



Department
for Transport

South Eastern Franchise

Invitation to Tender

November 2017

WITHDRAWN JANUARY 2026

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Contents

| | |
|---|-----------|
| Section 1: Introduction | 6 |
| 1.1 Introduction | 6 |
| 1.2 Form of Contract | 6 |
| 1.3 Exceeding the Department's requirements | 6 |
| 1.4 Communications | 7 |
| 1.5 Structure of this ITT | 7 |
| 1.6 Other documents | 8 |
| 1.7 Franchise Letting Process Agreement | 8 |
| 1.8 Commencement of the South Eastern Franchise | 8 |
| 1.9 Liability for costs, updates and termination | 8 |
| 1.10 Defined terms | 9 |
| Section 2: Scope and Objectives | 10 |
| 2.1 Scope of the South Eastern Franchise | 10 |
| 2.2 Franchise Objectives | 10 |
| 2.3 Evaluation of Financial Robustness | 11 |
| Section 3: Information and Instruction to Bidders | 13 |
| 3.1 Applicability of this document | 13 |
| 3.2 Accuracy of information and liability of the Department and its representatives | 13 |
| 3.3 Intellectual property | 14 |
| 3.4 Industry consultation and disclosure of information in Bids | 14 |
| 3.5 Non-compliant Bids | 15 |
| 3.6 Automatic elimination | 17 |
| 3.7 Right to disqualify Bidders | 18 |
| 3.8 Data Site and AWARD | 18 |
| 3.9 Bidder Clarification Questions | 18 |
| 3.10 Transparency and Freedom of Information | 20 |
| 3.11 Competition Matters | 21 |
| 3.12 Regulation (EC) 1370/2007 | 25 |
| 3.13 Changes to information or circumstances | 26 |
| 3.14 Variations to the Franchise Agreement | 27 |
| 3.15 HS1 Access Charges | 28 |
| 3.16 Pensions | 28 |
| 3.17 Form of Tender | 29 |
| Section 4: Explanation of Requirements for Bid Submission and Overview of Process following Bid Submission | 30 |
| 4.1 Preparation of Bids | 30 |
| 4.2 Franchising timetable and process | 30 |
| 4.3 Structure and format of Bids | 31 |
| 4.4 Page limits, size of text, other formatting | 35 |

| | |
|--|------------|
| 4.5 Annexes and appendices..... | 37 |
| 4.6 Letters of Support..... | 37 |
| 4.7 Cross referencing..... | 37 |
| 4.8 Bid consistency | 37 |
| 4.9 Language | 38 |
| 4.10 Monetary amounts | 38 |
| 4.11 Submission of Bids..... | 38 |
| 4.12 Presentations | 40 |
| 4.13 Validity of Bids..... | 40 |
| 4.14 Process following Bid submission..... | 40 |
| 4.15 Voluntary standstill period | 46 |
| Section 5: Detailed Bid submission requirements - Delivery Plans..... | 47 |
| 5.1 Introduction..... | 47 |
| 5.2 Residual Value Mechanism..... | 49 |
| 5.3 Thameslink Programme | 53 |
| 5.4 GTR Cascade..... | 55 |
| 5.5 Delivery Plan 0 - Bid Summary | 56 |
| 5.6 Delivery Plan 1 – Franchise Management..... | 57 |
| 5.7 Sub-Plan 1.1 Leadership and Sustainability | 57 |
| 5.8 Sub-Plan 1.2 Alliancing and Partnering | 61 |
| 5.9 Delivery Plan 2 - Train Services and Performance..... | 73 |
| 5.10 Sub-Plan 2.1 Train Services | 73 |
| 5.11 Sub-Plan 2.2 Rolling Stock | 90 |
| 5.12 Sub-Plan 2.3 - Performance..... | 109 |
| 5.13 Delivery Plan 3 - Revenue | 112 |
| 5.14 Sub-Plan 3.1 Marketing and Branding..... | 112 |
| 5.15 Sub-Plan 3.2 Fares, Ticketing and Revenue Protection..... | 114 |
| 5.16 Delivery Plan 4 - Customer Experience and Stations..... | 120 |
| 5.17 Sub-Plan 4.1 - Customer Experience | 120 |
| 5.18 Sub-Plan 4.2 Stations | 125 |
| Section 6: Detailed Bid submission requirements - Financial | 130 |
| 6.1 Introduction..... | 130 |
| 6.2 Errors in Models and/or Record of Assumptions | 132 |
| 6.3 Financial and Operational Model requirements | 133 |
| 6.4 Assumptions..... | 166 |
| 6.5 Record of Assumptions | 169 |
| 6.6 Operating Manual..... | 176 |
| 6.7 Change..... | 177 |
| 6.8 Reviews and audit of Models | 181 |
| 6.9 Financial Structure and Funding Plan..... | 189 |

| | |
|--|------------|
| 6.10 Updating of EoI financial and economic standing tests (the “Tests”) and submission of updated bond provider letter(s) | 196 |
| Section 7: Evaluation Criteria and Methodology | 197 |
| 7.1 Introduction..... | 197 |
| 7.2 Definition of MEAT for the Competition..... | 197 |
| 7.3 Quality and deliverability evaluation..... | 200 |
| 7.4 Evaluation impact of Inconsistent Initiatives | 208 |
| 7.5 Modelling Change tests..... | 210 |
| 7.6 Evaluation of Financial Robustness..... | 211 |
| 7.7 Evaluation impact of contractual treatment of Bidders’ Initiatives..... | 222 |
| 7.8 Interaction between evaluation scores and the Financial Robustness Tests | 223 |
| 7.9 Impact of review of financing and funding proposals | 224 |
| 7.10 Delivery Sub-Plan non-compliance | 224 |
| 7.11 Conversion of evaluation scores into Quality Scores..... | 225 |
| 7.12 Rebid | 226 |
| 7.13 Negotiations | 227 |
| A1. Appendix 1: Glossary..... | 227 |
| A2. Appendix 2: Not used | 239 |
| A3. Appendix 3: Risk Adjustment..... | 240 |
| A3.1 Introduction..... | 240 |
| A3.2 Overview of process to derive the Central Risk Adjusted Scenario..... | 241 |
| A3.3 Approach to determining adjustments | 244 |
| A3.4 Revenue – exogenous | 245 |
| A3.5 Revenue – excluding exogenous..... | 246 |
| A3.6 Cost | 247 |
| A3.7 Examples of risk adjustments | 248 |
| A3.8 Overview of process to derive the Downside Risk Adjusted Scenario | 253 |

ITT ATTACHMENTS

ATTACHMENT A – TRAIN SERVICE SPECIFICATION
 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 AGREEMENT
 ATTACHMENT H – NOT USED
 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 South Eastern 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 Exceeding the Department’s requirements

- 1.3.1 The Department is seeking ambitious and innovative Bids which are also deliverable. The competition evaluates and values quality in two ways:

- a) By offering Bidders the opportunity to meet (and, where appropriate, exceed) the Department's minimum requirements for the South Eastern Franchise ("**South Eastern**", "**SEF**" or "**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.

1.3.2 More information on how Bids will be evaluated is set out in subsection 7.3.5 (Scoring Methodology).

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 South Eastern Franchise are made through AWARD (as described further in subsection 3.9 (Bidder Clarification Questions)) or by email to SouthEasternFranchise@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 South Eastern competition.

1.5 Structure of this ITT

1.5.1 This ITT provides:

- a) The scope and objectives of the South Eastern Franchise (Section 2 - Scope and Objectives);
- b) Information and instructions to Bidders (including instructions on how to access the detailed information available regarding the South Eastern Franchise and the processes for enquiries, communications, amendments and clarifications to the ITT during the Bid period) (Section 3 - Information and Instruction 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 South Eastern 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 South Eastern Franchise Competition Prospectus published on 28 March 2017. 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 South Eastern Franchise

- 1.8.1 The Department's aim is for the new South Eastern Franchise to commence operations with effect from 02:00 1 April 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.

WITHDRAWN JANUARY 2026

Section 2: Scope and Objectives

2.1 Scope of the South Eastern Franchise

2.1.1 The South Eastern 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

The following objectives were published in the franchise prospectus issued to the Bidding market in March 2017, prior to the Expression of Interest deadline:

- Making more space for passengers
- Improving performance
- Making passengers feel like valued customers
- Improving connectivity
- Improving the timetable
- Simplifying fares and ticketing
- Improving stations
- Working with others
- Capability
- Sustainability

2.2.2 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.

2.2.3 The Forecast Revenue Mechanism will be implemented as described in the table below.

To limit the Franchisee's exposure to revenue risk, the Forecast Revenue Mechanism (FRM) will be implemented on the South Eastern Franchise, and is reflected in this ITT and in Schedules 6.3 and 8.6 of the draft Franchise Agreement. The Forecast Revenue Mechanism operates to transfer partial revenue risk to the Department and will be available from the Franchisee Year beginning 1 April 2020. For full details of the FRM calculations, Bidders should consult the relevant schedules of the draft Franchise Agreement.

For each Franchisee Year in which FRM applies, the Department will

review the Franchisee's actual FRM Revenue in each reporting period against the bid Target Revenue.

- As described in paragraphs 5 and 6 of Schedule 8.6, if outturn FRM Revenue is less than 97% of Target Revenue, Revenue Support payments equal to 80% of the difference will be payable to the Franchisee from the Department.
- As described in paragraphs 3 and 4 of Schedule 8.6, if outturn FRM Revenue is more than 103% of Target Revenue, Revenue Share payments equal to 80% of the difference will be payable to the Department from the Franchisee.
- As described in paragraph 5.3 of Schedule 8.6, if Net Revenue Support is payable in a Franchisee Year, then the Profit Share Thresholds will be adjusted as specified in Appendix 1 of Schedule 8.2.

Schedule 6.3 of the draft Franchise Agreement contains Contractual Incentive Mitigations which may apply. These introduce additional Franchisee obligations in areas including marketing, train maintenance and fares. Where appropriate, different or additional payment rates may apply in some areas such as operational performance and ticketless travel.

2.3 Evaluation of Financial Robustness

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 in subsection 7.6.1 (Financial Robustness Test)) has been amended from the approach used on previous franchise competitions.

The amended 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 7.6 (Financial Robustness Test) 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 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 Core Franchise Term and is therefore deemed to have unacceptable financial risk, except as described in subsection 7.6.2.11. The Department will also reduce a Bidder's Evaluated Payments for any forecast FRM Revenue Support payments in these two scenarios. However, the calculation and evaluation of Required Parent Company Support will remain unchanged.

The Modelling Change requirements set out in subsection 6.7 (Change) have also been amended and Bids may be found to be non-compliant if the 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 6.5.2j) to provide a detailed explanation of how the opening revenue forecast has been derived in the Record of Assumptions.

