16.7 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (InterCity West Coast and Combined Sub-Plans marking framework and guidance). Without prejudice to the generality of subsection 7.3.6 (Scoring methodology), specific

examples of how the above requirements may be exceeded are set out below:

- a) Marketing initiatives to stimulate mode shift from less environmentally sustainable modes to travel by rail, including through collaboration with Stakeholders and other train, light rail, tram and bus operators;
- b) A brand that places substantial emphasis on the role of the Franchisee as a partner and visibly communicates this to passengers and Stakeholders;
- c) Proposals for using marketing and branding strategies to improve the overall perception of the rail industry; and
- d) Proposals to use innovative approaches and/or to deploy technologies to enable the efficient and effective delivery of marketing campaigns to drive sustainable passenger growth.

5.16.8 Bidders will only be capable of exceeding the requirements at subsection 5.16.4 where they propose a brand for the ICWC Services that:

- a) Is demonstrably capable of being adapted for future use by a Successor Operator; and
- b) The Bidder agrees shall be designated as a Primary Franchise Asset to transfer at nil value at the end of the Franchise to the Successor Operator.

(D) CONTRACTUALISATION

5.16.9 The provisions of this subsection will apply in addition to the provisions of subsection 4.14.3 (Contractualisation of ICWC and Combined Sub-Plans) and subsection 7.8 (Evaluation impact of contractual treatment of Bidders' Initiatives).

5.16.10 Where the winning Bidder provides a commitment that their brand is capable of being adapted for future use and transferred to a Successor Operator at nil value at Franchise expiry, the Department will:

- a) Contract the implementation of the brand and compliance with the branding strategy as a Committed Obligation;
- b) Provide associated contractual drafting requiring the Franchisee to grant an irrevocable, perpetual, royalty-free licence to the Secretary of State to use the brand, defend any actual or suspected infringement of third party intellectual property rights

and pursue any actual or suspected infringement of the intellectual property rights in the brand;

- c) Provide associated contractual drafting requiring the Franchisee to register ownership of the intellectual property rights in the brand with the Intellectual Property Office, to effect relevant paperwork to transfer the registration of ownership to a Successor Operator at Franchise expiry and to establish that the Department reserves the right to require the transfer of ownership of the intellectual property rights directly to the Department; and
- d) Designate the brand as a Primary Franchise Asset to transfer to a Successor Operator at nil value at Franchise Expiry.

5.17 Sub-Plan 3.2 Fares and Ticketing

5.17.1 Please note the requirements in this Sub-Plan cover the period of the Initial Franchise Period unless explicitly stated otherwise.

5.17.2 For the avoidance of doubt, this Sub-Plan will be evaluated by reference to the marking framework set out in Table 7.3 (InterCity West Coast and Combined Sub-Plan marking framework and guidance).

(A) REQUIREMENT

5.17.3 The Department requires a Franchisee who will make rail fares easier to understand, fairer and better suited to customers' needs and who will do so, in a manner that is subject to continuous improvements and aligned with initiatives to improve fares.

5.17.4 The Department requires a Franchisee who will offer other fare products, in addition to season tickets, that give customers who travel fewer than 5 days a week a better value option than buying multiple return journeys.

5.17.5 The Department requires a Franchisee who will communicate information about fares and tickets to current and prospective customers (including people with physical, mental, sensory or cognitive impairments) clearly and transparently, so that:

- a) Information is easily accessible and consistent across a range of different communications channels, in particular using evolving technology to enable customers to choose the most appropriate and best value fare for their journey; and
- b) Any restrictions and conditions on the ticket purchased are clearly communicated, prior to, during and after the ticket buying process.

- 5.17.6 The Department requires a Franchisee who will deliver a high quality standard of ticket retailing service to all customers (including people with physical, mental, sensory or cognitive impairments), which will:
- a) Provide customers with widespread and easy access to the full range of fares and a range of ticket retail opportunities that meet their needs using evolving technology whilst continuing to provide options for those without access to technology;
 - b) Provide a high quality customer experience at ticket vending machines including adopting Design Guidelines for all software and hardware upgrades; and
 - c) Provide a modern ticketing system that will:
 - i) Offer customers an attractive, simple to use, and easily accessible option to make their journey without a paper ticket for at least all journeys that are entirely within the Franchise boundary and made on Passenger Services;
 - ii) Facilitate progress towards a seamless and integrated modern ticketing experience for journeys both within and beyond the Franchise boundary by working with Stakeholders; and
 - iii) Minimise whole industry costs and whole life costs by, where appropriate, using common industry systems and standards and adopting broader industry initiatives.
- 5.17.7 The Department requires a Franchisee who will maximise the benefits of investment in modern ticketing and infrastructure, including by committing to:
- a) Stretching and realisable targets for the uptake of smart ticketing for, as a minimum, all journeys that are entirely made on Passenger Services, such targets being no less than 50% of all such journeys on Smart Ticketing Schemes by December 2020; and
 - b) Issue annual, weekly and monthly season tickets, ordered online or at ticket offices, via Smart Ticketing Schemes as a default option as soon as possible following the Start Date, but no later than April 2020 whilst continuing to provide options for those without access to technology.
- 5.17.8 The Department requires a Franchisee who will ensure that revenue protection activities are appropriate and create a sensitive and positive

sense of customer engagement, including by empowering staff to apply their discretion (for example where passengers have made a genuine effort to buy the correct ticket) and also provide support, information and assistance with other aspects of their journey if required.

(B) EVIDENCE BIDDERS SHALL PROVIDE

5.17.9 In addition to the Minimum Evidential Requirements, Bidders' responses shall include:

- a) The Bidder's approach to fares for its Bid Fares Strategy, including, as a minimum:
 - i) A clear quantified description of the planned future structure and approach to determining the level of fares (regulated and unregulated) for all markets in general terms, evidenced by an explanation of the planned future structure and approach to determining the level of fares (regulated and unregulated) in specific terms between London and (as a minimum) the stations on the following key markets:
 - A) Birmingham;
 - B) Liverpool;
 - C) Manchester;
 - D) Chester/North Wales; and
 - E) Glasgow,and between Birmingham and Glasgow/Edinburgh; and
 - ii) Which additional products the Bidder is planning to sell and at what level these will be set;
- b) The Bidder's approach to fares, including:
 - i) A summary overview of its Bid Fares Strategy and how it delivers the requirements of this Sub-Plan;
 - ii) Details of any changes planned to the availability of specific fares; and

- iii) Details of how the Bidder will consult with Stakeholders and passengers in developing and implementing any fares changes planned; and
 - c) The Bidder's approach to ticketing, including:
 - i) Details of how the Bidder will consult with Stakeholders and passengers in developing and implementing significant changes to ticketing; and
 - ii) A description of how the Bidder will deploy modern ticketing which should include details of:
 - A) the customer experience for different users of the modern ticketing system, such as walk-up passengers;
 - B) the proposed technical approach;
 - C) how it will manage the introduction to new forms of ticketing for customers and how this will be communicated to customers; and
 - D) details of targets for increased usage of Smart Ticketing Schemes (at a minimum disaggregating targets between seasons and single/returns) and how they will be achieved.

(C) SCORING

5.17.10 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (InterCity West Coast and Combined Sub-Plan marking framework and guidance). Without prejudice to the generality of subsection 7.3.6 (Scoring methodology), specific examples of how the above requirements may be exceeded are set out below:

- a) Implementation of a customer-focussed fares structure which improves customers' satisfaction with, and understanding of, the value of the journey they are making and provides greater consistency in pricing;
- b) Proposals to enable annual season ticket holders across the franchise to spread the cost of their ticket throughout the year. This could include initiatives such as Direct Debit payments;
- c) Proposals to significantly enhance the customer experience when using ticket vending machines providing a simplified interface

which enables customers to be confident they are purchasing the best ticket for the journey they want to make;

- d) A commitment to offer customers the same fares at the time of booking regardless of ticket retailing option (e.g. online, app or ticket office), for example by offering a price guarantee;
- e) Proposals to expand opportunities for passengers to buy through-tickets that allow travel on another mode of public transport at one or both ends of the rail leg of their journey, including on existing and Smart Ticketing Schemes;
- f) Innovative proposals to maximise the wider customer benefits of increased Smart Ticketing Schemes such as systems that are able to provide targeted customer information before, during and after the journey; and
- g) Particularly strong proposals to drive significant increases in the usage of Smart Ticketing Schemes above the levels set out in subsection 5.17.7.

5.18 Delivery Plan 4 – Customer Experience and Stations

5.19 Sub-Plan 4.1 Customer Experience

5.19.1 Please note the requirements in this Sub-Plan cover the period of the Initial Franchise Period unless explicitly stated otherwise.

5.19.2 For the avoidance of doubt, this Sub-Plan will be evaluated by reference to the marking framework set out in Table 7.3 (InterCity West Coast and Combined Sub-Plan marking framework and guidance).

(A) REQUIREMENT

5.19.3 The Department requires a Franchisee who will provide a high quality experience for all customers (including people with physical, mental, sensory or cognitive impairments) including during Challenging Circumstances and special events, planned and unplanned disruptions and security incidents by:

- a) Embedding a customer-driven culture throughout the business, where proactive engagement with customers communities and Stakeholders drives decisions and operational activity;
- b) Enabling customers with different needs (for example business and leisure) to get the most out of their journey by delivering modern facilities, excellent customer services and catering,

including by innovating and deploying technology to provide a best-in-class customer experience;

- c) Continually developing and training customer-facing staff so that they are supported and empowered to:
 - i) Provide a visible, helpful and proactive customer-facing presence from first till last train at Stations, on-board trains and through other means of customer contact such as help points, social media or phone, text or email;
 - ii) Provide assistance and information to customers at all stages of their journey, including when planning to travel, and after completion, in particular using evolving technology to meet customers' needs;
 - iii) Promote security and deliver a safe and secure environment on board trains including by reducing anti-social behaviour; and
 - iv) Deal with complaints in a way that satisfies passengers, working collaboratively with Stakeholders including ORR and passenger representative groups such as Transport Focus;
- d) Gathering more immediate, frequent and granular insight into issues affecting customer sentiment, and acting upon this insight to improve customer services and build trust;
- e) Working collaboratively with other TOCs and, where appropriate, Network Rail to deliver a consistently high quality standard of customer services to all passengers, regardless of ownership of station or patronage of TOC, ensuring the continued comfort and welfare of customers particularly those with physical, mental, sensory or cognitive impairments;
- f) Providing simple and easy to use technology for customers planning to travel or travelling at all stages of their journey. This should:
 - i) Include real time journey information that is accurate, timely and consistent across different communication channels (including customer information displays and announcements at stations and on trains); and

- ii) Incorporate the services of other operators and other transport modes;
- g) Introducing an accessibility panel to provide advice on making facilities and customer services more accessible to passengers and proposals to introduce technology or modernise the passenger experience, including a demonstration of how they will ensure that this advice is reflected in outputs;
- h) Delivering the customer services and dealing with delays NRPS Benchmarks set out in Schedule 7.2A of the Franchise Agreement;
- i) Implementing a Passenger's Charter from the start of the Franchise that includes Delay Repay compensation arrangements as defined in the document "Guidance on Passenger's Charter Compensation", and actively promote awareness of the passengers' rights to claim compensation; and
- j) Providing high quality on-board mobile connectivity which meets the needs and expectations of passengers on the route.

(B) EVIDENCE BIDDERS SHALL PROVIDE

5.19.4 In addition to the Minimum Evidential Requirements, Bidders' responses shall include:

- a) A summary of up to two pages in length of the Bidder's proposal under this Sub-Plan, including an overview of the key benefits to passengers;
- b) Details of how they will:
 - i) Develop, train and empower customer-facing staff to deliver their customer-driven culture outlining any proposed accreditations in customer service and/or service quality;
 - ii) Achieve the customer services and dealing with delays NRPS Benchmarks set out in Schedule 7.2A of the Franchise Agreement;
 - iii) Enable prompt remedial action to be taken where performance is at risk of falling below any of these NRPS Benchmarks; and

- iv) Continually improve the management and provision of information including how the Franchisee will consider individual customer needs and experience in planning and completing their journey;
- c) Details of how their proposal will:
- i) Maintain best-in-class customer experience; and
 - ii) Deliver continual improvement in customer service, including how staff can escalate enquiries or problems from customers, enabling proactive customer services;
- d) Their Customer and Stakeholder Engagement Strategy which should include:
- i) How the Franchisee will engage with customers, Stakeholders and potential customers (including people with physical, mental, sensory or cognitive impairments) to drive continuous improvements in customer experience;
 - ii) How the Franchisee will use the results of customer and Stakeholder engagement to inform business decisions and to improve customer services and facilities, and how customers and stakeholders will be informed of the progress made;
 - iii) How the Franchisee will work with passenger representation groups and/or organisations that represent a range of accessibility needs to co-design, test and implement solutions;
 - iv) How the Franchisee will provide and promote awareness of an easily accessible means for customers and Stakeholders to raise issues and get direct feedback on the action taken to resolve the problem;
 - v) How the Franchisee will work with customers, communities and stakeholders to develop CCI Schemes including how they will consider using local businesses and local staff to help deliver and or implement CCI Schemes;
 - vi) A draft initial Customer Report setting out the key commitments the Franchisee will make to its customers,

including, but not restricted to, how it intends to improve its day-to-day services and facilities and how it will act to address problems;

vii) How the Franchisee proposes to use Customer Reports to improve engagement with its customers; and

viii) How they will collaborate with Network Rail, TOCs and other organisations at Franchisee Access Stations to deliver improvements to customer services; and

e) Their approach to delivering on-board mobile connectivity, including:

i) Their proposed solution, including the minimum data speed per passenger, minimum data allowance and their implementation plan;

ii) An explanation of the customer experience to be provided along with any limitations, restrictions or charging of the service; and

iii) An outline plan for fitment of any necessary on-train equipment and systems.

(C) SCORING

5.19.5 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (InterCity West Coast and Combined Sub-Plan marking framework and guidance).

5.19.6 Without prejudice to the generality of subsection 7.3.6 (Scoring methodology), specific examples of how the above requirements may be exceeded are set out below:

a) Proposals, which could include trials, to introduce technology and innovations to enhance significantly the customer services and to report to the Department on the success or otherwise of any such technology or innovation using a system of key performance indicators;

b) Innovative proposals for the provision of personalised information tailored to passengers' individual needs, which may include (but is not limited to):

i) Improvements to the quality and relevance of information provided to passengers prior to and during their journey, regarding:

A) The timing and punctuality of services;

B) Onward travel connections; and

C) The availability and condition of facilities on-board and at stations;

for day to day services and during Challenging Circumstances, special events, periods of planned and unplanned disruption or in the event of an incident; and

ii) The use of customer data to make targeted communications to passengers to establish advocacy for the service and build relationships with them;

c) Proposals to significantly improve the overall catering offer for passengers, such as improving passenger choice, quality, complimentary first class catering, offering advance ordering or at seat services;

d) Proposals to provide enhanced on-board mobile connectivity over and above the current offering, including:

i) Offering on-board mobile connectivity as free to use for passengers;

ii) Offering a wider geographic scope ensuring continuity of coverage along all routes;

iii) Enhanced levels of passenger service and/or bandwidth; and

iv) Delivery of lineside infrastructure which will significantly enhance on-board mobile connectivity for passengers and which will have benefits beyond the Initial Franchise Period.

e) Specific initiatives to deliver a transformation in the end-to-end passenger experience to improve accessibility for persons with physical, mental, sensory or cognitive impairments, enabling such passengers to plan their journey and travel by train confidently and independently (should they wish to do so).

- f) Initiatives to improve the boarding process at London Euston that address the difficulties faced by customers caused by short announcement times; and
- g) Proposals to provide Welsh language announcements on cross-border services to and from Wales.

5.19.7 For the avoidance of doubt, a proposal to exceed the NPRS Benchmarks in Schedule 7.2A of the Franchise Agreement will not be considered sufficient to exceed the above requirements.

5.20 Sub-Plan 4.2 Stations

5.20.1 Please note the requirements in this Sub-Plan cover the period of the Initial Franchise Period unless explicitly stated otherwise.

5.20.2 Bidders may propose assets to be funded by the Residual Value Mechanism under this Sub-Plan.

5.20.3 For the avoidance of doubt, this Sub-Plan will be evaluated by reference to the marking framework set out in Table 7.3 (InterCity West Coast and Combined Sub-Plan marking framework and guidance).

(A) REQUIREMENTS

5.20.4 The Department requires a Franchisee who will invest in schemes to enhance the Station environment, improve Station facilities and deliver high quality outcomes for passengers by:

- a) Meeting the stations NRPS Benchmarks set out in Schedule 7.2A to the Franchise Agreement;
- b) Targeting the provision of facilities at Stations according to the current and projected volume and characteristics of passengers at the relevant Station, including, as a minimum, schemes that:
 - i) Improve customers' physical comfort and protection from the elements;
 - ii) Improve customers' perceptions of safety and security while at the Stations, which may include improvements to Station CCTV and/or integration of Station CCTV with British Transport Police CCTV;
 - iii) Ensure that the Station environment and facilities are inclusive and accessible for all passengers, including

persons with physical, mental, sensory or cognitive impairments;

- iv) Deliver improvements to access and interchange with other modes of transport at Stations, with a particular focus on sustainable modes;
- v) Improve wayfinding at Stations, particularly enabling passengers to find the right platform for their service and area of the platform for their reservation in advance of departure; and
- vi) Maximise the commercial potential of Stations to make Stations destinations in their own right without impeding the primary role of Stations for access and egress of passenger services;

- c) Providing Wi-Fi at Stations for use by members of the public that is free to use and that meets their needs;
- d) Promoting the role of Stations within communities and realising the potential to support socio-economic development in the communities served;
- e) Managing Station assets in a sustainable and efficient manner by meeting the obligations of Paragraph 1 of Schedule 1.7A of the Franchise Agreement; and
- f) Developing, measuring and reporting on an online and publically available Station dashboard of metrics for Stations which evidences improvements to the Stations (by measuring, for example, footfall, passenger experience, retailing and catering provisions, space made available for community use and Station facilities).

5.20.5 The Department requires a Franchisee who will establish and implement a strategy for working with Network Rail and other TOCs to improve facilities, access, interchange and wayfinding at Franchisee Access Stations.

(B) EVIDENCE BIDDERS SHALL PROVIDE

5.20.6 In addition to the Minimum Evidential Requirements, Bidders' responses must cover:

- a) How they propose to enhance Stations for passengers, including;

- i) How they will meet the stations NRPS Benchmarks set out in Schedule 7.2A to the Franchise Agreement; and
 - ii) Details of their proposals to invest in and manage the delivery of schemes to improve the Station environment and facilities, including how they will ensure that these investments align with the proposed HS2 Works at Stations and the anticipated future use of Stations beyond the Initial Franchise Period;
- b) How they propose to ensure effective access and interchange with other transport modes at Stations, including for persons with physical, mental, sensory or cognitive impairments, including their approach to:
 - i) Accommodating forecast numbers and characteristics of Station users;
 - ii) Stations that serve major events;
 - iii) Working with and consulting Stakeholders;
 - iv) Improving facilities for interchange with other modes, including sustainable modes;
 - v) Improving vehicle access and parking provision (including consideration of booking systems, initiatives to maximise the use of all available car parking capacity and which could include integration with externally owned and operated car-parks);
 - vi) Improving cycle access and storage, referencing RDG 'Cycle Rail Toolkit 2' and the Department's 'Cycling and Walking Investment Strategy' (March 2017); and
 - vii) Improving wayfinding, signage and the provision of information regarding interchanges;
- c) A Station Social and Commercial Development Plan which complies with paragraph 3 of Schedule 1.7A of the Franchise Agreement, including their initial view of potentially suitable sites at Stations (for example, redundant buildings and facilities) for use by the community or for commercial development;

- d) Details of how they propose to achieve certification of their Station Asset Management Plan in accordance with the requirements of paragraph 1.11 of Schedule 1.7A of the Franchise Agreement;
- e) Their Station dashboard; and
- f) The proposed strategy for delivering improvements to facilities, access, interchange and wayfinding at Franchisee Access Stations and their plan for engaging with Network Rail and other TOCs to implement the strategy.

(C) SCORING

5.20.7 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (InterCity West Coast and Combined Sub-Plan marking framework and guidance).

5.20.8 Without prejudice to the generality of subsection 7.3.6 (Scoring methodology), specific examples of how the above requirements may be exceeded are set out below:

- a) Proposals, which could include trials with a commitment to report to the Department on the success or impact of any such technology or innovation using a system of key performance indicators, to introduce the latest technologies and innovations, which:
 - i) Significantly improve wayfinding at Stations, including access, egress and interchange with other modes, as well as signposting to local landmarks or places of interest;
 - ii) Promote the Station facilities and services to passengers and local communities; or
 - iii) Improve safety and security at Stations;
- b) Proposals that will enable persons with physical, mental, sensory or cognitive impairments to use the Station facilities confidently, comfortably and independently (should they wish to do so) and a commitment to work with passenger representation groups and/or organisations that represent a range of accessibility needs to co-design, test and implement further improvements to the Station facilities;
- c) Proposals to install Changing Places toilets;

- d) Proposals that will contribute to growth in the localities served by the Franchise, prioritising investment where there is significant social deprivation, including by promoting opportunities and removing barriers for local tourism industries, local retailers, local businesses and local artists at the Stations;
- e) In addition to the provision of a Station Social and Commercial Development Plan pursuant to subsection 5.20.6c), a proposed approach to identifying and notifying Network Rail of space at Stations that is redundant or under-used that could be used for sustainable residential development;
- f) Proposals to enhance the presentation of Stations to recognise and incorporate the heritage, community, key landmarks or other aspects of the towns and cities, enhancing the link between the Station and the community;
- g) Proposals to roll-out electric vehicle charging points, where demand is currently evidenced or anticipated, at Stations; and
- h) Commitments of third-party funding for the delivery of enhancements at Stations to improve passenger experience and/or the Station environment.

5.21 Delivery Plan 5 – Shadow Operator

- 5.21.1 The Department requires Bidders to set out a Proposed Accepted Programme including the Sub-Plan programmes provided in their responses to Sub-Plans 5.1, 5.2 and 5.3. This programme should demonstrate how the Bidder will deliver the Accepted Programme Specific Requirements including the planned activities or tasks consistent with their proposed approach.
- 5.21.2 The Proposed Accepted Programme should be in the form of a Gantt chart or similar, with any supporting commentary necessary for its interpretation. The Proposed Accepted Programme should reflect all dates within Schedule 18.2 of the draft Franchise Agreement which relate to Accepted Programme Specific Requirements and should include:
 - a) Proposed milestone dates for delivery of those Accepted Programme Specific Requirements in Schedule 18.2 of the Franchise Agreement for which the delivery date is currently blank;
 - b) Interim delivery milestones for early, interim or draft deliverables;

- c) A full breakdown of activities or tasks that are planned to be undertaken to deliver any Accepted Programme Specific Requirements that commence in Year 1 or Year 2, and a level 1 breakdown of activities for all other Accepted Programme Specific Requirements;
- d) An identification of the resource necessary to complete a task and the resource or resource type allocated to that task, cross-referencing to the Proposed Resourcing Plan where appropriate. Resources can be either named or identified by post or by skill set;
- e) Inter-dependencies between different Accepted Programme Specific Requirements within the overall programme;
- f) Any interactions and synergies between the Accepted Programme Specific Requirements and Bidders' ICWC initiatives or activities in Delivery Plans 1 to 4; and
- g) Any external interdependencies, including with activities carried out by the Department, HS2 Ltd, Network Rail, ORR or any other third parties.

5.21.3 The Proposed Accepted Programme should commence on the Start Date. Bidders should note that no credit will be given in the scoring of any Sub-Plan for proposing activities that start any earlier than the Start Date

5.21.4 The Proposed Accepted Programme should be comprised of information contained in the Bidders' responses to each of the Shadow Operator Sub-Plans. Bidders should be aware that the Proposed Accepted Programme will not be scored, given that its content will simply be a summary of the Bidders' responses to each of the Shadow Operator Sub-Plans. However all evaluators will be provided with a copy of the Proposed Accepted Programme to aid their understanding of the Shadow Operator Sub-Plans that they will evaluate.

5.21.5 The Department requires Bidders to set out a Proposed Resourcing Plan summarising the resourcing plans provided in their responses to Sub-Plans 5.1, 5.2 and 5.3. This plan should demonstrate how the Bidder will resource all of the relevant Franchise Agreement requirements, including the delivery, management and deployment of skills and capabilities consistent with their proposed approach.

5.21.6 The Proposed Resourcing Plan should be comprised of information contained in the Bidders' responses to each of the Shadow Operator Sub-Plans. Bidders should be aware that the Proposed Resourcing Plan will not

be scored, given that its content will simply be a summary of the Bidders' resourcing plans within each of the Shadow Operator Sub-Plans. However all evaluators will be provided with a copy of the Proposed Resourcing Plan to aid their understanding of the Shadow Operator Sub-Plans that they will evaluate.

5.22 Sub-Plan 5.1 Shadow Operator Business Design and Organisation

5.22.1 This Sub-Plan is designed to test the Bidder's approach to delivering the Shadow Operator Services during the Initial Franchise Period. For the avoidance of doubt, this Sub-Plan will be evaluated by reference to the marking framework set out in Table 7.4 (Shadow Operator marking framework and guidance).

(A) REQUIREMENTS

5.22.2 The Department requires a Franchisee who will apply its experience, capability and resources in high speed rail operations, organisational design and business planning to shaping the design of the Integrated Services business, supporting the successful delivery of the long-term benefits associated with HS2 and the policies on 'track:train' integration set out in the Department's publication 'Connecting people: a strategic vision for rail' (published on 29 November 2017). Bidders should therefore set out their approach to meeting the following in-life requirements:

- a) Provision of recommendations on business structure, according to paragraph 9 of Schedule 18.2 of the Franchise Agreement;
- b) Provision of recommendations on Railway Schemes, according to paragraphs 10 and 11 of Schedule 18.2 of the Franchise Agreement; and
- c) Development of an Integrated Operator Business Plan, according to paragraph 12 of Schedule 18.2 of the Franchise Agreement.

5.22.3 The Department requires a Franchisee who will apply its experience, capability and resources in change management and high speed rail mobilisation to enabling the successful launch and management of High Speed Services and the recast of Conventional Services. Bidders should therefore set out their approach to meeting the following in-life requirements:

- a) Development of an Integrated Services Mobilisation Plan, according to paragraphs 13, 14 and 15 of Schedule 18.2 of the Franchise Agreement; and

- b) Development of an Integrated Services Mobilisation Communications Strategy and Plan, according to paragraphs 16 and 17 of Schedule 18.2 of the Franchise Agreement.

5.22.4 The Department requires a Franchisee who will apply its experience, capability and resources in high speed rail, leading change, human resourcing and industrial relations to developing staffing plans that deliver a successful launch of High Speed Services and a high-performing and sustainable future integrated operational business. Bidders should therefore set out their approach to meeting the following in-life requirements:

- a) Development of an Integrated Services Staffing Plan, according to paragraphs 18 and 19 of Schedule 18.2 of the Franchise Agreement; and
- b) Development of a Staff Engagement Plan, according to paragraph 20 of Schedule 18.2 of the Franchise Agreement.

(B) EVIDENCE BIDDERS SHALL PROVIDE

5.22.5 In addition to the Shadow Operator Minimum Evidential Requirements, Bidders' responses shall include:

- a) In relation to business structure, a description of how the Bidder will develop recommendations on the future Integrated Services business that focus on customer needs and secure Value for Money for the Department over the Franchise Term and successor franchises;
- b) In relation to Integrated Services mobilisation, a description of how the Bidder will liaise with infrastructure managers, regulators and rolling stock owners in order to secure all necessary licences, certificates and any other regulatory approvals necessary to enable commencement of the Integrated Services;
- c) In relation to the Integrated Services Staffing Plan, a description of:
 - i) How the Bidder will develop staffing, recruitment and training plans to ensure that the organisation has sufficient trained and competent staff to deliver testing and commissioning, trial operations and then full service by the launch of the High Speed Services, without compromising the ongoing operation of ICWC Services;

- ii) How they will utilise their experience of high speed rail and operations to ensure high speed operational competences are delivered and embedded in the organisation; and
- iii) How the Integrated Services Staffing Plan will ensure that large-scale business change and increase in scale of operations required of the Franchise during the transition to Integrated Services will be managed effectively while still maintaining an excellent service for passengers; and
- d) Their approach to developing a constructive and sustained staff and trade union engagement process that leads staff through business transformation and cultural change during the Franchise.

5.23 Sub-Plan 5.2 Shadow Operator Rolling Stock and Operations

5.23.1 This Sub-Plan is designed to test the Bidder's approach to delivering the Shadow Operator Services during the Initial Franchise Period. For the avoidance of doubt, this Sub-Plan will be evaluated by reference to the marking framework set out in Table 7.4 (Shadow Operator marking framework and guidance).

(A) REQUIREMENTS

5.23.2 The Department requires a Franchisee who will apply its experience, capability and resources in high speed rail, railway operations and customer service, together with innovative thinking, in order to act as a 'critical friend' to HS2 Ltd and thereby support the delivery of efficient, high-performing and customer-focused High Speed Services and Conventional Services. Bidders should therefore set out their approach to meeting the following in-life requirements:

- a) Preparation of a Strategic Operational Baseline suite of assumptions and forecasts, according to paragraphs 21 and 22 of Schedule 18.2 of the Franchise Agreement;
- b) Undertaking an Operational Review of the HS2 scheme, according to paragraph 23 of Schedule 18.2 of the Franchise Agreement; and
- c) Fulfilling the ongoing role of Critical Friend, according to paragraph 24 of Schedule 18.2 of the Franchise Agreement.

5.23.3 The Department requires a Franchisee who will apply its experience, capability and resources in high speed rolling stock design and railway operations, together with innovative thinking, to:

- a) Working with HS2 Ltd to help to ensure the successful introduction and operation of High Speed Rolling Stock; and
- b) Delivering the appropriate rolling stock and facilities for future conventional services.

5.23.4 Bidders should therefore set out their approach to meeting the following in-life requirements:

- a) Supporting the design, manufacture and testing and commissioning of High Speed Rolling Stock, according to paragraphs 25 to 33 and paragraph 38 of Schedule 18.2 of the Franchise Agreement;
- b) Providing review and input into depot, stabling, servicing and cleaning plans for High Speed Rolling Stock, according to paragraphs 29, 34, 35 and 36 of Schedule 18.2 of the Franchise Agreement; and
- c) Development of a strategy for conventional rolling stock and depots, according to paragraph 37 of Schedule 18.2 of the Franchise Agreement.

5.23.5 The Department requires a Franchisee who will apply its experience, capability and resources in high speed rail, demand analysis and timetabling, together with innovative thinking, to delivering a robust passenger- and market-focused integrated timetable for the Conventional Services and High Speed Services in the West Coast Main Line and HS2 corridors. Bidders should therefore set out their approach to meeting the following in-life requirement:

- a) Development of and consultation on Train Service Specification options, according to paragraphs 39, 40 and 41 of Schedule 18.2 of the Franchise Agreement.

5.23.6 The Department requires a Franchisee who will apply its high speed rail and change management experience, capability and resources to carrying out the necessary preparatory work for successful commencement of High Speed Services and recast of Conventional Services. Bidders should therefore set out their approach to meeting the following in-life requirements:

- a) Working with HS2 Ltd on the testing and commissioning of HS2, according to paragraph 43 of Schedule 18.2 of the Franchise Agreement;
- b) Development of an Integrated Services Security Plan, according to paragraph 44 of Schedule 18.2 of the Franchise Agreement;
- c) Working with HS2 Ltd on the development of Control Arrangements and Traffic Management Processes, according to paragraph 45 of Schedule 18.2 of the Franchise Agreement;
- d) Working with HS2 Ltd on the development of a High Speed Operational Performance Regime and Criteria, according to paragraph 46 of Schedule 18.2 of the Franchise Agreement;
- e) Developing an Integrated Services Sustainable Development Strategy, according to paragraph 47 of Schedule 18.2 of the Franchise Agreement; and
- f) Developing a Trial Operations Plan, according to paragraph 53 of Schedule 18.2 of the Franchise Agreement.

(B) EVIDENCE BIDDERS SHALL PROVIDE

5.23.7 In addition to the Shadow Operator Minimum Evidential Requirements, Bidders' responses shall include:

- a) In relation to the Operational Review and the Critical Friend role, a description of the Bidder's proposed approach to:
 - i) Developing practicable and deliverable recommendations for improvement by working collaboratively with HS2 Ltd on any opportunities identified; and
 - ii) Assessing and testing any proposals on the HS2 Operational Concept and HS2 Plans prior to any formal submission;
- b) A case study review of the HS2 Plan on Train Crew Modelling Inputs for HS2 Accommodation Requirements, as supplied in Data Site folder (14.17 HS2 Shadow Operator Case Study). This should be no longer than 4 pages and should only use background information available on the Data Site. This should demonstrate the Bidder's proposed approach to delivering the Operational Review requirements and the ongoing Critical Friend

role, including how it will provide constructive, leading-edge and evidence-based advice, by providing a review of:

- i) The issues identified by HS2 Ltd;
 - ii) The appropriateness of the analysis carried out by HS2 Ltd and the key assumptions;
 - iii) The conclusions and next steps, and any alternatives the Bidder may put forward; and
 - iv) Any further work or investigations considered to be necessary;
- c) In relation to High Speed Rolling Stock, a description of how the Bidder will work with HS2 Ltd to help to ensure that the passenger-facing and operating characteristics of the High Speed Rolling Stock are fit for purpose and will deliver high levels of passenger satisfaction and performance;
- d) In relation to the development of Train Service Specification options, a description of:
 - i) How future trends in passenger demand, behaviour and characteristics will be assessed and reflected in the TSS Options;
 - ii) The Bidder's approach to working with Industry Partners, including Network Rail, HS2 Ltd, passenger and freight train operators; and
 - iii) How integrated train service options for High Speed and Conventional Services, including impacts beyond the Franchise, will be developed and assessed on a whole-industry business case basis;
- e) In relation to control arrangements and traffic management processes, how systems and processes will be specified and designed to ensure high-performing passenger-focused service operation;
- f) In relation to the High Speed Operational Performance Regime, a description of how the Bidder proposes to work with HS2 Ltd, Network Rail and the Office of Rail and Road on the development of the High Speed Operational Performance Regime in order to

bring a focus on passenger impacts and an effective interface with the Conventional Rail Network; and

- g) In relation to the Trial Operations Plan, a description of how the plan will support a robust and reliable launch of full High Speed Services.

5.24 Sub-Plan 5.3 Shadow Operator Customer Experience, Fares and Marketing

5.24.1 This Sub-Plan is designed to test the Bidder's approach to delivering Shadow Operator Services during the Initial Franchise Period. For the avoidance of doubt, this Sub-Plan will be evaluated by reference to the marking framework set out in Table 7.4 (Shadow Operator marking framework and guidance).

(A) REQUIREMENTS

5.24.2 The Department requires a Franchisee who will apply its experience, capability and resources in high speed and conventional rail, market analysis and forecasting, together with innovative thinking, to develop a strategic understanding of the future markets for Integrated Services. Bidders should therefore set out their approach to meeting the following in-life requirement:

- a) Development of a Strategic Market Report, according to paragraph 48 of Schedule 18.2 of the Franchise Agreement.

5.24.3 The Department requires a Franchisee who will apply its experience, capability and resources in customer service and high speed rail, together with innovative thinking, to developing an attractive passenger proposition for both High Speed and Conventional Services. Bidders should therefore set out their approach to meeting the following in-life requirements:

- a) Development of a Passenger Proposition and Functional Requirements, according to paragraphs 49 and 50 of Schedule 18.2 of the Franchise Agreement; and

- b) Engagement with the customer and design community according to paragraph 49 of Schedule 18.2 of the Franchise Agreement.

5.24.4 The Department requires a Franchisee who will apply its experience, capability and resources in business development and customer service, together with innovative thinking, to develop a fares strategy for both High Speed and Conventional Services. Bidders should therefore set out their approach to meeting the following in-life requirement:

- a) Development of a Fares Options Analysis, according to paragraph 51 of Schedule 18.2 of the Franchise Agreement.

5.24.5 The Department requires a Franchisee who will apply its experience, capability and resources in high speed and conventional rail, business development and customer service, together with innovative thinking, to develop successful marketing and branding strategies for the Integrated Services. Bidders should therefore set out their approach to meeting the following in-life requirement:

- a) Development of an Integrated Services Marketing Plan, according to paragraph 52 of Schedule 18.2 of the Franchise Agreement.

(B) EVIDENCE BIDDERS SHALL PROVIDE

5.24.6 In addition to the Shadow Operator Minimum Evidential Requirements, Bidders' responses shall include:

- a) In relation to the Strategic Market Report, a description of how the Bidder will use its high speed and conventional rail experience and innovative methodologies to develop a fresh assessment of the passenger market for high speed services and a market segmentation approach for the broad corridor served by the West Coast Main Line and HS2;
- b) In relation to the Passenger Proposition, a description of how the Bidder will:
 - i) Identify, develop and implement innovative solutions for passenger facing technologies, transferring best practice from other customer-oriented businesses where appropriate to deliver an attractive passenger offer for High Speed and Conventional Services;
 - ii) Ensure the needs of all groups of passengers are met, with a proposition which is accessible, inclusive and meets the requirements of the Equality Act;
 - iii) Ensure that the Passenger Proposition is coherent, cohesive and integrated with the rest of the GB Railway;
 - iv) Develop their approach to measuring and tracking passenger satisfaction of the Integrated Services;

- v) Engage with passenger user groups and bodies including Transport Focus and the HS2 Customer Community as they develop the Passenger Proposition;
 - vi) Work with Industry Partners including HS2 Ltd, Network Rail, and Rail Delivery Group to develop, procure and implement customer information systems that provide accurate, timely, real time information and travel choices to customers; and
 - vii) Identify and implement appropriate revenue protection measures that work on High Speed and Conventional Services, and how they will evidence that the Bidder's proposals will yield best value for both the passenger and the taxpayer;
- c) How the Passenger Proposition approach will incorporate a ticketing and retail strategy, which will consider innovative proposals that:
- i) Meet future passenger needs for end-to-end travel by providing a clear and cohesive passenger proposition;
 - ii) Permit easy comparability between journey options on High Speed and Conventional Services;
 - iii) Minimise the whole life costs of rail travel retail and ticketing systems;
 - iv) Are sufficiently flexible to accommodate a range of fare structures in the future;
 - v) Consider interfaces with and the deliverability of any changes to existing retail and ticketing systems; and
 - vi) Minimise barriers to market entry for retailers in line with different retailing business models; and
- d) In relation to fares strategy, an explanation as to how the Bidder will:
- i) Develop and evaluate options for a fares strategy for Integrated Services that balance a range of different objectives including, but not limited to:

- A) Economic: such as maximising patronage on High Speed and Conventional Services;
 - B) Financial/affordability: generating farebox revenue;
 - C) Social and equality: delivering a fares offer which is accessible and inclusive to a wide range of passengers and also meets the requirements of the Equality Act;
 - D) Consumer issues and ease-of-use: adopting a fares structure that is transparent, understandable and meets consumer expectations of fairness; and
 - E) Deliverability and the impact on the functional requirements for retail and ticketing systems; and
- ii) Develop and evaluate options for a proposed fares regulatory regime which protects passengers where necessary, reflects both the external costs of competing modes and incentives on rail operators, is proportionate and efficient to administer and avoids perverse incentives.

Section 6: Detailed Bid submission requirements – Financial

6.1 Introduction

- 6.1.1 This section describes the detailed financial information which Bidders must include in their Bids.
- 6.1.2 As described in subsection 2.5 (Summary of ITT architecture), the risk on costs and revenue (subject to revenue risk sharing mechanisms) for operating the ICWC Services is transferred to the Franchisee for the Initial Franchise Period prior to the Integrated Operator Start Date. Without prejudice to the terms of the Franchise Agreement, the Department will retain the large majority of risk on costs and revenue from the Integrated Operator Start Date in relation to the operation of the ICWC Services and the Integrated Services. If the Integrated Operator Start Date takes place later than 1 April 2026, the operator would enter a Reset Period (as described in subsection 6.15 (Reset Period)) and continue to operate the ICWC Services with the same transfer of risk as under the Initial Franchise Period.
- 6.1.3 Other than through the process set out in subsection 5.4 (Residual Value Mechanism), it is not expected that Bidders will plan in their Bids to purchase assets with useful economic lives extending beyond 31 March 2026, or that Bidders will enter into any firm contractual agreements extending beyond that date (such as leases, hire agreements, service contracts, supplier agreements or any other contracts). Acceptance of a Bid will not constitute agreement by the Department that costs associated with such assets or contracts will be categorised as Actual IOC Costs as defined in the Franchise Agreement.
- 6.1.4 The Shadow Operator Services are categorised into three areas: the Accepted Programme, the Transitional Programme, and the PMO Services. Bidders will bid the costs for the PMO Services through to 31 March 2026 as part of their on-risk cost base for ICWC. Without prejudice to the terms of the Franchise Agreement, the Department will retain the large majority of risk on costs associated with the Accepted Programme and Transitional Programme. However, a Proposed Cost Baseline for a Proposed Accepted Programme is required as part of the Bidders' Bid submissions to support assessment of the Bidders' Shadow Operator proposals under Sub-Plan 1.1. This will also form a baseline for early work on the Accepted Programme.
- 6.1.5 If the Department does not switch to the IOC at 1 April 2026, then the Reset provisions will apply as described in subsection 6.15 (Reset Period). Bidders are therefore to populate the ICWC Modelling Suite to 31 March 2031. As

set out in Section 7 (Evaluation criteria and methodology) the population of the ICWC Modelling Suite beyond 31 March 2026 will not be included in the price evaluation but instead will be assessed for consistency with the requirements at subsection 6.15 (Reset Period) for the baseline pricing of this Reset Period.

- 6.1.6 Among other requirements, the financial submission therefore includes two sets of financial models:
- a) An ICWC Modelling Suite for the Initial Franchise Period and Reset Period, including the PMO Services costs; and
 - b) An Accepted Programme Modelling Suite populated with the Proposed Cost Baseline for the Proposed Accepted Programme.
- 6.1.7 The ICWC Modelling Suite relates to the ICWC Services and PMO Services. Requirements for the ICWC Modelling Suite are set out in subsection 6.3 (Financial and Operational Modelling Requirements for the ICWC Modelling Suite) to subsection 6.5 (ICWC Record of Assumptions) and subsection 6.8 (Generic Model requirements) to subsection 6.9 (Assumptions). Bidders must not include within their ICWC Modelling Suite any costs that are not required for the delivery of ICWC Services or PMO Services and must not assume any income from the provision of resources to deliver the Proposed Accepted Programme.
- 6.1.8 The Accepted Programme Modelling Suite relates to the Proposed Cost Baseline, for the Proposed Accepted Programme. The actual budgets for the Accepted Programme will be agreed and confirmed in the life of the Franchise. The Accepted Programme Modelling Suite will complement the quality submission for the Shadow Operator Services (in particular, Sub-Plan 1.1) and will be used in support of the quality evaluation as set out in Section 7. The requirements for the Accepted Programme Modelling Suite are set out in subsections 6.7 to 6.9.
- 6.1.9 In summary, the supporting information required in relation to the ICWC Services (incorporating the PMO Services) is:
- a) An “**ICWC Financial Model**” prepared in accordance with the requirements set out in subsections 6.3.1 (General), 6.3.3 (The ICWC Financial Model within the ICWC Modelling Suite), 6.4 (Templates) and 6.8 (Generic Model requirements);
 - b) Supporting ICWC Operational Models prepared in accordance with the requirements described in subsections 6.3.1 (General), 6.3.2 (Structure of the Models), 6.3.4 (ICWC Operational Models

within the ICWC Modelling Suite) and 6.8 (Generic Model requirements);

(a) and b) together, the “**ICWC Models**”);

- c) Supplementary Material prepared in accordance with the requirements set out in subsection 6.10 (Supplementary Material);
- d) Financial Templates populated in accordance with the requirements described in subsection 6.4 (Templates);
- e) An ICWC Record of Assumptions prepared in accordance with the requirements set out in subsection 6.5 (ICWC Record of Assumptions);
- f) An ICWC Operating Manual prepared in accordance with the requirements described in subsection 6.6 (ICWC Operating Manual); and
- g) Responses to all of the requirements surrounding Change as set out in subsection 6.11 (Worked examples and modelling Change).

6.1.10 The ICWC Models, the ICWC Record of Assumptions and the ICWC Operating Manual (together, the “**ICWC Modelling Suite**”), plus any relevant Supplementary Material as directed by the Secretary of State, will be Placed in Escrow if the Bidder is successful pursuant to Schedule 9.2A of the Franchise Agreement.

6.1.11 The financial information required in relation to the Proposed Cost Baseline for the Proposed Accepted Programme is set out in subsection 6.7 (Accepted Programme Modelling Suite) and in summary is:

- a) An Accepted Programme Financial Model, prepared in accordance with the requirements set out in subsections 6.7 (Accepted Programme Modelling Suite) and 6.8 (Generic Model requirements), incorporating the Accepted Programme Cost Baseline Templates and populated with the Proposed Cost Baseline;
- b) Accepted Programme Operational Models prepared in accordance with the requirements described in subsections 6.7 (Accepted Programme Modelling Suite) and 6.8 (Generic Model requirements),

(a) and b) together, the “**Accepted Programme Models**”);

- c) Supplementary Material prepared in accordance with the requirements set out in subsection 6.10 (Supplementary Material);
- d) Accepted Programme Cost Baseline Templates populated in accordance with the requirements described in subsection 6.7 (Accepted Programme Modelling Suite);
- e) A Product Cost Assumptions Statement for each Proposed Shadow Operator Product in the Proposed Accepted Programme, prepared in accordance with the requirements set out in subsection 6.7 (Accepted Programme Modelling Suite); and
- f) An Accepted Programme Operating Manual, prepared in accordance with the requirements described in 6.7 (Accepted Programme Modelling Suite).

6.1.12 The Accepted Programme Models, the Accepted Programme Product Cost Assumptions Statements and Accepted Programme Operating Manual being collectively the “**Accepted Programme Modelling Suite**”, plus any relevant Supplementary Material as directed by the Secretary of State, will be Placed in Escrow if the Bidder is successful pursuant to Schedule 18 of the Franchise Agreement. Together, the Accepted Programme Models and ICWC Models are referred to as the “**Models**”.

6.1.13 For all submitted financial information, including the ICWC Modelling Suite and the Accepted Programme Modelling Suite, Bidders are to use the general modelling assumptions as set out in subsection 6.9 (Assumptions).

6.1.14 In addition to the above requirements, the following financial information is also required to be submitted in relation to the Bid as a whole:

- a) A Financial Structure and Funding Plan describing the Bidder’s financial structure and funding prepared in accordance with the requirements described in subsection 6.13 (Financial Structure and Funding Plan);
- b) Updated financial information, to update the financial tests undertaken when Bidders were seeking to pre-qualify to Bid for the Franchise as described in subsection 6.14 (Updating of EoI financial and economic standing tests (the “Tests”) and submission of updated bond provider letter(s)); and
- c) Evidence that the ICWC Modelling Suite and Accepted Programme Modelling Suite have been reviewed in accordance with the requirements described in subsection 6.12 (Reviews and audit of Models).

- 6.1.15 The information submitted pursuant to this Section 6 (Detailed Bid submission requirements – Financial) will be evaluated in accordance with the evaluation criteria and methodology described in Section 7 (Evaluation criteria and methodology).
- 6.1.16 Any response submitted which does not comply with the requirements of this section may result in the Bid being treated as non-compliant, as per subsection 3.5 (Non-compliant Bids).

6.2 Errors in Modelling Suites

6.2.1 Bidders are required to satisfy themselves as to the technical accuracy of their ICWC Modelling Suite and Supplementary Material prior to submission. Where any element of the ICWC Modelling Suite and Supplementary Material is found to contain an error or errors, during the course of evaluation or as a result of the Model Audit, the Department reserves the right at its sole discretion to:

- a) Evaluate the relevant element of the ICWC Modelling Suite as received, in which case the Bidder shall bear the risk of the error or errors within that element of the ICWC Modelling Suite and of any impact that this may have on the evaluation carried out in accordance with Section 7 (Evaluation criteria and methodology);
or
- b) Correct the error or errors either itself or through clarification from the Bidder in accordance with subsection 4.14 (Process following Bid submission), and then evaluate that element of the ICWC Modelling Suite in accordance with Section 7 (Evaluation Criteria and Methodology); in which case the Department reserves the right at its sole discretion:
 - i) Not to adjust, or require or allow the Bidder to adjust the Bid Franchise Payments and, where applicable, the variable element of PCS, and/or correct the ICWC Modelling Suite; or
 - ii) To adjust or require or allow the Bidder to adjust the Bid Franchise Payments and, where applicable, the variable element of PCS, and/or correct the ICWC Modelling Suite on which the Financial Robustness Test will be re-run, in accordance with subsection 7.7 (Evaluation of financial robustness). Note that:
 - A) Such adjustments in aggregate cannot improve the ICWCP that is used to calculate the final Score i.e.

the adjustments cannot result in a decrease to the Risk Adjusted NPV;

B) However, if the winning bid is one which has been subject to this adjustment, the franchise payments which will be contractualised in Schedule 8.1A of the Franchise Agreement may be either lower or higher than Bid Franchise Payments to reflect the correction of errors, with the Department having sole discretion as to which error or errors are corrected; or

c) Treat the Bid as non-compliant.

6.2.2 Bidders are required to satisfy themselves as to the accuracy of the Accepted Programme Modelling Suite prior to submission. Where any element of the Accepted Programme Modelling Suite is found to contain an error or errors, during the course of evaluation or as a result of the Model Audit the Department reserves the right at its sole direction to correct the error or errors either itself or through clarification from the Bidder in accordance with subsection 4.14 (Process following Bid submission), and then evaluate that element of the Accepted Programme Modelling Suite in accordance with Section 7 (Evaluation criteria and methodology).

6.3 Financial and operational model requirements for the ICWC Modelling Suite

6.3.1 General

6.3.1.1 Each Bidder is required to submit and include as part of their Bid an ICWC Financial Model, which is supported by ICWC Operational Models and Required Supplementary Material as set out in subsection 6.10 (Supplementary Material). All ICWC Models must meet the requirements described in Section 4 (Explanation of requirements for Bid submission and overview of process following Bid submission) and this Section 6 (Detailed Bid submission requirements – Financial). The ICWC Modelling Suite must demonstrate the financial consequences of the Bidder's business and operational plans over the Initial Franchise Period in order that the Department may evaluate them to the extent provided and in accordance with the evaluation criteria and methodology described in Section 7 (Evaluation criteria and methodology). The ICWC Modelling Suite must also demonstrate the financial consequences of the Bidder's business and

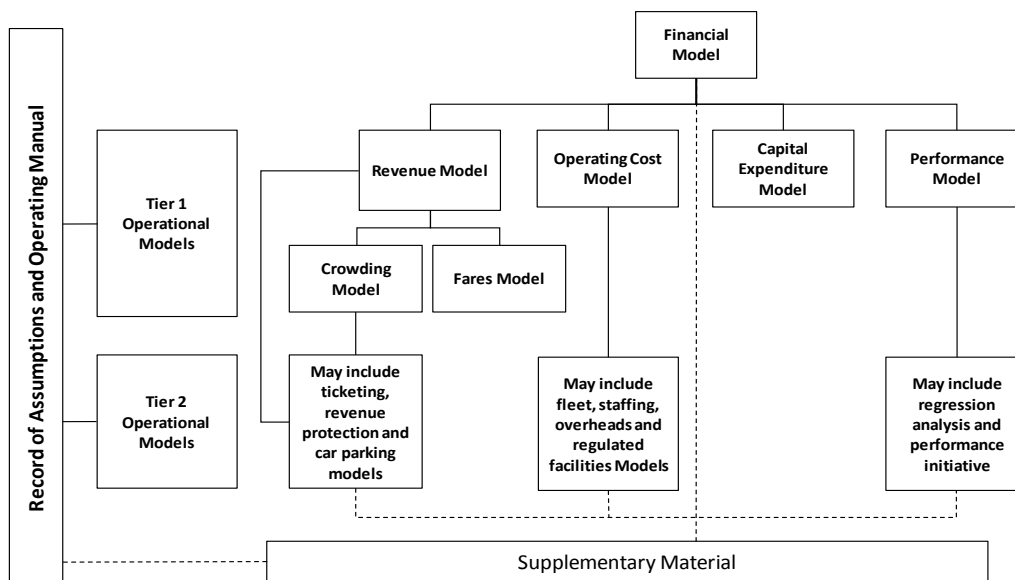
operational plans over the full Reset Period to 31 March 2031, as described in subsection 6.15 (Reset Period).

6.3.1.2 Any changes to the ICWC Models after Bid submission as a result of the clarification process described in subsection 4.14 (Process following Bid submission) or otherwise, must be clearly logged and traceable, including an audit trail in the relevant Model itself, using the worksheet 'Version Control' in the Financial Templates.

6.3.2 Structure of the ICWC Models

6.3.2.1 An example of how the Department anticipates that the ICWC Models may be structured is illustrated in Figure 6.1.

Figure 6.1 Anticipated ICWC Modelling Suite Structure



6.3.2.2 Whilst the Department believes that this structure provides a logical template for Bidders to adopt, it is not mandatory and Bidders may adopt any structure they choose provided that all information required by this Section 6 (Detailed Bid submission requirements – Financial) is included in the format required by Section 4 (Explanation of requirements for Bid submission and overview of process following Bid submission) and the Department is able to evaluate the ICWC Models in accordance with Section 7 (Evaluation criteria and methodology).

6.3.2.3 Bidders are required to include within their ICWC Modelling Suite a map illustrating the content and structure of the ICWC Models and key data flows between and within them to aid the Department's understanding.

6.3.3 The ICWC Financial Model within the ICWC Modelling Suite

General

- 6.3.3.1 Each Bidder is required to submit with its Bid an ICWC Financial Model which:
- a) Includes the calculations that are required to produce outputs for inclusion in the Franchise Agreement and Funding Deed (as set out in the Financial Templates provided to Bidders through the Data Site and listed in Table 6.1 (Financial Template Summary) in subsection 6.4.4 and for use in accordance with Section 7 (Evaluation criteria and methodology). Outputs from the Financial Templates will be used:
 - i) To populate the Franchise Payments in Schedule 8.1A of the Franchise Agreement. The Franchise Payment table set out in Appendix 2 to Schedule 8.1A of the Franchise Agreement must be completed in 2019/2020 prices;
 - ii) To populate the Season Ticket Bond value;
 - iii) To populate the profit share thresholds in Appendix 1 to Schedule 8.2A of the Franchise Agreement;
 - iv) To populate the AFA and DFR in Appendix 2 to Schedule 8.2A of the Franchise Agreement;
 - v) To identify and track funding made available to the Franchisee as an Agreed Funding Commitment (“**AFC**”), PCS or PCG and populate the Funding Deed;
 - vi) To populate the Required PCS value, the Additional PCS value and the Bonded PCS value which will be used to calculate amounts for the purposes of the Funding Deed; and
 - vii) To populate Target Revenue in Appendix 1 to Schedule 8.6A of the Franchise Agreement;
 - b) Applies consistently on an annual basis, in accordance with the Franchise Agreement, the methodology required for calculating Franchise Payments;
 - c) Includes the calculations required to determine the Financial Ratio, at the end of each Franchisee Year and part year during the Initial Franchise Period. Bidders are to note that this is to be

calculated in the ICWC Financial Model as an annualised backwards view of compliance with the Financial Ratio described in paragraph 2.1(a) of Schedule 12A of the Franchise Agreement. For the avoidance of doubt, a Financial Ratio of 1.070:1 must be met in the Bid without drawing any PCS or PCG. In all cases, Bidders must ensure that Modified Revenue and Actual Operating Costs are calculated consistently with the definitions outlined in the Franchise Agreement. For the first part year of the Franchise, the calculation should be made on a forward looking basis for 13 periods. Bidders should note that the Actual Operating Costs include PMO Services but exclude Actual Shadow Operator Costs;

- d) Shows how the Franchise will be funded over the Initial Franchise Period and Reset Period;
- e) Includes all tax computations. Financial forecasts are to include calculations of the tax liabilities of the subject company in accordance with any applicable tax law. Complete integrated tax computations must be included in the ICWC Financial Model. The tax charge should be calculated on an annual basis and tax payments modelled on a realistic basis based on current tax legislation and enacted tax rates. To the extent that any group, consortium or other form of relief or sale of losses is anticipated, including consideration of the new loss relief rules effective from 1 April 2017 introduced by the Finance (No. 2) Act 2017, this must be clearly stated within the ICWC Financial Model and each Bidder must provide a letter from its financial advisers, as set out in subsection 6.13.2, confirming that such relief will be supported by the Bidder's owning group. Capital and revenue expenditure and the deductibility of these costs must be clearly identified along with the rate of allowances applying to each item or pool of capital expenditure. Items which are leased should be clearly identified and in relation to rolling stock the rationale for applying (as the case may be) the Long Funding Lease Rules should be clearly stated. The Bidder must provide a letter from its financial advisers as set out in subsection 6.13.2, confirming that they have given consideration to the deductibility of any interest expense taking into consideration the thin capitalisation rules, the new corporate interest restriction rules effective from 1 April 2017 introduced by the Finance (No. 2) Act 2017, and other transfer pricing and anti-avoidance provisions, particularly where there is significant Agreed Funding Commitment in the base case or drawing of the

PCS or PCG under sensitivities or application of the Financial Robustness Test;

- f) Properly reflects the accounting rules applicable as at 27 March 2018 under which the Franchisee will report its financial information. Bidders are to adopt FRS 101, FRS 102, or IFRS. For the avoidance of doubt, Bidders should not assume early adoption of IFRS 16 'Leases' or make any adjustment to reflect accounting standard IFRS 16 at any point in the ICWC Modelling Suite. As IFRS 16 is not applicable until 1 January 2019, no element of the bid is to reflect IFRS 16 accounting. The accounting basis chosen must be disclosed, consistent and once selected cannot be changed. The risk of any impact on the successful Bidder's proposals of subsequently adopting IFRS 16, post implementation of this accounting standard will be the Bidder's risk and the Department will not treat this as a Change or adjust the Franchise Payments;
- g) States default prices in nominal terms and, when viewed in real terms, outputs must be deflated to 2019/2020 prices and outputs prior to this period must be inflated to 2019/2020 prices;
- h) Calculates the GDP adjustment payments in accordance with Schedule 8.4A of the Franchise Agreement;
- i) Calculates the Revenue Share and Revenue Support payments in accordance with Schedule 8.6A of the Franchise Agreement together with relevant reconciliation payments required by reason of the interaction of the Forecast Revenue Mechanism with GDP adjustment payments pursuant to the provisions of Schedule 8.6A. For the avoidance of doubt no revenue share or Revenue Support payments should be included in the Bid;
- j) Adopts a structure that allows the identification and disaggregation of costs associated with the PMO Services, as set out in the Bidder's Sub-Plan 1.1 (Franchise Leadership and Management). The ICWC Financial Model must have the functionality to switch the PMO Services on or off to identify the impact on the Franchise Payments; and
- k) Provides output schedules in the format of the Financial Templates.

6.3.3.2 As part of the ICWC Modelling Suite each Bidder is required to submit with its Bid an ICWC Financial Model which:

a) Accurately executes the calculations as designed, and provides confidence in its robustness and ability to price Change. It must:

- i) Provide a sufficient level of usability to allow Change scenarios to be run in a reasonable timescale;
- ii) Provide an appropriate level of granularity for populating template outputs, and is sufficiently transparent to show Changes clearly; and
- iii) Be sufficiently flexible to form the required basis for the pricing of Change; and

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

- i) Adopt an absolute sign convention in constructing their ICWC Financial Model, such that all revenues and assets are positive and all costs and liabilities are negative;
- ii) Provide a switch in their ICWC Financial Model to allow the Financial Templates to be presented in real or nominal terms (where real terms means nominal values are deflated (or inflated in the case of pre-2019/2020 values) by RPI to 2019/2020 prices); and
- iii) Ensure that their ICWC Financial Model is self-contained within a single Microsoft Excel workbook. The ICWC Financial Model must be presented in annual terms, with year ends coinciding with the Franchisee Year end on 31 March (as demonstrated within the Financial Templates).

Digital rail

6.3.3.3 The ICWC Financial Model must adopt a structure that allows the identification and disaggregation of the incremental costs which are forecast by the Bidder solely to relate to or result from the ETCS fitment to meet the provisions set out at Schedule 6.1A of the Franchise Agreement. Such costs should be included in the Bid, but they must be contained in a separate scenario or option

in the ICWC Financial Model, with the functionality to switch them on or off in aggregate. When switched on, the capital expenditure and operating costs relating to ETCS fitment must flow through the ICWC Financial Model to the outputs in the Financial Templates, including to the profit and loss, balance sheet, cash flow, Financial Ratios and calculations of Franchise Payments. When switched off, the capital expenditure and operating costs relating to ETCS fitment must not flow through the ICWC Financial Model to the outputs in the Financial Templates and should not impact on the calculation of Franchise Payments. The Bidder must provide full details and granularity of the forecast capital expenditure and operating costs associated with ETCS fitment including assumptions and supporting evidence, in the ICWC Record of Assumptions, including providing the information required by subsection 6.5.2. Bidders should itemise ETCS assets in the ICWC Capital Expenditure Model and “TOC Capex” sheet of the Financial Templates (subject to the requirements of subsection 6.3.4.37). These should feed into the “Tangible assets” line on the “BS” sheet. Depreciation of these assets should feed into the “Depreciation” line in the profit and loss (through row 312 of the “Other Opex” sheet in the Financial Templates).

Financial Robustness

6.3.3.4 As part of its ICWC Modelling Suite, each Bidder is required to submit with its Bid an ICWC Financial Model which includes functionality which allows the Department to undertake the Department’s Financial Robustness Test as described in Section 7 (Evaluation criteria and methodology), which Bidders should note only applies to the Initial Franchise Period. Specifically, the ICWC Financial Model must:

- a) Include a switch or switches, which do the following:
 - i) Freeze Annual Franchise Payments and Target Revenue such that these do not change when undertaking the Financial Robustness Test;
 - ii) Freeze the base case AFC drawdown and repayment profile per the commitment set out in the Bidder’s Financial Structure and Funding Plan. Bidders should note that AFC should only be available in the ICWC Financial Model in accordance with the timing and amount of the

commitment set out in the Financial Structure and Funding Plan; and

- iii) Simulate the pay out of all distributable profits, in each year of the Initial Franchise Period and the Reset Period to 31 March 2031, as described in Section 6.15 (Reset Period), subject to the Financial Ratio in each year not falling below 1.070:1;
- b) Include the PCS and PCG, which should automatically be drawn down and/or repaid in order to meet a Financial Ratio of 1.070:1, up to the value of the total PCS or PCG (as appropriate for the relevant year) committed in the Bid and Funding Deed but should not be drawn in the Bid;
- c) Include a separate input that allows Notional PCS, over and above the total PCS committed in the Bid (with no third party bonding or interest costs), to be drawn up to the Materiality Threshold (see subsection 7.7.2.11). For the avoidance of doubt, to the extent that the Financial Ratio is no longer below 1.070:1, the repayment of the Notional PCS must take place prior to any PCS being repaid;
- d) Include the ability to easily accommodate revised outputs from ICWC Operational Models in order to model two Risk Adjusted Scenarios described in subsection 7.7 (Evaluation of financial robustness);
- e) Include the functionality to link the forecast payments under performance and incentive regimes in the Franchise Agreement (specified under Schedules 7.1A to 7.3A and the ticketless travel regime specified under Schedule 6.3A of the Franchise Agreement) to whether or not a net Revenue Share or Revenue Support payment to or from the department under the Forecast Revenue Mechanism is projected in each Franchisee Year and therefore Contractual Incentive Mitigations would be in place, leading to triggering of the ticketless travel and service quality regimes and application of the alternative payment rates in the operational performance and customer experience regimes as set out in Schedule 6.3A of the Franchise Agreement. For this purpose, it should be assumed that:

- i) Contractual Incentive Mitigations as set out in Schedule 6.3A of the Franchise Agreement are put in place in all Franchisee Years in which either a net Revenue Support or Revenue Share payment to or from the Department is projected; and
 - ii) The only implications of Contractual Incentive Mitigations on Franchisee cash flow are on payments made under these performance and incentive regimes;
- f) Include and apply the functionality to link the profit share thresholds used in the calculation of forecast profit share payments to whether or not a net Revenue Support payment is projected in each Franchisee Year; and
- g) In order to facilitate the Downside Risk Adjusted Scenario (as further described at subsection 7.7.3.1), include the functionality, without any structural changes, to model an adjustment to passenger revenue (input in absolute monetary terms on an annual basis in the ICWC Financial Model input price base) which affects the revenue modelled in the Financial Robustness Test in the Downside Risk Adjusted Scenario (not the Central Risk Adjusted Scenario) but has no effect on journeys, crowding or any non-passenger revenue or operating cost lines. This adjustment should affect FRM Revenue as modelled in the ICWC Financial Model, but should not change the forecast performance and incentive regime payments from those in the Central Risk Adjusted Scenario regardless of whether or not a net Revenue Support or Revenue Share payment under the Forecast Revenue Mechanism is projected in each Franchisee Year in the Downside Risk Adjusted Scenario.

6.3.4 **ICWC Operational Models within the ICWC Modelling Suite**

General

- 6.3.4.1 The ICWC Operational Models submitted within the ICWC Modelling Suite ("**ICWC Operational Models**") (see subsection 6.1.7) are all those models that contain calculations generating inputs to the ICWC Financial Model, either directly or indirectly. Each ICWC Operational Model should be coherent, in that the

different ICWC Models, including the ICWC Financial Model, interface and work together effectively. Any interface spreadsheet required for transferring ICWC Operational Model outputs into the ICWC Financial Model or from one ICWC Operational Model to another must be provided as part of the ICWC Modelling Suite and its use fully explained in the ICWC Operating Manual.

- 6.3.4.2 Each ICWC Operational Model must include the functionality to allow the Department to undertake the Department's Financial Robustness Test as set out in subsection 7.7 (Evaluation of financial robustness).
- 6.3.4.3 Collectively, the ICWC Modelling Suite (including ICWC Record of Assumptions) and relevant Supplementary Material should allow the user to track inputs pre-processed externally to the ICWC Models back to the original input values (i.e. the derivation of any pre-processed model inputs needs to be explained in the ICWC Record of Assumptions), noting that in some cases third-party software may produce "hard coded" output files (e.g. software such as VoyagerPlan and MOIRA). In such cases any relevant input and output files should be submitted.

Change

- 6.3.4.4 Each ICWC Operational Model must:
 - a) Provide an appropriate level of granularity for generating ICWC Financial Model inputs, and be sufficiently transparent to show and model Changes clearly. This includes, but is not limited to, disaggregation of Network Rail related costs to a level of granularity of the Network Rail price lists;
 - b) Be sufficiently flexible to allow the pricing of Change;
 - c) Accurately execute the calculations as designed, and provide confidence in their robustness and ability to price Change; and
 - d) Provide a sufficient level of usability to allow Change scenarios to be run in a reasonable timescale.

ICWC Operational Model Structure

- 6.3.4.5 Each Bidder is required as a minimum to submit with its Bid the following Tier 1 ICWC Operational Models:

- a) ICWC Revenue Model;
- b) ICWC Fares Model (which may be included in the ICWC Revenue Model);
- c) ICWC Crowding Model;
- d) ICWC Operating Cost Model (which may be included in the ICWC Financial Model);
- e) ICWC Performance Model; and
- f) ICWC Capital Expenditure Model (which may be included in the ICWC Financial Model or the ICWC Operating Cost Model).

As described in subsections 6.3.4.6 to 6.3.4.37, where a Bidder uses Tier 2 ICWC Operational Models, these must also be submitted and will be Placed in Escrow pursuant to Schedule 9.2A of the Franchise Agreement.

ICWC Revenue Model

6.3.4.6 This demand and passenger revenue forecasting model must use the input format provided by the Department (see subsection 6.4.20). Input LENNON data should be aggregated to flow groups and ticket categories according to the template mapping provided by the Department which can be found in Data Site folder (01.01 ITT). Revenue forecasts must be able to populate the ticket types and Service Groups contained in the Financial Templates (see subsection 6.4 (Templates)).

6.3.4.7 Any further disaggregation of demand and revenue into more detailed flows or segments is at the discretion of the Bidder, but the ICWC Revenue Model outputs of demand and revenue must be re-aggregated into the templated flow-groups and ticket categories without use of weighted mapping. The ICWC Revenue Model and Supplementary Material and its associated sub models in Tier 2 must also show clearly and apply all demand forecasting input assumptions and parameters and their impact on demand and revenue. This will include, but not be limited to, such factors as:

- a) Macro-economic factors (disaggregated into individual factors where appropriate and consistent with PDFH to the extent required by subsection 6.3.4.13;

- b) Intermodal competition factors, including competition with bus and coach services and car (disaggregated into individual factors where appropriate and consistent with PDFH to the extent required by subsection 6.3.4.13;
- c) Timetable changes;
- d) Fare proposals and policy that demonstrates compliance with Schedule 5A of the Franchise Agreement;
- e) Operating performance;
- f) Service quality (such as station or rolling stock improvements);
- g) Marketing;
- h) Revenue protection Initiatives;
- i) Revenue / yield management Initiatives; and
- j) Other investments or Initiatives.

6.3.4.8 When modelling the revenue effects of initiatives where PDFH evidence is scarce, Bidders' Records of Assumptions must provide clear and detailed descriptions of the approaches used, and robust evidence for underlying assumptions.

6.3.4.9 The ICWC Modelling Suite must have functionality to model timetable changes that have different impacts on Mondays to Fridays, Saturdays and Sundays. For this purpose, a version of MOIRA1 has been made available through either the Data Site or provided on a CD or DVD with preloaded PDFH 5.1 elasticity sets (Bidders should note that for the purposes of MOIRA1, there is no difference between the use of PDFH 5.1 and PDFH 6.0, hence there will be no updated MOIRA1 beyond that already supplied to Bidders once PDFH 6.0 is adopted). Any deviations away from this standard setup must be accompanied by supporting documentation as set out in subsection 6.3.4.13.

6.3.4.10 Bidders must submit the following as required in subsection 4.3.1 and subsection 4.11.1:

- a) The .spg files containing the assumed Franchise Services;

- b) The .spg files for timetable changes to other operators' services assumed by the Bidder, if any;
- c) The MOIRA1 output files (and any intermediate files which process these output files) which input changes in demand to the ICWC Revenue Model; and
- d) The version(s) of MOIRA1 that have been used to populate the ICWC Revenue Model, if they do not use the version of MOIRA1 supplied on the Data Site.

6.3.4.11 Bidders must use techniques or models used as standard in the rail industry, comprising MOIRA1 and bespoke revenue and crowding models for constructing their Bids. The techniques should follow an elasticity based approach. For the purposes of this competition, the Department has used PDFH 6.0 with the following exceptions:

- a) The generalised journey time (“**GJT**”) trend should not be used;
- b) PDFH 5.0 is used for GJT elasticities for airport flows; and
- c) The Rail Demand Forecasting Estimation study is used for the Empindex (Employment Index) elasticities to and from core cities. Bidders can find this study on the Data Site in folder (01.01 ITT) under “Phase 2 Rail Demand Forecasting Estimation Study”, with the referenced elasticities in Table 6.4 and the definition of “core cities” on page 142.

6.3.4.12 Bidders should note that changes to WebTAG may occur prior to or after the date for Bid submission.

6.3.4.13 Bidders should follow an elasticity based approach, but are not required to use PDFH recommended demand elasticities or to follow the approach set out in WebTAG. However, where PDFH has not been followed (whether in whole or in part) Bidders must provide evidence to justify the use of alternative assumptions in accordance with subsection 6.10 (Supplementary Material).

6.3.4.14 Bidders should bid their own views of forecasts of exogenous revenue factors. The Department’s central view of forecasts of exogenous demand drivers (“**Forecasts of Exogenous Factors**”) includes the Department’s Demand Driver Generators (“**DDGs**”). The DDGs are provided on the Data Site in the document folder

(00.01.01 DfT Demand Driver Generators). These may be updated from time to time. The accompanying note and methodology for the construction of DDGs is also available in the same folder on the Data Site. For the avoidance of doubt, Bidders are not required to use the Department's DDGs, or WebTAG-recommended PDFH elasticities, but if the DDGs are not used, evidence to justify the use of alternative assumptions and approaches must be provided, in accordance with subsection 6.10 (Supplementary material). Any alternative assumptions used must be independently replicable and based on independent, published sources or independently repeatable research. Any analysis justifying the use of alternative assumptions and approaches must be provided in the form of supporting spreadsheets. Bidders must also provide a copy of supporting research material e.g. research or analysis papers by the Bidder or a third party, sufficient to enable the work to be repeated, or journal articles from a relevant publication or analytical reports, and indicate the reliability of this source, for example by providing information such as the source, date, author, any peer review taken place, and any assessment of the confidence in the data, techniques and evidence used. The ICWC Record of Assumptions must summarise the assumptions and approaches in sufficient detail to be understood as a standalone document, making reference to supporting spreadsheets, research material and any other evidence used where applicable.