WITHDRAWN JANUARY 2020

Section 3: Information and Instruction 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 Steer Davies Gleave ("**SDG**"), PricewaterhouseCoopers LLP ("**PwC**"), Roland Berger Limited ("**Roland Berger**") and DLA Piper UK LLP ("**DLA Piper**") are acting for the Department in relation to the award of the South Eastern Franchise. The advisors do not and will not regard any other person as their client in relation to the award of the South Eastern 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

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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 HMT, ORR, Transport for London, Transport Focus, London TravelWatch, Rail Safety and Standards Board, HS1 Limited 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) occur, 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 (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.
- 3.5.4 Where the Department decides not to reject the Bid, 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 Modelling Suite for the purposes of running the FRT 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 7.6,

except that the scoring of the Bid (including both P 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.

3.5.5 Where the Department determines that it is not appropriate to reject the Bid, or to complete the evaluation of the Bid and address the non-compliance through 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 but not limited to:

- a) Disregarding the non-compliance;
- b) Adjusting the requirements of this ITT, and giving all Bidders the opportunity to adjust or update their Bids to reflect the revised requirements; or
- c) 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) or subsection 7.10 (Delivery

Sub-Plan non-compliance) (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) or subsection 7.10 (Delivery Sub-Plan non-compliance) 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, 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.

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 3.5.8 will apply).

Table 3.2 Elimination events

| Elimination event |
|---|
| A Bidder uses MOIRA2, its component parts or intermediate outputs for modelling revenue impacts, timetable changes, crowding or any other purpose. |
| A Bidder uses MOIRA2.2, a model which comprises the timetable/revenue tool, in combination with an iterative crowding module, to provide inputs into the revenue model. |
| A Bidder is projected in its Central Risk Adjusted Financial Model to breach the Financial Ratios at any point during the Core Franchise Term, except as described in 7.6.2.11, 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 3.5.8 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 South Eastern Franchise pre-qualification process.

3.8 Data Site and AWARD

3.8.1 The Department has established a web based data site for the South Eastern 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 South Eastern 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 South Eastern 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 (Detailed Bid submission requirements - Delivery Plans).
- 3.9.7 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 for this competition will, in the

absence of any extension, be **14 February 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.
- 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 FOIA and/or 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 (Non-compliant Bids) of the Franchise PPD 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 Freedom of Information Act 2000 ("**FOIA**") or the Environmental Information Regulations 2004 ("**EIR**"), such that they may be exempt from disclosure under FOIA and/or EIR. Bidders should provide reasons why such information should not be disclosed in response to any request and an estimate of the period of time during which the Bidders believe that such information will remain exempt from disclosure.

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.

3.13 Changes to information or circumstances

3.13.1 Bidders should note that the sections of the FLPA and the Franchise 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 South Eastern 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 6.10 (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 9.3 of the Franchise Agreement and the ability of the Secretary of State to amend the contracted TSR (Train Service Requirements). 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 South Eastern 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 South Eastern 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 South Eastern Franchise proposition taking into account the need to be able to vary the nature, quantity and manner of delivery of South Eastern 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 South Eastern 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 HS1 Access Charges

- 3.15.1 Bidders should note that the current track access agreement between HS1 Limited and LSER does not expressly deal with the treatment of payments which are made in advance on a quarterly basis, where the track access agreement terminates other than on that payment date. It may therefore be necessary for the new franchisee to be paid sums in advance of the Start Date in order to pay elements of the track access charge which are paid in advance on a quarterly basis on or before the Start Date, dependent upon the approach that is agreed with HS1 Limited (and if necessary LSER) to ensure that payments are made in accordance with both the existing track access agreement and the new Franchisee's track access agreement.

3.16 Pensions

- 3.16.1 Bidder's attention is drawn to Schedule 16 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 (Protection and Designation of Schemes)
Order 1994 (SI1433) or otherwise.

3.17 Form of Tender

- 3.17.1 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.

WITHDRAWN JANUARY 2026

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 subsection 4.14.3 (Contractualisation).
- 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 (Franchising timetable) below.

Table 4.1 Franchising timetable

| Description | Party Responsible | Planned Date |
|--|-----------------------------------|--|
| Submission of Bids | Bidders | By noon on 14 March 2018 |
| <ul style="list-style-type: none"> Evaluation of Bids, clarification, drafting of Committed Obligations Secretary of State consent and HMT approval to the South Eastern award | The Department and Bidder(s) | <ul style="list-style-type: none"> From 16 March 2018 October to November 2018 |
| Planned Franchise award and preparation for commencement of Franchise | The Department and the Franchisee | November 2018 – April 2019 |
| Start of Franchise | Franchisee | 1 April 2019 |

4.3 Structure and format of Bids

4.3.1 Bidders are required to provide the material set out in Table 4.2 (Structure and format of Bids) 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 - 4 as required by Section 5 (Detailed Bid submission requirements - Delivery Plans) | 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 including annexes and appendices |
| | Letters of Support | One electronic copy submitted through AWARD One electronic copy submitted in CD or DVD format | Max 10 pages each |

| Part | Areas | Submission Requirements | Size limit |
|----------|--|---|---|
| 2 | Financial | | |
| | Operational Models and Financial Model as required by Section 6 (Detailed Bid submission requirements - Financial) | <p>One electronic copy submitted through AWARD</p> <p>One electronic copy submitted in CD or DVD format</p> <p>PDF of worksheets of Tier 1 Operational Models that directly interface with the Financial Model or other Tier 1 Operational Models (note: it is only the interface worksheet of each Tier 1 Operational Model that is required); one electronic copy of these PDF files through AWARD and one in CD or DVD format.</p> | 75MB maximum size per Microsoft Excel workbook (See Section 6 (Detailed Bid submission requirements - Financial)) |
| | <p>PDFs of the populated financial templates;</p> <p>Record of Assumptions, required by subsection 6.5 (Record of Assumptions) plus supporting xls sheets where required;</p> <p>Operating Manual, required by subsection 6.6 (Operating Manual);</p> <p>Modelling Best Practice Confirmation, required by subsection 6.8.2 (Modelling Best Practice Confirmation);</p> <p>Financial Structure and Funding Plan, financial adviser's letter, Parent Company Support and Bonding, required by subsection 6.9 (Financial Structure and Funding Plan);</p> <p>Any other term sheets or financing arrangements for projects;</p> <p>Confirmation of bond availability, required by subsection 6.9.1 (Bid requirements);</p> <p>Update of financial information to update</p> | <p>One electronic copy submitted through AWARD</p> <p>One electronic copy submitted in CD or DVD format</p> | None |

| Part | Areas | Submission Requirements | Size limit |
|----------|---|--|------------|
| | Financial tests, required by subsection 6.10 (Updating of EoI financial and economic standing tests (the “Tests”) and submission of updated bond provider letter(s)); and ROSCO term sheets required by (subsection 5.11 Sub-Plan 2.2 (Rolling Stock)) | | |
| 3 | Technical Data | | |
| | The following details should be submitted in support of the main text of the Bid submission: The technical data required in Table 5.2 (Operational data required as part of Bids) and subsection 5.8.22l) (<i>Technical Annex: Digital Rail</i>) in the format described in subsection 4.11 (Submission of Bids) | One electronic copy submitted through AWARD One electronic copy submitted in CD or DVD format | None |

| Part | Areas | Submission Requirements | Size limit |
|------|--|---|------------|
| 4 | Legal and compliance | | |
| | <p>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.</p> <p>Non-compliance statements as required by subsection 3.5 (Non-compliant Bids)</p> <p>Statement of competition matters as required by subsection 3.11 (Competition Matters)</p> <p>FOIA statement if submitted in accordance with subsection 3.10 (Transparency and Freedom of Information)</p> <p>A completed Form of Tender as required by subsection 3.17 (Form of Tender)</p> | <p>One electronic copy submitted through AWARD</p> <p>One electronic copy submitted in CD or DVD format</p> | None |
| 5 | Schedule of Initiatives (as required by subsection 4.14.3 (Contractualisation)) | <p>One electronic copy submitted through AWARD</p> <p>One electronic copy submitted in CD or DVD format</p> | None |

4.3.2 Table 4.3 below lists the Agreed Documents required as part of the 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 (Detailed Bid submission requirements - Financial).

| Agreed Documents | ITT Section (where applicable) | Included within page limit? |
|---|---|-----------------------------|
| | | |
| Alliance Agreement | Sub-Plan 1.2 (Alliancing and Partnering) | No |
| Customer and Stakeholder Engagement Strategy | Sub-Plan 1.2 (Alliancing and Partnering) and Sub-Plan 4.1 (Customer Experience) | Yes |
| Train Service Requirements (Technical Annex) | Sub-Plan 2.1 (Train Services) | No |
| Bid Fares Strategy | Sub-Plan 3.2 (Fares, Ticketing and Revenue Protection) | No |
| Draft Community Rail Report | Sub-Plan 4.1 (Customer Experience) | No |
| Passenger's Charter | Sub-Plan 4.1 (Customer Experience) | No |
| Station Social and Commercial Development Plan | Sub-Plan 4.2 (Stations) | Yes |
| Financial Model | Section 6 (Detailed Bid submission requirements - Financial) | No |
| Record of Assumptions | Section 6 (Detailed Bid submission requirements - Financial) | No |

4.4 Page limits, size of text, other formatting

4.4.1 The size of the main text of Delivery Plans 1 - 4, including annexes and appendices in accordance with subsection 4.5 (Annexes and appendices) below, will be limited to 1000 pages. 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);
 - e) Covers, section dividers and indices where these do not contain substantive parts of the Bid;
 - f) Letters of Support, compliant with subsection 4.6.1, submitted as supporting evidence for a Delivery Plan; and
 - g) The contents of the Schedule of Initiatives template as described in Table 4.4 (Schedule of Initiatives).
- 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 4.3 (List of Agreed Documents), will be included within the page limit where specified in Table 4.3 (List of Agreed Documents). 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 pages 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 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 revenue model; and
 - ii) The version(s) of MOIRA1 that have been used to populate the 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 12:00 14 March 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:

SEF_ [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 - South Eastern Bid submission 14 March 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 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 the Modelling Suite works (i.e. from a functional and practical perspective) and not to discuss any aspects of the contents of the Bidder's 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.

- 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

- 4.14.3.1 The Department expects the winning Bidder to deliver everything set out in its Bid. The Department will wish to contract 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 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 Record of Assumptions and the 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 (Schedule of Initiatives). Each Initiative should conform to the template layout provided for this purpose, South Eastern Example Initiative template, located in folder '01 ITT & 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 |
| 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 Core Franchise Term |
| Whether the Initiative applies to the whole Franchise or to one of the Separable Business Units |

4.14.4 Intention to award

- 4.14.4.1 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.