- 6.3.4.15 However, for the purpose of the Financial Robustness Test the ICWC Models within the ICWC Modelling Suite must have the functionality to enable the Department to replace the Bidder's own exogenous factors with the Department's own risk-adjusted view. In practice this will be a clearly documented procedure with accompanying spreadsheets that, when followed, allow the models to move between the Bidder's exogenous demand assumptions and the Department's forecasts for risk adjustment.
- 6.3.4.16 The ICWC Models must have the capability to forecast the Other Revenue section of the ICWC Financial Model, to the level of disaggregation required by the Financial Templates. Given that many of the items in this section are secondary to forecasts generated by the ICWC Revenue Model and ICWC Operating Cost Models, Bidders may choose to provide this capability within the ICWC Financial Model, employ an additional Tier 1 ICWC Operational Model, or develop an alternative methodology. Bidders are required to detail the approach adopted in their ICWC

Operating Manual and/or ICWC Record of Assumptions and such approach will form part of the evaluation carried out in accordance with Section 7 (Evaluation criteria and methodology).

6.3.4.17 The following operating cost and revenue items must be linked mechanistically to patronage or passenger fares revenue and this relationship should be rational:

- a) Other LENNON revenue;
- b) Ticket sales commission receivable;
- c) Catering income;
- d) Car parking income;
- e) Ticket sales commission payable;
- f) Catering costs;
- g) Ticket consumables and printing;
- h) Wi-Fi costs; and
- i) Passenger compensation.

6.3.4.18 Bidders must leave available a spare driver input slot within the ICWC Revenue Model so that a further multiplicative variable can be added to the revenue forecast. This slot should allow a model user to input a percentage uplift or index into the model by model segment (e.g. ticket type and/or geographical segment), and apply this differentially to revenue and journeys. This slot may be used for the Financial Robustness Test, for sensitivity tests, and for the purpose of Change.

6.3.4.19 Beyond the Initial Franchise Period, the ICWC Revenue Model must also be populated between 1 April 2026 and 31 March 2031. The ICWC Revenue Model must have the functionality to reforecast from 1 April 2026, based on updated actual figures for 2024/2025. This should have the effect of enabling the forecast passenger revenue forecasts from 1 April 2026 to pivot off the 2024/2025 actuals, without affecting the forecast rates of onward growth to subsequent years. This should be undertaken at the same level of granularity (ticket types, flow groups) used as the basis for the revenue forecasts up to 2024/2025. There should be clearly identified inputs for this updated data, using the format provided by the Department, which must be unpopulated in the

submitted ICWC Revenue Model (so as to apply no adjustment). The functionality will be used in-life for the purpose of producing revised premium forecasts from 1 April 2026, as part of the resetting process described in Schedule 8.7A of the Franchise Agreement. Resetting of patronage / revenue dependent on other revenue and other operating costs is limited to modelled, mechanistic linkages which would be automatic at the time of Reset. The option to submit a separate Excel workbook for the Reset Period, identical to the main ICWC Revenue Model except in temporal coverage, is acceptable as an alternative to incorporation of rebasing to 2024/2025 within a single workbook.

ICWC Fares Model

6.3.4.20 Information on fares may be provided in a standalone model (ICWC Fares Model) or incorporated in the ICWC Revenue Model. However presented, the relevant model or part of a model must be able to calculate the impact of changes to fares, including regulated fares. The Department will deem the ICWC Fares Model or ICWC Revenue Model to meet this requirement if:

- a) They take as an input the percentage value of the fares increase, not the prices of each individual fare, so that a change in the value of k in Schedule 5.4A of the Franchise Agreement passes clearly to a change in the fares increase;
- b) They assess and demonstrate compliance with the Regulation of Fares Basket Values in Schedule 5.4A of the Franchise Agreement;
- c) They can model a total (cumulative) change in regulated fares levels over the Franchise Term of up to 10 percentage points above or below the base assumption as described in subsection 6.9.1; and
- d) They can model a change in regulated fares levels for individual years of up to 4 percentage points above or below the base assumption, if levels of cumulative change remains within the thresholds defined under subsection 6.3.4.20c) above. For example, in a year where the base assumption is that “ k ” is 0%, they must be able to model a change in regulated fares of between RPI + 4% and RPI – 4%.

6.3.4.21 Changes to fares regulation pursuant to paragraph 5 of Schedule 5.7A of the Franchise Agreement are a Change under the Franchise Agreement to which the procedure in Schedule 9.3A of the Franchise Agreement applies.

6.3.4.22 If the Bidders propose to increase the prices of different fares by different percentages:

a) The ICWC Models must assess and demonstrate compliance with the Regulation of Individual Fares in Schedule 5.5A of the Franchise Agreement; and

b) The differential increases that the ICWC Models include must be deliverable, and must not breach the requirements of the Franchise Agreement and the Ticketing and Settlement Agreement. As examples:

i) If Bidders propose to increase the price of singles by a greater percentage than they increase the price of returns, the price of singles must not exceed the price of returns; or

ii) If Bidders propose to decrease the price of anytime fares but not of Off-Peak fares, the price of Off-Peak fares must not exceed the price of anytime fares.

6.3.4.23 Bidders are not required to model the value of every fare that they will set. However, if a Bidder's fares strategy breaches the requirements of 6.3.4.20d) above, it will be deemed undeliverable, and will be subject to the risk adjustment process described in Appendix 3 (Risk Adjustment Process).

ICWC Crowding Model

6.3.4.24 Bidders must submit an ICWC Crowding Model which is clearly linked to the ICWC Revenue Model, clearly documented in the ICWC Record of Assumptions and consistent with the technical data submitted for Sub-Plan 2.1 Train Services. The ICWC Crowding Model shall include a schedule of services and stops, expected rolling stock formation and seated and standing capacity for trains as set out in subsection 5.12.15. The ICWC Crowding Model must be used to calculate suppression factors for each year of the Initial Franchise Period, which are input into the ICWC Revenue Model. The ICWC Crowding Model should estimate suppressed demand in the base LENNON data, in line with PDFH

recommendations. This is required to populate the templated breakdown by driver and initiative (or type of initiative) of Bidders' forecasts of unconstrained revenue growth.

- 6.3.4.25 The ICWC Crowding Model must show average daily loadings for each stop along the line of route for every service, accounting for differences in demand throughout the week based on the timetables in their Bid (see Table 5.2 (Operational data required as part of Bids)).
- 6.3.4.26 Bidders must use the survey data supplied in Data Site folder (04 – 'Data and Marketing Information') in constructing their respective ICWC Crowding Models. Bidders are free to supplement this with additional train loading and station census data, and must provide evidence of the source and derivation of supplementary loadings data.
- 6.3.4.27 Bidders must provide evidence of the source of data and assumptions used within the ICWC Crowding Model. If crowding curves relating constrained and unconstrained loadings are used, the ICWC Record of Assumptions must provide detail of the derivation of the curves. Any derivation/use of crowding curves also requires consideration of effects of revenue management in soothing (current and future) loadings.
- 6.3.4.28 For locations and/or times not covered by supplied survey data, Bidders may use MOIRA1 estimates of train-by-train loadings as inputs to the ICWC Crowding Model. MOIRA1 analysis (e.g. scaling factors) can also be used to provide a breakdown of Origin-Destination flows carried on each train over each arc of its journey.
- 6.3.4.29 Bidders must bear the following in mind in the development of their ICWC Crowding Models:
 - a) The techniques used should be consistent with the approaches adopted by the PDFH;
 - b) Where Bidders choose to depart from PDFH, robust evidence must be provided to justify the use of alternative assumptions and approaches;
 - c) Bidders are not instructed to submit models that model the reassignment of passengers due to crowding, but will be free to do so. If modelling the reassignment of passengers due to overcrowding, Bidders should ensure

that demand redistribution is modelled appropriately and avoids the manual adjustment of train loadings;

- d) The ICWC Crowding Model should be developed such that it is transparent, understandable, and can be run within a reasonable timescale within a single workbook; and
- e) The Department has issued further guidance on developing the ICWC Crowding Model in folder (01.01 ITT). For the avoidance of doubt, this is optional guidance only and Bidders are not required to adhere to this guidance.

6.3.4.30 Crowding modelling approaches must detail the calibration and validation process, and allow full traceability of model inputs through to model outputs. The use of calibration and validation process should be fully documented.

6.3.4.31 Beyond the Initial Franchise Period, the ICWC Crowding Model must also be populated between 1 April 2026 and 31 March 2031, adopting the same techniques used for the Initial Franchise Period forecast. The ICWC Crowding Model must have the functionality to reforecast from 1 April 2026, using revised outputs from the ICWC Revenue Model, as described in subsection 6.3.4.19. The option to submit a separate Excel workbook for the Reset Period is acceptable as an alternative to incorporation of rebased forecasts to 2024/2025 from the ICWC Revenue Model within a single workbook.

ICWC Operating Cost Model(s)

6.3.4.32 Information on operating costs may be provided in a standalone model or incorporated in the ICWC Financial Model. However presented, the relevant model or part of a model must produce inputs to the ICWC Financial Model to the level of disaggregation required by the Financial Templates and to the level of granularity required by subsection 6.3.4.4a).

ICWC Performance Model

6.3.4.33 The ICWC Performance Model must produce the following inputs to the ICWC Financial Model:

- a) Annual payments to and from Network Rail in relation to Schedule 8 of the Track Access Agreement;

- b) Annual payments in relation to the benchmarks as set out in Schedule 7.1A of the Franchise Agreement; and
- c) Annual forecast metrics in relation to Time to 3 Minutes, Time to 15 Minutes and All Cancellations as set out in Schedule 7.1A of the Franchise Agreement.

6.3.4.34 The ICWC Performance Model must be capable of calculating the following on a periodic and annual basis over the Franchise Term and for at least the equivalent of 13 Reporting Periods prior to the Start Date:

- a) Forecast Average Minutes Lateness (AML), Deemed Minutes Lateness (DML) and Performance Minutes (AML + DML) by Service Group, attributed between the Franchisee and Network Rail;
- b) Forecast TOC-on-self delays per 1,000 actual train miles run, as defined in paragraphs 10 – 12 of Schedule 7.1A of the Franchise Agreement;
- c) Forecast TOC-on-self cancellations as a proportion of planned trains, as defined in paragraphs 3 - 6 of Schedule 7.1A of the Franchise Agreement;
- d) Forecast Time to 3 minutes at all recorded stations, in line with Schedule 7.1A of the Franchise Agreement;
- e) Forecast Time to 15 minutes at all recorded stations, in line with Schedule 7.1A of the Franchise Agreement;
- f) Forecast cancellations (all causes) as a proportion of planned trains, in line with Schedule 7.1A of the Franchise Agreement; and
- g) Forecast payments and receipts under the performance regime specified in Schedule 8 of the Track Access Agreement. These must be disaggregated by Service Group and the TOC and Network Rail regimes must be shown separately.

6.3.4.35 Bidders must show all Initiatives which contribute to performance improvements within the ICWC Performance Model and provide references between such Initiatives and associated calculations.

6.3.4.36 Bidders are required to forecast expenditure associated with Delay Repay, either in the ICWC Performance Model or another model within the ICWC Modelling Suite. Regardless of where it is calculated, Delay Repay calculations must be linked to forecast performance levels as produced by the ICWC Performance Model, such that if a change is made to the operational performance forecast there is a consequent change to the forecast level of Delay Repay. Bidders' forecast amounts of passenger compensation (in respect of the provision of the Delay Repay scheme) within the cost base should be shown in the "Performance" sheet of the Financial Templates.

ICWC Capital Expenditure Model

6.3.4.37 Information on planned capital expenditure may be provided in a standalone model or incorporated in the ICWC Operating Cost Model or ICWC Financial Model. However presented, the relevant model or part of a model must include all items of capital expenditure, including those covered by the RV Mechanism (i.e. expenditure on assets with a life which is in excess of one year in accordance with the FRS101, FRS102 or IFRS accounting standard as applicable) in an itemised list with the facility to sort and group the items by:

- a) Sub-Plan;
- b) Specific Initiative as identified within the Bid;
- c) Asset category such as rolling stock, stations, IT systems, ticketing, depots, other infrastructure;
- d) Source of funding including self-funded, ROSCO funded and third party funded; and
- e) Treatment for tax purposes i.e. whether expensed in a year or attracting capital allowances at the applicable capital allowance rate, in which case how such allowances are calculated for the relevant item including in respect of treatment of the asset at the end of the Initial Franchise Period and at the end of the Reset Period.

The list must set out all items covered by the RV Mechanism and all items with a value in excess of £250,000 (2019/2020 prices) in any forecast year or £500,000 in total (2019/2020 prices) for a project which continues across more than one year. Other items may be aggregated as long as the sorting and grouping indicated

above can be achieved. The information provided should be clearly linked to the funding provisions (timings, sources, uses, repayments), be fully documented in the Financial Structure and Funding Plan and ICWC Record of Assumptions and be reconciled to any totals reported in Delivery Plan 0.

6.4 Templates

Financial Templates

- 6.4.1 The Department requires that the output from the ICWC Models included in the ICWC Modelling Suite follow the Financial Templates that will be made available in the Data Site and Bidders must incorporate these Financial Templates into the ICWC Financial Model and ensure they are fully populated. The Financial Templates have been developed to be consistent, where possible, with the information detailed in the Long Form Report. This is to assist Bidders in using that information and to ensure consistency of responses. The Bidders must therefore use the relevant revenue and cost captions within the Financial Templates. Where cost and revenue line items are already defined in the Financial Templates, Bidders must populate their Financial Templates in their ICWC Financial Model using these lines rather than allocating to alternative categories (for example, the financing cost line items on the P&L1 sheet, rows 525-537 must be used for presenting financing cost line items rather than the Bidder defining and using an alternative “**Other Operating Cost**” line). If Bidders require additional revenue and/or cost captions they must use the spare rows provided within each of the templates, clearly label the costs and revenues and provide adequate descriptions of these items in the ICWC Record of Assumptions.
- 6.4.2 Bids incorporating Financial Templates which do not conform to the structure as set out in the latest iteration of the Financial Templates provided or specified by the Department may be eliminated from the competition as a result of the Bid being determined as non-compliant. The Department also reserves the right to adjust the Bid or require Bidders to resubmit their Bid in a compliant format within a specified timescale in accordance with subsection 6.2.1.
- 6.4.3 The populated Financial Templates must also be submitted in PDF format. Bidders are required to integrate the Financial Templates into their ICWC Financial Model as the template outputs will form the basis for financial evaluation. No hard copies or further PDFs of ICWC Models are required. However Bidders should ensure that all sheets can print in a readable manner without any additional formatting being required and with consistent page breaks being applied across each sheet.

6.4.4 Each Bidder is required to submit with its Bid completed copies of the Financial Templates. A list of these Financial Templates together with a brief summary of each worksheet's content and status is set out below:

Table 6.1 Financial Template Summary

Sheet	Content	Status
Template Cover	Properties, legend	Bidder free to use/update
Template Control	Contains real/nominal switch for template calculations, option flag	Bidder to link cells F15 and F24 to model control sheet. Use functionality but do not alter structure.
Version Control	Version control record	Populate but do not alter structure
Template Inputs		
Timeline	Define Franchise timeline and part year adjustments	Populate blue cells but do not alter structure or amend green cells
Indices & Rates	Repository of indices and rates	Populate but do not alter structure
Line Items	Master definition of line items	Bidder may populate spare line items denoted by square brackets in the blue highlighted cells
Template Outputs		
Pax Revenue	Template for forecasts of selected metric and revenues	Populate but do not alter structure
Other Revenue	Template for forecasts of selected revenues	Populate but do not alter structure
Staff	Template for forecasts of selected metrics and costs	Populate but do not alter structure
Other Opex	Template for forecasts of selected costs	Populate but do not alter structure
RS Charges	Template for forecasts of selected metrics and costs	Populate but do not alter structure
Infrastructure	Template for forecasts of selected metrics and costs	Populate but do not alter structure
Performance	Template for forecasts of selected metrics and costs/revenues	Populate but do not alter structure
TOC Capex	Template for forecasts of selected costs	Populate but do not alter structure
Financial Statements		
P&L1	Template for forecasts for profit and loss account at specified level of aggregation	Populate highlighted cells but do not alter structure
P&L2	Template for forecasts for profit and loss account at specified level of aggregation	Contains formulae, do not alter

Sheet	Content	Status
P&L3	Template for forecasts for profit and loss account at specified level of aggregation	Contains formulae, do not alter
CF	Template for forecasts of cash flow statements	Populate blue cells but do not alter structure
BS	Template for forecasts of balance sheet	Populate including Opening Balance in column AK, but do not alter structure
Output Calculations		
FAA	Production of tables and values to populate the Franchise Agreement including Appendix 1 to Schedule 8.1A, Appendix 1 to Schedule 8.2A and Appendix 1 to Schedule 8.6A (feed from Financial Statements and Bidder model)	Populate (blue cells only) but do not alter structure
NPV	NPV of Adjusted Evaluated Franchise Payments calculation (feed from Financial Statements and calculation based on this)	Contains formulae, do not alter
FO&C	Schedule 12A of the Franchise Agreement Financial Ratio, Season Ticket Bond calculations (feed from Financial Statements)	Populate (blue cells only) but do not alter structure
Funding	Calculation template for Required PCS and for Bidder specification of Additional PCS and Agreed Funding Commitment.	Populate (blue cells only) but do not alter structure

6.4.5 The table in the FAA sheet containing Minimum Marketing Spend and Minimum Marketing Team Spend figures for Appendix 1 to Schedule 6.3A of the Franchise Agreement must be populated with the marketing costs assumed in the Bid forecast and in line with the description of marketing costs in paragraph 4.8 of Schedule 6.1A of the Franchise Agreement. As a minimum, costs included in the ICWC Financial Model in rows 120 (Marketing staff costs), 314 (Marketing operating costs), 357 (Advertising) and 358 (Media) of the P&L1 should be captured in the table in Appendix 6.3. The table should be populated with these costs in 2019/2020 prices.

6.4.6 The Financial Templates shall be populated with outputs from the relevant ICWC Models for Franchisee Years ending 31 March of each year. The

Financial Templates shall be populated in full, which includes the following columns:

- a) I, J, and K in the Financial Templates labelled 'Actual' for the year 2016/2017 and 'Forecast' for the years 2017/2018 to 2018/2019); and
- b) S, T, U, V and W in the Financial Templates relating to the Reset Period (see subsection 6.15 (Reset Period)).

6.4.7 With regard to historical years (Year-2 and Year-1), Year 0 and Year 1 (2016/17to 2019/20);

- a) Bidders are not required to populate the balance sheet and cash flow for years Year-2 to Year 1 in columns I, J and K in each of the "BS" sheet and "CF" sheet;
- b) Bidders are required to populate the profit and loss account for Year-2 to Year 1 in columns I, J and K up to the line "Operating Profit/Loss After Exceptionals and Contingencies" in each of the "P&L1", "P&L2" and "P&L3" sheets, but are not required to populate below this line in these columns;
- c) Year 1 (Part) in column AE should be fully populated throughout the Financial Templates; and
- d) Bidders are expected to describe their opening balance sheet assumptions in the ICWC Record of Assumptions.

6.4.8 The $PRRPI_{GDP}$ component of franchise payments to be populated in row 24 of sheet 'FAA' shall sum to the Bidder's passenger revenue forecast for each Franchisee Year, in 2019/2020 prices.

6.4.9 The $PRRPI_{GDP}$ figures are used as set out in paragraph 9.4 of Schedule 9.1A of the Franchise Agreement, to adjust the DfT_{GDP} elements of the calculation of GDP adjustment payment in the event of a franchise Change, as defined in the Franchise Agreement.

6.4.10 The ARPI component of franchise payments to be populated in row 27of sheet 'FAA' should include any GDP adjustment payments forecast by the Bidder. It should be positive in the event of a forecast payment to the Department and negative in the event of a forecast payment from the Department.

6.4.11 The Financial Ratio calculations are incorporated in the Financial Templates and are based on outputs contained in the Financial Formats. For Modified

Revenue and Actual Operating Costs, Bidders must be consistent with the drafting of Schedule 12A of the Franchise Agreement in completing the Financial Templates.

- 6.4.12 Bidders are permitted to expand the level of detail provided within the Models beyond the minimum requirements of the Financial Templates. In populating the Financial Templates, Bidders:
- a) Must ensure that the addition of any further information is done in such a way as to remain consistent with the format of the Financial Templates and that the level of detail provided is sufficient to give full transparency of all components of costs and revenues;
 - b) Should note that the spare rows provided in the Financial Templates can be used to accommodate additional detail but deleting or inserting rows or columns to the Financial Templates is not permitted and, for the avoidance of doubt, may result in the Bid being eliminated, in accordance with subsection 6.4.2;
 - c) May use the two blank columns inserted between the flag/labelling columns and the first modelled year as they see fit. The intention is that these columns will assist in the transfer of historical data to the ICWC Financial Model; and
 - d) Must ensure that the outputs in the Financial Templates are linked to the input / calculation cells within the ICWC Financial Model where appropriate and in such a manner as to facilitate both the understanding of the ICWC Financial Model and tracing of core assumptions used in the ICWC Financial Model.
- 6.4.13 Bidders may either add worksheets to the Financial Templates or copy the Financial Templates into their own Models. In either case, Bidders are required to ensure that:
- a) The named ranges defined in the Financial Templates are preserved;
 - b) The new worksheets are inserted in tabs to the left of the Financial Templates 'Templated Outputs' tab;
 - c) The format of the profit and loss account, cash flow statement and balance sheet are set out in the manner stipulated by the Financial Templates;

- d) Units of measure as set out in the Financial Templates provided are used; and
- e) Any types of revenues or costs that they wish to include under a catch all heading of 'Other' do not exceed £250,000 (2019/2020 prices) in any given year. Where a Bidder anticipates that such revenues or costs will exceed this amount, they must each be separately identified in a separate spare row and not listed under the heading 'Other'.

6.4.14 The first Franchisee Year of the West Coast Partnership Franchise is expected to run for a part year from 15 September 2019 to 31 March 2020. The first full Franchise Year is expected to run from 1 April 2020.

Revenue Model Output Template

- 6.4.15 The Department requires that Bidders use the “**Revenue Model Output Template**” in Data Site folder (01.01.ITT). An accompanying note to guide Bidders in populating the template is available in the same folder. Bidders must ensure they are fully populated. Bidders may choose to incorporate the Revenue Model Output Template into their ICWC Revenue Model or this may be submitted as a standalone workbook. The Revenue Model Output Template has been developed to ensure consistency of responses, in presenting all exogenous and endogenous sources of unconstrained revenue growth, in the ICWC Revenue Model. Bidders must therefore ensure that all revenue drivers – including released suppression – have been captured in the Revenue Model Output Template and for endogenous drivers, that they have been attributed to the appropriate Delivery Plan. Each source of revenue growth in the ICWC Revenue Model should be activated one-by-one with the template populated with cumulative incremental revenues. Where revenue driver line items are already defined in the Revenue Model Output Template, Bidders must populate the Revenue Model Output Template using these lines rather than allocating to alternative categories (for example, the Exogenous Growth lines on the Revenue Drivers sheet, rows 36–48 must be used for presenting revenue from those exogenous drivers rather than the Bidder defining and using an alternative blank Exogenous Factor line). If Bidders require additional revenue drivers they must use the spare rows provided within each of the templates and clearly label the revenue driver. The ICWC Operating Manual should clearly indicate which cells in the ICWC Revenue Model have been used to populate the Revenue Model Output Template.
- 6.4.16 Bids that do not conform to the structure as set out in the latest iteration of the Revenue Model Output Template provided by the Department may be eliminated from the competition as a result of the Bid being determined as

non-compliant. The Department also reserves the right to adjust the Bid or require Bidders to resubmit their Bid in a compliant format in accordance with subsection 3.5.

- 6.4.17 Each Bidder is required to submit with its Bid completed copies of the Revenue Model Output Templates. A list of the sheets in the Revenue Model Output Template together with a brief summary of each worksheet’s content and status is set out in Table 6.2 below.

Table 6.2 Revenue Model Output Template summary

Sheet	Content	Status
Version	Version control	Bidder free to use/update
Revenue Drivers	Template for forecasts of revenue from exogenous and endogenous drivers	Bidder required to use and update. Use functionality but do not alter structure.

- 6.4.18 The Revenue Model Output Template shall be populated in full (which includes columns H, I, J, K, L, M, N, O, P, Q, and R in the Revenue Model Output Template labelled ‘Actual’ and ‘Forecast’ for the years 2016/2017 to 2025/2026), with outputs from the Models specified in Franchisee Years ending 31 March of each year. Bidders should also ensure that columns D, E, F and G are completed and reflect the driver of revenue and the associated Delivery Plan.

LENNON to Flow Group and Ticket Type Mapping

- 6.4.19 The Department requires that Bidders use the “LENNON to Flow Group and Ticket Type Mapping” as set out in the workbook in Data Site folder (01.01.ITT) as well as the accompanying note as the basis of their ticket revenue modelling in the Tier 1 ICWC Revenue Model. Bidders may choose to further sub-segment the templated flow groups, providing that the sub-segmentations are simple sub-divisions of the templated flow groups, but this should be limited to a few cases only. The mapping has been developed to ensure consistency of responses, in presenting revenue flow groups that are all based on the same underlying flows. Bidders must therefore ensure that all 40 of the templated flow groups are used to underpin the ticket revenue modelling in their Tier 1 ICWC Revenue Model.
- 6.4.20 Bids which do not base ticket revenue modelling in the Tier 1 ICWC Revenue model on the 40 templated flow groups as set out in the latest iteration of the “LENNON to Flow Group and Ticket Type Mapping” provided or specified by the Department may be eliminated from the competition as a

result of the Bid being determined as non-compliant. The Department also reserves the right to adjust the Bid or require Bidders to resubmit their Bid in a compliant format in accordance with subsection 3.5.

- 6.4.21 A list of the sheets in the “LENNON to Flow Group and Ticket Type Mapping” workbook together with a brief summary of each worksheet’s content and status is set out in Table 6.3 below.

Table 6.3 *LENNON to Flow Group and Ticket Type Mapping summary*

Sheet	Content	Status
Version	Version control	Do not alter
Overview	Overview	Do not alter
LookupTables	Reference tables for the flow-group mapping	Do not alter
Table1_Prod.Code_to_TicketType	Product Code to ticket type mapping	Do not alter
Table2_NLC_to_RIFF74	NLC to RIFF74 Mapping	Do not alter
Table3.1_FlowgroupMapping	Process mapping from RIFF74-RIFF74 zones to ICWC Revenue Model flow groups	Do not alter
Table3_RIFF74_RIFF74_to_FlowGrp	Final RIFF74-RIFF74 to WCP flow group mapping	Do not alter Bidders should use this mapping to construct revenue groups in line with this mapping
Table4_Flowgroups	Flow Groups	Do not alter Bidders should use these 40 flow groups to underpin modelling of ticket revenue in their ICWC Revenue Model

6.5 ICWC Record of Assumptions

- 6.5.1 Each Bidder is required to submit with its Bid, as part of the ICWC Modelling Suite, an ICWC Record of Assumptions which:

- a) Is written in Microsoft Word 'docx' format in accordance with subsection 4.11 (Submission of Bids);
- b) Clearly sets out the rationale underlying the assumptions and the methodologies adopted, for example, where "bottom up" costing has been used state the basis of the assumptions or alternatively detail any quotes received where costs are related to subcontracts;
- c) Provides additional detail to enable the Department to understand how Bidders' assumptions have been calculated and how sources of assumptions have been used;
- d) Provides a reconciliation of the revenue/cost lines impacted by initiatives (see subsection 6.5.3 below) back to the financial information provided in the Schedule of Initiatives;
- e) Provides detail and transparency on the costs, revenues and assumptions associated with each major timetable change, as required in subsection 5.10 (Delivery Plan 2 – Train Services and Performance);
- f) Provides detail, rationale and transparency of all indexation assumptions used;
- g) Provides detail, rationale and transparency about the calculation of phased or proportioned annual costs and revenues for example, delivery of rolling stock phased in during the year, and assumed cost/revenue proportions in part years at start and end of franchise;
- h) Includes a description of the accounting principles adopted and the specific accounting policies applied, especially in relation to:
 - i) The purchase of assets with a useful life in excess of one year;
 - ii) Pensions – defined benefit scheme service costs or defined contribution scheme cash contributions and balance sheet treatment;
 - iii) Bad debts – if provisions are made, are they specific or general;

- iv) ROSCO leases – how each lease has been accounted for and the rationale for the treatment adopted (see subsection 6.3.3.1f);
 - v) Rolling stock maintenance reserve – how each reserve has been accounted for; and
 - vi) Treatment of any derivatives, eg interest rate swaps or RPI swaps;
- i) Includes a description of the tax treatment adopted especially in relation to:
- i) Categorisation of operating and capital expenditure, including the capital allowance treatment of each capital asset;
 - ii) Pensions;
 - iii) ROSCO leases – the tax treatment adopted and the rationale for the treatment;
 - iv) Interest costs (including capitalised interest), with specific consideration given to the tax deductibility of interest under the thin capitalisation rules, the new corporate interest restriction rules effective 1 April 2017 introduced by the Finance (No. 2) Act 2017, and other transfer pricing and anti-avoidance provisions; and
 - v) Transfer pricing – details of the assumptions made regarding transfer pricing;
- j) Contains a level of detail and a granularity of data such that each input assumption and changes to it over time, as reflected in the ICWC Models, are properly explained;
- k) Provides a level of usability such that linkages to the ICWC Models are clear and the narrative provides the user with sufficient information to assess the financial impact of price or volume changes within a reasonable timeframe;
- l) Uses tables to enhance the narrative, such tables being directly traceable to the ICWC Models and to external sources where applicable (such as Network Rail charges);
- m) Arrives at an estimate of the financial impact of a change in prices or volumes which is aided by the quality of the narrative;

- n) Includes a section that should reconcile how any Franchise Agreement required outputs have been arrived at (including but not limited to “AFA” and “DFR”);
- o) Documents assumptions used across both the Initial Franchise Period and the Reset Period as described in subsection 6.15 (Reset Period);
- p) Details the numbers of staff with roles as identified in Schedule 6.3A, Section 5 of the Franchise Agreement; and
- q) Identifies the revenue/cost lines included in FRM Revenue and justifies how the inclusion of each revenue/cost line is consistent with the definition of FRM Revenue in Schedule 8.6A of the Franchise Agreement.

6.5.2 The ICWC Record of Assumptions must:

- a) Contain all financial, mobilisation and operational assumptions used in the ICWC Models contained in the ICWC Modelling Suite and explain the rationale for the inputs of each Model, including the base unit cost for each input and the cause and impact of each change over time. Where contracted variable unit costs have the potential to change as a result of Change (e.g. maintenance contract charges which vary between mileage bands), Bidders are required to include the full range of potential unit costs of their anticipated contracted agreements within the ICWC Record of Assumptions;
- b) Include a table setting out the percentage of total other revenues and costs (totals in real terms over the Initial Franchise Period and Reset Period) that are earned from or paid to HQ, group or other Affiliates including details of:
 - i) The services to which such revenues or costs relate; and
 - ii) The basis for determining the charges;
- c) Provide details of any financial benefits (which includes changes to both revenues and costs that impact the Bid level of Franchise Payments) included within the Bid arising from any alliance with Network Rail, or any other Industry Partners. Bidders must not include any financial benefits from any deep alliance i.e. an alliance requiring a change to the industry regulatory framework and hence third party approval that may generate savings from possessions (Schedule 4 Track Access Agreement) or

performance (Schedule 8 Track Access Agreement) amounts, within their Bid. For the avoidance of doubt, the consequences of any proposals for alliancing with Network Rail or any other Industry Partners may be subject to risk adjustment in accordance with the principles of Section 7 (Evaluation criteria and methodology) and Appendix 3 (Risk Adjustment Process);

- d) Include separately the costs involved and assumptions made in relation to pension contribution rates, both employer and employee;
- e) If the Bidder proposes investment with a useful economic life or period of financial return that exceeds the Initial Franchise Period, any costs and revenues that accrue in relation to that investment must be explicitly set out in the ICWC Record of Assumptions setting out:
 - i) The period from investment until the end of the Initial Franchise Period;
 - ii) The period from end of the Initial Franchise Period until end of asset life, including the basis for determining that asset's life;
 - iii) The initial cost of the investment in nominal and 2019/2020 prices;
 - iv) The amount of cost recovered/paid off during the life of the Franchise together with the trajectory of that recovery/payment off during the Initial Franchise Period in nominal prices; and
 - v) Show the non-depreciated value (i.e. residual value) in nominal prices at the end of the Initial Franchise Period of:

- A) Assets to which the provisions of subsection 5.4 (Residual Value Mechanism) do not apply. With regard to such assets the Franchisee is on risk as to whether they are designated as Primary Franchise Assets or if a Successor Operator purchases such assets. If they are designated the standard valuation provisions of the Supplemental Agreement apply; and
 - B) Assets which have a remaining useful economic life beyond 31 March 2026 and which are proposed in the Bid as RV Assets in accordance with the provisions contained in subsection 5.4 (Residual Value Mechanism) along with the other information required by that subsection;
- f) If a Bidder provides for investments in assets to be identified in the future, or a general investment fund, the ICWC Record of Assumptions must make clear the nature of the proposed investments and the process for agreeing how such funds are to be spent and must provide a cross reference to the relevant Initiative in the Bid;
 - g) Where changes in the ICWC Financial Model are attributable to Initiatives, set out the reasons for such in the ICWC Record of Assumptions for each affected input to the ICWC Financial Model. An example of how such movements could be presented is shown in respect of headcount in Table 6.4 (Example of presentation of movements in ICWC Record of Assumptions) below. Bidders should note that words and values contained within Table 6.4 (Example of presentation of movements on ICWC Record of Assumptions) are indicative only. Bidders should supplement such analysis with a detailed description of the rationale behind any movements within the ICWC Record of Assumptions;
 - h) Bidders must provide details of the assumptions and evidence supporting their modelling of the cost and (if applicable) revenue forecasts for the PMO Services within the ICWC Record of Assumptions, in line with each Bidder's Sub-Plan 1.1. Staff solely involved in PMO Services should be identified separately within the staff FTE breakdown. Other costs and (if applicable revenue) may be shown as incremental impacts on existing line items;
 - i) Bidders must include in the ICWC Record of Assumptions a separate summary of the total costs and revenues related to the

PMO Services and must also indicate the total impact of these upon the Franchise premium by including a completed form of the table shown in Table 6.5 (Table to be completed to indicate the impact of PMO Services costs and revenues on total Franchise Payments). Bidders must also provide a reconciliation of the total impact on franchise premium with the sum of PMO Services items identified;

- j) Bidders must include in the ICWC Record of Assumptions an additional section providing a commentary on their population of the Reset Period, confirming that the approach is compliant with the requirements at subsection 6.15 (Reset Period) of this ITT and including any specific explanations requested in subsection 6.15 (Reset Period);
- k) Bidders should set out any monetary values so that the Department can easily trace specific and discretely identifiable figures included in the Delivery Plans through to the Schedule of Initiatives, ICWC Record of Assumptions and the ICWC Modelling Suite. Bidders are to ensure that monetary values are reconcilable throughout their Bid submissions;
- l) Bidders should provide a credible forecast for total opening revenue with their Bids, and provide full evidence for this in the ICWC Record of Assumptions. This total opening passenger revenue forecast should be for the full year 2019/2020 with a detailed explanation in the ICWC Record of Assumptions of how the values for the first part year of the Franchise have been forecast. A bridge showing how the forecast revenue for the full year 2019/2020 is derived from the actual revenue reported in Virgin West Coast management accounts for the 2017/2018 full year and 2018/2019 Periods 1 to 2 should be provided, setting out the impact of each revenue driver. The management accounts for 2018/2019 Periods 1 to 2 will be made available on the Data site during the Bidding period;
- m) Bidders must fully explain how the Minimum Marketing Spend and Minimum Marketing Team Spend figures in Appendix 1 to Schedule 6.3A of the Franchise Agreement are derived, and include a reconciliation to marketing spend included in the Delivery Plans and marketing spend as set out in the Financial Templates consistent with the requirements of section 6.4 (Templates);

- n) Bidders must provide details of the assumptions and evidence supporting their modelling of the cost forecasts for de-branding of Franchise assets within the ICWC Record of Assumptions, as described at subsection 5.16.6; and
- o) Bidders must include in the ICWC Records of Assumptions a separate summary of the total costs and revenues related to the de-branding of the Franchise assets as described at subsection 5.16.6 and must also indicate the total impact of these on the Franchise premium by including a completed form of the table shown in Table 6.5 (Examples of tables to be completed to indicate the impact of PMO Services and de-branding costs and revenues on total Franchise Payments). Bidders must also provide a reconciliation of the total impact on Franchise premium with the sum of cost items identified for de-branding of Franchise assets.

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

Franchisee Year	1	2	3	4	5	6	7	8
Base year/ Opening FTE	432.5	392.5	371.5	369.5	384.5	414.5	419.5	416.5
LFR data – baseline adjustment	(20.0)							
Initiative DP 3.4.5 (Train maintenance in house)				15.0	30.0	5.0	(3.0)	
Initiative DP 3.4.6 (Depot staff restructuring)	(15.0)	(15.0)						
Initiative DP 6.2.3 (Management/ HQ structure efficiencies)	(5.0)	(5.0)						
Initiative DP 5.2.1 (Sales channel review)	(5.0)	(3.0)	(2.0)					
Initiative DP 4.1.1 (Station welcome hosts)	5.0	2.0						
Total FTE at year end	392.5	371.5	369.5	384.5	414.5	419.5	416.5	416.5

* The DP numbers and descriptors provided are for illustrative purposes only and are not intended to relate to this franchise competition.

Table 6.5 Examples of tables to be completed to indicate the impact of PMO Services and de-branding costs and revenues on total Franchise Payments

Franchisee Year	Bidder /Premium payments in nominal terms – excluding [PMO Services / de-branding] £'000	Impact of [PMO Services / de-branding] on Premium in nominal terms £'000	Bid Premium payments in nominal terms £'000
Franchisee Year to 31 March 2020	(xxx,xxx)	(xxx,xxx)	(xxx,xxx)
Franchisee Year to 31 March 2021	(xxx,xxx)	(xxx,xxx)	(xxx,xxx)
Franchisee Year to 31 March 2022	(xxx,xxx)	(xxx,xxx)	(xxx,xxx)
Franchisee Year to 31 March 2023	(xxx,xxx)	(xxx,xxx)	(xxx,xxx)
Franchisee Year to 31 March 2024	(xxx,xxx)	(xxx,xxx)	(xxx,xxx)
Franchisee Year to 31 March 2025	(xxx,xxx)	(xxx,xxx)	(xxx,xxx)
Franchisee Year to 31 March 2026	(xxx,xxx)	(xxx,xxx)	(xxx,xxx)

- 6.5.3 Bidders are required to fully evidence the details behind their Initiatives in their response to Section 5 (Detailed Bid submission requirements – Delivery Plans). Using Tables 6.4 and Table 6.5 as guidance, Bidders shall, in their ICWC Record of Assumptions, provide details of the impact that Initiatives have on each cost, revenue or other input to the submitted ICWC Financial Model and ICWC Operational Models. A brief narrative explaining why the cost or revenue is so impacted by the relevant Initiatives must accompany each table. The wording of the narrative or cross references used and the values shown must make it reasonably determinable that the Initiative is the same as its correspondingly numbered Initiative in the Bidder’s response to Section 5 (Detailed Bid submission requirements – Delivery Plans).
- 6.5.4 In addition, each Bidder is required to submit with its Bid a copy of its modelled timetable (which has been developed within MOIRA1 (as per the instructions set out in subsection 6.3.4.10d)) and any other revenue or timetable development software) to calculate the likely passenger revenues that will be earned from the timetable submitted with its Bid and that have been utilised in the population of the Bidder’s ICWC Revenue Model. This information must be provided electronically in raw format as an Appendix to the Bidder’s ICWC Record of Assumptions.
- 6.5.5 The Department reserves the right to require the leading Bidder to include additional detail (for the purpose of clarifying and confirming information already provided in other sections of the Bid) in the ICWC Record of Assumptions before contractualisation takes place and the ICWC Record of Assumptions is Placed in Escrow.

6.6 ICWC Operating Manual

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

- a) Is in Microsoft Word 'docx' format in accordance with subsection 4.11 (Submission of Bids);
- b) Is an accurate and plain English document that facilitates a reasonable level of understanding of the functionality of the Bidder's ICWC Models, including how each interfaces and interacts with other ICWC Models;
- c) Includes an explanation of the flow of data through the ICWC Financial Model and the interfaces with the ICWC Operational Models submitted. This may be presented diagrammatically with supporting narrative as appropriate. This must also describe how any interface spreadsheets are used in the flow of data between ICWC Models, if applicable;
- d) Includes a description of each ICWC Model, its structure and capability;
- e) Includes a description of the purpose and operational characteristics of each worksheet and how it interacts with the ICWC Models;
- f) Includes instructions on how to input data, select scenarios/options and calculate the financial outputs;
- g) Clearly explains the method by which the Bidder's ICWC Revenue Model is able to apply the resetting of the forecast in financial year 2024/2025 as required in subsection 6.3.4.19;
- h) Clearly explains the method by which the Bidder's ICWC Models are able to meet the requirements of subsections 6.3.3.2, 6.3.3.4 and 6.3.4.4; and
- i) Where macros (or other visual basic functions) have been used, includes a description of the macros used in the operation of the ICWC Models, the reason for their use and how they are used to generate model outputs.

6.6.2 The use of screen shots and narratives is encouraged to provide the user with sufficient information to assess the content, purpose and functionality of the ICWC Models.

6.6.3 The Department reserves the right to require the leading Bidder to include additional detail (for the purpose of clarifying and confirming information already provided in other sections of the Bidder's Bid) in the ICWC Operating Manual before contractualisation takes place and the ICWC Operating Manual is Placed in Escrow.

6.7 Accepted Programme Modelling Suite

6.7.1 General

6.7.1.1 Each Bidder is required to submit and include as part of their Bid an Accepted Programme Modelling Suite, which will consist of a single Accepted Programme Financial Model, Accepted Programme Operational Models and Required Supplementary Material as set out in subsection 6.10 (Supplementary Material). All Accepted Programme Models within the Accepted Programme Modelling Suite must meet the requirements described in Section 4 (Explanation of requirements for Bid submission and overview of process following Bid submission) and this Section 6 (Detailed Bid Submission requirements – Financial). In order that the Department may take account of this Accepted Programme Modelling Suite in evaluating Sub-Plan 1.1 in accordance with the evaluation criteria and methodology described in Section 7 (Evaluation criteria and methodology), the Accepted Programme Modelling Suite must:

- a) Demonstrate the detailed make-up of the Bidder's Proposed Cost Baseline for the Proposed Accepted Programme;
- b) Attribute all costs in the Proposed Cost Baseline to one of a series of "**Proposed Shadow Operator Products**" which shall include, as a minimum, the Accepted Programme Specific Requirements. Each Accepted Programme Specific Requirement shall be represented as a Proposed Shadow Operator Product or as a series of Proposed Shadow Operator Products; and
- c) Support the Bidder's proposed approach to budgeting and financial management of the Accepted Programme through to the anticipated High Speed Established Services Date.

6.7.1.2 Any changes to the Accepted Programme Modelling Suite after Bid submission as a result of the clarification process described in

subsection 4.14 (Process following Bid submission) or otherwise, must be clearly logged and traceable, including an audit trail in the relevant Accepted Programme Financial Model or Accepted Programme Operational Model itself, using the worksheet 'Version Control' in the Shadow Operator Cost Baseline Template.

6.7.2 Structure of the Accepted Programme Modelling Suite

6.7.2.1 The Accepted Programme Modelling Suite must comprise a single Accepted Programme Financial Model, which may be supported by Accepted Programme Operational Models. Bidders may adopt any structure they choose for Accepted Programme Operational Models but are required to include within their Accepted Programme Modelling Suite a map illustrating the content and structure of the Accepted Programme Models and key data flows between and within them to aid the Department's understanding.

6.7.2.2 Each Bidder is required to submit with its Bid an Accepted Programme Financial Model which:

- a) Applies consistently on a Reporting Period basis, in accordance with the Franchise Agreement, the Bidder's proposed methodology for developing and maintaining the Accepted Programme Cost Baseline and is populated with the Proposed Cost Baseline for the Proposed Accepted Programme, demonstrating the proposed costs for each Proposed Shadow Operator Product;
- b) States default prices in nominal terms and when viewed in real terms, outputs must be deflated to 2019/2020 prices and outputs prior to this period must be inflated to 2019/2020 prices; and
- c) Where necessary to be consistent and comparable with financial reporting, properly reflects the same accounting rules as adopted for the ICWC Modelling Suite, according to the requirements of this ITT (including at subsection 6.3.3.1).

6.7.2.3 The Bidder is required to submit with its Bid an Accepted Programme Modelling Suite which:

- a) Accurately executes the calculations as designed, and provides confidence in its robustness and ability to support transparent budgeting of the Accepted

Programme to the anticipated High Speed Established Services Date. It must:

- i) Provide a sufficient level of flexibility and usability to allow new or revised Accepted Programme activity to be budgeted in a reasonable timescale;
 - ii) Provide an appropriate level of granularity and transparency to support the Bidder's proposed approaches to meeting the requirements of Delivery Plan 5. This should identify numbers of staff by grade and specialism as well as individual specialist roles where applicable;
 - iii) Clearly associate costs to key components of the work (including key phases, milestones, interim deliverables and iterations, as well as activity under distinct technical disciplines), to support the requirements at paragraph 17 of Schedule 18.1 of the Franchise Agreement during delivery. For each Accepted Programme Specific Requirement, this should incorporate, but not be limited to, any phases set out in Schedule 18.2 of the Franchise Agreement, including where relevant, a scoping phase, delivery of a Required Output Report and a Final Output Report; and
 - iv) Be sufficiently flexible to form the required basis for the setting of the annual budget and the pricing of Changes;
- b) Adopts an absolute sign convention such that all revenues and assets are positive and all costs and liabilities are negative; and
 - c) Contains their Accepted Programme Financial Model within a single Microsoft Excel workbook which is self-contained. The Accepted Programme Financial Model must be presented in periodic terms, based on Reporting Periods.

6.7.2.4 The Accepted Programme Operational Models submitted within the Accepted Programme Modelling Suite are all those Models that contain calculations generating inputs to the Accepted Programme Financial Model, either directly or indirectly. Each

Accepted Programme Operational Model should be coherent, in that the different Models, including the Accepted Programme Financial Model, interface and work together effectively. Any interface spreadsheet required for transferring Accepted Programme Operational Model outputs into the Accepted Programme Financial Model or from one Accepted Programme Operational Model to another must be provided as part of the Accepted Programme Modelling Suite and its use fully explained in the Accepted Programme Operating Manual.

6.7.2.5 Collectively, the Accepted Programme Modelling Suite (including Product Cost Assumption Statements) and relevant Supplementary Material should allow the user to track inputs pre-processed externally to the Model back to the original input values (i.e. the derivation of any pre-processed Model inputs needs to be explained in the Product Cost Assumption Statements).

6.7.2.6 Each Accepted Programme Operational Model must:

- a) Provide an appropriate level of granularity for generating Accepted Programme Financial Model inputs, and be sufficiently transparent to show any changes clearly;
- b) Be sufficiently flexible to support the Bidder's proposed approach to meeting the requirements of Sub-Plan 1.1;
- c) Accurately execute the calculations as designed, and provide confidence in their robustness and suitability for the setting of the annual budget and ability to price changes; and
- d) Provide a sufficient level of usability to allow change scenarios to be run in a reasonable timescale.

6.7.3 Accepted Programme Cost Baseline Templates

6.7.3.1 The Department requires that the output from the Accepted Programme Models included in the Accepted Programme Modelling Suite follow the Accepted Programme Cost Baseline Templates that will be made available in Data Site folder (01.05.20 'Accepted Programme Budget Template') and Bidders must incorporate these Accepted Programme Cost Baseline Templates into the Accepted Programme Financial Model and ensure they are fully populated.

- 6.7.3.2 Bids incorporating Accepted Programme Cost Baseline Templates which do not conform to the structure as set out in the latest iteration of the Accepted Programme Cost Baseline Templates provided or specified by the Department may be eliminated from the competition as a result of the Bid being determined as non-compliant. The Department also reserves the right to adjust the Bid or require Bidders to resubmit their Bid in a compliant format in accordance with subsection 3.5.
- 6.7.3.3 The populated Accepted Programme Cost Baseline Templates must also be submitted in PDF format. Bidders are required to integrate the Accepted Programme Cost Baseline Templates into their Accepted Programme Financial Model. No hard copies or further PDFs of Accepted Programme Models are required. However Bidders should ensure that all sheets can print in a readable manner without any additional formatting being required and with consistent page breaks being applied across each sheet.
- 6.7.3.4 The Accepted Programme Cost Baseline Templates shall be populated in full with the Proposed Cost Baseline as the output of the Accepted Programme Financial Model, specified in each Reporting Period of the Initial Franchise Period plus the equivalent of 4 Reporting Periods prior to the first Franchisee Year (prior to 15 September 2019).
- 6.7.3.5 Bidders may either add worksheets to the Accepted Programme Cost Baseline Templates or copy the Accepted Programme Cost Baseline Templates into their own Accepted Programme Financial Model. In either case, Bidders are required to ensure that:
- a) The named ranges defined in the Accepted Programme Cost Baseline Templates are preserved;
 - b) The new worksheets are inserted in tabs to the left of the Accepted Programme Cost Baseline Templates tabs; and
 - c) Units of measure as set out in the Accepted Programme Cost Baseline Templates provided are used.

6.7.4 **Accepted Programme Operating Manual**

- 6.7.4.1 Each Bidder is required to submit with its Bid an Accepted Programme Operating Manual for the Accepted Programme Modelling Suite which:

- a) Is in Microsoft Word 'docx' format in accordance with subsection 4.11 (Submission of Bids);
- b) Is an accurate and plain English document that facilitates a reasonable level of understanding of the functionality of the Bidder's Accepted Programme Models, including how each interfaces and interacts with other Models;
- c) Includes an explanation of the flow of data through the Accepted Programme Financial Model and the interfaces with the Accepted Programme Operational Models submitted. This may be presented diagrammatically with supporting narrative as appropriate. This must also describe how any interface spreadsheets are used in the flow of data between Accepted Programme Models, if applicable;
- d) Includes a description of each Accepted Programme Model, its structure and capability;
- e) Includes a description of the purpose and operational characteristics of each worksheet and how it interacts with the Accepted Programme Models;
- f) Includes instructions on how to input data, select scenarios/options and calculate the financial outputs; and
- g) Where macros (or other visual basic functions) have been used, includes a description of the macros used in the operation of the Accepted Programme Models, the reason for their use and how they are used to generate model outputs.

6.7.5 Product Cost Assumptions Statements

6.7.5.1 Each Bidder is required to submit with its Bid, as part of the Accepted Programme Modelling Suite, a Product Cost Assumptions Statement for each Proposed Shadow Operator Product in the Proposed Accepted Programme, which:

- a) Is written in Microsoft Word 'docx' format in accordance with subsection 4.11 (Submission of Bids);
- b) Clearly sets out the rationale underlying the assumptions and the methodologies adopted, for example, where "bottom up" costing has been used state the basis of the

assumptions or alternatively detail any quotes received where costs are related to subcontracts;

- c) Provides additional detail to enable the Department to understand how Bidder's assumptions have been calculated and how sources of assumptions have been used;
- d) Provides a reconciliation of proposed cost lines impacted by proposed activity included in the Proposed Accepted Programme back to the resource information provided in Delivery Plan 5;
- e) Provides detail and transparency of any indexation assumptions used;
- f) Includes a description of any relevant accounting principles adopted;
- g) Contains a level of detail and a granularity of data such that each input assumption and changes to it over time, as reflected in the Accepted Programme Models, are properly explained. This should detail numbers of staff by grade and specialism, as well as individual specialist roles where applicable. This granularity of data should also link to key components of the work (including key phases, milestones, interim deliverables and iterations, as well as activity under distinct technical disciplines) to support the requirements at paragraph 17 of Schedule 18.1 of the Franchise Agreement during delivery. For each Accepted Programme Specific Requirement, this should incorporate, but not be limited to, any phases set out in Schedule 18.2 of the Franchise Agreement, including, where relevant, a scoping phase, delivery of a Required Output Report and a Final Output Report;
- h) For all Proposed Shadow Operator Products scheduled to commence within Franchisee Years 1 and 2, states all key assumptions that, if changed, would have a significant impact on resource requirements or pricing. For Proposed Shadow Operator Products scheduled to commence after the end of Franchisee Year 2, commentary should be included on key assumptions that will have to be defined in order to confirm the resource requirements and pricing;

- i) Provides a level of usability such that linkages to the Accepted Programme Models are clear and the narrative provides the user with sufficient information to assess the financial impact of price or volume changes within a reasonable timeframe;
- j) Uses tables to enhance the narrative, such tables being directly traceable to the Accepted Programme Models; and
- k) Arrives at an estimate of the financial impact of a change in prices or volumes which is aided by the quality of the narrative.

6.7.5.2 Together, the Product Cost Assumptions Statements must:

- a) Contain all assumptions used in the Accepted Programme Models within the Accepted Programme Modelling Suite and explain and discuss the inputs to each Model, including the base unit cost for each input and, if applicable, the cause and impact of each change over time. Where contracted variable unit costs have the potential to change, Bidders are required to include the full range of potential unit costs of their anticipated contracted agreements within the Product Cost Assumption Statements; and
- b) Where applicable, include separately the costs involved and assumptions made in relation to pension contribution rates, both employer and employee.

6.8 Generic Model requirements

6.8.1 Bidders must ensure that all Models, including those in the ICWC Modelling Suite and the Accepted Programme Modelling Suite, comply with the following principles:

- a) The Models must be presented in Microsoft Excel 2010 or later (but fully compatible with Microsoft Excel 2010) and 'xlsx', 'xlsb' or 'xlsm' format as shown in subsection 4.11 (Submission of Bids), with workings and formulae intact (i.e. non input cells must not be 'hard-coded' with values);
- b) The Models must conform with the terms of the Franchise Agreement and Funding Deed unless otherwise instructed in this ITT or through BCQ responses;

- c) No rows, columns, cells or worksheets of the Models may be hidden or password protected. Protecting worksheets without passwords to avoid accidental changes to inputs or calculations is allowed, provided it does not reduce the transparency or usability of the Models. Grouping rows or columns is permissible, but hiding rows, columns or worksheets is not permissible;
- d) The Department wishes to receive models that are efficient in their operation and use of memory. A maximum file size of 75MB for each Model is permitted, and smaller Microsoft Excel workbooks are encouraged. For the avoidance of doubt, any workbook taking up more than 75MB of disk space will result in the Bid being treated as non-compliant unless a derogation is granted in accordance with the process set out in subsection 6.12.3 (Derogations);
- e) The Models should be developed such that they are usable, transparent, understandable and can be run within a reasonable timescale;
- f) In order to aid model transparency Bidders should avoid the use of macros. Any use of macros must be limited to areas where their use adds to the user friendliness of the Models (e.g. print macro) or aids the achievement of other requirements of the Models (e.g. to avoid circularity or to transfer data between Models). Calculations must not be performed by a macro. Where macros are used, they must be listed and their function clearly explained within the ICWC Operating Manual or the Accepted Programme Operating Manual (as appropriate);
- g) In order to aid transparency, use of the INDIRECT and OFFSET functions is prohibited, except where derogation has been granted in accordance with the process described in subsection 6.12.3 (Derogations) below;
- h) In order to aid traceability of inputs and assumptions through the Models, Bidders must avoid using MS Excel “array” formulae over excessively large ranges of cells. Array formulae are identified by the use of braces around the formula, i.e. “{...}”. Bidders must not use such formulae over ranges greater than 20 x 20, except where a derogation has been granted in accordance with the process described in subsection 6.12.3 (Derogations) below;
- i) The Models submitted by Bidders must be in line with best practice in accordance with the requirements set out in

subsection 6.12 (Reviews and audit of Models) and employ the accepted principles of “separation”, “consistency”, “integrity” and “linearity” (as described in subsection 6.12.2.5), except where a derogation has been granted in accordance with the process described in subsection 6.12.3 (Derogations);

- j) Although best practice would dictate that a consistent formula is used across columns in each row, there are a number of circumstances where a model can be made more transparent by changing the formulae across a row. Provided it is made clear (even when printed out and the formulae cannot be seen) that the calculation method is different, Bidders may use different formulae in respect of the following:
 - i) To allow a different approach to the treatment of historical information or forecasts before the Franchise commences;
 - ii) To allow units, indices, totals, NPVs and other useful modelling ‘flags’ to be included in the columns to the left of the first modelled year; and
 - iii) On sheets that do not contain a timeline, where consistency down rows may be applied instead of across columns. On sheets that contain a timeline and where vertical presentation is also desired, this should be transparent and clearly identifiable; and
- k) Bidders do not need to seek derogation from the Department should the Models deviate from best practice in the three cases described in subsection 6.8.1j), above.

6.8.2 Cross-links between the Models must not be formed using direct references. Rather, outputs from one Model should be copied to a dedicated paste area in the other, with the origins and destinations of transferred data clearly identified within the Models and described in the ICWC Operating Manual and the Accepted Programme Operating Manual. All ICWC Operational Models that support the inputs to and calculations within the ICWC Financial Model are required to be submitted, and it is anticipated that the full ICWC Modelling Suite will be maintained and supplemented together, and submitted simultaneously as required to support any Change arising during the Initial Franchise Period.

6.9 Assumptions

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

- a) The Franchise will commence on 15 September 2019;
- b) The Franchisee Year commences on 1 April of each year. For the avoidance of doubt the Franchisee will be required to prepare audited accounts for the Franchisee Year ending 31 March for the duration of the Franchise;
- c) Annual RPI and AWE indices assumptions will be made available to Bidders in the Data Site and shall apply from the year commencing 1 April 2020 and annually thereafter. Bidders should adopt their own RPI and AWE assumptions up to and including the financial year commencing 1 April 2019, and such assumptions should be clearly stated;
- d) The real discount rate to be applied in Net Present Value calculations is 3.5 per cent per annum;
- e) The Net Present Value of Bid revenues, costs and Franchise Payments will be discounted to the start of the Franchise (15 September 2019);
- f) For the purposes of calculating Net Present Values, the template calculation assumes mid-year cash flows for full Franchisee Years from 1 April to 31 March inclusive (30 September);
- g) Bidders must use CP5 values for regulated charges and performance regimes, as determined by the ORR Periodic Review 2013, throughout the Initial Franchise Period and Reset Period. Track Access Agreement Schedule 8 benchmarks and Fixed Track Access Charge (FTAC) and Schedule 4 Access Charge Supplement prices for the final year of CP5 must be used for the remainder of the Initial Franchise Period and Reset Period;
- h) Bidders must assume that for Schedule 5.4A and Schedule 5.5A of the Franchise Agreement, (i) “k” = 0 for the Fare Years beginning January 2018 and January 2019 and January 2020 and that for all subsequent Fare Years “k” = 1; and (ii) “f” = 0 for the Franchise Term;
- i) With respect to any non-capital costs (and all operating (including maintenance) and project implementation costs are to be treated as non-capital costs for this purpose) arising from any asset or

Scheme utilising the Residual Value Mechanism, costs arising from such asset or Scheme shall be expensed in the year in which they arise;

- j) Bidders should expense pension cash contributions but should not model actuarial gains or losses on pension assets or liabilities; and
- k) Bidders are to make their own assumptions about the Variable Usage Charge (“**VUC**”) and electricity consumption rates of any new rolling stock proposed for introduction into the franchise.

6.10 Supplementary material

6.10.1 In situations where this ITT requires the Bidder to provide additional evidence or other material (including but not limited to subsections 6.3.4.3, 6.3.4.7, 6.3.4.9, 6.3.4.13, 6.3.4.14, 6.3.4.15, 6.3.4.26, 6.3.4.27 and 6.3.4.29) (“**Required Supplementary Material**”), Bidders must submit those items in a separate file labelled “Required Supplementary Material” or “Required Supplementary Material – Shadow Operator” in which each item submitted must be clearly labelled and cross-refer to the subsection in this ITT and the items of the ICWC Modelling Suite or Accepted Programme Modelling Suite to which the evidence or other material relates. This may include, for example, a research report or a spreadsheet which shows the calculations that lead to bespoke elasticity values inputting to the ICWC Revenue Model (enabling the Department to track model values pre-processed externally to the Model values back to the original inputs).

6.10.2 Separately and in addition to the requirements of subsection 6.10.1, if any element of the ICWC Modelling Suite or Accepted Programme Modelling Suite which the Bidder is required to provide in accordance with this ITT contains a reference to an additional item of further information and/or tools other than the Required Supplementary Material or material already otherwise provided with the Bid, then:

- a) The Bidder may provide that other information or tools (“**Other Supplementary Material**”) with its Bid, in a separate file labelled “Other Supplementary Material” or “Other Supplementary Material – Shadow Operator” as relevant, and with each item of Other Supplementary Material clearly labelled and cross referenced to the specific place in the ICWC Modelling Suite or Accepted Programme Modelling Suite where it is referred to;
- b) The Department will be entitled, but not obliged, to take account of any or all of the Other Supplementary Material supplied in its

evaluation of the Bidder's Bid. The purpose of enabling the Bidder to provide Other Supplementary Material with its Bid items is to allow the Department to be able to use that information for clarification of the Bid if and to the extent that the Department considers that to be necessary for the purposes of its evaluation. Bidders should therefore not rely on the Department considering all or any part of the Other Supplementary Material or use it as a mechanism to avoid the size limits referred to in subsection 4.4 (Page limits, size of text, other formatting); and

- c) Where any item required to be included in the ICWC Modelling Suite or Accepted Programme Modelling Suite, Required Supplementary Material or other part of the Bid is not so included, even if it is included in the Other Supplementary Material, the Department will treat the Bid as non-compliant in accordance with subsection 3.5 (Non-compliant Bids).

6.10.3 Supplementary Material is not required to be included as part of the Modelling Best Practice Confirmation and final Model Audit as per subsection 6.12 (Reviews and audit of Models). Bidders should note that the Department reserves the right to include some or all of the Supplementary Material as part of the ICWC Modelling Suite or Accepted Programme Modelling Suite Placed in Escrow, either incorporated into the ICWC Record of Assumptions or Accepted Programme Product Cost Assumptions Statements, or as additional Tier 2 ICWC Operational Models or Accepted Programme Operational Models, and if so the relevant items (or such of them as the Department requires) will be subject to the Model Audit calculation review.

6.10.4 The Department reserves the right to request additional supplementary material during the clarification process.

6.11 Worked examples and modelling Change

6.11.1 Worked examples and other matters to be addressed in the ICWC Operating Manual

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

6.11.1.2 In addition to the requirements and content set out in subsection 6.6 (ICWC Operating Manual), the ICWC Operating Manual shall also include the worked examples of Change ("**Worked Examples**") set out below. These Worked Examples

have been designed to demonstrate the ability of the ICWC Modelling Suite to facilitate a variety of hypothetical potential Changes. For the avoidance of doubt, the scenarios in the Worked Examples below have been selected simply to allow the ICWC Modelling Suite to be thoroughly tested and are not indicative of any planned or likely Changes to policy or infrastructure delivery. The Worked Examples will be evaluated in accordance with Section 7 (Evaluation criteria and methodology). The ICWC Financial Model is not required to include a switch to allow these examples to be selected. The Worked Examples to be included are:

- a) Worked Example (A) – the maximum regulated Fares Basket increase for 2021 reduces from RPI+1% to RPI+0%, for the industry as a whole. All other policies remain the same including caps on individual prices within Fares Baskets and Fare rises for other years (Bidders should include the impact of the price change – on fares that are constrained by regulated fares, on levels of demand and crowding as well as on revenue and any affected costs);
- b) Worked Example (B) – Undertaking a resetting process – as introduced in subsection 6.15 (Reset Period) – where GDP growth has out-turned 0.5 percentage points per annum lower than the original GDP index value included in Appendix 2 to Schedule 8.4A of the Franchise Agreement between 2019/2020 and 2024/2025, and passenger revenue in financial year 2024/2025 has out-turned 5% lower than the original bid forecast. For the purpose of this worked example it should be assumed that a 5% shortfall has occurred for all flow groups and ticket types. As part of the same, in-life resetting process: the projected onward GDP growth used in the forecasting of passenger revenue beyond 31 March 2025 is increased by 1 percentage point per annum; assuming the increase in GDP is entirely attributable to productivity (i.e. GDP per capita) rather than population, and a 5% decrease in the unit price of electric current for traction (relative to the levels populated in the Financial Model as submitted) is applied to all years from 1 April 2026. Please note that this worked example relates specifically to in-life use of the resetting process, as introduced in subsection 6.15 (Reset Period). In the submitted bid

ICWC Models, the revenue forecast from 1 April 2026 must comply with the requirements in subsection 6.15.7;

- c) Worked Example (C) – after a Charging Review, the following changes are made to regulated charges from 1 April 2019 onwards:
- i) The capacity charge for Service Code 22104001 on weekdays is doubled;
 - ii) The Variable Usage Charge as set by Network Rail for Vehicle Type 221HB/M is halved;
 - iii) The Network Rail Schedule 8 payment rate for service group HF03 doubles in the peak and the benchmark changes to 3.5 minutes;
 - iv) The Long Term Charge for Stafford on the Network Rail price list is increased to £320,000 in 2019/20 prices; and
 - v) All other regulated charges remain at CP5 rates as instructed in subsection 6.9.1g).

6.11.1.3 The Bidder must ensure that the Worked Examples within the ICWC Operating Manual:

- a) Provide a clear and detailed account of the assumptions and processes employed in pricing the Change, including:
- i) Details of the individual steps to be followed to make the Change (this should be in sufficient detail to enable evaluators to follow the flow of calculations through the ICWC Modelling Suite rather than rely on “switching on” pre-populated inputs);
 - ii) Individual steps can be processed in an expeditious manner;
 - iii) Identification of the ICWC Models impacted by the Change (i.e. financial, revenue, crowding, fares etc.), including a process flow diagram; and
 - iv) The net output results of the change in Franchise Payments and Target Revenue;

- b) Trace the effect of a revised input through the ICWC Models, providing an audit trail from output Franchise Payments back to input changes;
- c) Include a commentary on the rationale for the inclusion/exclusion of each variable within the scope of the Change, demonstrating the reasonableness of the revisions; and
- d) Demonstrate that the level of change in the Financial Model outputs, including but not limited to Franchise Payments, and Target Revenue, is commensurate with the level of input changes e.g. by reconciling the movement in Franchise Payments and/or other key variables impacted by the Worked Example.

6.11.2 Modelling Change

6.11.2.1 In order for the Department to satisfy itself as to the suitability of the entire Bid to price Change, the Department requires the Bidder to submit with its Bid the items described in Table 6.6 (Modelling Change submission requirements) below and will as part of its evaluation, as described in subsection 7.5 (Modelling Change tests), assess whether the Bidder has complied with the requirements specified in the column headed “Requirements” for each of the four items listed in Table 6.6.

Table 6.6 Modelling Change submission requirements

No.	Item	Requirements
1.	Worked Examples and approach to Change	Each Bidder will include within the ICWC Operating Manual submitted with its Bid, the Worked Examples and details of its approach to Change prepared in accordance with the requirements described in subsection 6.11 (Worked examples and modelling Change) of this ITT.

No.	Item	Requirements
2.	ICWC Record of Assumptions and ICWC Operating Manual	Each Bidder will include within its Bid an ICWC Record of Assumptions prepared in accordance with the requirements described in subsection 6.5 (ICWC Record of Assumptions) of this ITT (and those assumptions are reasonable in respect of the approach to Change described in subsection 6.11 (Worked examples and modelling Change) of this ITT and an ICWC Operating Manual prepared in accordance with the requirements described in subsection 6.6 (ICWC Operating Manual) of this ITT.
3.	Suitability of ICWC Financial Model for implementing Changes	Each Bidder will include within its Bid, an ICWC Financial Model prepared in accordance with the requirements described in subsections 6.3 (Financial and operational model requirements for the ICWC Modelling Suite) and 6.9 (Assumptions) of this ITT, which shall be consistent with the approach to Change described in subsection 6.11 (Worked examples and modelling Change) of this ITT.
4.	Suitability of ICWC Operational Models (including integrity of the Modelling Suite) for implementing Changes	Each Bidder will include within its Bid, ICWC Operational Models prepared in accordance with the requirements described subsections 6.3 (Financial and operational model requirements for the ICWC Modelling Suite) and 6.9 (Assumptions) of this ITT, which shall be consistent with the approach to change described in subsection 6.11 (Worked examples and modelling Change) of this ITT.

6.11.2.2 The Department recognises that there is considerable time, costs and resources often deployed by the Department and Franchisees in the contracting and management of Change throughout the Initial Franchise Period and Reset Period. The contracting of a suitable ICWC Modelling Suite will support endeavours to improve the efficiencies around contracting Change.

6.11.2.3 The Bidder's approach to the pricing of any Change must demonstrate to the Department that the ICWC Modelling Suite will result in a transparent and efficient contracting of future Changes, based on clear and reasonable methodology and assumptions. Non-compliance with this subsection 6.11 (Worked examples and

modelling Change) will be managed in accordance with subsection 3.5 (Non-compliant Bids).

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

6.12 Reviews and audit of Models

6.12.1 Introduction

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

Table 6.7 Model review and audit requirements

	Modelling Best Practice Confirmation	Model Audit	Calculation Review	Review by the Department's Technical and Financial Advisers
ICWC Financial Model	✓	✓		✓
Tier 1 ICWC Operational Models	✓		✓	✓
Tier 2 ICWC Operational Models	✓		✓*	✓
Accepted Programme Modelling Suite	✓		✓	✓
Supplementary Material			✓*	✓
Timescales and Requirements	Confirmation provided at Bid Submission	Model Audit Report following Department instruction	Completed in parallel with Financial Model Audit following Department instruction	Completed by the Department as part of its evaluation process

**The Department reserves the right to include some or all of the Tier 2 ICWC Operational Models and/or Supplementary Material as part of the Calculation Review.*

6.12.1.2 The ICWC Financial Model and ICWC Operational Models of all Bidders must have been subject to Modelling Best Practice Confirmation. Details of the process are set out in subsection 6.12.2 (Modelling Best Practice Confirmation). The

ICWC Financial Model of one or more Bidders will be subject to a full Model Audit. Details of the process are provided in subsection 6.12.4 (Model Audit).

- 6.12.1.3 Bidders are required to satisfy themselves as to the technical accuracy of all Models prior to submission, noting the allocation of risk with respect to errors within the Models described in subsection 6.2 (Errors in Modelling Suites).

6.12.2 **Modelling Best Practice Confirmation**

- 6.12.2.1 Each Bidder must provide with its Bid an independent Modelling Best Practice Confirmation report on all sections of the ICWC Modelling Suite and Accepted Programme Modelling Suite. The report and any engagement letter between the Bidder and the report writer, must:

- a) Be co-addressed to the Department and that Bidder (prior to Bid submission the Department is prepared to co-sign the engagement letter, if required);
- b) Permit the Department to review and rely on the report;
- c) Acknowledge that the Department gives no warranty or representation with regards to the sufficiency of services provided by the report writer, the report itself or the scope of any terms of engagement relating to the report; and
- d) Exclude all liability however arising on the part of the Department connected in any way with the report.

- 6.12.2.2 The report must take account of any derogations obtained in accordance with the process described in subsection 6.12.3 (Derogations) below. The Modelling Best Practice Confirmation is not considered to be an audit of the Models.

- 6.12.2.3 The Financial Templates and Accepted Programme Cost Baseline Templates should be included in the Modelling Best Practice Confirmation. Where the Financial Templates or Accepted Programme Cost Baseline Templates issued by the Department deviate from Modelling Best Practice Confirmation, these deviations should not be raised as issues in the Modelling Best Practice Confirmation. However, Bidders must otherwise adhere to Modelling Best Practice in populating the Financial Templates and Accepted Programme Cost Baseline Templates.

6.12.2.4 All costs associated with the preparation of the Modelling Best Practice Confirmation are for the Bidder's account only.

6.12.2.5 The Modelling Best Practice Confirmation must provide confirmation that the Models have or provide for:

a) **Separation** of inputs, calculations and outputs:

- i) Inputs: should include data and assumptions but no calculations;
- ii) Calculations: should include individual calculations that support each line of all outputs and reports. There should be no duplication of calculations nor should input cells be hard-coded in the calculation sheets;
- iii) Outputs: should not include any hard-coded input cells or calculations except for sums and check totals; and
- iv) Data inputs, calculations and output areas should be completely separate and clearly labelled. The Modelling Best Practice Confirmation must document the high level patterns of data flow within the Models and include a flow chart of the main data flows between worksheets and workbooks;

b) **Consistency** of formulae across rows and down columns and across worksheets. The Models should have time periods across the columns and calculations down the rows. This should be consistent in all worksheets. There are two areas where consistency is most important:

- i) Columns: the same column should be used for the same period in each worksheet (although it should be noted that the time periods across columns in the Bidder's Model may be different from the columns in the Financial Templates); and
- ii) Rows: a row will contain only one formula, copied across all columns;

c) **Integrity** of financial statements (e.g. that there are no balancing figures). The Modelling Best Practice

Confirmation must provide an assessment of the extent and effectiveness of internal and/or error checks contained within the Models and detail any internal control checks that indicate errors;

- d) **Linearity** of calculation flow (e.g. that there are no circular references);
- e) **Macros**, where required, their function should be clearly explained; and
- f) **No hard coded values in formulae**, other than the following, if required: 1,-1, 0, TRUE, FALSE.