4.14.5 Signature of the Franchise Signature Documents

- 4.14.5.1 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.

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

- 4.14.6.1 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.

- 4.14.6.2 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 to be 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.

WITHDRAWN JANUARY 2026

Section 5: Detailed Bid submission requirements - Delivery Plans

5.1 Introduction

- 5.1.1 Bidders are required to submit 5 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 below.

Table 5.1 Delivery Plans and Sub-Plans

| Delivery Plan | Sub-Plan |
|-------------------------------------|---|
| 0. Bid Summary | Not applicable |
| 1. Franchise Management | 1.1 Leadership and Sustainability |
| | 1.2 Alliancing and Partnering |
| 2. Train Service and Performance | 2.1 Train Services |
| | 2.2 Rolling Stock |
| | 2.3 Performance |
| 3. Revenue | 3.1 Marketing and Branding |
| | 3.2 Fares, Ticketing and Revenue Protection |
| 4. Customer Experience and Stations | 4.1 Customer Experience |
| | 4.2 Stations |

- 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 (Detailed Bid submission requirements - Delivery Plans).
- 5.1.4 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 Sub-Plan, Bidders shall provide relevant and credible evidence that supports their proposals, and the delivery of those proposals, for each Sub-Plan. Such evidence must include, as a minimum (the "**Minimum Evidential Requirements**"):
- 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);

- 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 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.

5.1.5 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 Sub-Plans, examples of how a Bidder may exceed the Department's requirements. These examples are illustrative only and therefore not exhaustive. Where no examples are given, Bidders may still provide additional Initiatives, but note subsection 5.1.6. 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.

5.1.6 Details of how each Sub-Plan will be evaluated (including Table 7.3 (South Eastern marking framework and guidance)) are set out in subsection 7.3.5 (Scoring Methodology).

5.1.7 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.

- 5.1.8 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 on them, will not attract evaluation credit.
- 5.1.9 Bidders' attention is drawn to subsection 4.7 (Cross referencing) of this ITT.

5.2 Residual Value Mechanism

- 5.2.1 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 Core Franchise Term. The Residual Value Mechanism may be used to promote investment in Sub-Plans 2.2, Sub-Plan 3.2 and Sub-Plan 4.2. 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;
 - b) Any asset or Scheme proposed must not exceed a capital cost of £80 million (2018/19 prices). The residual value of the asset payable at the end of the Core Franchise Term 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 Franchise Term must be borne by the Franchisee and may not be passed on to a Successor Operator;

- c) The useful economic life of the asset or each asset comprised in a Scheme must be greater than the Core Franchise Term 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 £120 million (2018/19 prices);
- e) Any asset or Scheme proposed shall be delivered and brought into use at least three years prior to the end of the Core Franchise Term, 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 Core Franchise Term 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 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 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. This means that the Successor Operator will not be required to assume any liabilities associated with any third party funding and such funding arrangements will not transfer to the Successor Operator or 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 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 5.2.4.

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

- a) Reserves the right to amend the marked up version of the Franchise Agreement submitted by the Bidder 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 (Contractualisation); 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).

5.2.3 Bidders must populate the relevant parts of the Appendix to Schedule 14.6 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 Expiry Date of the Franchise Agreement. For this purpose, the Bidder should assume the Expiry Date will be the date derived from limb (a) of the definition of "Expiry Date" (as Schedule 14.6 of the Franchise Agreement provides for the effect on the transfer value of an asset in an Extension Period).

5.2.4 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 5.2.1g)) 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 Core Franchise Term 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; and
- 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 asset will qualify as a Network Rail Fixture Asset, including, where the proposed RV Asset is to be located on Network Rail land, a supporting letter from Network Rail in the form of the template at Attachment J.

5.2.5 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 (Engagement with Bidders and evaluation clarification process).

5.3 Thameslink Programme

5.3.1 The implementation of the next phase of the Thameslink Programme is due to take place prior to the Start Date and is likely to have impacts on the Timetable at (or prior to) the Start Date. Unless otherwise instructed in this paragraph 5.3.1, Bidders are expected to use the draft Timetable for the Passenger Change Date in May 2018 which has been made available to Bidders on the Data Site (titled the 'D26' timetable offer from Network Rail) (the “**Draft Thameslink Timetable**”) to form the basis of their timetabling assumptions in respect of the Thameslink Programme.

5.3.2 Network Rail is expected to provide a response to the Draft Thameslink Timetable before the date for the Bid submission. The details of the Network Rail Thameslink Response will be provided to Bidders as soon as practicable after it becomes available. Bidders are advised to plan their Bid preparation on the basis that it is anticipated that the Network Rail Thameslink Response will be available before the date for Bid submission.

Material changes to the Thameslink Assumptions

5.3.3 Where, in the Department's opinion, the Network Rail Thameslink Response leads to material changes being made to the timetable set

out in the Draft Thameslink Timetable, the Department shall in its sole discretion elect to:

- a) take no further action; or
- b) re-issue to Bidders the timetabling assumptions for the Thameslink Programme based on the Network Rail Thameslink Response and either:
 - i) extend the date for Bid submission by a period of up to 6 weeks to allow the Bidders to take into account the changes; or
 - ii) not extend the date for Bid submission but require the Bidders to submit revised Bids, or revised sections of their Bids, in order to take into account the impact of those changes on Bids only. In this instance, the provisions of subsection 7.12 (Rebid) will apply.

Negotiation with Bidders

5.3.4 The Department reserves the right to enter into discussions with one or more Bidders after Bid (or re-bid as the case may be) submission in order to optimise and refine Bids to reflect any emerging changes and issues arising from the implementation of the Thameslink Programme in May 2018. Such discussions may lead to the amendment of previously submitted Bids.

Rainham Services

5.3.5 The Bidders are to assume that the Rainham Services will be operated by the Thameslink Operator from the Start Date. In the event that the Secretary of State instructs the Franchisee that the Thameslink Operator will assume the operation of the Rainham Services at a later date, this shall constitute a Change. This Change will be limited to dealing with the change of costs for the Franchisee in running the Rainham Services from the Start Date to the revised date for takeover by the Thameslink Operator, taking into account the revenue that the Franchisee will receive in relation to the operation of such services. Bidders shall set out the costs and revenues relating to this Change clearly in the Financial Model to assist in the determination of such a Change should it arise during the life of the Franchise.

Maidstone East Services

5.3.6 The Bidders are to assume that the Maidstone East Services will be operated by the Thameslink Operator from the Passenger Change Date in December 2019. In the event that the Secretary of State instructs the Franchisee that the Thameslink Operator will assume the operation of the Maidstone East Services at an earlier or later date, this shall constitute a Change. This Change will be limited to dealing with the change of costs for the Franchisee in running the Maidstone East Services for a longer or shorter period than proposed, taking into account the revenue that the Franchisee will continue to receive or no longer receive in relation to the operation of such services. Bidders shall set out the costs and revenues relating to this Change clearly in the Financial Model to assist in the determination of such a Change should it arise during the life of the Franchise.

5.4 GTR Cascade

5.4.1 The existing Train Fleet includes the GTR Units which have been cascaded from the Thameslink Operator to the South Eastern Franchise by virtue of a sub-lease between the Thameslink Operator and LSER.

5.4.2 Unless, the Franchisee makes an alternative proposal to accommodate the GTR Units as part of its Bid as set out in subsection 5.11.5, the Franchisee will be required to enter into a pre-agreed form of sub-lease with the Thameslink Operator in respect of the GTR Units until the earlier of: (i) end of the GTR franchise; or (ii) March 2022 ("**GTR Sub-Lease**"). If the GTR franchise ends before March 2022 then the Franchisee will be required to enter into a sub-lease in substantially the same form as the GTR Sub-Lease with the new Thameslink Operator or such other train operator who becomes the sub-lessor of the GTR Units.

5.4.3 The Franchisee will not be required to make any modifications to the GTR Units save that the Franchisee will be expected to de-classify first class carriages in such GTR Units as set out in subsection 5.10.3.

5.4.4 The Thameslink Operator is expected to carry out the GTR Modifications to the GTR Units which are due to be completed prior to the Start Date under the terms of the sub-lease LSER. These will not be taken into account for the purpose of the evaluation of the Bids, if such GTR Modifications are referred to in any Bid. It is expected that

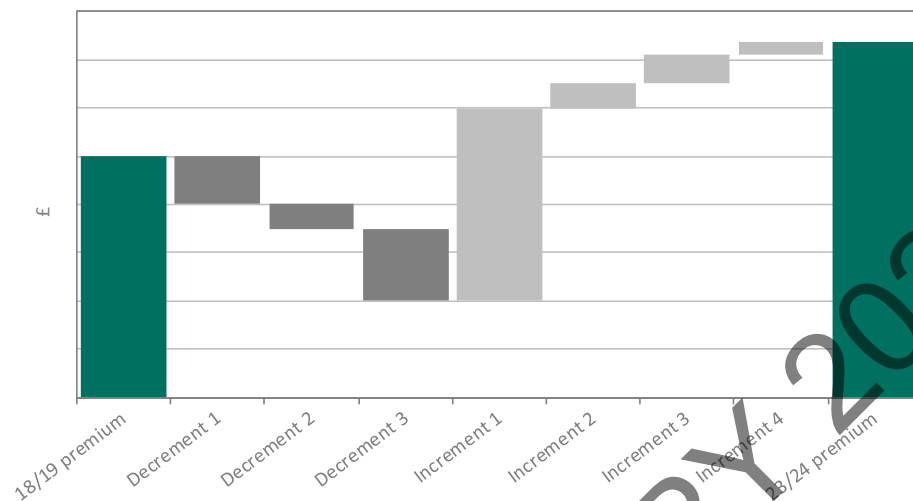
the benefit of these rights under the sub-lease will transfer to the Franchise at the Start Date. If the GTR Modifications are not completed by the Start Date, the Franchisee may be required by the Department to enforce its rights under the GTR Sub-Lease to ensure such modifications are completed. The same applies for the Enhancement Works to which are subject of a side letter between LSER and the Thameslink Operator.

5.5 Delivery Plan 0 - Bid Summary

5.5.1 The Department requires Bidders to summarise their Bids. This summary shall include:

- a) The Bidder's overarching strategy and objectives for the Franchise;
- b) The Bidder's view of the market, its opportunities and challenges;
- 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; and
 - iii) Key risks and how they will be mitigated;
- d) A waterfall chart summarising the changes in revenue and cost (and consequently Franchise premium) between 2019/2020 and 2026/27 such that the impact of any significant Initiatives is highlighted. The chart shall only disaggregate factors greater than £5,000,000 and shall be in 2018/19 prices. An example waterfall chart is shown below.

Figure 5.1 *Example waterfall chart*



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 possible inference about Bid price including waterfall charts, subsidy per passenger mile, generalised statements about long term trends in subsidy or premium etc.