6.12.2.6 The Modelling Best Practice Confirmation must provide a review of the Models' structures by means of spreadsheet maps, which give a visual representation of the worksheet structure and layout, highlighting elements of the worksheet layout that warrant further investigation (however, as this is not detailed as a Model Audit, each individual formula is not checked).

6.12.2.7 The Modelling Best Practice Confirmation must also provide confirmation that the 75MB size limit has been adhered to, that array formulae have not been used across ranges of cells greater than 20 x 20 and that the INDIRECT and OFFSET functions are not used except where derogations have been obtained in accordance with the process described in subsection 6.12.3 (Derogations).

6.12.3 Derogations

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

- a) Model size;
- b) Use of OFFSET and INDIRECT functions;
- c) Modelling Best Practice Confirmation; and
- d) Array formulae across ranges of cells greater than 20 x 20.

6.12.3.2 Applications must be made in writing to the Department within 40 working days of publication of the ITT. Applications must be made via the AWARD website as outlined in subsection 3.9 (Bidder Clarification Questions). Responses will be provided via

AWARD. Applications should set out clearly why the derogation is required and the benefit to the Department and the evaluation process of granting such a derogation. It is not expected that derogations will be necessary.

Model size

6.12.3.3 The Department will consider applications to exceed the 75MB workbook size limit where it is demonstrated that adherence to this limit generates significant inefficiencies, or materially reduces the level of confidence in the resulting forecasts.

Use of prohibited functions

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

- a) The use of these functions generates significant savings in model run times and use of disk space or otherwise significantly assists the efficient pricing of Change; and
- b) The use of these functions is clearly explained and documented in the ICWC Operating Manual and ICWC Record of Assumptions (or Accepted Programme Operating Manual and Product Cost Assumptions Statements in the case of the Accepted Programme Modelling Suite).

Modelling Best Practice Confirmation

6.12.3.5 The Department will consider applications to relax the requirements of the Modelling Best Practice Confirmation on an individual model basis, and considers that derogations may be more appropriate for elements of Tier 2 ICWC Operational Models, at the underlying input/assumption interface.

Array Formulae

6.12.3.6 The Department will consider applications for the use of array formulae greater than 20 x 20 for labelling or checking purposes only, i.e. where they do not form part of the main Model calculations.

6.12.4 **Model Audit**

6.12.4.1 Following Bid submission and prior to contract award the Department will request one or more Bidders obtain an

independent audit of all sections of the ICWC Financial Model (the “**Model Audit**”). The Model Audit shall be prepared for the benefit of the Department and the Bidder; shall be co-addressed to them, and the level of liability must be agreed by the Department, and will be a minimum of £1m (2019/2020 Prices). All costs associated with the preparation of the Model Audit are for the Bidders’ account only. Bidders must obtain the Department’s acceptance (not to be unreasonably withheld) of their choice of independent model auditor, the scope of the Model Audit and the Department’s agreement to what constitutes the ICWC Financial Model for determining the scope of the audit. The Department will expect to receive the audit report within fifteen working days of it being requested of the Bidder.

6.12.4.2 The Department requires the Model Audit to confirm:

- a) Whether the ICWC Financial Model has been constructed appropriately so as to materially achieve the objective that it was designed to meet, insofar as its logical integrity under the Bid assumptions and input data is concerned, including the conversion of nominal values to real values;
- b) Whether the tax charge, liabilities and payments calculated by the ICWC Financial Model, on the basis of the assumptions made in the ICWC Operating Manual and ICWC Record of Assumptions appear materially consistent with current understanding of existing UK tax legislation and of proposed changes to the rules on interest deductibility, identifying any risks associated with the underlying tax assumptions;
- c) That the proposed tax treatment in the ICWC Financial Model is appropriate, and is consistent with the accounting treatment adopted in the ICWC Financial Model, and that the accounting treatment is valid for tax purposes;
- d) Whether the Bidder has applied FRS101, FRS102 or IFRS accounting policies and rules applicable as at 27 March 2018 and whether the key accounting assumptions in the ICWC Financial Model and the ICWC Operating Manual and ICWC Record of Assumptions appear materially consistent with current understanding of FRS101, FRS102, or IFRS (whichever is relevant);

- e) Whether the calculation of the Annual Franchise Payments is in accordance with the terms of the Franchise Agreement;
- f) Whether the calculation of the Financial Ratio complies with the requirements in subsection 6.3.3.1 and is consistent with the definition of Modified Revenue and Actual Operating Costs of the Franchise Agreement;
- g) Whether the ICWC Financial Model has been developed in a well-structured manner to best practice standards;
- h) Whether assumptions and input data in the ICWC Operating Manual and ICWC Record of Assumptions have, in all material respects been consistently reflected in the Financial Model;
- i) Whether any issues identified through the Model Audit process remain outstanding and the process undertaken to address and correct issues identified during the Model Audit process;
- j) Whether the modelling requirements for the Financial Robustness Test are met such that the ICWC Financial Model accurately performs the calculations as required in subsection 6.3.3.1 and subsection 7.7 (Evaluation of financial robustness) and to ensure compliance with the Funding Deed. The Department will define with the model auditor the inputs and parameters, as appropriate, to meet this requirement in the Model Audit; and
- k) Whether the ICWC Financial Model is fully and accurately reflects all changes agreed through the CQ process, including those related to subsection 6.2 (Errors in Modelling Suites) and subsection 6.10.2 (Modelling Change).

6.12.4.3 For the Model Audit, the Department may provide one or more Bidders with no more than five tests for the purposes of understanding robustness of the ICWC Financial Model. The Model Audit will test the logical integrity of the arithmetical operations in the ICWC Financial Model formulae and calculations under the assumptions and input data for the specified test(s). A robustness test is defined as a change in one or more input

variables through the Models with the Bid Franchise Payments and Agreed Funding Commitment held constant i.e. “frozen”.

6.12.4.4 The Department recognises that the finance, accounting and taxation elements of the Model Audit are not relevant to the Tier 1 and 2 ICWC Operational Models or Accepted Programme Modelling Suite, and therefore requires a review of the calculations only, to be conducted by the same party that undertakes the Model Audit, in accordance with the process described in subsection 6.12.5 (Calculation Review).

6.12.5 Calculation Review

6.12.5.1 As part of the Model Audit the independent party conducting the Model Audit must also conduct a review of the calculations employed in the Tier 1 ICWC Operational Models and Accepted Programme Modelling Suite (a “**Calculation Review**”). The Department reserves the right to include some or all of the Tier 2 ICWC Operational Models and/or Supplementary Material in the Calculation Review and reference below to Tier 1 ICWC Operational Models shall be interpreted accordingly. The Calculation Review will be conducted to the same standard as the Model Audit, but will exclude the technical elements of this process relating to taxation and accounting practices. The Department requires the review to confirm:

- a) Whether the Tier 1 ICWC Operational Models and Accepted Programme Modelling Suite have been constructed appropriately so as to materially achieve the objectives that each of them were designed to meet, insofar as its logical integrity under the Bid assumptions and input data is concerned;
- b) Whether the Tier 1 ICWC Operational Models and Accepted Programme Modelling Suite have been developed in a well-structured manner to best practice standards;
- c) Whether assumptions and input data in the ICWC Operating Manual and ICWC Record of Assumptions have in all material respects been consistently reflected in the Tier 1 ICWC Operational Models; and
- d) Whether assumptions and input data in the Accepted Programme Operating Manual and Product Cost

Assumptions Statements have in all material respects been consistently reflected in the Accepted Programme Modelling Suite.

6.13 Financial Structure and Funding Plan

6.13.1 This section sets out the funding and finance requirements to be included in the Bidder's submissions. Bidders shall provide a Financial Structure and Funding Plan incorporating all WCP components (i.e. ICWC Services, Shadow Operator Services, the potential Reset Period, Integrated Services). Subsection 6.13.3 (Funding) describes the funding requirements for all WCP components by grouping the pre-2026 WCP components (i.e. ICWC Services and Shadow Operator Services) and the post-2026 WCP components (i.e. the potential Reset Period, the Integrated Services and the Shadow Operator Services).

6.13.2 Bid requirements

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

- a) Details the total investment plan for all funding of infrastructure, other works and schemes that support its proposals, including explaining its linkage with the ICWC Financial Model. The capital expenditure covered by this plan must be clearly reconciled to amounts contained in the ICWC Capital Expenditure Model or sheet(s) contained in the ICWC Financial Model or ICWC Operating Cost Models and any capital expenditure or investment amounts presented in Delivery Plan 0;
- b) Shows that the PCS and an estimated of PCG has been calculated and provided in accordance with the requirements set out in subsections 6.13.3.4 to 6.13.3.10;
- c) Provides precise details of its funding arrangements, the exact nature of relationships with any funding partner(s) or underlying financial securities provided by third parties, including the extent of dialogue and nature of any commitment, risks to its ability to meet its funding commitments and how risks will be mitigated;
- d) Provides a schedule, reconciled to the worksheet "Funding" rows 47-50 in the Financial Templates, which details the AFC drawdown and repayment profile for the total of any equity, debt or other funding provided. This

schedule should be supported by sufficient narrative for the Department to understand the Bidders' plans and rationale;

- e) Provides details of the providers of the Performance Bond, Season Ticket Bond, Bonded PCS, estimated Bonded PCG or other security including term sheets from the bond provider(s) in order to demonstrate that the requirements of the Franchise Agreement and Funding Deed have been or will be met, including confirmation that the relevant bond provider meets the Relevant Credit rating as set out in the Franchise Agreement;
- f) Includes a statement from the relevant bond provider confirming the amount of this bond and accepting the form of the Performance Bond as set out in the Franchise Agreement (as an Annex if appropriate);
- g) Includes a statement from the relevant bond provider confirming the amount of this bond and accepting the form of the Season Ticket Bond as set out in the Franchise Agreement (as an Annex if appropriate);
- h) Includes a statement from the relevant bond provider(s), confirming the amount of the bond being provided under the Funding Deed, accepting the form of the Bonded PCS and estimated Bonded PCG as set out in the Funding Deed (as an Annex if appropriate) and addressing all other matters associated with the Department updating its tests of financial and economic standing as set out in section 6.14 (Updating of EoI financial and economic standing tests (the "Tests") and submission of updated bond provider letter(s));
- i) Includes a statement from the Guarantor(s) confirming the amount, timing and profile of AFC and amount of PCS and estimated PCG it is guaranteeing and accepting the form of the Funding Deed and its terms, and that they will be prepared to enter into the Funding Deed in that form on the date of execution of the Franchise Agreement;
- j) Demonstrates how on-going working capital requirements, as forecast in the ICWC Financial Model, will be funded;

- k) Includes for each Initiative which has a funding source outside of working capital (or multiple sources of funding if appropriate), a funding plan with full details of its linkage with the ICWC Financial Model, details of each source of funding (each source of third party funding must be separately identified), including rights and obligations of each type of funding and details of agreements with the organisation(s) (including any Affiliate(s)) providing funding. For each source, a letter of support and term sheet must be provided from the relevant financial institution, Affiliate and/or organisation setting out the terms and conditions (including all condition precedents, fees, repayment profile, basis of interest rate calculation) of the finance;
- l) If relevant, includes an explanation of the basis under which the Bidder proposes to procure additional and/or replacement rolling stock from the ROSCOs or extend existing leases;
- m) Sets out the detailed basis of the accounting treatment of leasing and associated charges for all rolling stock (explaining in particular whether charges for the use of rolling stock are treated as operating, finance leases or otherwise and why) and the detailed tax treatment of these charges (explaining in particular the application if relevant of the long funding lease rules contained in Chapters 6 and 6A of Part 2 of the Capital Allowances Act 2001 (“**Long Funding Lease Rules**”));
- n) Provides details and assumptions for interest earned on cash deposits;
- o) Includes a statement of funding available to the Franchisee from the Start Date including any assumptions around cash held previously by the incumbent operator relating to season ticket or advance ticket purchases at the Start Date; and
- p) Includes a letter from its financial adviser(s) (as an Annex if appropriate):
 - i) Confirming that the funding plans for all aspects of the Bid have been developed to a stage that will allow funding to be made available to the

Franchisee on execution of the Franchise Agreement;

- ii) Confirming that financial adviser support of the funding proposition has been provided in the knowledge of the terms and conditions set out in the term sheets of the finance providers;
- iii) Confirming that the funding plans, including term sheets and financing assumptions, are accurately reflected in the ICWC Financial Model (and where applicable the Accepted Programme Modelling Suite);
- iv) Confirming that the ICWC Financial Model and Accepted Programme Financial Model have been prepared following FRS101, FRS102 or IFRS accounting standards, as applicable, at 27 March 2018, with no adoption of IFRS 16 “Leases” permitted;
- v) Confirming that risks to the Bidder’s ability to meet its funding commitments are identified and mitigated in the Financial Structure and Funding Plan;
- vi) Confirming that relief for, or transfer of, losses is clearly stated within the ICWC Financial Model and confirming that such relief will be supported by the Bidder’s owning group, as per subsection 6.3.3.1e);
- vii) Confirming that they have given consideration to the deductibility of any interest expense in light of thin capitalisation rules, tax rules (as proposed and drafted) on interest deductibility, etc. as per subsection 6.3.3.1e);
- viii) Setting out the calculated ratios in respect of the Guarantor(s) as set out in subsection 6.14 (Updating of EoI financial and economic standing tests (the “Tests”) and submission of updated bond provider letter(s)), together with details of the data used and its source, and details of the calculations undertaken and confirming, to the

best of its knowledge, that the ratios have been calculated in accordance with the parameters defined in the EoI documents; and

- ix) Confirming the interest rates and contractual terms of any inter-company or third party debt funding, subordinated loans or other funding arrangements between, or to be between, the Franchisee and any Affiliate (as defined in the Franchise Agreement) or third party.

6.13.3 Funding

6.13.3.1 Bids will need to be supported by two sources of funding which will be contractualised in the Funding Deed:

- a) Agreed Funding Commitment; and
- b) The Parent Company Support.

Agreed Funding Commitment

6.13.3.2 This is the amount and timing of funding incorporated in a Bid ICWC Financial Model to support the working capital and investment requirements of the Franchisee. It includes funding provided by group companies and third parties. Such Agreed Funding Commitment must be incorporated in the Bidder's ICWC Financial Model to enable the Bidder to demonstrate that its Bid complies with the Financial Ratio requirements in subsection 6.3.3.1. The amount and timing of any Agreed Funding Commitment made available to the Franchisee must not lead to a Financial Ratio of 1.070:1 being exceeded. It is permissible for a Financial Ratio of 1.070:1 to be exceeded where this is a result of the cash generated by the Franchisee not being distributed due to the Franchisee not having sufficient distributable reserves.

6.13.3.3 Bidders should note that the Funding Deed requires that the Guarantor will procure the provision of any third party funding included within the Funding Plan as defined in the Funding Deed. For the avoidance of doubt if the third party funding is not committed at Bid submission, this will be taken into account by the Department as described in subsection 7.10.2.

Parent Company Support

- 6.13.3.4 Bids for the WCP Franchise must be supported by a level of Parent Company Support (“**PCS**”). Such support must come from the Guarantor (as defined in the West Coast Partnership Franchise Pre-Qualification Process Document).
- 6.13.3.5 Parent Company Support is required both during the Initial Franchise Period and under either the Reset Period or the IOC from 1 April 2026. After 1 April 2026 it will be referred to as the Parent Company Guarantee (“**PCG**”).
- 6.13.3.6 The Guarantor(s) of the successful Bidder as provider(s) of the PCS and PCG will be required to enter into the Funding Deed with the Secretary of State. The Funding Deed will set out the Guarantor(s)’ obligation to make the PCS and estimated PCG available. The Guarantor(s) entering into the Funding Deed with the Secretary of State will be subject to the updated tests of financial and economic standing described in subsection 6.14 (Updating of Eol financial and economic standing tests (the “Tests”) and submission of updated bond provider letter(s)).

Parent Company Support in the Initial Franchise Period

- 6.13.3.7 During the Initial Franchise period, the PCS consists of the Required PCS and the Additional PCS (together, the “**Actual Parent Company Support**” or “**Actual PCS**”). The Required PCS is that calculated in accordance with subsection 6.13.3.8. The Additional PCS may be proposed by Bidders in accordance with subsection 6.13.3.9. The Actual PCS is defined in the Funding Deed as “**the PCS Facility**”.

Required Parent Company Support

- 6.13.3.8 The amount of the PCS which the Department requires Bidders to provide under the Funding Deed will be calculable by Bidders by reference to their ICWC Financial Model (“**Required PCS**”). The method of calculation is set out in the Financial Templates and is as follows:

$$\text{Required PCS} = \pounds 45,000,000 + 10\% \times \sum_{y=1}^7 (BFP_y - FP_y)$$

Where:

BFP_y equals the Department’s Baseline Franchise Payments provided to the Bidders, stated in the Financial Templates sheet

'Funding' row 20 for each Franchisee Year "y" of the Initial Franchise Period.

The Department reserves the right to update the Baseline Franchise Payments to reflect any revisions to the Forecasts of Exogenous Factors, up to 8 weeks prior to the closure of the Bid window, pursuant to subsection 7.15 (Revisions during the Bid window) of this ITT.

FP_y equals the Franchise Payments as calculated by the Bidder's ICWC Financial Model and output in the Financial Templates sheet 'Funding' row 21 for each Franchisee Year "y" of the Initial franchise Period, and which are expressed in nominal terms. For the avoidance of doubt, these Franchise Payments are without any regard for payments by way of profit share payments due to the Department pursuant to paragraph 3 of Schedule 8.1A of the Franchise Agreement.

Where $(BFP_y - FP_y)$ for any given Franchisee Year "y" is negative, $(BFP_y - FP_y)$ shall be deemed to be equal to zero for that given Franchisee Year "y". For the avoidance of doubt, the fixed element of the Required PCS amount is £45,000,000.

Franchise Payments can be expressed as positive or negative. "**Negative Franchise Payments**" are payments from the Franchisee to the Department. "**Positive Franchise Payments**" are payments from the Department to the Franchisee.

Additional Parent Company Support

6.13.3.9 Bidders may propose Parent Company Support in excess of the Required Parent Company Support ("**Additional Parent Company Support**" or "**Additional PCS**") for the purpose of providing additional financial robustness in the Bid. However, Additional PCS is not a requirement. The amount of Additional PCS must not exceed £20,000,000. The Additional PCS must be advanced by the Guarantor(s) in accordance with the terms of the Funding Deed i.e. it must be provided under terms identical to the Required PCS, including meeting the Bonding Requirements.

Parent Company Guarantee from 1 April 2026

6.13.3.10 At 1 April 2026 the successful Bidder is expected either to continue into the Reset Period or to switch to the IOC. From this date, the required PCG amount will be equal to:

- a) The aggregated value of PCS Advance(s) which would have been required to be drawn immediately prior to 1 April 2026 in order to ensure that the Actual Operating Costs Ratio was equal to 1.070:1 (“**Variable PCG**”); plus
- b) £45,000,000 x RPI, where RPI is the quotient of the Retail Prices Index for January 2026, divided by the Retail Prices Index for January 2019 (“**Fixed PCG**”).

Bonding of Parent Company Support and Parent Company Guarantee

6.13.3.11 Bidders will be required to procure, in accordance with the Funding Deed, bond(s) from third party financial institution(s) with a Relevant Credit Rating in an amount equal to the Bonding Requirement which, for the avoidance of doubt, must be at least 50% of the Actual PCS (“**Bonded PCS**”) during the Initial Franchise Period, and 50% of the Fixed PCG element of PCG (“**Bonded PCG**”) from 1 April 2026.

6.14 Updating of Eol financial and economic standing tests (the “Tests”) and submission of updated bond provider letter(s)

- 6.14.1 Bidders should refer to the Eol and PPD for information relating to how the Tests will be updated.
- 6.14.2 As set out in the passage of Section 4.3 Part C of the PPD entitled “Re-calculation upon receipt of Bids”, the Department will re-calculate the results of the Tests once the Bid has been submitted, both in light of the Actual PCS (as determined by the requirements set out in subsection 6.13.3 (Funding)), and to take account of any audited annual accounts or credit rating updates issued during the letting process, or any material event disclosed or of the type that ought to have been disclosed under Section C1.3 of the Eol.
- 6.14.3 As explained above, the Bidder should note that the Bonded PCS will need to reflect the Actual PCS. The PPD sets out the Department’s requirements in relation to Bonded PCS in excess of £45,000,000 (referred to in the PPD as the “Additional Bonding Requirement”). Bidders must return with their Bid an updated letter from their bond provider(s), which reflects both the requirements of the Eol and PPD and the level of Bonded PCS.
- 6.14.4 Bidders should be aware that the Funding Deed, along with the bond for the Bonded PCS and Performance Bond will be signed when the Franchise is awarded and on the same date as the Franchise Agreement.

6.15 Reset Period

- 6.15.1 As a contingency, the Secretary of State may choose not to exercise the switch to the IOC at 1 April 2026 but to continue with the operation of ICWC Services under the same contractual terms as the Initial Franchise Period for a period determined by the Secretary of State. This decision will be at the discretion of the Secretary of State and is intended as a contingency dependent on the circumstances prevailing at the time. The duration of this period could be up to a maximum of 5 years in length, through to 31 March 2031. The full, potential extension period is referred to as the Reset Period. Prior to entering this period a limited resetting process will be undertaken in accordance with Schedule 8.7A of the Franchise Agreement.
- 6.15.2 During any Reset Period, the Shadow Operator Services are anticipated to continue subject to the terms of Schedule 18 of the Franchise Agreement.
- 6.15.3 The resetting process will only be undertaken once in order to arrive at reset Franchise Payments through to 31 March 2031 and these payments will apply until that date or the Integrated Operator Start Date, if earlier.
- 6.15.4 As part of the bid submission, Bidders' ICWC Modelling Suites should extend (and be populated) for the full Core Franchise Term from 15 September 2019 to 31 March 2031 including the Reset Period from 1 April 2026 to 31 March 2031.
- 6.15.5 As set out in Section 7, the figures included in the Bidders' ICWC Financial Model for the Reset Period will not be included in the evaluated price, which is to be based on the financial submission to 31 March 2026 only.
- 6.15.6 Instructions for populating the Bidder's ICWC Modelling Suite for the Reset Period are included in the following subsection 6.15.7.
- 6.15.7 Instructions for populating the Reset Period in the ICWC Modelling Suite**
- 6.15.7.1 For the purpose of the Bid and as a baseline for the resetting process as provided for in Schedule 8.7A of the Franchise Agreement, the Reset Period is to be populated in the Bidder's ICWC Modelling Suite to represent reasonable pricing consistent with the Initial Franchise Period for the continued operation of the Franchise Services excluding the Shadow Operator Services but including the PMO Services in the form they are proposed at the end of the Initial Franchise Period. In order to achieve this, the following modelling requirements and constraints will apply to the population of the ICWC Models for the Reset Period, as well as the requirements for the ICWC Modelling Suite set out in

subsection 6.3 (Financial and operational model requirements for the ICWC Modelling Suite):

- a) No new bid initiatives are to be assumed for the period from 1 April 2026;
- b) Resources assumed for initiatives proposed during the Initial Franchise Period are to be discontinued except where these relate to ongoing initiatives. If Bidders have proposed commencing any ongoing initiatives during the final 2 years of the Initial Franchise Period, a written explanation must be included in the additional Reset Period commentary within their ICWC Record of Assumptions, as described at subsection 6.5.2j). This should set out, on a case by case basis, how inclusion of these costs meets the requirements set out in 6.5.1b). The inclusion of these costs in the Reset Period will be at the Department's sole discretion (see subsection 7.6 (Compliance with instructions for populating the Reset Period));
- c) The revenue forecasting methodology from 1 April 2026 is to be the same as that used for the Initial Franchise Period. This is to include the use of the same revenue response to exogenous drivers (e.g. assumed elasticities). If forecasting a varying revenue response to exogenous drivers over time, an average of the assumed elasticities over the Initial Franchise Period should be taken;
- d) For exogenous revenue drivers, Bidders must adhere to the principles at subsection 6.3.4.14 and any alternative assumptions used must apply the same sources in the same way as in the Initial Franchise Period. For the avoidance of doubt, the GDP forecast used as the basis for the GDP per capita exogenous revenue driver is to be consistent with that used for forecasting payments under the GDP adjustment payments in accordance with Schedule 8.4A of the Franchise Agreement;
- e) Levels of marketing and advertising spend are to be the same as the average for the 2 years ending 31 March 2026;
- f) Passenger capacity is to remain equal to that in the year to 31 March 2026, and the methodology for applying

capacity constraint in the forecasts is to remain the same as that for the Initial Franchise Period;

- g) Assumptions for the revenue impact of yield optimisation are to be the same as for the average of the 2 years ending 31 March 2026 but should provide at least as positive an impact on revenue as assumptions adopted for earlier years;
- h) The relationship between performance and revenue is to be the same as that used for the Initial Franchise Period;
- i) Assumed Network Rail performance levels are to be the same as in the year ending 31 March 2026. Assumed TOC performance levels are to be the same as in the year ending 31 March 2026, but not lower than the benchmark levels required in Schedule 7.1A of the Franchise Agreement;
- j) Only the cost and revenue items identified at subsection 6.3.4.17 will be linked mechanistically to patronage or passenger revenue. During the Reset Period, the modelled relationship for these items must be the same as during the Initial Franchise Period. Any other modelled linkages between a cost item (or item of revenue other than passenger revenue) and any other cost item (or item of revenue other than passenger revenue) must be rational and the same as during the Initial Franchise Period;
- k) Input resource volumes are to be the same as the average for the 2 years ending 31 March 2026, except where necessary to meet the requirements at a) or where the Bidder demonstrates a clear rationale for externally influenced change (which must be set out in the additional Reset Period commentary within their ICWC Record of Assumptions, as described in subsection 6.5.2j)). Acceptance of this rationale will be at the Department's sole discretion (see subsection 7.6 (Compliance with instructions for populating the Reset Period));
- l) Unit pricing of resources is to be the same as that used for the Initial Franchise Period (in real terms and subject to indexation applied). This applies to all resources,

including but not limited to staff, materials and energy prices;

- m) Rolling stock lease charges should reflect compliance with the requirements at subsection 5.12.22;
- n) The resources included for fulfilling the PMO Services are to be the same as the average of the 2 years ending 31 March 2026, and are subject to the above unit pricing requirements;
- o) The financial modelling approach (including the assumptions and methodology for modelling financial costs, as well as financial accounting policies adopted) is to be the same as that used in the Initial Franchise Period, subject to any changes in the funding requirements at the end of 31 March 2026, as described at subsection 6.13 (Financial Structure and Funding Plan) and as in the Franchise Agreement and Funding Deed. For reflecting these changes in funding requirements, no additional arrangement fees are to be assumed in relation to bonding of the PCG requirements and ongoing bonding costs are to be adjusted pro-rata to the value of the bond;
- p) The annual profit margin (profit before tax as a percentage of total revenue) is to be the same as the average for the Initial Franchise Period;
- q) To the extent not addressed by the above, the relevant assumptions used are to be the same as for the average of the 2 years ending 31 March 2026 (subject to indexation assumptions) except where these are materially anomalous. Where it can be demonstrated, for a specific cost item by exception, that such costs are anomalous in the 2 years ending 31 March 2026, Bidders should adjust these costs as the basis for rolling forward the 2 year average and provide a written explanation on a case by case basis of how these costs are anomalous, the rationale for the proposed adjustment and how the adjusted forecast continues to meet the requirements set out in subsection 6.5.1b). Any adjustments proposed in this way will be accepted at the Department's sole discretion and where material anomalies have not been identified the Department may require these to be

adjusted for (see subsection 7.6 (Compliance with instructions for populating the Reset Period));

- r) Indexation of unit prices, and of any other price assumptions referred to a 6.15.7.1q) above, is to be the same per annum as the average year-on-year growth for the Initial Franchise Period (relative to RPI or AWE where applicable). Resources that are linked to fuel and energy price indexation must be identified separately in Bidders' models; and
- s) AFA and DFR in each year of the Reset Period is to be equal to the mean annual equivalent value of AFA or DFR (respectively) over the Initial Franchise Period.

6.15.7.2 Bidders are referred to Section 7.6 (Compliance with instructions for populating the Reset Period) for information on how any non-compliance with these requirements will be dealt with during evaluation of bids.

Section 7: Evaluation criteria and methodology

7.1 Introduction

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

- a) The Department's rights set out in subsections 3.5 (Non-compliant Bids) to 3.7 (Right to disqualify Bidders);
- b) The Department's rights to terminate or amend the terms of the procurement as set out at subsection 1.9 (Liability for costs, updates and termination); and
- c) In accordance with Regulation (EC) 1370/2007,

the West Coast Partnership will be awarded to the Bidder who submits the most economically advantageous tender ("**MEAT**").

7.2 Definition of MEAT for the Competition

7.2.1 General rules

7.2.1.1 The Bidder submitting the most economically advantageous tender shall be determined by reference to the criteria and principles set out in Section 7: (Evaluation Criteria and Methodology).

7.2.1.2 Subject to subsection 7.1 (Introduction), the most economically advantageous tender will be the Bid which achieves the highest Final Score (which, for the avoidance of doubt, would be the highest positive Final Score or where there are no positive Final Scores would be the negative Final Score closest to zero), as described below, except where the difference between such Final Score and the Final Score of any other Bid(s) is less than 40 points. In such a case, the principles set out in subsection 7.2.2 (Supplementary rules) will apply for the purposes of determining the most economically advantageous tender.

7.2.1.3 The Final Score for each Bid shall be calculated as follows:

$$\text{Final Score} = \text{ICWCP} + (n \times Q)$$

Where:

ICWCP is the Bidder's Risk Adjusted NPV, as defined in subsection 7.7.3 (Calculation of Risk Adjusted NPV), multiplied by minus one.

ICWCP will be measured in millions rounded to two decimal places, with the midpoint always rounded up (for example, 225,524,999 will be rounded to 225.52, and 225,525,000 will be rounded to 225.53). ICWCP will be a positive number in the event of an overall forecast payment to the Department and a negative number in the event of an overall forecast payment from the Department;

Q equals the Quality Score described in subsection 7.11 (Conversion of evaluation scores into quality scores), expressed as a score out of 13. This will be rounded to two decimal places using the standard mathematical rules (for example, 10.1234 will be rounded down to 10.12 and 10.3850 will be rounded up to 10.39); and

n equals 250.

For the avoidance of doubt, the Department will not evaluate the Proposed Cost Baseline for the Proposed Accepted Programme as part of the ICWCP score described in this subsection 7.2 (Definition of MEAT for the Competition), nor will the Department undertake a separate financial robustness test on the Proposed Cost Baseline. Instead, the Department will take into account the proposed resources, which should be consistent with the Proposed Cost Baseline, as evidence of the Bidders' capability to deliver their proposed Shadow Operator Sub-Plans. The efficiency and appropriateness of the Proposed Cost Baseline and Accepted Programme Modelling Suite will be taken into account as evidence of the extent to which the Bidder meets the requirements in the Combined Sub-Plan 1.1 (Franchise Leadership and Management). These evaluations will contribute to the Quality Scores described in subsection 7.11 (Conversion of evaluation scores into Quality Scores).

- 7.2.1.4 The maximum Quality Score is 13 (and therefore the maximum value of $(n*Q)$ is 3250). This is the maximum score that a Bid can obtain in relation to quality, whatever the Risk Adjusted NPV of that Bid or the winning Bid. Since the size of ICWCP is not known until Bids are received, it is not possible to specify in the ITT a fixed weighting in percentage terms between price and quality.

Table 7.1 Illustrative example of calculating the Final Score using the general rules

<p>n = 250</p> <p>Bidder 1: P = 2,000; Q = 10 Bidder 2: P = 2,400; Q = 7</p> <p>The final score for each Bidder will be: Bidder 1: $2,000 + (250 \times 10) = 4,500$ Bidder 2: $2,400 + (250 \times 7) = 4,150$</p> <p>The winning Bidder would be Bidder 1 as it achieves the highest Final Score.</p>

7.2.1.5 If:

- a) A Bid is found to be non-compliant in accordance with subsection 3.5 (Non-compliant Bids);
- b) The Department decides not to exercise its right to reject the Bid and disqualify the Bidder who has submitted that Bid from the competition; and
- c) The effects of the non-compliance include a likely financial impact on the Department (in the Department's reasonable view),

the Department may adjust the ICWC Modelling Suite and re-run the Financial Robustness Test in accordance with subsection 7.7 (Evaluation of Financial Robustness) to take into account its reasonable view of the most likely financial impact of the non-compliance on the Department, provided that this shall only reduce the value of ICWCP used in the calculation of the Final Score for that Bid.

7.2.2 **Supplementary rules**

- 7.2.2.1 In the event that the difference between the highest Final Score and the total Final Score of any other Bid is less than 40 points, the following rules shall apply for the purposes of identifying the winning Bid:

- a) **Stage 1:** Any Bid with a Final Score that is 40 points or more away from the leading Final Score will be excluded from this part of the process. The remaining Bids will be deemed “Stage 2 Bids”.
- b) **Stage 2:** If the difference between the highest quality component of the Final Score (which for the avoidance of doubt is $n*Q$) and the quality component of the Final Score of the other Bid(s):
 - i) Is at least 20 points, the winning Bid will be the Stage 1 Bid that achieved the highest quality component of the Final Score; or
 - ii) Is less than 20 points, the remaining Bids will be deemed “Stage 3 Bids”.
- c) **Stage 3:** The winning Bid will be the Stage 2 Bid that achieved the highest value for ICWCP (without reference to $n*Q$) which, for the avoidance of doubt, would be the highest positive ICWCP in the event of a premium or where there is no positive ICWCP would be the negative ICWCP closest to zero.

7.3 Quality and deliverability evaluation

7.3.1 Sub-Plan weightings

- 7.3.1.1 The Department will evaluate the Sub-Plans against the evaluation criteria set out in subsection 7.3.6 (Scoring methodology) and assign each Sub-Plan an evaluation score in accordance with subsection 7.3.6 (Scoring methodology). The Sub-Plan evaluation scores will be converted into Sub-Plan Quality Scores in accordance with subsection 7.11 (Conversion of evaluation scores into Quality Scores).
- 7.3.1.2 The Department will use the weightings shown in Table 7.2 (Delivery Plan and Sub-Plan weightings) to determine each Bid’s overall score for quality and deliverability (the “**Quality Score**”), and to determine each Bid’s Overall Evaluation Score for the purpose described in subsection 3.5 (Non-compliant Bids).

Table 7.2 Delivery Plan and Sub-Plan weightings

Franchise element	Weighting	Delivery Plan	Sub-Plan	Sub-Plan weighting	
N/A	N/A	Delivery Plan 0	N/A	N/A	
Combined ICWC and Shadow Operator Requirements	24%	Delivery Plan 1	Sub-Plan 1.1 Franchise Leadership and Management	54%	
			Sub-Plan 1.2 Partnering	36%	
			Sub-Plan 1.3 Sustainability and Security	10%	
			TOTAL	100%	
InterCity West Coast Requirements	44%	Delivery Plan 2	Sub-Plan 2.1 Train Services	20%	
			Sub-Plan 2.2 Rolling Stock	20%	
			Sub-Plan 2.3 Performance	13%	
			Sub-Plan 2.4 Supporting HS2 Infrastructure Delivery	9%	
		Delivery Plan 3	Sub-Plan 3.1 Marketing and Branding	4%	
			Sub-Plan 3.2 Fares and Ticketing	6%	
		Delivery Plan 4	Sub-Plan 4.1 Customer Experience	24%	
			Sub-Plan 4.2 Stations	4%	
		TOTAL			100%
		Shadow Operator Requirements	32%	Delivery Plan 5	Sub-Plan 5.1 Shadow Operator Business Design and Organisation
Sub-Plan 5.2 Shadow Operator Rolling Stock and Operations	35%				
Sub-Plan 5.3 Shadow Operator Customer Experience, Fares and Marketing	35%				
TOTAL	100%				
TOTAL	100%				

7.3.1.3 For the avoidance of doubt, Delivery Plan 0 (Bid Summary) will not be scored.

7.3.2 **Specialist reports**

7.3.2.1 The Department may commission specialist reports from within the Department and, if appropriate, from its technical, legal and financial advisers. In addition it may commission external specialist reports from Consultees on Sub-Plans or other aspects of Bidder submissions, including from HS2 Ltd.

7.3.2.2 In each case, the relevant organisation will be asked to look at the appropriate Sub-Plan, supporting technical data and/or Modelling Suites where appropriate and comment on their strengths and weaknesses in the context of the requirements of the ITT. Selected reports will be shared with evaluators before they have completed their evaluation of the relevant Sub-Plan to inform their evaluation of that Sub-Plan. If any one or more of the specialist reports are not ready in time for the evaluation, the Department reserves the right to proceed with the evaluation without taking them into account.

7.3.2.3 Where Sub-Plans are being supplied to the providers of specialist reports, they will be circulated as the entire Sub-Plan. However, where Bidders' responses to the Department's requirements are included in other Sub-Plans, through the use of cross-referencing (as described in subsection 4.7 (Cross referencing)), these relevant Sub-Plans may also be provided to the relevant organisation to enable their report to be completed.

7.3.3 **External evaluator organisations**

7.3.3.1 The Department reserves the right to select Sub-Plan evaluators from within the Department and externally. External evaluators may include, without limitation, the Department's technical, financial and legal advisors.

7.3.4 **Evidence for ICWC and Combined Sub-Plans**

7.3.4.1 In evaluating ICWC and Combined Sub-Plans, the Department may take into account any relevant information submitted with the Bid including, without limitation, the ICWC Operational Models, the ICWC Record of Assumptions, and technical data such as the working timetable and the Proposed Cost Baseline represented within the Accepted Programme Modelling Suite.

7.3.4.2 The Department's evaluation will take into account the credibility of the Initiatives in the Sub-Plans as a whole. This may include, without limitation:

- a) The quality of research and analysis supporting the Initiatives, including the credibility of cost and revenue assumptions;
- b) The commitment (and, if relevant, any qualifications on that commitment), views or comments of any third party that the Bidder is relying on in delivering the Initiatives;
- c) Evidence and relevant examples of Initiatives within the Sub-Plans being successfully introduced elsewhere;
- d) Any cross references to other Sub-Plans made in accordance with subsection 4.7 (Cross referencing). For the avoidance of doubt, the Department's evaluators of the Combined and ICWC-only Sub-Plans will not give credit for plans that are put forward by Bidders in response to Shadow Operator requirements, although they may follow cross-references between the two types of Sub-Plans to aid their understanding;
- e) The robustness and resilience of its plans for delivery, including an assessment of the risk to its ability to deliver in Challenging Circumstances;
- f) The quality or appropriateness of any Initiative or the proposed outcomes;
- g) The description of the resources to be employed and delivery timescales;
- h) The extent of the availability of funding or financing assessed in accordance with subsection 7.10 (Impact of review of financing and funding proposals);
- i) The extent to which the Bidder is willing to enter into an absolute obligation to deliver the Initiatives in accordance with subsection 4.14.3 (Contractualisation of ICWC and Combined Sub-Plans);
- j) The extent and nature of any relevant Franchise Agreement obligation; and

- k) The timing of Initiatives and the period over which the benefits they generate are realised.

7.3.5 Evidence for Shadow Operator Sub-Plans

7.3.5.1 In evaluating Shadow Operator Sub-Plans, the Department may take into account any relevant information submitted with the Bid including, without limitation, the Sub-Plan programmes, as well as the Proposed Cost Baseline and associated Product Cost Assumption Statements incorporated in the Accepted Programme Modelling Suite.

7.3.5.2 The Department's evaluation will take into account the credibility of the approaches and plans set out in the Sub-Plans as a whole. This may include, without limitation:

- a) The quality of research and analysis supporting the approaches;
- b) The commitment (and, if relevant, any qualifications on that commitment), views or comments of any third party on whom the Bidder is relying in delivering the plans;
- c) Evidence and relevant examples of approaches within the Sub-Plans being successfully used elsewhere;
- d) Any cross references to other Delivery Plans or Sub-Plans made in accordance with subsection 4.7 (Cross referencing);
- e) The quality or appropriateness of the Bidder's approaches;
- f) The quality and level of the resources to be employed; and
- g) The proposed timing and robustness of the Bidders' plans and the period over which the benefits they generate are realised.

7.3.6 Scoring methodology

ICWC and Combined Delivery Plans

7.3.6.1 ICWC and Combined Delivery Plans will be assessed at a Sub-Plan level in accordance with subsections 7.3.4 (Evidence for

ICWC and Combined Sub-Plans), and awarded an evaluation score by taking into account:

- a) The extent to which the Initiatives are relevant, appropriate and sufficient means of meeting, or where appropriate exceeding, the requirements defined in part (A) of the relevant Sub-Plan; and
- b) The credibility of the plan to deliver the Initiatives, including the appropriateness of the resources to be employed and the delivery timescales.

Where the RV Mechanism has been used in line with the provisions of subsection 5.4 (Residual Value Mechanism), evaluation scores will take into account the Initiatives which the assets or Schemes support and not the value of the asset or Scheme to a Successor Operator.

7.3.6.2 For the avoidance of any doubt, the Department's assessment of the Initiatives and the credibility of the plans for their delivery may be affected by the extent to which Bidders support their responses with relevant and credible evidence as required by part (B) of the relevant Sub-Plan.

7.3.6.3 Evaluation scores will be awarded, in the judgement of the evaluators, by reference to the marking framework in Table 7.3 (InterCity West Coast and Combined Sub-Plan marking framework and guidance) below and should be read in conjunction with the explanatory text which follows.

Table 7.3 *InterCity West Coast and Combined Sub-Plan marking framework and guidance*

Score	Evaluation
0	No response or fundamentally unacceptable response.
2	Unacceptable response with material concerns overall about whether the requirements of the specification will be met.
4	Mostly acceptable response with minor concerns overall about whether the requirements of the specification will be met.
6	Acceptable response that provides good confidence overall that the requirements of the specification will be met.
8	Particularly robust response that provides excellent confidence overall that the requirements of the specification will be met, or good confidence overall that the requirements of the specification will be exceeded.
10	Outstanding response that provides excellent confidence overall that the requirements of the specification will be met, and good confidence overall that the requirements of the specification will be greatly exceeded.

7.3.6.4 An evaluation score of 8 will be awarded for ICWC and Combined Sub-Plans where the criteria for the award of an evaluation score of 6 are met, and, in addition:

- a) The Sub-Plan is supported by particularly robust evidence which is in line with the evidential requirements in part (B) of the relevant Sub-Plan and which provides excellent confidence overall that the requirements of the specification will be met; **or**
- b) The Sub-Plan proposes additional Initiatives (aligned with the relevant requirements for the Sub-Plan) which are supported by implementation plans, where both the Initiatives and the supporting implementation plans provide good confidence overall that the Initiatives will generate improved outcomes (which could without limitation include additional benefits for passengers, reduction in whole-industry costs, or an increase in the long-term value of the Franchise to the Department) so that the requirements of the specification will be exceeded.

7.3.6.5 An evaluation score of 10 will be awarded for ICWC and Combined Sub-Plans where:

- a) The Sub-Plan is supported by particularly robust evidence which is in line with the evidential requirements in part (B) of the relevant Sub-Plan and which provides excellent confidence overall that the requirements of the specification will be met; **and**
- b) The Sub-Plan proposes additional Initiatives (aligned with the relevant requirements for the Sub-Plan) which are supported by implementation plans, where both the Initiatives and the supporting implementation plans provide good confidence overall that the Initiatives will generate greatly improved outcomes (which could without limitation include significant additional benefits to passengers, reductions in whole-industry costs or greatly increase the long-term value of the Franchise to the Department), so that the requirements of the specification will be greatly exceeded.

Shadow Operator Delivery Plan

7.3.6.6 The Shadow Operator Delivery Plan will be assessed at a Sub-Plan level in accordance with subsections 7.3.5 (Evidence for Shadow Operator Sub-Plans), and awarded an evaluation score by taking into account the deliverability of the plans put forward by Bidders based on the evidence they have provided.

7.3.6.7 Evaluation scores will be awarded, in the judgement of the evaluators, by reference to the marking framework in Table 7.4 (Shadow Operator marking framework and guidance) below and should be read in conjunction with the explanatory text which follows.

Table 7.4 Shadow Operator marking framework and guidance

Score	Evaluation
0	No response or fundamentally unacceptable response.
2	Poor response with material concerns overall in the Bidder's approach and their consequential ability to deliver the requirements.
4	Acceptable response with minor concerns overall in the Bidder's approach and their consequential ability to deliver the requirements.
6	Acceptable response that provides confidence overall in the Bidder's approach and their consequential ability to deliver the requirements.
8	Particularly robust response that provides good confidence overall in the Bidder's approach and good confidence overall in their consequential ability to deliver the requirements.
10	Outstanding response that provides excellent confidence overall in the Bidder's approach and excellent confidence overall in their consequential ability to deliver the requirements.

Scoring in the round

- 7.3.6.8** The Department will evaluate each of the Sub-Plans in the round. So, for example, although there will be a single overall score for each Sub-Plan, each Sub-Plan involves a number of elements and the evaluation score for each Sub-Plan will reflect the overall score for those elements taken together, in each case in the judgement of the evaluators.
- 7.3.6.9** Table 7.3 (InterCity West Coast and Combined Sub-Plan marking framework and guidance) and Table 7.4 (Shadow Operator marking framework and guidance) set out guidelines on the basis of which the evaluators will determine whether a particular Sub-Plan merits a score of 0, 2, 4, 6, 8 or 10.
- 7.3.6.10** Where the evaluators conclude that there are elements of a Sub-Plan that meet the conditions for a particular score described in Table 7.3 (InterCity West Coast and Combined Plan marking framework and guidance) and Table 7.4 (Shadow Operator marking framework and guidance), but that there are also other elements of the same Sub-Plan that meet the conditions for a

lower or higher score, the overall score for that Sub-Plan would reflect that assessment.

- 7.3.6.11 Where the evaluators have minor concerns in relation to certain aspects of a ICWC or Combined Sub-Plan so that those aspects of the Sub-Plan, if scored in isolation, would be scored as 4, but at the same time the evaluators conclude that other aspects of the same Sub-Plan exceed the Department's requirements and therefore, if scored in isolation, would be scored as 8, they will take into account both the areas of concerns and the areas where requirements have been exceeded so as to arrive at an overall score for that Sub-Plan. In those circumstances, this might mean that the overall score for that Sub-Plan could be higher than it would have been had the evaluators only taken into account the minor concerns raised by certain aspects of the Sub-Plan in isolation (that is to say, without also taking into account aspects of the same Sub-Plan where the Department's requirements have been exceeded). It follows that, on the same basis, the overall score of a Sub-Plan might be lower than it would have been had the evaluators only taken into account the aspects of the Sub-Plan where the Department's requirements have been exceeded.
- 7.3.6.12 Accordingly, the award of a particular score to a Sub-Plan may reflect the fact that:
- a) All elements in that Sub-Plan, each individually, would merit the same score so that when taken together, that Sub-Plan as a whole merits that score; or
 - b) Certain elements in that Sub-Plan would merit individually a higher and/or a lower score than the score which the Sub-Plan, taking all its elements together, merits as a whole.

Intermediate scores

- 7.3.6.13 In addition to the scores set out in Table 7.3 (InterCity West Coast and Combined Sub-Plan marking framework and guidance) and Table 7.4 (Shadow Operator marking framework and guidance) and in accordance with the subsection 7.3.6 (Scoring methodology), an intermediate score of 1, 3, 5, 7 or 9 (the "**full intermediate scores**") may be awarded where the Sub-Plan exceeds the guidance for the award of a particular score set out in Table 7.3 (InterCity West Coast and Combined Sub-Plan marking

framework and guidance) or Table 7.4 (Shadow Operator marking framework and guidance) but at the same time fails to meet fully the guidelines for the award of the next higher score set out in Table 7.3 or Table 7.4 as appropriate. For example, where the Sub-Plan exceeds the guidance for a score of 6 but falls short of meeting fully the guidance for a score of 8, a score of 7 might be awarded.

7.3.6.14 In addition to the possibility of awarding one of the scores set out in Table 7.3 (InterCity West Coast and Combined Sub-Plan marking framework and guidance) and Table 7.4 (Shadow Operator marking framework and guidance), or one of the full intermediate scores, the evaluators may also award half scores (e.g. 6.5, 7.5 etc. but not any other intermediate scores such as 6.4 or 7.6) where they consider this necessary and appropriate in order to reflect the extent to which the Sub-Plan exceeds or falls short of a particular score. For example, where the Sub-Plan exceeds substantially the guidance for the score of 6 but still falls short of meeting fully the guidance for a score of 8, a score of 7.5 would be awarded. Equally, where the Sub-Plan exceeds only to a limited extent guidance for a score of 6, a score of 6.5 would be awarded.

7.3.7 Process for moderation of, and reaching consensus on, Sub-Plan evaluation scores

7.3.7.1 The Department will carry out a process for the purposes of moderating and reaching consensus on evaluation scores.

7.3.7.2 Each evaluator will undertake an evaluation of the relevant Sub-Plans, and allocate evaluation scores by reference to the scoring methodology described in subsection 7.3.6 (Scoring methodology). These individual scores and a narrative explaining each one of these scores will be entered into AWARD.

7.3.7.3 These evaluators will then agree a consensus evaluation score for each of the Sub-Plans they have scored which will then be moderated.

7.3.7.4 Where consensus is not possible, the evaluation score to be awarded to a Sub-Plan will be the score which in the reasonable view of the West Coast Partnership project director, or their nominee, is appropriate by reference to the scoring methodology described in subsection 7.3.6 (Scoring methodology).

7.3.7.5 The West Coast Partnership project director will appoint a facilitator and a record keeper to manage this process.

7.4 Evaluation impact of Inconsistent Initiatives for ICWC and Combined Plans

7.4.1 Where the Department considers that a Bidder proposes in the same Sub-Plan or in different Sub-Plans Initiatives which may be inconsistent with each other in that the proposed delivery of one Initiative may conflict with the proposed delivery of another Initiative so that if the inconsistency were confirmed it would not be possible for the Bidder to deliver both of the Initiatives which conflict (together the “Inconsistent Initiatives” and each an “Inconsistent Initiative”) during the life of the Franchise in the manner set out in the Inconsistent Initiatives the Department may (but is not obliged to) seek additional information or clarification from the relevant Bidder in accordance with subsection 4.14.2 (Engagement with Bidders and evaluation clarification process).

7.4.2 Where the inconsistency of two Initiatives each of which is set out in a different Sub-Plan is confirmed the Department will:

- a) Treat the Inconsistent Initiative which is set out in the Sub-Plan with the highest weighting in accordance with Table 7.2 (Delivery Plan and Sub-Plan weightings) as having been submitted;
- b) Treat the Inconsistent Initiative which is set out in the Sub-Plan with the lowest weighting in accordance with Table 7.2 (Delivery Plan and Sub-Plan weightings) as not having been submitted; and
- c) Decide which Inconsistent Initiative it will treat as having been submitted and which inconsistent Initiative it will treat as not having been submitted where both inconsistent Initiatives are set out in Sub-Plans which carry the same weighting by reference to which Inconsistent Initiative in the Department’s reasonable view will be more beneficial to the delivery of efficient Franchise Services.

7.4.3 Where the inconsistency of two Initiatives both of which are set out in the same Sub-Plan is confirmed the Department will decide which Inconsistent Initiative it will treat as having been submitted and which inconsistent Initiative it will treat as not having been submitted by reference to which Inconsistent Initiative in the Department’s reasonable view will be more beneficial to the delivery of efficient Franchise Services.

7.4.4 Where the Department treats an Inconsistent Initiative as not having been submitted it will revise any previous evaluation so as to:

- a) Take into account the effect of the non-submission of that Initiative in all relevant elements of the evaluation (including, without limitation, in the allocation of evaluation scores and in the Financial Robustness Test); and
- b) Where appropriate, correct the ICWC Modelling Suite for the purposes of running the Financial Robustness Test and calculation of the Bidder's Risk Adjusted NPV used in the calculation of the Final Score in accordance with subsection 7.2 (Definition of MEAT for the Competition) as necessary to take into account its reasonable view of the most likely financial impact of the non-submission of that Initiative on the Department except that the scoring of the Bid (including both ICWCP and Q as defined in subsection 7.2 (Definition of MEAT for the Competition)) may not be improved as a result of the process set out in this subsection.

7.4.5 Where the Department treats an Inconsistent Initiative as not having been submitted in line with subsection 7.4.2 to 7.4.4 it may also at its own discretion require the Bidder to submit a revised Initiative which is consistent with all other Initiatives in all other Sub-Plans that the Bidder has submitted.

7.4.6 Where the Department exercises the option described in subsection 7.4.5 the revised Initiative will not be taken into account in the evaluation in any way so that for the purposes of the evaluation the Department will continue to evaluate the Bid as if the Bidder has not submitted the Inconsistent Initiative in line with subsection 7.4.4.

7.4.7 If the Bidder refuses to submit a revised Initiative or if it submits a revised Initiative which is inconsistent with another Initiative in the same or any other Sub-Plan the Department will treat the Bid as non-compliant in line with subsection 3.5 (Non-compliant Bids) and the Department will at its own discretion take any action it considers necessary and appropriate in the circumstances, including eliminating the Bidder from the Bidding process.

7.5 Modelling Change tests

7.5.1 As described in subsection 6.11.2 (Modelling Change), Bidders must submit the items in the column headed 'Item' in Table 6.6 (Modelling Change submission requirements) in accordance with the requirements in the column headed 'Requirements' in Table 6.6 (Modelling Change submission requirements) in order to be compliant with this ITT.

7.5.2 For the avoidance of doubt:

- a) Assessment of item 2 in Table 6.6 (Modelling Change submission requirements), relating to the suitability of a Bidder's ICWC Record of Assumptions and ICWC Operating Manual, will not be limited to consideration of the suitability of these documents when applied to Worked Examples but, rather, will consider the suitability of these documents across the entirety of the Bid; and
- b) Assessment of items 3 and 4 in Table 6.6 (Modelling Change submission requirements), relating to the suitability of the Models, will not be limited to consideration of the suitability of the ICWC Financial Model and ICWC Operational Models when applied to Worked Examples but, rather, will consider the suitability of the Models across the entirety of the Bid.

7.6 Compliance with instructions for populating the Reset Period

- 7.6.1 The full financial submission will be reviewed in detail to ensure that the requirements for populating the ICWC Modelling Suite in the Reset Period from 1 April 2026 to 31 March 2031 (as set out in subsection 6.15.7) have been met.
- 7.6.2 In the event that any aspect of the financial submission relating to the period after 31 March 2026 is deemed not to be consistent with the submission requirements (or if the Department is minded to reject proposals under subsections 6.15.7.1b), 6.15.7.1k) or 6.15.7.1q), or reasonably to request additional adjustments to be applied under subsection 6.15.7.1q)), the Department will notify the issue(s) to the Bidder and seek clarification of the approach adopted. If it is still deemed not to be compliant with the requirements (or if the Department rejects proposals under subsections 6.15.7.1b), 6.15.7.1k) or 6.15.7.1q), or requires additional adjustments to be applied under subsection 6.15.7.1q)), the Department will notify a required remedy to the Bidder and request the Bidder to accept that the remedy will be applied prior to signing the Franchise Agreement, with no other consequential changes. If the Bidder does not confirm its acceptance, the Bid will be deemed non-compliant and subsection 3.5 (Non-compliant Bids) will apply.

7.7 Evaluation of financial robustness

7.7.1 Financial Robustness Test

- 7.7.1.1 The Department will undertake a financial robustness test in respect of the Initial Franchise Period ("**Financial Robustness Test**") in accordance with this subsection 7.7.1 (Financial

Robustness Test) and the following subsections 7.7.2 (Assessment of acceptability of financial risk), 7.7.3 (Calculation of risk adjusted NPV) and 7.7.4 (Consequences of forecast Financial Ratio Breach on evaluation) on each Bidder's ICWC Models and ICWC Modelling Suite. For the avoidance of doubt, any adjustments that the Department may make to the Modelling Suite pursuant to subsection 3.5.4b), 6.2.1, 7.2.1.5, 7.4.4b) or otherwise in accordance with this ITT shall be made prior to undertaking the re-run of the Financial Robustness Test in accordance with this subsection 7.7 (Evaluation of Financial Robustness). The purpose of this process is to enable the Department to assess the level of financial risk in the Bids and reflect this in its assessment of the Most Economically Advantageous Tender. There are two stages to the test: the assessment of whether the level of financial risk is acceptable (pass/fail), and the reflection of the level of risk in the "ICWCP" score.

7.7.1.2 Following, and as a result of the completion of this test, the Department will calculate the Risk Adjusted NPV, which is multiplied by minus one to give the component "ICWCP" in the formula at subsection 7.2 (Definition of MEAT for the Competition). The process used to calculate the Risk Adjusted NPV is set out in subsection 7.7.3 (Calculation of Risk Adjusted NPV).

7.7.1.3 For the purpose of the Financial Robustness Test, the incremental costs relating to ETCS fitment as described in subsection 6.3.3.3 will be switched on in the Bidder's ICWC Financial Model. Hence:

- a) Incremental costs resulting from ETCS fitment as described in subsection 6.3.3.3 will be included in the Risk Adjusted NPV; and
- b) The forecast costs relating to and resulting from ETCS fitment as described in subsection 6.3.3.3 will be subject to the risk adjustment process (outlined in Appendix 3 (Risk Adjustment)) in the same way as all other costs.

7.7.2 Assessment of acceptability of financial risk

7.7.2.1 In order to enable it to undertake the Financial Robustness Test, the Department will undertake a risk adjustment process which will include an assessment of the deliverability of the revenues and costs set out in the ICWC Modelling Suite in respect of the Initial Franchise Period. The process for the determination of risk

adjustments and the calculation of the impact of these adjustments is described in Appendix 3 (Risk Adjustment Process).

- 7.7.2.2** Further to the evaluation of the Bids and the development of risk adjustments, reflecting the Department’s reasonable view of the most credible financial outcome for each risk, the Department will produce a “**Central Risk Adjusted Financial Model**” in respect of each Bid. The process to derive the risk adjustments is described in Appendix 3 (Risk Adjustment Process). The forecasts in the Central Risk Adjusted Financial Model will reflect the combined risk adjustments and therefore this model will contain the Department’s reasonable view of the most credible financial outcome for the Bid (which will be the “**Central Risk Adjusted Scenario**”).
- 7.7.2.3** The Department may elect not to risk adjust one or more Bids if it considers that adjusting them would not change the identity of the winning Bid. It may also elect to only carry out part of the process set out in Appendix 3 (Risk Adjustment Process), or a simplified process, if it considers that undertaking additional steps would not change the identity of the winning Bid. In making this decision, the Department may take into account the maximum “ICWCP” score that each Bidder could achieve, which will be calculated using the process set out in this subsection 7.7 (Evaluation of Financial Robustness), but with the ICWC Financial Model submitted by the Bidder used in place of the Central Risk Adjusted Financial Model.
- 7.7.2.4** For Bids which are identified to be subject to subsection 7.7.2.3 and therefore not risk adjusted, the ICWC Financial Model submitted by the Bidder will be used in place of the Central Risk Adjusted Financial Model, for the purpose of calculating the Risk Adjusted NPV. If, after other Bids are risk adjusted, the Bidder with the highest $ICWCP + (n \times Q)$ score is one which was previously not risk adjusted or only part of the process was carried out in accordance with subsection 7.7.2.3, that Bid will be risk adjusted and the Financial Robustness Test (including all steps outlined in this subsection 7.7.2 (Assessment of acceptability of financial risk) and subsections 7.7.3 (Calculation of risk adjusted NPV) and 7.7.4 (Consequences of forecast Financial Ratio Breach on evaluation), if applicable) will then be undertaken for that Bid before the winning Bid is determined.
- 7.7.2.5** If a Bidder is projected in its Central Risk Adjusted Financial Model to have a Financial Ratio Breach at any point during the

Initial Franchise Period, the Bid will be deemed to have an unacceptable financial risk, except as described in 7.7.2.11 below. If no Financial Ratio Breach is projected during the Initial Franchise Period, the Bid will be deemed to have acceptable financial risk.

7.7.2.6 For the purpose of making this assessment, the Department will:

- a) In accordance with the functionality described in subsection 6.3.3 (The ICWC Financial Model within the ICWC Modelling Suite), assume that the Bidder will pay out all available funds as dividends in each Franchisee Year, provided that such amounts are restricted to distributable profits and do not cause the Financial Ratios to be reduced below 1.070:1 in the relevant Franchisee Year; and
- b) Take into account the Actual PCS committed in the Bid which the Bidder would be able to draw on in order to avoid a Financial Ratio Breach.

7.7.2.7 There will be no opportunity for the Bidder to amend its Bid, including by making available additional finance.

7.7.2.8 In making its assessment of projected PCS drawdown and hence acceptability of financial risk, the Department will take into account the impact on the Bidder's projected cash flow of forecast payments to/from the Department in the Central Risk Adjusted Financial Model under regimes and mechanisms set out in the Franchise Agreement, calculated in accordance with the formulae in the Franchise Agreement. These include GDP adjustment payment arrangements, the Forecast Revenue Mechanism (Revenue Share and Revenue Support) and performance and incentive regimes (including the impacts of Contractual Incentive Mitigations on these, in years in which the Central Risk Adjusted Scenario includes projected net Revenue Support or Revenue Share payments to/from the Department).

7.7.2.9 For the avoidance of doubt:

- a) For the purpose of the Financial Robustness Test, it will be assumed that Contractual Incentive Mitigations are in place in each Franchisee Year in which net Revenue Share payments are projected, as well as each

Franchisee Year in which net Revenue Support payments are projected, in the Central Risk Adjusted Scenario; and

- b) No financial implications of the Contractual Incentive Mitigations other than on the operational performance (Schedule 7.1A of the Franchise Agreement), customer experience (Schedule 7.2A of the Franchise Agreement), service quality (Schedule 7.3A of the Franchise Agreement) and ticketless travel regimes will be reflected in the Financial Robustness Test.

7.7.2.10 In making its assessment of projected PCS drawdown and hence acceptability of financial risk, the Department will take into account the impact on the Bidder's projected cash flow of forecast profit share payments to the Department, calculated in accordance with the formulae in Schedule 8.2 of the Franchise Agreement. This will include taking into account whether or not net Revenue Support payments are projected in each Franchisee Year in determining the profit share thresholds to apply in the calculation for that year.

7.7.2.11 If a Bidder is projected in its Central Risk Adjusted Financial Model to have a Financial Ratio Breach at any point during the Initial Franchise Period, the Bid will nonetheless be deemed to have acceptable financial risk if the Central Risk Adjusted Financial Model indicates that the total amount of PCS, over and above the Actual PCS committed in the Bid, that would be required during the Initial Franchise Period in order to avoid the Financial Ratio Breach (the "**Notional PCS**") is less than the "**Materiality Threshold**". The Materiality Threshold will be £20,000,000 (nominal).

7.7.3 Calculation of Risk Adjusted NPV

7.7.3.1 For each Bid deemed to have acceptable financial risk, the Department will construct a "**Downside Risk Adjusted Financial Model**" containing a "**Downside Risk Adjusted Scenario**". The starting point for this scenario will be the Central Risk Adjusted Scenario, but a downwards adjustment will be made to the forecast of FRM Revenue in the Central Risk Adjusted Financial Model (where FRM Revenue is as defined in Schedule 8.6 of the Franchise Agreement). This will be input to the Downside Risk Adjusted Financial Model as a single absolute reduction to passenger revenue in each Franchisee Year in the Financial Model input price base. No adjustment will be made to the

forecasts in the Central Risk Adjusted Financial Model of non-passenger revenue, or operating or capital costs. The application of the downwards adjustment and the construction of the Downside Risk Adjusted Scenario are described in Appendix 3 (Risk Adjustment Process).

- 7.7.3.2 For each Bid deemed to have acceptable financial risk, the Department will calculate a “**Risk Adjusted NPV**”. The Risk Adjusted NPV, “NPVRA”, is calculated using the following formula:

$$NPVRA = (NPV1 \times 0.5) + (NPV2 \times 0.5)$$

Where:

NPV1 is the “**Central Risk Adjusted NPV**”; and

NPV2 is the “**Downside Risk Adjusted NPV**”.

- 7.7.3.3 The Central and Downside Risk Adjusted NPVs, NPV1 and NPV2, are the Net Present Value of the Adjusted Evaluated Payments in the Central and Downside Risk Adjusted Financial Models respectively. NPV1 and NPV2 shall each be expressed as a positive figure if the net forecast payment is from the Department and as a negative figure if the net forecast payment is to the Department.
- 7.7.3.4 The Central and Downside Risk Adjusted NPVs will be for the Initial Franchise Period and will not include the Reset Period.
- 7.7.3.5 The “**Evaluated Payments**” in each of the Central Risk Adjusted Scenario and the Downside Risk Adjusted Scenario will be the sum of the Bidder’s Annual Franchise Payments and the Department’s projection of net Revenue Support payments to the Bidder under the Forecast Revenue Mechanism in the respective scenario. In this calculation, premium payments to the Department will be expressed as negative figures, and subsidy payments from the Department and projected Revenue Support payments under the Forecast Revenue Mechanism will be expressed as positive figures.
- 7.7.3.6 Evaluated Payments will not include other potential payments to/from the Department during the Franchise Term, including:

- a) Any payments to the Department that may be made under the profit share/cap arrangements in the Franchise Agreement;
- b) Any Revenue Share payments to the Department that may be made under the Forecast Revenue Mechanism;
- c) Any payments to/from the Department that may be made under the GDP adjustment payment arrangements in the Franchise Agreement; or
- d) Any payments to/from the Department that may be made under any of the performance or incentive regimes in the Franchise Agreement.

7.7.3.7 Although these payments will not be included in Evaluated Payments, they will be reflected in the Financial Robustness Test in accordance with subsections 7.7.2.8 and 7.7.3.11.

7.7.3.8 The “**Adjusted Evaluated Payments**” in each of the Central Risk Adjusted Scenario and the Downside Risk Adjusted Scenario will be the Evaluated Payments in the respective scenario, adjusted if applicable in accordance with subsection 7.7.4 (Consequences of forecast Financial Ratio Breach on evaluation).

7.7.3.9 In the Central Risk Adjusted Scenario, the Adjusted Evaluated Payments will be equal to the Evaluated Payments in the Central Risk Adjusted Financial Model.

7.7.3.10 If a Bidder, in the Downside Risk Adjusted Financial Model, is projected to have a Financial Ratio Breach at any point during the Initial Franchise Period, the Adjusted Evaluated Payments used in the calculation of the Bidder’s Downside Risk Adjusted NPV will be calculated as set out in subsection 7.7.4 (Consequences of forecast Financial Ratio Breach on evaluation). Otherwise they will be equal to the Evaluated Payments in the Downside Risk Adjusted Financial Model.

7.7.3.11 In making its assessment of projected PCS drawdown and hence whether and when a Financial Ratio Breach is forecast, the Department will take into account the impact on the Bidder’s projected cash flow of forecast payments to/from the Department in the Downside Risk Adjusted Financial Model under regimes and mechanisms set out in the Franchise Agreement, calculated in accordance with the formulae in the Franchise Agreement. These include GDP adjustment payments, the Forecast Revenue

Mechanism (Revenue Share and Revenue Support), and performance and incentive regimes (including the impacts of Contractual Incentive Mitigations on these, in years in which the Central Risk Adjusted Scenario includes projected net Revenue Support or Revenue Share payments to/from the Department) in accordance with subsection 7.7.3.12c).

7.7.3.12 For the avoidance of doubt:

- a) For the purpose of the calculation of the Central Risk Adjusted NPV, it will be assumed that Contractual Incentive Mitigations are in place in each Franchisee Year in which net Revenue Share payments are projected, as well as each Franchisee Year in which net Revenue Support payments are projected, in the Central Risk Adjusted Scenario;
- b) No financial implications of the Contractual Incentive Mitigations other than on the operational performance (Schedule 7.1A of the Franchise Agreement), customer experience (Schedule 7.2A of the Franchise Agreement), service quality (Schedule 7.3A of the Franchise Agreement) and ticketless travel regimes will be reflected in the calculation of the Risk Adjusted NPV; and
- c) In the Downside Risk Adjusted Financial Model, the modelled operational performance (Schedule 7.1A of the Franchise Agreement), customer experience (Schedule 7.2A of the Franchise Agreement), service quality (Schedule 7.3A of the Franchise Agreement) and ticketless travel regime payments will be identical to those in the Central Risk Adjusted Financial Model, regardless of whether or not net Revenue Support or Revenue Share payments under the Forecast Revenue Mechanism are projected in each Franchisee Year in the Downside Risk Adjusted Scenario.

7.7.3.13 In making its assessment of projected PCS drawdown and hence whether and when a Financial Ratio Breach is forecast in each Risk Adjusted Scenario, the Department will take into account the impact on the Bidder's projected cash flow of forecast profit share payments to the Department, calculated in accordance with the formulae in Schedule 8.2A of the Franchise Agreement. This will include taking into account whether or not net Revenue Support payments are projected in the respective Risk Adjusted Scenario

in each Franchisee Year in determining the profit share thresholds to apply in the calculation for that year.

7.7.4 Consequences of forecast Financial Ratio Breach on evaluation

7.7.4.1 If a Bid is projected in the Central Risk Adjusted Financial Model to have a Financial Ratio Breach at any point during the Initial Franchise Period, except as described in 7.7.2.11, and therefore the Bid is deemed to have unacceptable financial risk, the Bidder will be eliminated from the competition, as described in subsection 3.6 (Automatic elimination).

7.7.4.2 If the Bid is projected in the Downside Risk Adjusted Financial Model to have a Financial Ratio Breach at any point during the Initial Franchise Period, the Evaluated Payments will be adjusted to reflect the point of first forecast Financial Ratio Breach as follows, in order to derive the Adjusted Evaluated Payments used in the calculation of the Downside Risk Adjusted NPV:

a) In respect of each Franchisee Year from the Start Date to the end of the Franchisee Year immediately prior to the first Franchisee Year in which the Bid is projected to have a Financial Ratio Breach in the Downside Risk Adjusted Financial Model (the Franchisee Year of forecast Financial Ratio Breach being the “**Year of Breach**”), the Adjusted Evaluated Payments will equal the Evaluated Payments in Sheet NPV row 40 of the Financial Templates in the respective Risk Adjusted Financial Model, when expressed in nominal terms;

b) In respect of the Year of Breach, the Adjusted Evaluated Payments will be equal to X% of the Evaluated Payments in Sheet NPV row 40 of the Financial Templates in the Downside Risk Adjusted Financial Model (when expressed in nominal terms), where X% is the proportion of the Year of Breach before the first Financial Ratio Breach is projected, plus (100 – X)% of whichever is the lower in terms of net income to the Department (or higher in terms of net payments by the Department) of:

i) The Evaluated Payments in respect of the Year of Breach in Sheet NPV row 40 of the Downside Risk Adjusted Financial Model, when expressed in nominal terms; and

- ii) The Department's Baseline Payments (see Table 7.5) in respect of the Year of Breach; plus
- c) In respect of each Franchisee Year from and including the Franchisee Year immediately following the Year of Breach until the end of the Initial Franchise Period, the Adjusted Evaluated Payments will be equal to the lower in terms of net income to the Department (or higher in terms of net payments by the Department) in that Franchisee Year of:
 - i) The discounted Evaluated Payments in respect of that Franchisee Year in Sheet NPV row 40 of the Downside Risk Adjusted Financial Model, when expressed in nominal terms; and
 - ii) The Department's Baseline Payments (see Table 7.5) in respect of that Franchisee Year.

Table 7.5 Department's Baseline Payments

Franchisee Year	Department's Baseline Payments (expressed as nominal prices, £'000s)
Franchisee Year to 31 March 2020	(124,582)
Franchisee Year to 31 March 2021	(228,822)
Franchisee Year to 31 March 2022	(262,801)
Franchisee Year to 31 March 2023	(271,317)
Franchisee Year to 31 March 2024	(295,871)
Franchisee Year to 31 March 2025	(355,986)
Franchisee Year to 31 March 2026	(402,030)

** The Department reserves the right to update this table to reflect any revisions to the Forecasts of Exogenous Factors, up to 8 weeks prior to the closure of the Bid window, pursuant to subsection 7.15 (Revisions during the Bid window) of this ITT.*

7.7.4.3 If a Bid is projected in the Downside Risk Adjusted Financial Model to have a Financial Ratio Breach at any point during the Initial Franchise Period and the projected PCS requirement exceeds the Bidder's PCS facility by more than the Materiality Threshold, the point of forecast Financial Ratio Breach for the purposes of calculating the Bidder's Downside Risk Adjusted NPV will be determined without taking into account the Materiality Threshold.