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 – Franchise Management

5.7 Sub-Plan 1.1 Leadership and Sustainability

(A) REQUIREMENT

5.7.1 The Department requires a Franchisee who will provide outstanding leadership subject to continuous improvement during the Franchise Term. The Franchisee will support the delivery of the Franchise objectives and, in particular, operate a high performing train service and exceed passenger expectations.

5.7.2 The Department requires a Franchisee who will invest in the Franchise Employees, their training and skills, and develops opportunities to give Franchise Employees a share in decision making in the Franchise and the potential to share in the Franchise's successes, including by:

- a) Mapping and developing enhanced management, leadership, succession and skills planning at all levels throughout the organisation;
- b) Increasing the capability of the workforce throughout the Franchise Term to address skills gaps, increasing the diversity of the workforce to address under representation across all levels and grades, and promoting a high level of engagement as well as recognition among the workforce; and
- c) Supporting the delivery of the Transport and Infrastructure Skills Strategy and the rail sector skills delivery plan.

5.7.3 The Department requires a Franchisee who will embed the Rail Industry Sustainable Development Principles, through its leadership, management and investment, throughout the Franchise Term, including by:

- a) Structuring the organisation and managing it with effective corporate management systems to continually improve the capability of the Franchisee;
- b) Building the capacity and competence of leadership and management in sustainable development;
- c) Implementing a sustainable procurement strategy that is independently assured as being in accordance with ISO20400;
- d) Integrating regional, local economic and development plans into service plans and delivery;
- e) Supporting the integration of rail travel with new housing and commercial development sites within the Franchise geography as necessary over the life of the Franchise; and
- f) Encouraging social mobility and access to employment in areas served by the Passenger Services with a high degree of social deprivation.

5.7.4 The Department requires a Franchisee who will support and improve the health and wellbeing of the Franchise workforce, including by monitoring, managing and improving occupational health risks, staff engagement, morale and general wellbeing.

5.7.5 The Department requires a Franchisee who will safeguard the security of staff working across the Franchise and, applying the principles of community safety (set out in Delivering Safer Communities: a guide to effective partnership working), who will reduce the incidence and fear of crime and anti-social behaviour against staff at stations and on trains, including by:

- a) Implementing systems, including staff training, to control and minimise crime and security incidents; and
- b) Assessing and reviewing regularly the security and crime risk to staff across the Franchise.

5.7.6 The Department requires a Franchisee that will work with its suppliers to enhance the customer experience and deliver good value for money including through competitive tendering.

(B) EVIDENCE BIDDERS SHALL PROVIDE

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

- a) Details of the governance processes, resources and capabilities that will be in place through the Franchise Term to deliver the:
 - i) Sustainable Development Strategy; and
 - ii) Skills and Leadership Strategy;
- b) Plans for meeting the environmental targets set out in Schedule 11.2 of the Franchise Agreement including where relevant how the supporting supply chain will be managed;
- c) Plans for meeting the apprenticeship targets set out under Schedule 13.1 of the Franchise Agreement using the Apprenticeship Data Collection Form on AWARD (location in folder 2.05) which is to be appended to the Skills and Leadership Strategy;
- d) Plans for promoting rail as an integrated mode of transport in relation to new developments;
- e) Plans for improving the socio-economic impact of the Franchise including through schemes to develop underused assets for use by the community and plans to increase vulnerable groups and communities' access to rail including 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;

- f) Details of the metrics that will be used to monitor progress in improving the socio-economic impact of the Franchise, including:
 - i) wellbeing;
 - ii) workforce health;
 - iii) employee engagement; and
 - iv) developing its innovation capability;
- g) Their approach to continuous skills gap analysis and a workforce pipeline strategy that includes how gaps will be addressed, including:
 - i) how the Franchisee will attract young people into rail; and
 - ii) how the Franchisee will support Government targets 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;
- h) Full-time equivalent staff numbers (split between employees and agency staff) with broad grade, role and location at the Start Date together with an explanation of how the numbers are forecast to change over the Franchise Term;
 - i) Where Bidders are suggesting any material change in staff headcount during the Franchise Term, the reasons for that change and the way in which it will be managed, highlighting any impacts on operations and customer contact;
 - j) An organisational structure of the Franchise to director and director report level at the Start Date together with an explanation of how the structure is forecast to change over the Franchise Term;
- k) Plans for developing and embedding a set of values, behaviours and a culture throughout the organisation that supports a high performing railway;

- l) 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
- m) A supply chain strategy outlining the principles and standards they will apply when working with suppliers for key market sectors including, but not limited to, ticketing systems and equipment; and for complying with any relevant procurement legislation.

(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 (South Eastern marking framework and guidance).

5.7.9 Without prejudice to the generality of subsection 7.3.5 (Scoring Methodology), specific examples of how the above requirements may be exceeded are set out below:

- a) Proposals which exceed the environmental targets in Schedule 11.2 of the Franchise Agreement;
- b) Commitment to specific independent standards on environmental or social issues, such as Ethical Trade Initiative Base Code or Living Wage Employer; and
- c) Proposals that commit to adopting new or innovative approaches to improving the leadership and capability of the workforce.

5.8 Sub-Plan 1.2 Alliancing and Partnering

NOTE

5.8.1 For the purposes of this Sub-Plan reference to 'other stakeholders' includes but is not limited to the following, without limitation: High Speed 1 Limited, Office of Rail and Road, other train operators, freight operators, Rail Delivery Group, British Transport Police, Community Rail Partnerships, Kent County Council, East Sussex County Council, Medway Combined Authorities, Transport for London, Passenger groups, and the Franchisee's wider supply chain including Small and Medium Enterprises (SMEs).

- 5.8.2 Bidders should note that Sub-Plan 2.3 (Performance) has a number of specific requirements relating to joint working with Network Rail e.g. 5.12.2b)ii) - *“How they propose to work with Network Rail and other operators to develop Initiatives to ensure that a Right Time Railway culture is embedded across the route;”* and 5.12.2f)i) - *“Maintaining the provision of Passenger Services (for example by working with Network Rail and other operators to maximise the scope of trains to continue running while engineering work is taking place, recognising the inconvenience of replacement bus services”*.

Bidders should provide their response to these requirements under this plan where they will be evaluated.

(A) REQUIREMENT

- 5.8.3 The Franchisee will be required to enter into and maintain an Alliance Agreement with the Network Rail South East Route. The objectives of this Alliance will be, as a minimum, to:

- a) Improve the operational performance of the Franchise;
- b) Improve customer satisfaction and trust in the railway;
- c) Improve the efficiency and efficacy of operations, maintenance, renewals and enhancements on the network over which Passenger Services will operate; and
- d) Improve whole system integration of the railway.

(“Alliance Objectives”).

- 5.8.4 The Department requires the Franchisee to collaborate with Network Rail to improve operational performance, enhance the passenger experience and reduce the cost of project delivery and implement Digital Railway technological solutions. The Department expects that the Franchisee will build on existing joint working arrangements including the Kent Integrated Control Centre (**“KICC”**), and propose new initiatives within, but not limited to, the following areas to deliver a railway run on a daily basis by a single team:

- a) Operational control of the train services;
- b) Disruption management and service recovery;
- c) Maintenance planning and maintenance of infrastructure including sharing of data from on-train monitoring equipment;

- d) Possession planning for enhancements and renewals; and
 - e) Passenger communications.
- 5.8.5 The Department requires the Franchisee to further develop the concept of the passenger-focused Route Supervisory Board, or similar, and implement this board jointly with NR.
- 5.8.6 The Department requires the Franchisee to work with Network Rail to jointly appoint a Director responsible for providing strategic oversight, direction to integrated Franchisee and Network Rail joint teams, and promoting a common culture of shared responsibility for continuous improvement in the passenger experience. This Director may be the Chair for both Parties for the purpose of the governance arrangements in the Alliance Agreement.
- 5.8.7 The Department requires the Franchisee and Network Rail South East Route to agree a joint set of Key Performance Indicators ("**KPIs**"), and the appointed Director to oversee their delivery. The Department requires a jointly agreed scorecard with Network Rail which corresponds to the obligations of the Franchise Agreement: under Schedule 7.1 (see Sub-Plan 2.3); Schedule 7.2 and Schedule 7.3 (see Sub-Plan 4.1 - Customer Experience); and, specific agreements with Network Rail agreed supporting proposals under points 5.8.3c) and 5.8.3d).
- 5.8.8 The Department requires a joint, co-located, integrated and formalised operational control tasked with operating trains, and maintaining the infrastructure on a day-to-day basis as well as managing responses to delays and coordinating service recovery to the benefit of passengers.
- 5.8.9 The Department requires a joint, co-located, integrated and formalised performance team to deliver the joint initiatives and further targets agreed with Network Rail South East Route.
- 5.8.10 The Department requires a joint communications strategy that will utilise current and evolving technology (including that available to customer facing staff in order to aid passengers) to provide a single point of accountability to passengers, stakeholders and customer facing staff. The strategy as a minimum must support and facilitate the provision of information at all stages of the passenger journey in line with the requirement of subsection 5.17.6 of Sub-Plan 4.1 - Customer Experience to provide real time and integrated journey

information to staff and passengers, particularly for, but not limited to: times of either planned or unplanned disruption; passengers attending special or major events; and regular travellers who may be affected by a special or major event.

5.8.11 The Department requires a joint team tasked with planning enhancement projects where appropriate, optimising outcomes for passengers of enhanced services to passengers and allocating roles and responsibilities in project delivery.

5.8.12 The Department requires a Franchisee who will work proactively in partnership with other industry stakeholders to develop and deliver initiatives to include the following:

- a) supporting wider industry strategies, including improvements to the passenger experience and safety; and
- b) delivering improved strategic planning at industry level and between operators.

5.8.13 The Department requires a Franchisee who has the capability to manage change within the Franchise in partnership with stakeholders, (including Transport for London) to ensure that any change is delivered in a way that minimises disruption, maintains passenger experience and keeps stakeholders informed.

5.8.14 The Department requires a Franchisee who will adopt a joint approach with the Kent Community Rail Partnership (SwaleRail and Medway Valley Line) and partners in the Sussex Community Rail Partnership for the Marshlink line and organisations looking to form Community Rail Partnerships along Routes operated by the Franchisee by:

- a) Maintaining regular dialogue and co-operation between the Franchisee and each Community Rail Partnership;
- b) Marketing, including the development of a distinct marketing plan and generating additional travel on relevant services including, where relevant, exploiting tourist potential;
- c) Securing, supporting and managing station adopters through a station adoption scheme aimed at community groups rather than individuals; and

- d) Encouraging innovative local third party funding approaches to develop community rail schemes.

5.8.15 The Franchisee will establish a strategy for working with Network Rail and other TOCs that manage stations where the Franchisee's services call to ensure a consistent customer experience. The Department requires a Franchisee that can work with Network Rail to form a single management team for Network Rail Managed Stations.

Digital Rail

5.8.16 The Department requires a Franchisee who will procure and implement, in consultation and collaboration with Network Rail, an Interfaced Traffic Management System on the Ashford IECC control area and an Isolated Traffic Management System elsewhere ("**TMS**") together with a supplementary Connected Driver Advisory System ("**C-DAS**") and a TMS compatible Stock & Crew system, to provide operational performance benefits through the application of improved pathing of trains. The TMS will be operated and owned by Network Rail. As a minimum a Bidder's solution will demonstrate how the Franchisee will ensure the successful delivery of the procurement of a digital rail solution for the Franchise including:

- a) The procurement of a TMS including the tendering and supplier selection process;
- b) The installation of the TMS, including within Network Rail premises where required;
- c) Systems integration for the TMS, ensuring that the system is compliant with and allows for:
 - i) Interoperability of the TMS with, and exchange of data between, the TMS and:
 - A) The traffic management system being developed for the Thameslink Programme;
 - B) The traffic management systems being developed for TfL's East London Line and the remainder of Network Rail's South East Route; and
 - C) Any other interfacing traffic management system.

- ii) Suitable connection with any train running and information reporting systems interfacing with the TMS via LINX including, for example, Network Rail's TRUST system, timetable servers, Darwin CIS, to source, share and synchronise operational data and prove that the connections work end-to-end and the data passed between systems is correct;
 - iii) Interface with other railway control systems as appropriate;
 - iv) Network Rail's overall plans for the Digital Railway Programme; and
 - v) That the TMS does not have any in built bias to the Franchisee or any particular category of train operator (i.e. suburban, metro etc.).
- d) The testing and commissioning of the TMS, ensuring compliance with Network Rail's testing and commission, safety assessment and product acceptance processes and any other applicable processes pertaining to the introduction of new technologies onto the UK railway and including an operational trial in one location to test the TMS with end users before finalising and rolling out the TMS to all locations;
- e) Training provision to agreed standards and ongoing operational support and advice for the TMS, including to Network Rail and Franchisee staff and making use of simulator technology where deemed appropriate;
- f) Ongoing technical support and maintenance for Network Rail on the TMS including provision for the system and operational data updates and software upgrades as appropriate for the length of the Franchise Term with the option for Network Rail to extend/takeover any contractual agreements at the end of the Franchise Term on a comparable price basis;
- g) Procurement, installation and operation of a supplementary C-DAS including all necessary supporting train-borne and infrastructure components and design and connection of system interfaces; and
- h) Procurement, installation and operation of a supplementary Stock & Crew System including the design and connection of

system interfaces. This could include the implementation or adaption of an existing Stock & Crew System,

(the "**Digital Rail Proposal**").

- 5.8.17 TMS requirements are specified in 'Digital Railway Technologies Project, Interim Digital Railway Traffic Management Requirements Specification, ref DRT/TM/REQ/003 version 1.7.1' and further relevant Digital Railway specification documentation in folder 11.10 Digital Railway on the Southeast Data Site. Bidders should also note document DR SE Bidder Briefing 22-8-17 v2 which summarises the geographical scope and the operating locations of the requirements on the Data Site. The Digital Rail Proposal must meet the requirements set out in these documents.
- 5.8.18 Technical and operational outcomes and requirements specific to the TMS geography are not yet available and will need to be developed collaboratively between Network Rail, the Franchisee and industry partners as part of the design development process.
- 5.8.19 Bidders should ensure that any solutions proposed in the Digital Rail Proposal entail that control of the TMS is relinquished to Network Rail, at nil cost to Network Rail, once the system is commissioned and accepted and that Network Rail will have the benefit of being able to directly call upon and enforce any services obligations in respect of the TMS with third parties. The Franchisee will pay for the ongoing support to the TMS and provide ongoing assistance to Network Rail for the same.
- 5.8.20 Bidders must design their solution for the Digital Rail Proposal such that the Franchisee will not be placed in a position of conflict of interest between its interests as a commercial train operator and its role in implementing the TMS and that the TMS does not include any deliberate bias toward the Franchisee's operations. Where appropriate, the Franchisee's solution may involve passing particular decisions on implementation/procurement to Network Rail.
- 5.8.21 Funding of up to ¹ is available to fund the capital cost of the Digital Rail Proposal. The implementation of such proposal must be completed by the end of the third Franchisee Year. The operational cost of the Digital Rail Proposal is to be funded by the Franchisee and

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included in the Bidder's financial model as set out in subsection 6.3.3.3. The Franchisee shall agree with Network Rail their appropriate capital costs and include these in the Bidder's Financial Model. The Franchisee will be the sponsor of any Network Change relating to the implementation of the Digital Rail Proposal.

(B) EVIDENCE BIDDERS SHALL PROVIDE

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

- a) Written confirmation from Network Rail setting out their support for each of the Bidders' proposed initiatives (including the Digital Rail Proposal) and the evidence submitted by Bidders to support these;
- b) Plans for building on existing joint working initiatives including but not limited to the KICC;
- c) A final form Alliance Agreement;
- d) The terms of reference for the Route Supervisory Board;
- e) The job description of the Alliance Director;
- f) Organograms or organisation charts for proposed joint working arrangements (covering performance, operational control, communications and enhancements) including job descriptions for identified roles and named individuals where practical to do so;
- g) Details of KPIs agreed with Network Rail and how these will be sufficiently incentivised;
- h) The approach to the on-going assessment and review of the delivery of collaborative working initiatives throughout the duration of the Franchise;
- i) The organisational approach for the engagement with stakeholders (making reference where necessary to the Customer and Stakeholder Engagement Strategy) including how the Bidder has understood stakeholder priorities for generating additional passenger benefits by addressing the needs, priorities and aspirations of passengers and other stakeholders and how feedback will be acted upon;

- j) How the Bidder will partner and collaborate with other organisations, inside and outside the industry, seeking third party funding where appropriate, in order to foster innovation and assist bringing new technologies, processes, business models and products to the rail market, that become viable during the Franchise Term;
- k) Their strategy for engaging with and supporting Community Rail Partnerships and organisations looking to form Community Rail Partnerships along or adjacent to the Routes operated by the Franchisee as described in Section A. This should include details of their understanding of the routes' potential as set out in Community Rail Partnership Line Plan Reviews, and how they can help deliver priorities for each Community Rail Partnership during the Franchise Term. They should supply a draft version of the first year's Community Rail Plan; and

Technical Annex: Digital Rail

- l) Plans for the design and implementation strategy for TMS, C-DAS and Stock & Crew System introduction (i.e. the Digital Rail Proposal) which includes:
 - i) The approach to funding and procurement including a breakdown of how the up to ² capital funding will be used and the Franchisee's approach to funding the operational expenditure;
 - ii) A joint working approach with Network Rail and other industry partners;
 - iii) A detailed, logic linked and resource loaded programme with clear critical path that represents the full scope of work and covers the period from the start of Franchise until completion of the Digital Rail Proposal and clearly shows the activities and tasks that Network Rail or other industry partners need to undertake or commit to in order for Bidders to deliver their programme;
 - iv) The approach to system delivery that will complement Network Rail CP6 plans, as part of a written outline

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methodology setting out how the works will be executed from the start of Franchise until completion of the TMS, describing methods of working, plans for working in operational buildings, defining an overall access strategy for the relevant sites with details of any advance works and temporary works and possession requirements;

- v) A management and business change plan for delivery of the TMS detailing proposals for organisation structure and resourcing, naming key personnel and relevant experience delivering this type of system, location of staff, overall resource capacity and providing an overview of the supply chain and sub-contractors and suppliers. This plan is to include proposals for management of the TMS design, with acceptance of design by Network Rail;
- vi) A written technical brief on the TMS, how it will work, its capabilities, and details of where the system has proven before with complex interfaces to legacy and other TMS;
- vii) A written response that evidences which of the TMS requirements will be met, with proposals for mitigation where requirements will not be met;
- viii) An outline Configuration Management Plan describing system configuration issues relating to data configuration, operation, maintenance and disposal;
- ix) Method for achieving product approval;
- x) A description of how Bidders will approach a solution for each of the system interfaces, and including proposals for passing revised train running information between systems;
- xi) A system safety plan, including details of who is managing the System Safety Case for introduction of the equipment;
- xii) Description of proposals for maintenance, spares holding and technical support and provision for ongoing system upgrade and development requirements;

- xiii) The approach to training for the different groups of end users, use of simulators, and release of resources for training;
- xiv) Whole life costs, including training related costs that include for an agreed rate of annual staff changes, spares and product licence fees;
- xv) The approach to staff system acceptance and any altered working requirements compared to existing job descriptions;
- xvi) Allocation of risk between Network Rail and the Franchisee, including Franchise end transition requirements;
- xvii) Evidence of Network Rail acceptance of the proposed procurement, technical solution and operational delivery methodology for the TMS.

5.8.23 The Digital Rail Proposal must be wholly separable in terms of financial and operational performance as set out at subsection 6.3.3.2.

(C) SCORING

5.8.24 For meeting overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (South Eastern marking framework and guidance). A Bid that scores below a 4 in this Sub-Plan will result in the Bid being treated as non-compliant.

5.8.25 Without prejudice to the generality of subsection 7.3.5 (Scoring Methodology), specific examples of how the above requirements may be exceeded are set out below:

- a) Responses that will provide a greater degree of coordination between the Franchisee and Network Rail at an executive level;
- b) Initiatives accompanied by commitments to improving operational performance, reducing the cost of project delivery and enhancing the passenger experience;
- c) A Digital Rail Proposal:

- i) where all the requirements of this Sub-Plan 1.2 in relation to the Digital Rail Proposal are delivered for less than ³ capital funding;
 - ii) which demonstrates significant value for money to the Department; and/or
 - iii) which provides material savings and/or wider benefits beyond the requirements set out in Part A of this Sub-Plan 1.2.
- d) Proposals for collaborating with Network Rail with evidence of Network Rail support for the proposals. This could include proposals with well-defined arrangements for sharing any efficiency benefits that are realised through collaboration between both Parties. Any such 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;
- e) Proposals for joint working that extend to other key stakeholders to include but not limited to High Speed 1 Limited;
- f) Initiatives which commit to staff secondments for key operational roles between the Franchisee and Network Rail accompanied by demonstrable benefits;
- g) Proposals that commit to working with Network Rail to reduce the number of temporary speed restrictions where appropriate to do so;
- h) Responses with well-defined mechanisms that entrench jointly agreed KPIs e.g. alignment of executive pay incentives;
- i) Proposals which deliver significant wider integrated network benefits;
- j) Proposals for collaborative working including achieving accreditation to ISO 44001/2017 'Collaborative Business Relationships' with industry stakeholders;

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- k) Detailed proposals for additional investment in and commitment to community rail initiatives, inclusive of station adoption, including proposals to enhance and facilitate community engagement in areas not served by the existing Community Rail Partnership (such as within the suburban area);
- l) Plans 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 contribute to the delivery of national and strategic objectives to improve network performance to a level beyond achieving the requirements in (A); and
- m) Proposals which commit to working with Network Rail to extend the Interfaced Traffic Management scope beyond the Ashford IECC.