7.7.4.4 For the avoidance of doubt:

- a) Franchise Payments, Target Revenue and other relevant financial amounts contractualised in the Franchise

Agreement and the Funding Deed will be based upon the winning Bidder's ICWC Modelling Suite;

- b) The Central Risk Adjusted Financial Model, the Downside Risk Adjusted Financial Model and the Risk Adjusted NPV will only be used for the purpose of the Financial Robustness Test (including the calculation of the Risk Adjusted NPV) and accordingly for calculating the Final Score as defined in subsection 7.2 (Definition of MEAT for the Competition);
- c) In assessing whether a Financial Ratio Breach is projected in the Downside Risk Adjusted Financial Model, the Department shall take into account the same factors as set out in subsection 7.7.2.6;
- d) The provisions of this subsection 7.7.4 (Consequences of forecast Financial Ratio Breach on evaluation) will not apply to the Downside Risk Adjusted NPV where a Bidder is projected in its Downside Risk Adjusted Financial Model to have a Financial Ratio Breach during the Initial Franchise Period but the amount of Notional PCS required to avoid a Financial Ratio Breach is less than the Materiality Threshold described in subsection 7.7.2.11; and
- e) The provisions of this subsection 7.7.4 (Consequences of forecast Financial Ratio Breach on evaluation) will not apply to the Central Risk Adjusted NPV where a Bidder is projected in its Central Risk Adjusted Financial Model to have a Financial Ratio Breach during the Initial Franchise Period but the amount of Notional PCS required to avoid the Financial Ratio Breach is less than the Materiality Threshold described in subsection 7.7.2.11.

7.8 Evaluation impact of contractual treatment of Bidders' Initiatives

ICWC and Combined Plans

7.8.1 The following will apply in relation to the contracting of Initiatives included in a Bidder's ICWC and Combined Sub-Plans:

- a) As set out in subsection 4.14 (Process following Bid submission), the Department may require any Initiative to be included as a Committed Obligation in the Franchise Agreement. The

Department may exercise this right in relation to some or all of the Initiatives included in a Bid;

- b) Where a Bidder has stated that an Initiative is a Contingent Initiative it may impact on the Department's evaluation of the credibility of the plan to deliver the Initiative, and the Financial Robustness Test;
- c) The Department reserves the right to provide only one or more of the Bidders with its contractual drafting of the Committed Obligations the Department requires in relation to some or all of the Initiatives contained in the relevant Bidder's Bid. The Department will provide Bidders with an opportunity to comment on whether this drafting accurately reflects the Initiatives contained in their Bid. Bidders will have five working days (or such longer period as the Department may specify) to respond. Bidders' comments must be restricted to confirming that the drafting reflects the Initiatives within their Bid, or indicating where the drafting does not reflect the Initiatives contained within their Bid, giving the reasons why. Bidders must not submit alternative drafting of Committed Obligations, unless requested to do so by the Department. If, by a date specified by the Department, the Bidder is not prepared to enter into the contractual terms prepared by the Department (if appropriate, as clarified with the Bidder), in its sole discretion the Department may revise:
 - i) The evaluation score attributed to the relevant Sub-Plan; and
 - ii) Any other element of the evaluation (including without limitation the Financial Robustness Test),

such that such evaluation score or element does not take the relevant Initiative into account, provided that no revision will be made pursuant to this subsection 7.8:

- iii) To any evaluation score, where such revision would result in an increase in such evaluation score; and
- iv) To the Financial Robustness Test, where such revision would result in the Bid moving from being deemed to have unacceptable financial risk to being deemed to have low financial risk.

7.8.1.2 For the avoidance of doubt, this contractualisation process may result in a reduction in a Bidder's evaluation score and quality

score and therefore the Bidder's Final Score and may therefore affect the ranking of Bidders and ultimately the selection of the winning Bidder.

Shadow Operator Plans

7.8.2 The following will apply in relation to the contracting of the plans included in a Bidder's Shadow Operator Sub-Plans:

- a) As set out in subsection 4.14 (Process following Bid submission), the Department may require any element of the Bidder's plans to be included in the Proposed Accepted Programme. The Department may exercise this right in relation to some or all of the plans included in a Bid;
- b) The Department reserves the right to provide only one or more of the Bidders with the contractual drafting of the Proposed Accepted Programme which the Department requires in relation to some or all of the plans contained in the relevant Bidder's Bid. The Department will provide Bidders with an opportunity to comment on whether this drafting accurately reflects the plans contained in their Bids. Bidders will have five working days (or such longer period as the Department may specify) to respond. Bidders' comments must be restricted to confirming that the drafting reflects the plans within their Bids, or indicating where the drafting does not reflect the plans contained within their Bids, giving the reasons why. Bidders must not submit alternative drafting of the Proposed Accepted Programme, unless requested to do so by the Department. If, by a date specified by the Department, the Bidder is not prepared to enter into the contractual terms prepared by the Department (if appropriate, as clarified with the Bidder), in its sole discretion the Department may revise:
 - i) The evaluation score attributed to the relevant Sub-Plan; and
 - ii) Any other element of the evaluation,

such that such evaluation score or element does not take the relevant plan into account, provided that no revision will be made pursuant to this subsection 7.8 (Evaluation impact of contractual treatment of Bidders' Initiatives) to any evaluation score, where such revision would result in an increase in such evaluation score.

7.8.3 For the avoidance of doubt, this contractualisation process may result in a reduction in a Bidder's evaluation score and quality score and therefore the Bidder's Final Score and may therefore affect the ranking of Bidders and ultimately the selection of the winning Bidder.

7.9 Interaction between ICWC and Combined Plan evaluation scores and the Financial Robustness Tests

7.9.1 The assessment of financial robustness described in subsection 7.7 (Evaluation of Financial Robustness) will be informed by the review of Bidders' Sub-Plans, and any other information available to the Department, in accordance with the guidance provided in Appendix 3 (Risk Adjustment Process).

7.9.2 There is no automatic link between the scoring of Sub-Plans and the financial risk adjustments. The Department may take into account any risk to the delivery of the Bidder's Initiatives in the scoring of the Sub-Plans as described in subsection 7.3 (Quality and deliverability evaluation). However, if, further to the review of the Sub-Plans, the Department has concerns about the quality or deliverability of an aspect of one or more of a Bidder's Initiatives, and believes that as a result there is a material risk of a materially different financial outcome from that Bidder's financial projections, the Department may make a financial risk adjustment as described in subsection 7.7 (Evaluation of Financial Robustness) to reflect any risk to the achievement of the Bidder's financial projections. The Department may also adjust the scoring of Sub-Plans as described in subsection 7.3.1 and as provided elsewhere in this ITT.

7.10 Impact of review of financing and funding proposals for ICWC and Combined Plans

7.10.1 Bidders' financing and funding proposals, as described in their Financial Structure and Funding Plans (described at subsection 6.13 (Financial Structure and Funding Plan)), and their financial implications as reflected in the Bidders' ICWC Modelling Suite and Accepted Programme Modelling Suite, will be reviewed in order to assess their robustness, deliverability and credibility.

7.10.2 Where the available evidence fails to provide the Department with adequate confidence that the funding or financing will be available:

- a) In sufficient quantum (for example, letters of support and term sheets from third party financiers do not provide reasonable confidence that the funding will be made available to the Franchisee to the extent reasonably required to substantially

deliver an Initiative and/or are inconsistent with the values contained in the Bidder's ICWC Modelling Suite or other Bid documentation); or

- b) At the right time (for example, letters of support and term sheets from third party financiers do not provide reasonable confidence that the funding will be made available to the Franchisee at the time proposed by the Bidder in its ICWC Modelling Suite or other Bid documentation to enable the Initiative to be delivered on or by a certain date and in the manner described),

the Department may:

- i) Take this into account in determining the evaluation score for any Sub-Plan which includes any such Initiative, to reflect the risk to delivery of that Initiative; and
- ii) Make a financial risk adjustment (in accordance with Appendix 3 (Risk Adjustment Criteria and Process)) to reflect any resulting risk to the financial robustness of the Bid.

7.11 Conversion of evaluation scores into Quality Scores

- 7.11.1 The Department will convert Sub-Plan evaluation scores into Sub-Plan Quality Scores on the basis of Table 7.6 (Conversion of evaluation scores into Quality Scores).

Table 7.6 Conversion of evaluation scores into Quality Scores

Evaluation Score	Quality Score
0 – 3.5	0
4	1
4.5	2
5	3
5.5	4
6	5
6.5	6
7	7
7.5	8
8	9
8.5	10
9	11
9.5	12
10	13

7.11.2 The allocation of a Quality Score of 0 to a Sub-Plan will not prejudice any right that the Department has under subsection 3.5 (Non-compliant Bids) to deem the Bid non-compliant.

7.11.3 The overall Quality Score will be the aggregate of the Quality Scores for each Sub-Plan, weighted in accordance with Table 7.2 (Delivery Plan and Sub-Plan weightings). This Quality Score is component Q in the formula set out at subsection 7.2 (Definition of MEAT for the Competition).

7.12 Rebid

7.12.1 In addition to and separate from the process described in subsection 7.13 (Delivery Plan Negotiation), the Department reserves the right at any time prior to notification of the preferred Bidder, to require one, some or all Bidders to submit revised Bids in the following circumstances:

- a) where all Bidders have failed the Financial Robustness Test (i.e. all Bids are deemed to have unacceptable financial risk, as referred to in subsection 7.7.1.1); or
- b) in the event that the Department at its sole discretion considers that it would be appropriate in the circumstances to do so, for any

reason. The reason for requiring re-bids may include for example, but without limitation, changes to macro-economic forecasting data, developments concerning HS2 which impact the Franchise, changes to the financial budget that is available to the Department in respect of the Franchise or updates in policy (either for the Franchise or for rail franchising generally).

7.12.2 In the event that the Department does decide to require the submission of revised Bids it shall afford all Bidders the opportunity to do so in accordance with subsection 7.12.3.

7.12.3 Where Bidders are required to submit revised Bids then:

- a) The Department will provide the Bidders with revised ITT instructions at that time, which may include revisions to the Department's requirements;
- b) The Department will provide the Bidders with a suitable period to be specified at the time in which to submit a revised Bid, with the specific timescales included in the revised ITT instructions at that time;
- c) The Bidders shall only be entitled to revise their Bids in accordance with the revised instructions; and
- d) The Department shall set out within the revised instructions any assumptions that the Bidders are entitled to make, in revising and resubmitting their Bid.

7.13 Delivery Plan negotiation

7.13.1 Following the initial evaluation of Sub-Plans 1.1, 5.1, 5.2 and 5.3 described in subsection 7.3.7 (Process for moderation of, and reaching consensus on, Sub-Plan evaluation scores), if the Department decides to negotiate any element of Sub-Plans 1.1, 5.1, 5.2 and 5.3, it will produce a feedback briefing for Bidders setting out the areas that each Bidder may wish to amend as a result of negotiation. This briefing will consist of areas identified by the Department through any or all of the processes described in the following subsections, as appropriate to each Bid:

- a) Subsection 3.5 (Non-compliant Bids);
- b) Subsection 4.14.2 (Engagement with Bidders and evaluation clarification process); and
- c) Subsection 7.3 (Quality and deliverability evaluation).

- 7.13.2 The Department reserves the right at its sole discretion to negotiate on areas in one, some or all of Sub-Plans 1.1, 5.1, 5.2 and 5.3 with one, some or all Bidders, except that, where this subsection 7.13 is triggered, the Department will offer the opportunity to negotiate to all Bidders on areas in Sub-Plans 1.1, 5.1, 5.2 and 5.3 as are pertinent to their Bid.
- 7.13.3 The Department also reserves the right to determine that it does not wish to use negotiation phases and to progress to contract award without negotiation.
- 7.13.4 The Department will provide the feedback briefing to individual Bidders via AWARD. Bidders are required to meet with the Department to discuss the content of the feedback briefing on a working day specified by the Department no more than 7 days after the publication of the document on AWARD. The sole purpose of these meetings is to assist the Bidder to understand the feedback provided by the Department, and not to discuss any aspects of a Bidder's revised proposals. The Department reserves the right to hold additional meetings in advance of revised Bid submission, with all Bidders, in line with subsection 3.9 (Bidder Clarification Questions).
- 7.13.5 AWARD will be re-opened to permit Bidders to ask additional Bidder Clarification Questions, following the process set out in subsection 3.9 (Bidder Clarification Questions). Bidders should be aware that BCQs may not be accepted from 15 working days prior to the closing date for revised Bid submission, save in respect of new information provided after this point.
- 7.13.6 Following the feedback briefing the Department will require all Bidders to submit revised Bids and will provide revised ITT submission instructions at that time. These instructions will not include any revisions to the Department's requirements. If any changes to the Department's requirements are required to be made for the reasons set out in subsection 7.12 (Rebid), such changes will be managed according to subsection 7.12 (Rebid), and, where these relate to areas covered by this subsection 7.13, the Department will endeavour to issue such changes at the same time as the revised ITT submission instructions issued under this subsection 7.13.
- 7.13.7 The Department will provide the Bidders with a suitable period in which to submit a revised Bid, with the specific timescales included in the revised ITT instructions referred to in this subsection 7.13 at that time.
- 7.13.8 The Bidders shall only be entitled to revise their Bids in accordance with the revised instructions. These instructions shall include permitted changes to the ICWC Modelling Suite and Accepted Programme Modelling Suite in connection with the evaluation of Sub-Plan 1.1.

7.13.9 The Department shall set out within the revised instructions any assumptions that the Bidders are entitled to make in revising and resubmitting their Bid.

7.13.10 The Department reserves the right to use the process described in subsections 7.13.1 to 7.13.9 for more than one iteration, as required.

7.13.11 Following the completion of the process described in subsections 7.13.1 to 7.13.9, the Department will re-evaluate revised Bids as described in this Section 7 (Evaluation Criteria and Methodology).

7.14 Bid optimisation

7.14.1 In addition to the Department's rights under subsection 7.12 (Rebid) and the process described in subsection 7.13 (Delivery Plan negotiation), the Department reserves the right at its sole discretion to negotiate with the leading Bidder prior to contract award to the extent that such negotiations are consistent with the parameters of applicable procurement law. Bidders should note that such negotiations may lead to the amendment of previously submitted Bids.

7.15 Revisions during the Bid window

7.15.1 The Department has calculated BFP_y (the Department's Baseline Franchise Payments) as defined in subsection 6.13.3.8, Table 7.5 (Department's Baseline Payments), and Appendix 1 and 2 to Schedule 8.4A (GDP Adjustment Payments) of the Franchise Agreement, on the basis of the Forecasts of Exogenous Factors at the date of release of this ITT. Bidders should note that the Department reserves the right to update these figures to reflect any revisions to the Forecasts of Exogenous Factors up to 8 weeks prior to the closure of the Bid window, without any extension to the Bid window.

A1. Appendix 1: Glossary

Note: all references to paragraphs and schedules in the following Glossary are references to paragraphs and schedules of the Franchise Agreement, unless otherwise stated or if the context otherwise requires.

Term	Meaning
Accepted Programme	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Accepted Programme Cost Baseline Templates	has the meaning given to it in subsection 6.7.3 (Accepted Programme Cost Baseline Templates) of this ITT;
Accepted Programme Financial Model	has the meaning given to it in subsection 6.7.2.2 of this ITT;
Accepted Programme Modelling Suite	has the meaning given to it in subsection 6.1.12 of this ITT;
Accepted Programme Models	has the meaning given to it in subsection 6.1.11 of this ITT;
Accepted Programme Operating Manual	has the meaning given to it in subsection 6.7.4 (Accepted Programme Operating Manual) of this ITT;
Accepted Programme Operational Model(s)	means the supporting model submitted by each Bidder in accordance with subsection 6.7 (Accepted Programme Modelling Suite) of this ITT;
Accepted Programme Product Cost Assumptions Statements	see Product Cost Assumptions Statements;
Accepted Programme Specific Requirements	has the meaning given to it in clause 3.1 of the Franchise Agreement;

Term	Meaning
Actual IOC Costs	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Actual Operating Costs	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Actual Operating Costs Ratio	has the meaning given to it in the Funding Deed;
Actual Parent Company Support or Actual PCS	has the meaning given to it in subsection 6.13.3 (Funding) of this ITT;
Additional Parent Company Support or Additional PCS	has the meaning given to it in subsection 6.13.3 (Funding) of this ITT;
Adjusted Evaluated Payments	has the meaning given to it in subsection 7.7 (Evaluation of Financial Robustness) of this ITT;
AFA	has the meaning given to it in Appendix 2 of Schedule 8.2A of the Franchise Agreement;
Affiliate	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Agreed Documents	means those documents listed in Table 4.3 (List of Agreed Documents that form part of the Delivery Plans and Section 6) of this ITT;
Agreed Funding Commitment or AFC	has the meaning given to it in the Funding Deed;
All Cancellations	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Alliance Agreement	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Annual Franchise Payments	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Annual Review	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Associated Entity	has the meaning given to it in subsection 1.4 (Communications) of this ITT;

Term	Meaning
ATOC	means the Association of Train Operating Companies;
AWARD	has the meaning given to it in subsection 3.8 (Data Site and AWARD) of this ITT;
AWE	for the purpose of the ITT only, means the index of Average Weekly Earnings;
BCQ	has the meaning given to it in subsection 3.8 (Data Site and AWARD) of this ITT;
Benchmark	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Bid	means a tender submitted by a Bidder in response to this ITT;
Bid Fares Strategy	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Bid Summary	has the meaning given to it in subsection 5.5 (Delivery Plan 0 – Bid Summary) of this ITT;
Bidder	has the meaning given to it in subsection 1.1.1 (Introduction) of this ITT;
Bidder Clarification Question	see BCQ;
Bonded PCG	has the meaning given to it in subsection 6.13.3 (Funding) of this ITT;
Bonded PCS	has the meaning given to it in subsection 6.13.3 (Funding) of this ITT;
Bonding Requirements	where the Guarantor(s) of an amount of guarantee pass the economic and financial standing tests referred to in subsection 6.14 (Updating of EoI financial and economic standing tests (the “Tests”) and submission of updated bond provider letter(s)), this is 50% of the relevant guarantee amount. Where the Guarantor(s) of an amount of guarantee do not pass the economic and financial standing tests referred to in subsection 6.14 (Updating of EoI financial and economic standing tests (the “Tests”) and submission of updated bond provider letter(s)), this is 100% of the relevant guarantee amount;
Calculation Review	the review conducted in accordance with subsection 6.12.5 (Calculation Review);

Term	Meaning
Cancellation	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Cascaded Rolling Stock	means rolling stock proposed to be used by the Franchisee in the provision of the Passenger Services the availability of which is, in the opinion of the Secretary of State, directly or indirectly dependent upon the successful introduction into service of any Relevant Rolling Stock by any other Train Operator;
CCI	has the meaning given to it in Clause 3.1 of the Franchise Agreement;
Central Risk Adjusted Financial Model	has the meaning given in subsection 7.7.2.2 of this ITT;
Central Risk Adjusted NPV	has the meaning given in subsection 7.7.3.2 of this ITT;
Central Risk Adjusted Scenario	has the meaning given in subsection 7.7.2.2 of this ITT;
Certificate of Commencement	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Challenging Circumstances	means circumstances such as extreme weather, industrial action or line closures;
Change	has the meaning given to it in clause 3.1 of the Franchise Agreement;
CMA	means the Competition and Markets Authority;
CMS Passengers	means the forecasting software known as 'CMS Passengers' used to forecast redistribution of passengers amongst individual services on particular routes;
Collaboration Agreement	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Combined Plans	means Delivery Plan 1 described in section 5 of this ITT;
Combined Sub-Plans	means the Sub-Plans under Delivery Plan 1 described in section 5 of this ITT;
Committed Obligation(s) or COs	means any of the Franchisee's obligations listed in Part 1 (Committed Obligations) of Schedule 6.2A of the Franchise Agreement;

Term	Meaning
Community Rail Partnership	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Conditions Precedent Agreement	means the version of the West Coast Partnership Conditions Precedent Agreement which the Department supplies to Bidders as the “Final Bid version” for the purposes of this ITT;
Constrained Central Risk Adjusted FRM Revenue Forecast	has the meaning given to it in subsection A3.8.3 of Appendix 3 of this ITT;
Consultee	has the meaning given to it in subsection 3.4 (Industry consultation and disclosure of information in Bids) of this ITT;
Contingent Initiative	has the meaning given to it in subsection 4.14.3 (Contractualisation of ICWC and Combined Sub-Plans) of this ITT;
Contractual Incentive Mitigations or CIMs	means the additional and amended obligations imposed upon the Franchisee pursuant to the operation of Schedule 6.3A of the Franchise Agreement;
Conventional Rail Network	means the network in respect of which Network Rail is the Facility Owner and which is situated in England, Wales and Scotland;
Conventional Services	means the Passenger Services on and after the Integrated Operator Start Date excluding the High Speed Services;
Core Franchise Term	means the period from 15 September 2019 to 31 March 2031;
Cost Baseline	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Critical Friend	has the meaning given to it in Schedule 18 of the Franchise Agreement;
Customer and Stakeholder Engagement Strategy	means the strategy described in subsection 5.19.4 of this ITT;
Customer Report	has the meaning given to it in clause 3.1 of the Franchise Agreement;

Term	Meaning
Cyber Security Guidance	means the cyber security guidance document in Data Site folder (00.01.02 Security);
Data Site	has the meaning given to it in subsection 3.8 (Data Site and AWARD);
Deemed Minutes Lateness or DML	has the meaning given to it under the Track Access Agreement;
Delay Repay	has the meaning given to it in the Guidance on Passenger's Charter Compensation;
Delivery Plan	means a Delivery Plan described in section 5 (Detailed Bid submission requirements – Delivery Plans), being: Delivery Plan 0 – Bid Summary; Delivery Plan 1 – Leadership and Partnering; Delivery Plan 2 – Train Services and Performance; Delivery Plan 3 – Revenue; Delivery Plan 4 – Customer Experience and Stations; Delivery Plan 5 – Shadow Operator, and ' Delivery Plans ' shall mean more than one of them;
Demand Driver Generators or DDGs	means the standard set of exogenous inputs produced by the Department for rail elasticity based forecasting;
Department	has the meaning given to it in subsection 1.1 (Introduction);
Design Guidelines	means the RDG published guidelines available at https://www.raildeliverygroup.com/about-us/publications.html?task=file.download&id=469771183 ;
DFR	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Downside Risk Adjusted Financial Model	has the meaning given to it in subsection 7.7.3.1 of this ITT;
Downside Risk Adjusted NPV	has the meaning given to it in subsection 7.7.3.2 of this ITT;
Downside Risk Adjusted Scenario	has the meaning given to it in subsection 7.7.3.1 of this ITT;
EA02	means the Enterprise Act 2002;
EC	means the European Commission;

Term	Meaning
EIR	means the Environmental Information Regulations;
Eol	means the expression of interest document for the West Coast Partnership Franchise published on 16 December 2016;
Equality Act	means the Equality Act 2010;
Escrow Agreement	means the version of the West Coast Partnership Escrow Agreement which the Department supplies to Bidders as the “Final Bid Version” for the purposes of this ITT;
ETCS	has the meaning given to it in clause 3.1 of the Franchise Agreement;
EU	means the European Union;
EUMR	means Council Regulation (EC) No. 139/2004;
Evaluated Payments	has the meaning given to it in subsection 7.7.3.5 of this ITT;
Expiry date	means the later of: <ul style="list-style-type: none"> (a) 01:59 on 1 April 2031; or (b) any such later date that is specified by the Secretary of State pursuant to clause 5.3 of the Franchise Agreement; or (c) any such later date to which the Franchise Agreement is continued in accordance with clause 5.2 of the Franchise Agreement;
Extension Period	means any extension which is called under clause 5.2 of the Franchise Agreement. Where Bidders are asked to provide information for the Extension Period, this should be provided for the maximum Extension Period provided for in clause 5 of the Franchise Agreement;
FAA	means the sheet of the same name in the Financial Templates;
Facility Owner	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Fare	has the meaning given to it in clause 3.1 of the Franchise Agreement;

Term	Meaning
Fares Basket	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Fares Options Analysis	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Final Output Report	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Final Risk Adjustments	has the meaning given to it in subsection A3.2 (Overview of process to derive the Central Risk Adjusted Scenario) of Appendix 3 (Risk Adjustment Process);
Final Score	means the final score awarded to each Bid, calculated in accordance with subsection 7.2.1 of this ITT;
Financial Formats or FF	means the Franchisee's financial formats in the agreed terms marked FF ;
Financial Ratio(s)	means the ratio of Modified Revenue to Actual Operating Costs for the Franchisee year in accordance with row 136 of worksheet "FO&C" of the Financial Templates;
Financial Ratio Breach	means any point at which the Financial Ratio is below 1.050;
Financial Robustness Test	has the meaning given to it in subsection 7.7 (Evaluation of financial robustness) of this ITT;
Financial Structure and Funding Plan	has the meaning given to it in subsection 6.13 (Financial Structure and Funding Plan) of this ITT;
Financial Templates	has the meaning given to it in subsection 6.4 (Templates) of this ITT;
Fixed PCG	has the meaning given to it in subsection 6.13.3 (Funding);
FLPA	has the meaning given to it in subsection 1.4 (Communications) of this ITT;
FO&C	means the sheet of the same name in the Financial Templates;
FOC	means freight operating company;
FOIA	means the Freedom of Information Act 2000;
Forecast Average Minutes Lateness or AML	has the meaning given to it under the Track Access Agreement;

Term	Meaning
Forecast Revenue Mechanism or FRM	means the mechanism contained in Schedule 8.6A of the Franchise Agreement under which the Secretary of State may receive Revenue Share payments from the Franchisee or the Franchisee may receive Revenue Support payments from the Secretary of State;
Forecasts of Exogenous Factors	has the meaning given to it in subsection 6.3.4.14 of this ITT;
Form of Tender	means the version of the West Coast Partnership Franchise Competition Form of Tender which the Department supplies to Bidders as the “Final Bid Version” for the purposes of this ITT;
Franchise	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Franchise Agreement	means the version of the West Coast Partnership Franchise Agreement which the Department supplies to Bidders as the “Final Bid Version” for the purposes of this ITT;
Franchise Payment	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Franchise Period	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Franchise Pre-Qualification Process Document	means the Pre-Qualification Process Document for the West Coast Partnership Franchise published on 28 February 2017;
Franchise Services	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Franchise Signature Documents	has the meaning given to it in Table 4.2 (Structure and format of Bids) of this ITT;
Franchise Term	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Franchisee	has the meaning given to it in the Franchise Agreement;
Franchisee Access Stations	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Franchisee Year	has the meaning given to it in clause 3.1 of the Franchise Agreement;

Term	Meaning
FRM Revenue	has the meaning given to it in clause 3.1 of the Franchise Agreement;
FTE	means full time equivalent (in relation to numbers of employees);
Funding Deed	means the version of the West Coast Partnership Funding Deed which the Department supplies to Bidders as the “Final Bid Version” for the purposes of this ITT;
Funding Plan	has the meaning given to it in the Funding Deed;
GB Railway	has the meaning given to it in clause 3.1 of the Franchise Agreement;
GDP	means gross domestic product;
GJT	means generalised journey time (see subsection 6.3.4.11 of this ITT);
Guarantor	has the meaning given to it under the Funding Deed;
High Speed Established Services Date	has the meaning given to it in clause 3.1 of the Franchise Agreement;
High Speed Rolling Stock	has the meaning given to it in clause 3.1 of the Franchise Agreement;
High Speed Services	has the meaning given to it in clause 3.1 of the Franchise Agreement;
High Speed Start Date	has the meaning given to it in clause 3.1 of the Franchise Agreement;
HMT	means Her Majesty’s Treasury;
HS2	means the High Speed Two network;
HS2 Customer Community	has the meaning given to it in clause 3.1 of the Franchise Agreement;
HS2 Ltd	means High Speed Two (HS2) Limited, a company registered in England with registered number 06791686 whose registered office is at 2 Snowhill, Queensway, Birmingham, B4 6GA or such other entity as may be appointed infrastructure manager in relation to the HS2 Network from time to time;
HS2 Network	has the meaning given to it in clause 3.1 of the Franchise Agreement;

Term	Meaning
HS2 Operational Concept	has the meaning given to it in clause 3.1 of the Franchise Agreement;
HS2 Plans	has the meaning given to it in clause 3.1 of the Franchise Agreement;
HS2 Strategic Goals	has the meaning given to it in clause 3.1 of the Franchise Agreement;
HS2 Works	has the meaning given to it in subsection 5.8 (Sub-Plan 1.2 Partnering) of this ITT;
ICWC	means InterCity West Coast;
ICWC Capital Expenditure Model	means a separate ICWC Operational Model containing information on planned ICWC capital expenditure. See further subsection 6.3.4.37 of this ITT;
ICWC Crowding Model	means a separate ICWC Operational Model relating to the calculation of suppression factors for use in the ICWC Revenue Model. See further subsections 6.3.4.24 to 6.3.4.31 of this ITT;
ICWC Fares Model	means a separate ICWC Operational Model to calculate the impact of changes to fares. See further subsections 6.3.4.20 to 6.3.4.23 of this ITT;
ICWC Financial Model	has the meaning given to it in subsection 6.1.9 of this ITT;
ICWC Modelling Suite	has the meaning given to it in subsection 6.1.10 of this ITT;
ICWC Models	has the meaning given to it in subsection 6.1.9 of this ITT;
ICWC Operating Cost Model(s)	means a separate Operational Model or Operational Models relating to the calculation of ICWC operating costs. See further subsection 6.3.4.32 of this ITT;
ICWC Operating Manual	means a manual prepared in accordance with subsection 6.6 (ICWC Operating Manual) of this ITT;
ICWC Operational Models	has the meaning given to it in subsection 6.3.4 (ICWC Operational Models within the ICCW Modelling Suite) of this ITT;
ICWCP	has the meaning given to it in subsection 7.2.1.3 of this ITT;

Term	Meaning
ICWC Performance Model	means a separate ICWC Operational Model relating to the calculation of performance payments and metrics. See further subsections 6.3.4.33 to 6.3.4.36 of this ITT;
ICWC Record of Assumptions or RoA	has the meaning given to it in clause 3.1 of the Franchise Agreement;
ICWC Revenue Model	has the meaning given to it in Appendix 1 of Schedule 8.7A of the Franchise Agreement;
ICWC Services	has the meaning given to it in clause 3.1 of the Franchise Agreement;
IFRS	means International Financial Reporting Standards;
Inconsistent Initiative(s)	has the meaning given to it at subsection 7.4 (Evaluation impact of Inconsistent Initiatives for ICWC and Combined Plans) of this ITT;
Industry Partners	includes without limitation: HS2 Ltd, Network Rail, ORR, Transport for London, other train operators, freight operators, ROSCOs and the wider supply chain including SMEs;
Initial Franchise Period	means the period from the Start Date until 01:59 on 1 April 2026;
Initial Franchise Period Funding Deed	means the Funding Deed (or the portion of the Funding Deed) covering the funding requirements for the Initial Franchise Period;
Initiatives	means proposals and commitments included in a Bidder's ICWC and Combined Sub-Plans;
Integrated Operator Contract or IOC	means the contractual terms which apply during the period after the Integrated Operator Start Date;
Integrated Operator Start Date	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Integrated Services	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Invitation to Tender or ITT	means this Invitation to Tender issued by the Secretary of State on 27 March 2018 as part of the procurement process pursuant to which the Franchise Agreement will be entered into;

Term	Meaning
IOC Modelling Suite	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Key Sub-Plans	has the meaning given to it in subsection 3.5 (Non-compliant Bids) of this ITT;
LENNON	means the rail industry's 'Latest Earnings Networked Nationally OverNight' system;
LENNON to Flow Group and Ticket Type Mapping	has the meaning given to it in subsection 6.4 (Templates) of this ITT;
Letters of Support	means a statement or letter setting out the commitment (and, if relevant, any qualifications on that commitment), views or comments of any third party that the Bidder is relying on in delivering or exceeding these requirements;
LINX	means the London Internet Exchange;
Living Wage	means the wage rate calculated by the Living Wage Foundation as published from time to time on https://www.livingwage.org.uk/ ;
Long Form Report	the historical summary of the financial and operational performance of each element of the InterCity West Coast Franchise, together with explanations of any movements in such financial and operational performance;
Long Funding Lease Rules	means the long funding lease rules contained in Chapters 6 and 6A of Part 2 of the Capital Allowances Act 2001;
Materiality Threshold	has the meaning given to it in subsection 7.7 (Evaluation of Financial Robustness) of this ITT;
MEAT	means most economically advantageous tender;
Minimum Evidential Requirements	means evidential requirements for ICWC and Combined Sub-Plans specified in subsection 5.2.1 of this ITT;
Minimum Marketing Spend	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Minimum Marketing Team Spend	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Model Audit	has the meaning given to it in subsection 6.12.4 (Model Audit) of this ITT;

Term	Meaning
Modelling Best Practice Confirmation	means confirmation that the Models have been prepared in accordance with best practice as required by subsection 6.12.2 (Modelling Best Practice Confirmation) of this ITT, subject to any derogations granted pursuant to subsection 6.12.3 (Derogations) of this ITT;
Model Changes	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Models	has the meaning given to it in subsection 6.1.12 of this ITT;
Modified Revenue	has the meaning given to it in clause 3.1 of the Franchise Agreement;
MOIRA or MOIRA1	means the timetabling software known as 'MOIRA' used to forecast the impact of timetables on passenger demand and revenue but not MOIRA2 or MOIRA2.2;
MOIRA2 or MOIRA2.2	means a model which comprises the timetable/revenue tool used to provide inputs into the ICWC Revenue Model;
Negative Franchise Payments	has the meaning given to it in subsection 6.13.3.8 of this ITT;
Network Rail	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Notional PCS	has the meaning given to it in subsection 7.7.2.11 of this ITT;
NPV of Adjusted Evaluated Payments	means NPV of Adjusted Evaluated Payments over the Initial Franchise Period as calculated in cell F83 of sheet NPV of the Financial Templates;
NPV or Net Present Value	means net present value, calculated as the aggregation of the present value of relevant future cash flows;
NRPS Benchmark	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Off-Peak	means, in relation to any Passenger Service, the period of time outside of the Peak;
Operational Review	has the meaning given to it in clause 3.1 of the Franchise Agreement;
ORR	means the Office of Rail and Road established by Section 15 of the Railways and Transport Safety Act 2003 and having duties and obligations as set out in the Act;

Term	Meaning
Other Revenue	has the meaning set out in the Financial Templates;
Other Supplementary Material	has the meaning given to it in subsection 6.10 (Supplementary material) of this ITT;
Overall Evaluation Score	has the meaning given in subsection 3.5 (Non-compliant Bids) of this ITT;
Parent Company Guarantee or PCG	has the meaning given to it in subsection 6.13.3 (Funding) of this ITT;
Parent Company Support or PCS	has the meaning given to it in subsection 6.13.3 (Funding) of this ITT;
Partial Cancellation	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Partnership Protocol	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Passenger Carrying Capacity	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Passenger Proposition	has the meaning given to it in Schedule 18.2 of the Franchise Agreement;
Passenger's Charter	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Passenger Services	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Passport	means the confirmation awarded by the Secretary of State to a successful applicant that their application meets the requirements set out in the documentation relating to the OJEU Notice (reference no: 2015/S 189-34364);
PCS Advance	has the meaning given to it in the Funding Deed;
PDFH	means Passenger Demand Forecasting Handbook;
Peak	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Performance Bond	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Performance Minutes	means AML and DML, as set out in subsection 6.3.4.34 of this ITT;

Term	Meaning
Placed in Escrow	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Plan of the Day	has the meaning given to it in clause 3.1 of the Franchise Agreement;
PMO Services	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Positive Franchise Payments	has the meaning given to it in subsection 6.13.3.8 of this ITT;
Pre-Qualification Process Document or PPD	means the pre-qualification process document that accompanied the EoI;
Price	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Primary Franchise Asset	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Product Acceptance Processes	means Network Rail's product acceptance processes governed by Network Rail standard NR/L2/RSE/100/05, Product introduction and change;
Product Cost Assumptions Statements	has the meaning given to it in subsection 6.7.5 (Product Cost Assumptions Statements) of this ITT;
Project Support Office or PSO	means the organisation described in subsection 5.14.5 of this ITT;
Proposed Accepted Programme	has the meaning given to it in subsection 5.21 (Delivery Plan 5 Shadow Operator) of this ITT;
Proposed Cost Baseline	means the proposed cost baseline for the Shadow Operator Services described in subsection 5.7.7f) of this ITT;
Proposed Resourcing Plan	means the resourcing plan for performance of the Proposed Accepted Programme to be submitted by the Franchisee in response to this ITT (see Delivery Plan 5 – Shadow Operator);
Proposed Risk Adjustments	has the meaning given to it in subsection A3.2 (Overview of process to derive the Central Risk Adjusted Scenario) of Appendix 3 (Risk Adjustment Process) of this ITT;