5.9 Delivery Plan 2 - Train Services and Performance

5.10 Sub-Plan 2.1 Train Services

Notes

In relation to paragraph 5.10.4, the requirement to communicate to customers the removal of First Class accommodation on Passenger Services is contained in Sub-Plan 4.1 - Customer Experience.

(A) REQUIREMENTS

5.10.1 The Department requires a Franchisee who will plan and operate train services that meet the needs of passengers across the Suburban, Main Line, High Speed, Non-London and East Kent services (as such are defined in the TSR). Bidders will achieve this by meeting the minimum capacity, train service and first and last trains requirements as described in the Train Service Requirements TSR1 from the Start Date, and TSR2 no later than the Passenger Change Date in December 2022 contained in Attachment (A) to Sub-Plan 2.1 (Train Services) of this ITT.⁴

5.10.2 These train services should:

- a) Enable and contribute to improved operational performance, in line with the requirements of Sub-Plan 2.3 (Performance);

⁴

If Bidders identify any manifest errors or inconsistencies within the TSR tables, they may raise a BCQ no later than 10 working days after the TSR tables are issued with the ITT. If the Department agrees that an error has been made, it will issue an amended version of the TSR to all Bidders.

- b) Minimise journey times as far as practicable. This includes keeping pathing and performance allowances, and public book differentials in the timetables to the minimum necessary in order to comply with the Timetable Planning Rules , whilst meeting other relevant requirements of this ITT;
- c) Be timed correctly for the slowest-timed rolling stock that may be planned to be allocated to that service;
- d) Reflect version 4 of the 2018 Timetable Planning Rules published by Network Rail on 14 July 2017 and Engineering Access Statement (EAS) v4.1 issued: 20th October 2017, except where changes to the Timetable Planning Rules are proposed by the Bidder to be agreed with Network Rail;
- e) Be deliverable within the constraints of the infrastructure including traction power supply, plus any enhancement schemes that the Bidder commits to fund and deliver. Bidders should consider as part of this requirement how 12 car services can be operated at Charing Cross and Waterloo East across all platforms;
- f) Deploy the minimum capacity of TSR2 in a manner that optimally balances Forecast Passenger Demand with rolling stock capacity; and
- g) Allow paths for other operators' services in accordance with the instructions set out in Part (D) below.

5.10.3 The Department requires a Franchisee that will remove First Class accommodation on all Passenger Services within 18 months of the Start Date.

5.10.4 The Department requires a Franchisee who will deliver an establishment of trained and experienced train crew and associated recruitment plan to meet current and future headcount demand for the Franchise Term and beyond so that rest day working and overtime is an exception to delivering the Passenger Services, not part of the steady state plan. This should be set out in a Train Crew Strategy document which will be contracted as part of the Franchise Agreement.

5.10.5 The Department will require Bidders to set out their proposals for how they intend to 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. The proposed measures should be in place prior to the commencement of the timetable resulting from TSR2. A Bidder's proposals for meeting this requirement can be included within a wider package of modernising proposals and incentives and Bidders should set out their high level strategy for achieving this in terms of negotiating strategy, train crew engagement plans and contingency plans. The requirement for a Train Crew Strategy does not preclude the use of overtime to cover unexpected events, emergencies or to provide cover for services delivering for the uplift in passenger demand that may occur seasonally or during special events from time to time.

(B) EVIDENCE THAT BIDDERS SHOULD PROVIDE

5.10.6 In addition to the Minimum Evidential Requirements, Bidders' responses must include:

- a) A description of the principal proposed changes to train service patterns and rolling stock deployment at any time during the Franchise Term, compared to the timetable inherited at the start of the Franchise along with the additional Thameslink services between Maidstone East and Cambridge due to commence on the Passenger Change Date in December 2019. This should include as a minimum:
 - i) A description of proposed changes to train service frequency and stopping patterns made in order to meet the minimum requirements of the TSR;
 - ii) A description of proposed train service frequency enhancements, additional station stops, and/or new services made that exceed the TSR;
 - iii) A description of proposed changes to rolling stock types deployed on each route served by the Franchise, where necessary describing how they intend to obtain route clearances from Network Rail;
 - iv) A clear explanation of the Train Fleet that will be available during the Franchise Term and how this may change throughout the Franchise Term;
 - v) A description of any changes in infrastructure functionality that the Bidder is assuming in their proposals and details of how it will fund and deliver such changes. This should

include evidence of Network Rail support (and for the avoidance of doubt, this evidential requirement would also apply to any plans that rely on ETCS during the Franchise Term);

- vi) 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 deliver the targets set out in Schedule 7.1 of the Franchise Agreement;
 - vii) A Train Crew Strategy which includes the requirements set out in subsections 5.10.4 and 5.10.5. Bidders should supply evidence that supports their train crew establishment either based upon the Rail Delivery Group Guidance Note on Driver Establishment Calculation or an equivalent methodology; and
 - viii) In addition, the Bidder should provide evidence in its Train Crew Strategy as to:
 - A) How the Bidder proposes to phase out current levels of any reliance on planned / rostered overtime or rest day working with an explanation of the deliverability of those levels; and
 - B) What the Bidder is prepared to commit to in this area in respect of the train crew establishment in addition to setting out its Train Crew Strategy.
- b) A description of the planned approach to the removal of First Class accommodation on Passenger Services; and
 - c) A Technical Annex containing further operational data, described in paragraphs 5.10.7 to 5.10.25 below (all of which is to be excluded from the Page Count).

Technical Annex

5.10.7 The Technical Annex will comprise a number of documents providing detailed operational data. Table 5.2 (Operational Data Required as Part of Bids) which sets out all of the requirements is provided at the end of this section. The Technical Annex must include the following:

Timetables

5.10.8 Bidders must provide details of their proposed December 2022 (TSR2) timetable, in accordance with the requirements of the TSR, for all services (including ancillary movements and other operators' services outlined for inclusion in Part (D) of this Sub-Plan 2.1 below). The following timetables must be provided:

- a) Monday to Friday (SX) timetable; and
- b) Saturday (SO) timetable.

5.10.9 Bidders are not required to submit Sunday (SuO) timetables and supporting files but must assume that for the purposes of their bid they must run services on a Sunday which reflect the requirements of TSR2.

5.10.10 Bidders must assume that the 'D26' timetable provided by Network Rail in conjunction with the offer for access rights for the May 2018 timetable forms the basis of TSR1 and will be in operation from the start of the Franchise until the introduction of the TSR2 timetable on the Passenger Change Date in December 2022 whilst making allowance for the start of Thameslink services between Maidstone East and Cambridge from the Passenger Change Date in December 2019. If Bidders wish to make any changes to the inherited train service prior to TSR2 they are required to provide supplementary information in line with the requirements set out in 5.10.27. Bidders may choose to introduce service enhancements contained in the TSR2 timetable at an earlier date, however, they must provide the timetable information required in paragraph 5.10.8 for any route on which a change compared with the timetable inherited at the Start Date is proposed.

5.10.11 Bidders must provide the timetable information required in paragraph 5.10.8 for any year in which a major change is proposed, but only in respect of any route(s) on which the major change is proposed. If Bidders change the train service in any other year but do not provide timetables that show this change, they must also provide a description of the changes proposed. This description must set out their proposals with their anticipated impacts in sufficient detail, and with sufficient evidence to assure the Department that they are deliverable, and can be resourced.

5.10.12 Bidders must provide SX timetables in both Working Timetable and public book format. Bidders must also provide a SO timetable in

public book format. It is not necessary for Bidders to submit full working timetables for SO provided that these timetables are the same as the SX off-peak timetable. For this purpose, a SO containing minor timing variants of less than five minutes would be deemed as the same. In addition to printed format timetables, PIF and SPG format timetables must be provided for any timetable change that takes place.

5.10.13 The Department requires the Bidders to demonstrate that their proposed timetables and associated rolling stock diagrams comply with the Timetable Planning Rules, and can be accommodated at the London termini and operationally complex stations. As a minimum, Bidders must provide SX station platform working charts for the following locations:

- a) London Charing Cross;
- b) London Cannon Street;
- c) London Victoria (Platforms 1 to 8 only);
- d) London St Pancras International (Platforms 11 to 13 only);
- e) Ramsgate;
- f) Dover Priory;
- g) Ashford International;
- h) Hastings;
- i) Tonbridge;
- j) Orpington;
- k) Bromley South; and
- l) Dartford.

5.10.14 Bidders must provide a description of any instances where revised SRTs have been applied in the timetable for any rolling stock type deployed that is not currently published in Network Rail's B Plan (with supporting evidence, including the views of Network Rail). If new SRTs have been calculated, Bidders must provide details of the traction characteristics of the rolling stock (including tractive effort curves, resistance curves, dimensions, vehicle weight and passenger

weight assumed) and details of how each technical (minimum) run time has been rounded to form each SRT. SRT's should be provided in PIF format.

- 5.10.15 Bidders must also provide a description of any flexing of other passenger and freight operators' services that has been assumed necessary to deliver a timetable that is compliant with the TSR.

Train Plans and Passenger Loading Forecasts

- 5.10.16 Bidders must provide their proposed all-day SX as well as SO Train Plans for their December 2022 (TSR2) timetables. For any other dates on which the Bidder proposes material timetable alterations, it must also supply relevant Train Plans. These plans must identify the unit types and train formations of all train services that are scheduled to operate in the SX & SO timetables, and these must be consistent with the submitted timetable and rolling stock diagrams. The SX plans must also include loading forecasts for each service, complying with the minimum requirements set out below. Bidders should use the format of Train Plan provided on the Data Site.

- 5.10.17 Bidders are required to provide forecast loading data for each leg of the journey for trains that arrive and depart London Bridge, London St Pancras International, London Blackfriars and London Victoria that:

- a) arrive at the specified stations between 07:00 and 10:59; and those that
- b) depart the specified stations between 15:00 and 20:59.

- 5.10.18 This forecast loading data is required for a typical SX autumn weekday, based on Bidders' December 2022 Timetable and Train Plan, (assuming Autumn 2026 levels of demand). If the Bidder plans to make material change to the Timetables and Train Plans between December 2022 and Autumn 2026 then this loading data must be related to the timetable introduced immediately preceding Autumn 2026.

- 5.10.19 Loading forecasts should be derived from the Bidder's crowding model. Bidders must use the supplied train loading template provided on the Data Site.

Rolling Stock Diagrams and Availability

5.10.20 Bidders must supply Rolling Stock diagrams for their proposed December 2022 SX & SO timetables for all unit movements, including those to and from depots and stabling locations. These must be provided in Excel and text formats and must contain mileage data.

5.10.21 Bidders must also supply tables showing the percentage fleet availability assumed for each rolling stock type in their December 2022 SX & SO timetables. Bidders must use the standard fleet availability template provided on the Data Site.

Train Crew Establishment

5.10.22 Bidders must supply evidence that supports their train crew establishment. This must include train crew diagrams and other relevant evidence (e.g. expected overtime tables) to show that they will not place intentional reliance on planned / rostered overtime or rest day working. This should demonstrate how the Bidder proposes they will demonstrate their progress / compliance in this area in life during the Franchise Term.

Additional Data Requirements

5.10.23 Bidders must provide details of any changes to the Engineering Access Statement (Section 4), signal box opening hours and Timetable Planning Rules that have been assumed (with supporting evidence, including the views of Network Rail).

5.10.24 Bidders must provide evidence that any new train type deployed, any increase in train service frequency and any increased train length meterage delivered above that required in TSR2, can be accommodated on the network in respect of traction power supply (with supporting evidence, including the views of Network Rail).

5.10.25 Bidders must provide evidence that any increase in service frequency over the quantum in TSR2 can be accommodated on the network in respect of level crossing occupation times (with supporting evidence, including the views of Network Rail).

Further Instructions

5.10.26 Further information about the format of these evidential requirements is set out in Table 5.2 (Operational Data Required as Part of Bids). It is assumed that Bidders will operate the inherited timetable and train plan at the Start Date until December 2022 or the commencement of

TSR2. Should Bidders wish to make material changes prior to this date to the timetable or train plan they must provide further operational data in line with the requirements set out in the table below.

Table 5.2 Operational Data Required as Part of Bids

| ITEM | TIME PERIOD(S) | NOTES | FORMATS |
|-------------------------------------|---|--|---|
| Overview of train service proposals | n.a. | As described in paragraph 5.10.6 above, the overview itself is to be included within the Delivery Plan (Sub-Plan 2.1). | Word |
| Technical Annex | n.a. | The Technical Annex is to be contained as separate documents and does not count towards the page count. | See below |
| Timetables | Dec 20 (if material differences compared with that inherited at the Start Date), Dec 22 and any other material changes. | <p>All Franchise services (SX & SO). To include paths allowed for other operators' services and ancillary movements.</p> <p>SX – Working and Public timetables are required.</p> <p>SO – Public timetables are required. It is not necessary for Bidders to submit full Working timetables for SO if the timetable is the same as the SX off-peak. Minor timing variants of less than five minutes would be deemed as the same.</p> <p>Working and Public timetable files must be labelled clearly, indicating the line sections covered.</p> <p>PIF and SPG files must be</p> | PDF (Public and Working timetables) plus PIF and SPG technical interface files. |

| ITEM | TIME PERIOD(S) | NOTES | FORMATS |
|-------------------------------|---|---|--|
| | | provided for all SX & SO timetables. | |
| Platform Working Arrangements | Dec 20 (if material differences compared with that inherited at the Start Date), Dec 22 and any other material changes. | Platform working must be provided for SX only at the locations outlined in paragraph 5.10.13. These must show the necessary platform re-occupation times and turnarounds in compliance with the Timetable Planning Rules, including ancillary train movements, and other operators' services. | Excel (platform simplifier) and PDF (platform graph) |
| Train Plan | Dec 20, Dec 26 | Train Plans must contain all services in their SX & SO and timetables. For every service specified in paragraphs 5.10.17 to 5.10.18, loads must be sourced from the crowding model. For other services, critical loads may be sourced from MOIRA, but should be calibrated against count data where possible, and uplifted to the demand levels of the relevant year. | Excel (Train plan template on Data Site) |
| Loading Forecasts | Dec 20, Dec 26. | Loading forecasts must be provided for all services included within the requirements under paragraphs 5.10.17 to 5.10.18. | Excel (Train loading (template on Data Site) |
| Rolling stock diagrams | Dec 20, Dec 22 and any other material changes. | Rolling stock diagrams to be included for SX & SO. | Text and Excel |
| Train crew diagrams | Dec 20, Dec 22 and any other material | | Text and Excel |

| ITEM | TIME PERIOD(S) | NOTES | FORMATS |
|--------------------------|--|---|-------------------------------|
| | changes. | | |
| Fleet availability table | Dec 20, Dec 22 and any other material changes. | Table to cover SX & SO and SuO | Excel (template on Data Site) |
| Train Fleet table | Throughout Franchise Term. | | Excel (template on Data Site) |
| Sunday (SuO) assumptions | Dec 20, Dec 22 and any other material changes. | The assumptions that the Bidder has used to calculate train and unit hours, vehicle miles and train crew diagram numbers. | Word or Excel |

(C) SCORING

5.10.27 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (South Eastern marking framework and guidance). A bid that scores below 4 in this Sub-Plan will be treated as non-compliant.

5.10.28 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 version 4 of the 2018 Timetable Planning Rules published by Network Rail;
- b) 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 published by Network Rail; and
- c) 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 in B Plan.

5.10.29 Without prejudice to the generality of subsection 7.3.5, (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 passenger benefits over and above those required by the TSR by addressing the needs, priorities and aspirations of passengers and other stakeholders, such as those highlighted in responses to the public consultation as summarised in the document entitled 'South Eastern Rail Franchise Public Consultation' in Data Site folder '01 ITT & Bidder Consultation Documents';
- b) Bids that deliver shorter journey times within the constraints of the infrastructure including traction power supply and without a detrimental impact on operational performance in particular peak services between Hastings and London Bridge;
- c) Bids able to bring forward the train service and capacity requirements or elements of within TSR2 to a date earlier than December 2022, for example by providing more frequent peak Charing Cross and Cannon Street services, and off peak services to Charing Cross, than provided for in the timetable inherited at the Start Date;
- d) Bids able to optimise the available capacity on HS1 infrastructure for Passenger Services;
- e) Bids able to improve connections with through services to and from London and/or other stations with significant potential demand;
- f) Commitments to operate additional services may be made on a time-limited or experimental basis if supported by a commitment to review and report to the Secretary of State on passenger loadings and associated costs and revenues, though time-limited commitments will receive less weight in the evaluation of this Sub-Plan 2.1 (Train Services) than equivalent commitments that apply throughout the Franchise Term;
- g) Commitments to operate services on Boxing Day on parts of the network where there is likely to be significant demand;

- h) Bids that include commitments to fund and deliver enhancements to the railway infrastructure (for example enabling High Speed services to reach Hastings) that will deliver passenger benefits and/or increase franchise value beyond the franchise term (over and above those enhancements included in Network Rail's latest Enhancements Delivery Plan). Evidence will need to be provided that shows how the Bidder intends to deliver these proposals including the opinion of Network Rail, funding proposals and deliverability; and
- i) Bids that will identify ways to overcome the constraints to the successful delivery of enhancements to the train services which deliver demonstrable passenger benefits, including by working with Network Rail, other passenger and freight operators, and other stakeholders (including potential funders and delivery agents).

5.10.30 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, in the Department's reasonable opinion, the Bidder has demonstrated that:

- a) The enhancements are deliverable, taking account of all relevant requirements in this ITT;
- b) There is likely to be sufficient passenger demand to justify the enhancements; and
- c) Their primary impact is likely to be to increase rail passenger volumes rather than to transfer demand away from other train operators.

5.10.31 Offering additional services that do not meet the criteria in paragraph 5.10.30 may be expected to result in a lower Final Score, as they will have no positive impact on the quality score (Q) but the costs of operating those services will have an adverse impact on their bid price (P). Appendix 3 of this ITT (Risk Adjustment) may also be applicable in this context.

(D) FURTHER INSTRUCTIONS TO BIDDERS

5.10.32 Bidders must validate their timetables against the PEX files provided on AWARD for other operator services. Bidders should validate weekdays around a Wednesday, excluding HS1 where Bidders must

ensure their train service can accommodate each day set throughout the year. Where Bidders are submitting timetables for the weekends these should be validated around a Saturday only. As part of their technical annex, Bidders must detail for each timetable submitted which dates they have used for their validation against the PEX files. Timetable submissions must take into account Network Services, Measurement and Railhead Treatment trains (as detailed in section 3 of the National Timetable Planning rules). Where the dates chosen for validation do not include Network Services, Measurement and Railhead Treatment trains, the Bidder must, in their Technical Annex, detail their strategy for accommodating these trains in their timetables.

International Freight

5.10.33 Flexing of international freight must comply with the conditions set out in the National Timetable Planning Rules Section 4.

Background to international Freight paths:

5.10.34 A minimum of 35 specified paths per day in each direction between the Channel Tunnel and Wembley Freight Operating Centre have been protected by Network Rail for the duration of the Channel Tunnel/Railways Usage Contract up to 2052. This capacity is safeguarded under a 1996 Back to Back agreement between Eurotunnel, British Railways Board, the Secretary of State for Transport, Railtrack (now Network Rail), Eurostar and EWS (now DBCargo).

Domestic Freight

5.10.35 Bidders must ensure paths for all freight operators' services as provided in the PEX files provided on AWARD are incorporated into their timetable submission, subject to the requirements of subsection 5.10.32. Bidders' timetables may flex these paths to the following extent (but no more):

- a) Freight services with existing access rights may be flexed in accordance with the arrival and departure windows specified in the Track Access Contract Rights Tables (folder 11.05 on AWARD);
- b) Where freight services are not specifically identified in the Track Access Contract Rights Tables, Bidders may flex these services by up to plus or minus 90 minutes;

- c) Where freight services operate beyond the Kent Route boundary, Bidders are to use the following locations as a proxy for the Kent Route boundary and validate paths accordingly:
 - i) Wembley Freight Yard;
 - ii) Acton Wells;
 - iii) Willesden High Level;
 - iv) Ludgate Junction; and
 - v) Pouparts Junction.

Other Passenger operators

5.10.36 Bidders may not flex Eurostar paths.

5.10.37 Bidders may flex Southern and London Overground paths, provided that no train is flexed by more than two minutes, and the Bidder complies with the following requirements:

- a) Working timetable handover times, for services leaving the Kent Route, of the other operator services are unchanged at the boundary of the Kent Route;
- b) The flex does not cause the minimum turnaround value of the other operator service to be broken at the Kent Route origin / destination.