Term	Meaning
Proposed Shadow Operator Product(s)	has the meaning given to it in subsection 6.7 (Accepted Programme Modelling Suite) of this ITT;
Quality Score	means the score awarded to a Bidder in accordance with subsection 7.11 (Conversion of evaluation scores into quality scores) of this ITT;
Rail Delivery Group	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Rail Industry Sustainable Development Principles	means the principles published by the Rail Safety and Standards Board in May 2016 as amended from time to time;
Rail Sector Skills Delivery Plan	means the Rail Sector Skills Delivery Plan published by the National Skills Academy Rail;
Rail Technical Strategy	means the document produced by the Rail Safety and Standards Board and endorsed by the Rail Delivery Group, that sets out the technical principles in accordance with which technology is to be developed to address challenges and meet passenger demands, a copy of which is available at https://www.rssb.co.uk/library/future%20railway/innovation-in-rail-rail-technical-strategy-2012.pdf ;
Railway Schemes	has the meaning given to it in clause 3.1 of the Franchise Agreement;
RDG	means the Rail Delivery Group;
Readiness Review	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Redactions	means any provisions of the Franchise Documents or any such variation which the Department believes are exempt from disclosure in accordance with the provisions of the Freedom of Information Act, the Environmental Information Regulations and/or Section 73(3) of the Act;
Regulation (EC) 1370/2007	means 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;

Term	Meaning
Regulations	means the Travel Concession Schemes Regulations 1986 (SI 1986/77);
Relevant Operator	means any person who operates rail passenger services within England, Scotland or Wales under contract to a public authority (or any successor operator to that person);
Relevant Rolling Stock	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Reporting Period	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Required Output Report	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Required Parent Company Support or Required PCS	has the meaning given to it in subsection 6.13 (Financial Structure and Funding Plan) of this ITT;
Required Supplementary Material	has the meaning given to it in subsection 6.10 (Supplementary Material) of this ITT;
Reset	means the provisions applicable in the Reset Period, as described in subsection 6.15 (Reset Period) of this ITT;
Reset Period	has the meaning given to it in section 6.15 (Reset Period) of this ITT;
Residual Value Mechanism or RV Mechanism	has the meaning given to it in subsection 5.4 (Residual Value Mechanism) of this ITT;
Revenue Model Output Template	means the Financial Template described in subsection 6.4 (Templates) of this ITT;
Revenue Share	means amounts that may be payable to the Secretary of State by the Franchisee pursuant to the Forecast Revenue Mechanism as described in Schedule 8.6A of the Franchise Agreement;
Revenue Support	means amounts that may be payable by the Secretary of State to the Franchisee pursuant to the Forecast Revenue Mechanism as described in Schedule 8.6A of the Franchise Agreement;
Risk Adjusted Financial Model	means either the Central Risk Adjusted Financial Model or the Downside Risk Adjusted Financial Model;

Term	Meaning
Risk Adjusted NPV or NPVRA	has the meaning given to it in subsection 7.7.3 (Calculation of Risk Adjusted NPV) of this ITT;
Risk Adjusted Scenario	means either the Central Risk Adjusted Scenario or the Downside Risk Adjusted Scenario;
Rolling Stock Lease	has the meaning given to it in clause 3.1 of the Franchise Agreement;
ROSCO	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Route	means any route specified in the Timetable over which the Franchisee has permission to operate the Passenger Services pursuant to any Track Access Agreement;
RPI	for the purposes of the ITT only means the Retail Prices Index published by the Office for National Statistics;
Schedule of Initiatives	has the meaning given to it in subsection 4.14.3 (Contractualisation of ICWC and Combined Sub-Plans) of this ITT;
Scheme	has the meaning given to it in subsection 5.4 (Residual Value Mechanism) of this ITT;
SDO	means Selective Door Operation, the system used for the safe operation of the passenger doors at short station platforms;
Season Ticket Bond	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Secretary of State	has the meaning given to it in subsection 1.1 (Introduction) of this ITT;
Secretary of State Risk Assumptions or SoSRAs	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Sectional Running Times or SRTs	means the sectional running times used in the preparation of Bidder's timetables;
Service Group	has the meaning given to it in the Track Access Agreement or as specified by the Secretary of State from time to time;
Service Recovery Plan	has the meaning given to it in clause 3.1 of the Franchise Agreement;

Term	Meaning
Shadow Operator	means the Franchisee's role in carrying out the Shadow Operator Services;
Shadow Operator Delivery Plan	means Delivery Plan 5, as set out in Table 5.1 (Delivery Plans and Sub-Plans) of this ITT;
Shadow Operator Financial Management Strategy	means a strategy that contains the approach to financial management of Shadow Operator Services, as set out in Sub-Plan 1.1 of this ITT;
Shadow Operator Minimum Evidential Requirements	means evidential requirements for Delivery Plan 5 – Shadow Operator specified in subsection 5.3.1 of this ITT;
Shadow Operator Procurement Strategy	has the meaning given to it in Sub-Plan 1.1 (Franchise Leadership and Management) of this ITT;
Shadow Operator Programme Management Office or PMO	means the organisation required to carry out the PMO Services;
Shadow Operator Resourcing Strategy	has the meaning given to it in Sub-Plan 1.1 (Franchise Leadership and Management) of this ITT;
Shadow Operator Services	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Shadow Operator Start Date	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Small and Medium-sized Enterprises or SMEs	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Smart Ticketing Scheme	has the meaning given to it in clause 3.1 of the Franchise Agreement;
SO	means Saturday timetable;
Specification	means the requirements of the Delivery Plans and Sub-Plans as set out in Section 5 (Detailed Bid submission requirements – Delivery Plans) (as applicable) of this ITT, or the relevant parts thereof (as the context may require);

Term	Meaning
Specimen Scheme	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Staff Engagement Plan	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Stage 2 Bids	has the meaning given to it in subsection 7.2.2 (Supplementary Rules) of this ITT;
Stage 3 Bids	has the meaning given to it in subsection 7.2.2 (Supplementary Rules) of this ITT;
Stakeholders	includes, without limitation: Office of Rail and Road; other train operators; freight operators; NSARE; RSSB; ATOC/Rail Settlement plan; Trade Unions; Community Rail Partnerships; National Rail Enquiries; Charities; cross-industry bodies; Network Rail; HS2 Ltd; Rail Delivery Group; British Transport Police; local authorities on the route; Transport for London; passenger groups (including Transport Focus and London TravelWatch); and the Franchisee's wider supply chain, including SMEs;
Start Date	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Station	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Station Access Conditions	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Station Asset Management Plan	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Station Social and Commercial Development Plan or SCDP	means the Franchisee's station social and commercial development plan in the agreed terms marked SCDP, as such plan may be updated in accordance with the provisions of paragraph 7 of Schedule 1.7A of the Franchise Agreement;
Strategic Market Report	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Sub-Plan	means those plans as set out in the column headed 'Sub-Plan' in Table 5.1 (Delivery Plans and Sub-Plans) in this ITT;
Successor Operator	has the meaning given to it in clause 3.1 of the Franchise Agreement;

Term	Meaning
SuO	means Sunday timetable;
Supplemental Agreement	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Supplementary Material	means any and all items of Required Supplementary Material or Other Supplementary Material provided with the Bid as those expressions are defined in subsection 6.10 (Supplementary Material) of this ITT;
Sustainable Development Strategy or SDS	has the meaning given to it in clause 3.1 of the Franchise Agreement;
SX	means Monday to Friday timetable;
Target Date(s)	has the meaning given in subsection 5.12.13 of this ITT;
Target Revenue	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Taxation	means any kind of tax, duty, levy or other charge whether or not similar to any in force at the date of the Franchise Agreement and whether imposed by a local, governmental or other competent authority in the United Kingdom or elsewhere;
Tests	has the meaning given to it in subsection 6.14 of this ITT (Updating of EoI financial and economic standing tests (the "Tests") and submission of updated bond provider letter(s));
Tier 1 ICWC Operational Models	means the models listed in subsection 6.3.4.5 of this ITT;
Tier 2 ICWC Operational Models	means the sub models in Tier 2, as described in section 6.3.4 (ICWC Operational Models within the ICWC Modelling Suite) of this ITT;
Timetable	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Timetable Planning Rules or TPRs	has the meaning given to it in the Network Code;
Time to 3 Minutes	has the meaning given to it in clause 3.1 of the Franchise Agreement;

Term	Meaning
Time to 15 Minutes	has the meaning given to it in clause 3.1 of the Franchise Agreement;
TOC	means train operating company;
Track Access Agreement	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Train Fleet	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Train Plan or TP	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Train Service Requirement or TSR	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Train Service Specification	has the meaning given to it in Schedule 18.2 of the Franchise Agreement;
Transitional Programme	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Transport Infrastructure Skills Strategy	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Transport Focus	has the meaning given to it in clause 3.1 of the Franchise Agreement;
TSS Option	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Value for Money	has the meaning given to it in clause 3.1 of the Franchise Agreement;
Variable PCG	has the meaning given to it in subsection 6.13.3 (Funding) of this ITT;
Variable Usage Charge or VUC	means the charge payable to Network Rail to recover its efficient operating, maintenance and renewal costs that vary with traffic. The rates are calculated and published by Network Rail;
WebTAG	means the Department's published Web-Based Transport Analysis Guidance;

Term	Meaning
West Coast Main Line	means the railway line from London to Glasgow with branches to Birmingham, Manchester, Liverpool and Northampton;
West Coast Partnership or WCP	means the Franchise comprising the Franchise Services as set out in the Franchise Agreement;
Worked Examples	has the meaning given to it in subsection 6.11 (Worked examples and modelling Change) of this ITT; and
Year of Breach	has the meaning given to it in subsection 7.7.4 (Consequences of forecast Financial Ratio Breach on evaluation) of this ITT.

A2. Appendix 2: Not used

A3. Appendix 3: Risk Adjustment Process

A3.1 Introduction

- A3.1.1 This Appendix 3 summarises the approach that the Department will adopt in Bid risk adjustment. Sections A3.2-A3.7 set out the approach taken in deriving the Central Risk Adjusted Scenario, while the derivation of the Downside Risk Adjusted Scenario is described in Section A3.8.
- A3.1.2 The Department may elect not to risk adjust one or more Bids if it considers that adjusting them would not change the identity of the winning Bid. It may also elect to only carry out part of the process set out in this Appendix 3, or a simplified process, if it considers that undertaking additional steps would not change the identity of the winning Bid. In making this decision, the Department may take into account the maximum "ICWCP" score that each Bidder could achieve, which will be calculated using the process set out in subsection 7.7 (Evaluation of Financial Robustness), but with the ICWC Financial Model submitted by the Bidder used in place of the Central Risk Adjusted Financial Model.
- A3.1.3 For Bids which are identified to be subject to subsection A3.1.2 above and therefore not risk adjusted, the ICWC Financial Model submitted by the Bidder will be used in place of the Central Risk Adjusted Financial Model, for the purpose of calculating the Risk Adjusted NPV. If, after other Bids are risk adjusted, the Bidder with the highest ICWCP + (n x Q) score is one which was previously not risk adjusted or only part of the process was carried out in accordance with subsection A3.1.2 above, that Bid will be risk adjusted and the Financial Robustness Test (including all steps outlined in subsection 7.7.2 (Assessment of acceptability of financial risk) and subsections 7.7.3 (Calculation of Risk Adjusted NPV) and 7.7.4 (Consequences of forecast Financial Ratio Breach on evaluation), if applicable) will then be undertaken for that Bid before the winning Bid is determined, subject to A3.2.2.
- A3.1.4 All risk adjustments will be made on the basis of the Department's reasonable view of the most credible financial outcome taking into account all relevant information available to it, including new information released after the issue of the ITT, existing industry/Department guidance and research, new research and other evidence put forward by Bidders in associated Delivery Plans or Sub-Plans, the ICWC Record of Assumptions, or any other relevant information submitted with Bids. For

clarity, risk adjustments may use evidence from the Passenger Demand Forecasting Handbook and this may involve all or part of the latest released version at the time of risk adjustment as well as previous versions. The process for deriving such risk adjustments is set out in subsections A3.4 to A3.6.

A3.1.5 The information set out in this Appendix is intended to provide Bidders with as much guidance as possible in relation to how risk adjustments will be made. However, it should be recognised that such guidance can never be complete or apply to all possible situations, as it is not possible to predict in advance of Bid submission how Bidders will construct their Bids and what issues and risks may be identified with each Bid. Ultimately, the key factor in making risk adjustments will be the Department's reasonable view of what constitutes the most credible financial outcome, taking into account all relevant information available to it.

A3.2 Overview of process to derive the Central Risk Adjusted Scenario

A3.2.1 Subject to subsections A3.1.2, A3.1.5, A3.2.2 and A3.2.3, the approach that will be followed is:

A.3.2.1.1 The Bidders' Modelling Suites will be reviewed (including by reference to the Department's comparator model), to identify any issues in the methodology or assumptions used for the cost, revenue or other modelling which in the Department's reasonable view might generate a material risk of a materially different financial outcome from that projected in the Bidders' Modelling Suites (upside or downside).

A.3.2.1.2 In addition to reviewing the Delivery Plans, Franchise Agreement, Modelling Suite and Financial Structure and Funding Plan to assess the overall deliverability and quality of the Bid, the Department will identify whether it has concerns that any of the plans generate a material risk of a materially different financial outcome. Circumstances where these could arise include, without limitation, where:

- i) There are concerns about the operational, commercial or management arrangements set out, and therefore concerns as to whether the Franchise will require additional costs in order to deliver the Initiative, or whether it will generate the revenue that has been forecast;
- ii) There are concerns about the implementation strategy for a particular Initiative, and therefore there is a risk that higher costs or lower revenue will arise than forecast; or

- iii) There are concerns about whether the revenue or cost attributed to an Initiative is achievable, even if the Initiative is implemented successfully, because of concerns about the methodology or assumptions used in the modelling of the impact of the Initiative.

A3.2.1.3 If necessary and appropriate the Department may seek clarification under the clarification process described in subsection 4.14.2 (Engagement with Bidders and evaluation clarification process).

A3.2.1.4 Further to the reviews described above, the Department will determine the values for exogenous revenue factors that it will use in the risk adjusted forecasts for all Bidders, in accordance with subsection A3.4 (Revenue – exogenous). It will also identify any evidence or analysis provided by a Bidder with its Bid which may be relevant to the risk adjustment of another Bid, in accordance with subsections A3.5 (Revenue – excluding exogenous) and A3.6. (Cost).

A3.2.1.5 The Department will then identify the risk adjustment(s) it intends to make to each Bidder's Models ("**Proposed Risk Adjustments**"). The Department will apply any exogenous risk adjustments prior to any endogenous risk adjustments. The basis for such risk adjustments is described below.

A3.2.1.6 The Department will review the consistency of the Proposed Risk Adjustments individually and in aggregate and if necessary it will revise the Proposed Risk Adjustments.

A3.2.1.7 Before finally determining any risk adjustment(s), the Department shall inform the Bidder of the Proposed Risk Adjustments, and its rationale for the Proposed Risk Adjustments. The Department reserves the right not to follow the process referred to in this subsection A3.2.1.7 and subsection A3.2.1.8 in respect of that Bidder unless either of the following applies:

- i) After taking into account the Parent Company Support and the Materiality Threshold in accordance with subsection 7.7 (Evaluation of Financial Robustness), the Proposed Risk Adjustments would result in the Bidder being projected in its Central Risk Adjusted Financial Model to have a Financial Ratio Breach at any point during the Initial Franchise Period; or
- ii) The Financial Robustness Test would result in that Bidder's ranking in terms of $ICWCP + (n \times Q)$ changing from first place based on the maximum "ICWCP" score each Bidder could achieve to a lower final ranking, due to forecast Financial Ratio Breach in the Downside Risk Adjusted Scenario, due to forecast

Revenue Support payments under the Forecast Revenue Mechanism in either or both the Central or Downside Risk Adjusted Financial Models, or due to a combination of the above. The maximum “ICWCP” score each Bidder could achieve will be calculated as set out in subsection A3.1.2.

A3.2.1.8 Where the Department informs a Bidder of the Proposed Risk Adjustments:

- i) It may also raise further questions in relation to the Proposed Risk Adjustments;
- ii) The Bidder will have 5 working days (or such longer period as the Department may specify) to respond to any such questions and comment on the Department’s rationale behind the Proposed Risk Adjustments; and
- iii) The Department will determine the risk adjustments (“**Final Risk Adjustments**”) after receipt of responses or, where no responses are provided, after the date by which responses were to be provided.

The Final Risk Adjustments will then be applied to each Bidder’s Models as appropriate to produce each Bidder’s Central Risk Adjusted Financial Model.

A3.2.2 The Department reserves the right to undertake none, some or all of the stages referred to in subsections A3.2.1.5 to A3.2.1.8 with respect to one or more leading Bid(s), if it determines that undertaking those other stages of the process as described above will have no impact on the selection of the winning Bid.

A3.2.3 The Department reserves the right to develop its own models in order to assist with the calculation or aggregation of risk adjustments.

A3.3 Approach to determining adjustments

A3.3.1 Subject to subsections A3.1.2 to A3.1.4, this subsection describes the approach to determining risk adjustments to factors such as:

- i. Revenue forecasts from Initiatives;
- ii. Exogenous revenue forecasts; and
- iii. Operating, financing and capital cost forecasts.

A3.3.2 Where the Department identifies in its reasonable view a material risk of a materially different financial outcome from that projected in the Bidder's

Modelling Suite, whether with respect to cost or revenue, it may risk adjust either revenue, cost, or both, as appropriate in order to reflect its reasonable view of the most credible financial outcome.

- A3.3.3 Risk adjustment will take into account any risk mitigations already identified by Bidders in their forecasts and reported in the Delivery Plans and ICWC Record of Assumptions.
- A3.3.4 Where a Bidder includes contingency costs and/or revenues in its Financial Model, for the purpose of the risk adjustment process, the Department will assume that the cost will not be incurred and/or that the revenue will not be received (except if the Department considers it appropriate to include contingency cost given the nature of a specific Initiative, for example a capital project).
- A3.3.5 Where appropriate, to reflect the Department's reasonable view of the nature of the potential financial impact of a risk, the risk adjustment applied may be profiled by year to allow for delivery of an Initiative later in the Initial Franchise Period than envisaged in the Bid, or for 'ramp-up' of the Initiative (to allow for a different initial profile of the impacts of the Initiative).
- A3.3.6 Risk adjustments may be either positive or negative, both individually and in aggregate.
- A3.3.7 The Department would not generally make a risk adjustment if it expected that the impact of the adjustment would be no more than £2,000,000 (2019/2020 prices) in any given Franchisee Year or no more than £10,000,000 (2019/2020 prices) in total over the Initial Franchise Period. However, the Department reserves the right to do so, particularly if there are a number of potential risk adjustments individually below this threshold, but which, in aggregate, would exceed it.
- A3.3.8 To demonstrate risk adjustment, examples of risk adjustment are provided in subsection A3.7 (Examples of risk adjustments).

A3.4 Revenue – exogenous

- A3.4.1 Exogenous revenue factors refer to those factors which are predominantly outside of the control of the franchisee such as factors relating to the economy, population, employment, land use and competition from other operators or other modes of transport. Risk adjustments may be made in respect of any of a Bidder's projections of exogenous revenue factors (i.e. projections of those factors which are outside the control of the Bidder,

being the resultant predicted outcome of the methodology, assumptions and values used by the Bidder) or any of a Bidder's projections of the effect of those exogenous revenue factors on revenue, where the Department's reasonable view of the most credible outcome is different to that set out in a Bidder's Modelling Suite (except for GDP, where the risk adjustment is as defined in A3.4.2). For exogenous revenue factors, equivalent values will be used in the risk adjusted forecasts for all Bidders.

A3.4.2 For GDP, the Department will risk adjust this factor to its reasonable view of the most credible outcome, considering one or a range of sources of GDP, including the sources of the forecasts included in the Franchise Agreement, and it may also include new forecast data released from these and other sources after the issue of the ITT. For other exogenous revenue factors and the effect of those factors on revenue, the Department's assessment of the most credible projections of those factors and effects will take into account all relevant information available to the Department. This will be based on the Department's comparator model assumptions, and it may also include emerging outturn data, existing industry/Department guidance and research, new research and other evidence put forward by Bidders in associated Delivery Plans or Sub-Plans, the ICWC Record of Assumptions, or any other relevant information submitted with Bids.

A3.4.3 The GDP forecasts underpinning the revenue forecasts in the Central Risk Adjusted Scenario shall be input to the Central Risk Adjusted Financial Model for the purpose of calculating the corresponding forecast payments under the GDP revenue risk sharing mechanism.

A3.4.4 In determining any risk adjustment, the sources that the Department will take into account may include, but shall not necessarily be limited to:

- i. The demand forecasting guidance in PDFH as specified in sections 6.3.4.11 and 6.3.4.12;
- ii. Rail demand forecasting guidance recommended by WebTAG as specified in sections 6.3.4.11 and 6.3.4.12;
- iii. Other published analysis;
- iv. Departmental commissioned analysis;
- v. Any analysis provided by the Bidder to justify the methodology and assumptions that it has used;

- vi. Any analysis provided by another Bidder with its Bid, to the extent that it is relevant and credible; and
- vii. Forecasts of Exogenous Factors.

A3.4.5 Forecasts of Exogenous Factors include forecasts of (without limitation): GDP, employment, population, non-car ownership, fuel cost, car time, bus cost, bus time, bus headway, and air passengers for airport flows only.

A3.4.6 Bidders should bid their own views of the exogenous factors listed in A3.4.5 and other relevant exogenous revenue factors and the impact of the same on their Modelling Suites. However, the Department will use the Forecasts of Exogenous Factors for the purposes of risk adjustment unless the Department's reasonable view of the most credible outcome as regards to the exogenous factors changes, taking into account all of the information available to it including compelling evidence submitted by Bidders(s) or new data released after the issue of the ITT. The Department reserves the right to update the Forecasts of Exogenous Factors at any time.

A3.4.7 The Department will consider the credibility of the opening (2019/2020) revenue forecast provided by the Bidder and evidenced in the ICWC Record of Assumptions (taking into account the latest management accounts data available and the bridge provided) prior to determining if any risk adjustment for total opening revenue is required.

A3.5 Revenue – excluding exogenous

A3.5.1 Risk adjustments may be made in respect of any of a Bidder's endogenous revenue projections (i.e. the resultant predicted outcome of the methodology, assumptions and values used by the Bidder). For these purposes, endogenous revenue includes revenue from Initiatives, non-farebox revenue, and any other element of its revenue projections other than exogenous.

A3.5.2 Subject to subsection A3.1.4, in determining any risk adjustment, the factors that the Department will take into account may include, but shall not necessarily be limited to:

- i. The demand forecasting guidance in PDFH as specified in sections 6.3.4.11 and 6.3.4.12;
- ii. WebTAG Rail Passenger Demand Forecasting Methodology;
- iii. Departmental commissioned analysis;

- iv. Other published analysis;
- v. The credibility of the delivery proposals, including resources and delivery timescales;
- vi. Any analysis provided by the Bidder to justify the methodology and assumptions that it has used;
- vii. Any analysis provided by another Bidder with its Bid, to the extent that it is relevant and credible; and
- viii. An assessment of whether total projected revenue growth is credible (taking into account the aggregated impact of different factors and Initiatives proposed).

A3.6 Cost

A3.6.1 Risk adjustments may be made in respect of any of a Bidder's operating, financing or capital cost projections (i.e. the resultant predicted outcome of the methodology, assumptions and values used by the Bidder).

A3.6.2 Subject to subsection A3.1.5, in determining any risk adjustment, the approach which will be adopted will be as follows:

- i. Where costs do not depend on Bidder Initiatives or management action (for example, EC4T or diesel unit rates), equivalent values will be used in the risk adjusted forecasts for all Bidders, unless a Bidder provides credible evidence to convince the Department, in its reasonable view, that it will achieve a different financial outcome. Where relevant, the common values may be based on the Department's comparator model assumptions, unless the Department determines that there is more credible alternative evidence available (which, for example, may include Departmental or industry commissioned analysis or analysis provided by the Bidder or another Bidder), in which case it will revise its assumptions accordingly; and
- ii. Where costs depend on Bidder Initiatives or management action, the Department will make an assessment in accordance with subsection A3.6.3 to A3.6.5.

A3.6.3 Bidder's ICWC Financial Model should include their assumptions for payments that they may need to make to the Department, or expect to receive from the Department. Bidders should provide credible evidence to support their assumptions about payments or receipts in their ICWC

Record of Assumptions (with reference to the Delivery Plans where appropriate).

A3.6.4 Risk adjustments may be made in respect of a Bidder's projections for such payments or receipts.

A3.6.5 The factors that the Department will take into account may include, but shall not necessarily be limited to:

- i. The credibility of the delivery proposals, including resources and delivery timescales;
- ii. Any analysis provided by the Bidder to justify the methodology and assumptions that it has used;
- iii. Any analysis provided by another Bidder with its Bid, to the extent that it is relevant and credible; and
- iv. An assessment of whether the overall cost projections are credible (taking into account the aggregated impact of different factors and Initiatives proposed).

A3.7 Examples of risk adjustments

A3.7.1 This subsection A3.7 (Examples of risk adjustments) provides examples of risk adjustments. Both the nature of the Initiatives described, and the types of adjustments set out, should be considered as illustrative only. The Department will undertake risk adjustments in accordance with the principles described in this Appendix 3 (Risk Adjustment Process) and these examples should not be taken to limit how the Department will undertake this.

A3.7.2 A revenue protection Initiative is proposed in order to increase passenger revenue. This Initiative includes purchase of new equipment which, together with additional revenue protection staff and improved processes such as revised deployment of revenue protection officers, is projected to achieve a reduction in ticketless travel and therefore an on-going increase in revenue with no change to the quantum of passengers actually travelling. Risk adjustment could be appropriate, for example:

- i. The timing of implementation could be considered to be unrealistically ambitious, for example if there is insufficient time to recruit and train new staff or to install new equipment, and therefore risk adjustment(s) may be applied to delay the timing of revenue, benefits and operating costs;

- ii. The additional revenue expected to be earned by deploying such staff may be considered unrealistic, and therefore risk adjustment(s) may be applied to reduce the revenue claimed or to increase these costs accordingly;
- iii. The scale of ongoing costs for the additional staff could be considered unrealistically low, or resources may be deployed inefficiently, and therefore risk adjustment(s) may be applied to increase these costs accordingly; or
- iv. One off transition costs may have been overlooked, for example staff recruitment and training costs, and therefore risk adjustment(s) may be applied to add in cost provision for these one off items.

A3.7.3 A station enhancement investment programme Initiative is proposed, to improve passenger satisfaction at a portfolio of stations, and therefore increase passenger revenue. The scope of the programme includes augmenting ticket offices, mobility impaired access, enhanced security, car parking, shelters, waiting rooms and toilet facilities at these stations. Risk adjustment could be appropriate if, for example:

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

forecast, and risk adjustment(s) could be applied to add in some cost provision for this.

A3.7.4 A Bidder proposes enhancements to the customer proposition, in order to generate additional revenue. Examples could include revised branding, refreshment of rolling stock, or provision of enhanced passenger information systems. Risk adjustment could be appropriate if, for example:

- i. The timing of implementation could be considered to be unrealistically ambitious, for example there could be inadequate time to implement the enhancement, and therefore risk adjustment(s) could be applied to delay the timing of revenue and costs associated with the Initiative;
- ii. The costs assumed to implement the enhancements could be considered unrealistically low, and risk adjustment(s) could be applied to increase the costs assumed accordingly;
- iii. The scale, timing, build up or trend of passenger revenue resulting from the enhancements could be considered over-ambitious, for example if the assumptions used are not consistent with PDFH and/or WebTAG or, for example, if proposed revenue uplifts were double counted or overestimated when compared to industry specific market research, and risk adjustment(s) could be applied to scale back the revenue benefits claimed; or
- iv. Transition impacts may have been overlooked, for example any staff training, or loss of rolling stock availability whilst modifications are being carried out. Risk adjustment(s) could be applied to take account of any impacts during transition.

A3.7.5 A Bidder proposes marketing campaigns that represent a significant increase in expenditure from previous levels on this Franchise in order to generate additional revenue. The Bidder provides case studies detailing historical returns from marketing and references evidence, for example, from the PDFH/Passenger Marketing Handbook. The Bidder also details the historical return on investment for the Franchise from the incumbent Franchisee's marketing activities, setting out the return on investment by campaign type and market segment (e.g. commuter, business, leisure etc.). Risk adjustment could be appropriate if, for example, the Department considers, in its reasonable view, that the anticipated returns on investment are too high because:

- i. the Bidder has not provided credible evidence detailing the specifics of how the proposed marketing campaigns using different media will generate the anticipated volume of additional journeys; or
- ii. the Bidder has not provided credible evidence from appropriate case studies and campaigns to demonstrate the effectiveness of its proposed marketing campaigns.

In these circumstances, risk adjustment(s) may be applied to reduce the passenger revenue benefits claimed, potentially limiting returns from marketing investment to, or close to, recently achieved levels of returns for similar campaigns for comparable market segments and railways.

A3.7.6 A Bidder proposes to sell a greater proportion of tickets via new ticketing technology, equipment and media including increased usage of internet and mobile ticket sales channels and investment in Ticket Vending Machines. It is also proposing a programme of ticket office closures. Risk adjustment could be appropriate if, for example:

- i. The timing of implementation could be considered to be unrealistically ambitious, for example there could be inadequate time to establish the new ticket selling channels and therefore risk adjustment(s) could be applied to delay the timing of revenue benefits and the reduction of staff costs associated with the Initiative; or
- ii. The costs assumed to implement the Initiative could be considered unrealistically low, and risk adjustment(s) could be applied to increase the costs assumed accordingly.

A3.7.7 A Bidder assumes low rates of wage increases which are below historical levels of wage growth for similar train operating companies including the incumbent operator. The Bidder does not provide evidence that its assumed wage increases are consistent with market expectations of wage increases and does not demonstrate an effective and credible approach that will enable it to recruit and retain staff with this level of wage increase. Risk adjustment(s) may be applied to increase staff costs in line with forecast economic indicators and market trends.

A3.7.8 A Bidder proposes to reduce levels of staffing to such an extent that this is considered to represent a risk to on-going deliverability of the Bidder's commitments in one or more area of the Franchise. Risk adjustment could be applied to add in additional staff (including head office, management

and supervisory and operational staff) and associated employment and other on-costs. If appropriate, the revenue forecast could also be subject to risk adjustment to reflect the impact of reductions in staffing levels on passenger and other revenues.

- A3.7.9 A Bidder assumes growth in EC4T unit rates materially lower than is considered realistic. A risk adjustment could be applied to increase these costs, for example by developing credible estimates for how each of the components of the unit rate would inflate over time or to reflect more credible alternative forecasts of the trend in energy costs provided by government agencies or independent forecasting bodies. As described in A3.6.2i, the Department will use equivalent rates for EC4T rates in risk adjustment forecasts for all Bidders, unless a Bidder provides credible evidence to convince the Department, in its reasonable view, that it will achieve a different financial outcome.
- A3.7.10 A Bidder assumes significant benefits from alliancing that are not adequately justified. Risk adjustment(s) may be applied to reduce any claimed benefits or cost savings to the extent that these are considered over-ambitious.
- A3.7.11 A Bidder proposes replacing a portion of the existing rolling stock fleet with new trains. The new trains will have higher quality interior standards, enjoy new facilities such as real time customer information and improved security, have enhanced ride quality and contain features such as air conditioning and Wi-Fi. Risk adjustment could be appropriate if, for example:
- i. The costs assumed to bring the new trains into passenger service, including transition costs could be considered unrealistically low, and risk adjustment(s) could be applied to increase the costs assumed accordingly; or
 - ii. The timing of implementation could be considered to be unrealistically ambitious, for example there may be insufficient time allowed to build, test and accept the trains and risk adjustment(s) could be applied to increase the costs assumed accordingly and/or delay the timing of any associated revenue; or
 - iii. The scale, timing, build up or trend of passenger revenue resulting from the new trains could be considered over-ambitious, for example if the assumptions used are not consistent with PDFH and/or WebTAG. The Bidder may have claimed, for example, an uplift in

revenue based on the current rolling stock being considered poor when the existing fleet is in a good condition or may have claimed revenue uplifts for features already available on the existing fleet. The Bidder may also have double counted or overestimated revenues when compared to industry specific market research, and risk adjustment(s) could be applied to reduce the revenue benefits claimed;

- A3.7.12 A Bidder proposes a timetable change to operate additional train services either within or beyond the geographic scope of the franchise. The timetable change may abstract passenger revenue from other train operators. The proposed timetable change could also lead to a competitor response from other train operators who propose new or enhanced services to compete with the Bidder for market share. Risk adjustment could be appropriate if, for example:
- i. The scale, build up and timing of assumed passenger revenue arising from the timetable change including revenue abstracted from other train operators is considered over ambitious; or
 - ii. The scale, build up and timing of passenger revenue arising from the timetable change is considered over ambitious once the competitor response has been assessed.

A3.8 Overview of process to derive the Downside Risk Adjusted Scenario

- A3.8.1 The Downside Risk Adjusted Scenario will be constructed at an aggregate level in each relevant year using the generalised methodology described below.
- A3.8.2 The forecast FRM Revenue in the Downside Risk Adjusted Scenario will be derived from the forecast of FRM Revenue in the Central Risk Adjusted Scenario, as set out in subsections A3.8.3-A3.8.5 below. All such calculations will be carried out in real prices.
- A3.8.3 First, the lower of the forecast FRM Revenue in the Bid and in the Central Risk Adjusted Scenario in each full forecast year from 2018/2019 and each part year will be selected, to give the “**Constrained Central Risk Adjusted FRM Revenue Forecast**”.
- A3.8.4 Two variants of the Constrained Central Risk Adjusted FRM Revenue Forecast will be constructed as follows:
- i. 1% reduction in year-on-year growth: where, for each year from and including 2019/2020 onwards, the year-on-year growth in the

Constrained Central Risk Adjusted FRM Revenue forecast is reduced by 1%; and

- ii. Risk adjustment magnitude increase: where, in each year from and including 2019/2020 onwards, the difference between the Bid forecast of FRM Revenue and the Constrained Central Risk Adjusted FRM Revenue Forecast is multiplied by 1.5.

For each full Franchisee Year in the Initial Franchise Period the forecast of FRM Revenue in the Downside Risk Adjusted Scenario will be the lower of that in these two variants.

- A3.8.5 The forecast of FRM Revenue in the Downside Risk Adjusted Scenario for part years will be derived using the process above for the equivalent full years, with the part year forecast derived using the same part/full year ratio of FRM Revenue as in the Central Risk Adjusted Scenario.
- A3.8.6 The difference in the forecast of FRM Revenue between the Central Risk Adjusted Scenario and the Downside Risk Adjusted Scenario in each Franchisee Year will be input into a copy of the Central Risk Adjusted Financial Model as an absolute annual reduction to passenger revenue (i.e. assuming that all of the difference in FRM Revenue is accounted for by passenger revenue) in the ICWC Financial Model input price base, in order to create the Downside Risk Adjusted Financial Model. The forecast of FRM Revenue in the Downside Risk Adjusted Scenario will then be used to calculate a forecast of Revenue Support payments in the Downside Risk Adjusted Financial Model, which will be accounted for in the calculation of the Downside Risk Adjusted NPV.
- A3.8.7 The forecasts for non-passenger revenue, operating costs and capital costs in the Downside Risk Adjusted Scenario shall be equal to those in the Central Risk Adjusted Scenario, regardless of any dependencies in the Central Risk Adjusted Financial Model between any such revenue or cost items and passenger revenue. In particular, the modelled payments under performance and incentive regimes in the Franchise Agreement specified under Schedules 7.1A to 7.3A and the payments required pursuant to Schedule 6.3A of the Franchise Agreement will be identical to those in the Central Risk Adjusted Financial Model, regardless of whether or not net Revenue Support or Revenue Share payments under the Forecast Revenue Mechanism are projected in each Franchisee Year in the Downside Risk Adjusted Scenario.

A3.8.8 The GDP inputs to the Downside Risk Adjusted Financial Model, used to calculate the forecast payments under the GDP revenue risk-sharing mechanism shall be equal to those in the Central Risk Adjusted Financial Model.