5.10.38 Bidders may flex Thameslink paths but only to the following extent:

- a) The Kent origin / destination of each service must not be altered, nor can origins / destinations be swapped between services.
- b) The presentation time to and from the Thameslink Core (London Bridge via the South Eastern Main Line, and London Blackfriars via Elephant and Castle) must not be altered.
- c) Performance and engineering allowances, timetable adjustments, dwell times and any other timetabling considerations mandated in version 4 of the 2018 Timetable Planning Rules must be retained.
- d) Pathing allowances may be moved, removed or added to the timetable, as long as the journey time between the boundary

Thameslink Core station (London Bridge via the South Eastern Main Line, and London Blackfriars via Elephant and Castle) and the Kent origin / destination of the service does not become longer.

Timetable Planning Rules

5.10.39 Where a Bidder proposes a Timetable Planning Rule value that is not included in version 4 of the 2018 Timetable Planning Rules, they must provide evidence of how it has been calculated and rounded. This could include RailSys model outputs.

5.10.40 Bidders are not permitted to operate through or make station stops at platforms 4 and 5 at London Bridge.

Engineering Access Statement

5.10.41 For the purpose of validating their timetables against the Engineering Access Statement Bidders v4.1 are to validate against the engineering access requirements detailed for PERIOD B (as such is defined in the Engineering Access Statement).

5.10.42 Bidders are to assume that the Bromley North branch and Chatham Reversible are available on a Sunday (SuO) for the purposes of delivering TSR2. Bidders wishing to exceed the requirements of TSR2 at these locations as part of their bid should provide evidence of Network Rail's views in this area.

Geographic Scope

5.10.43 Schedule 1.1 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 extent to which the Franchisee would be better placed than the operators of other franchises to satisfy that demand; and

- d) 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 (by using up capacity of the network) for other operators to offer a more attractive service to their passengers.

5.10.44 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 including a date when the geographic scope would be extended;
- b) The nature of the train service they propose to operate on the additional route(s), e.g. frequency and calling patterns and any impact on other Passenger Services operated by the Franchisee; and
- c) The rationale for proposing to do so, including any evidence they consider relevant to the criteria identified above in subsection 5.10.43.

5.10.45 In responding to the BCQ, the Department will inform the Bidder:

- a) Either 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

5.10.46 The provisions of this subsection apply in addition to the provisions of subsection 4.14.3 (Contractualisation) and subsection 7.7 (Evaluation impact of contractual treatment of Bidders' Initiatives).

5.10.47 The Department will seek to capture the principal features of the bid while avoiding undue inflexibility.

Train Service Requirements

5.10.48 The Department will prepare amended versions of the TSR to reflect features of one or more train service proposals from the Bidder that it wishes to contract.

5.10.49 The Department may also include capacity metrics that are expressed in seats and/or total capacity, rather than train metres based on the Bidder's Train Plans.

Train Plans

5.10.50 The Department will seek to contract weekday and weekend Train Plans that reflect these principal features in accordance with paragraph 10.7 of Schedule 1.1 of the Franchise Agreement.

Train crew establishment

5.10.51 The Department will seek to contract a Train Crew Strategy based on the Bidder's proposals in response to subsections 5.10.6a)vii) and 5.10.6a)viii) with the winning Bidder. That Train Crew Strategy will be captured as a Committed Obligation.

Process

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

5.10.53 The Department will issue the amended TSR, the Train Plan or Train Crew Strategy to the Bidder, asking them to confirm that they 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 7.7 shall apply.

5.11 Sub-Plan 2.2 Rolling Stock

5.11.1 Bidders may propose the use of the Residual Value (RV) Mechanism under this Sub-Plan, but may not propose the procurement, lease or modification of rolling stock under the RV Mechanism.

5.11.2 Fleet solutions based on the existing fleet; any fleet cascaded into the Franchise; or new rolling stock are all acceptable if the proposal is value for money and delivers the passenger and performance requirements set out in the Delivery Plans.

(A) REQUIREMENT

5.11.3 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 requirements set out in Sub-Plan 2.1 (Train Services);
- b) Meet the Short Formation Benchmarks under the Schedule 7.1 Performance Benchmarks of the Franchise Agreement and contribute to achieving the operational performance benchmarks within the same Schedule;
- c) Meet the train based metrics contained under Schedule 7.2 and Schedule 7.3 of the Franchise Agreement;
- d) Apply continuous monitoring, assessment and improvement processes to drive efficiency and effectiveness; and
- e) Comply with the additional requirements set out in Part (E) (Further Instruction as to Rolling Stock Requirements).

5.11.4 The Franchisee is required to implement a rolling stock fleet solution that delivers the train services to consistently high standards of rolling stock availability, reliability and presentation through effective management, maintenance and improvement of rolling stock assets. As a minimum this includes ensuring that all rolling stock that forms part of the Train Fleet:

- a) Is compatible with the technical and operational constraints of the infrastructure including available power supply throughout the Core Franchise Term and any Extension Period, and any further infrastructure enhancement schemes that the Bidder commits to fund and deliver;
- b) Provides interior layouts and seating configurations best suited to the routes and markets served, striking an appropriate balance between providing sufficient seats for longer-distance (Main-Line or High Speed) passengers and enabling shorter-distance (Suburban) peak passengers who cannot obtain a seat, to stand in reasonable comfort. Bidders should note the requirements set out in Part (D) (Further Instructions to Bidders) of this Sub-Plan as well as being able to meet the capacity requirements within Sub-Plan 2.1 (Train Services); and

- c) Is fitted with enhanced passenger information systems by no later than December 2022 in each vehicle that include (in addition to relevant regulatory requirements) the capability to:
- i) Acquire and display (in a user-friendly format) real-time travel and delay information, including but not limited to that which allows passengers to make informed decisions with regard to interchange opportunities, including services run by other operators;
 - ii) 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 Selected Door Opening (SDO) systems); and
 - iii) Display information from those systems that is relevant to journeys passengers are making.

5.11.5 The Department requires a Franchisee who will lease the vehicles within the current Franchisee's Train Fleet that are covered by section 54 agreements, at least until the date on which those agreements expire or provides justification for termination prior to the expiry of those agreements with a letter from the Secretary of State's counterparty to the section 54 agreements to confirm that no liabilities or obligations on the Secretary of State remain. The relevant fleets and expiry dates are identified in Schedule 1.6 of the Franchise Agreement.

5.11.6 Bidders must provide plans for measuring and improving the environmental performance of rolling stock operations and maintenance, including, but not limited to:

- a) Becoming a Metered Train Operator (through on-train fitment of measuring equipment or an alternative process) in line with the obligation under Schedule 1.6 of the Franchise Agreement and in turn meeting the targets set out in Schedule 11.2 of the Franchise Agreement;
- b) Improving energy efficiency (e.g. retrofitting more efficient technology, supporting reduction of empty coaching stock vehicle mileage wherever possible);

- c) Providing a traction energy and carbon trajectory over the course of the Core Franchise Term and any Extension Period; and
 - d) Measuring and improving the environmental performance of rolling stock, depots and stabling locations. Plans should include the approach to improving energy efficiency, renewable energy generation, water and waste management over the course of the Core Franchise Term and any Extension Period.
- 5.11.7 The Department requires a Franchisee who will support the deployment of European Train Control Systems (“**ETCS**”) and who will, in addition, ensure that any newly-built trains that may be introduced into the Franchise are designed to be ETCS Ready as per the “ETCS Ready On Board Sub System Requirements Specification”.
- 5.11.8 The Department requires a Franchisee who, when procuring newly-built trains or installing or upgrading on-train CCTV systems on existing trains, will reflect at a minimum the principles outlined in RDG’s “National Rail & Underground Closed Circuit Television (CCTV)” and BTP’s “Output requirements from CCTV Systems” guidance documents.
- 5.11.9 The Department requires a Franchisee that will operate vehicles of maximum 20 metres in length (nominal) only. Such units operating singly, or in multiple, must be capable of deployment on any South Eastern Franchise route without new instances of Selective Door Operation (SDO) compared to existing trains of the same length. For example, an 8-car train, with a nominal length of 160 metres, must be able to stop for passengers to board and alight with all doors available at any station where an existing 8-car South Eastern Franchise train stops. Waterloo East is excluded from this requirement. If a Bidder proposes to use SDO to facilitate station stops when the train formation is longer than the platforms at one or more stations en-route, the Bidder must provide evidence that the longer train length: will not lead to a reduction in operational performance (for example, due to longer station dwell time); will not form a constraint to the operation of other services (for example, by occupying a signal section or junction in rear); and will be supported by Network Rail. Should Bidders wish to deploy rolling stock with any vehicles less than 20m in length (nominal) they should submit a BCQ to get a view on suitability from the Department.

5.11.10 Any newly-built rolling stock must be fitted with the equipment necessary to enable the trains to be operated in Driver Only Operation (DOO) mode when in Passenger Service. Any newly-built rolling stock that is planned to operate on routes that currently operate in Driver Guard Operation (DGO) mode must also be fitted with the equipment necessary to enable the trains to be operated in Driver Guard Operation (DGO) modes when in Passenger Service.

(B) EVIDENCE BIDDERS SHOULD PROVIDE

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

- a) Their proposed fleet strategy, to include:
 - i) An explanation of how the composition of the Train Fleet is proposed to change over the course of the Franchise Term;
 - ii) How the introduction of newly-built or cascaded fleets into the Franchise will be managed so as to ensure that there is no diminution in capacity, punctuality and reliability delivery;
 - 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;
- b) Their proposed depot, maintenance, stabling, and train presentation plans (including proposals for financing and delivering any significant investment in upgrading depot and stabling facilities in order to support those strategies); Bidders should provide supporting information and evidence on how they will operate the following depots in a manner that supports the requirements of this plan and Sub-Plan 2.1 (Train Services) including as a minimum:
 - i) Ashford;
 - ii) Gillingham;
 - iii) Ramsgate;

- iv) Slade Green; and
- v) any new depot they propose to operate;
- c) 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 including project plans, maintainers including the detail of the offer, and financiers including assumptions around maintenance reserves. Maintenance Reserves should demonstrate that whole life costs are balanced and the burden will not fall on future operators of an increased maintenance reserve to make up for charges not applied in the initial term). For clarity the Maintenance Reserves amounts should be clearly shown and identified in the bid assumptions and financial model. This shall apply to all rolling stock and existing fleets. These will be excluded from the page count;
- d) Demonstration of deliverability of fleet programmes, including (if proposed) reconfiguration, and the impact on fleet availability during their implementation;
- e) Details of potential key suppliers on whom the Franchisee will depend to maintain, clean and (if proposed) refurbish or reconfigure the Train Fleet;
- f) 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);
- g) Details of how the Franchisee will work with relevant fleet owners to minimise operational disruption from, and ensure timely completion of, any necessary rolling stock enhancement works required (e.g. compliance with accessibility requirements in the Railways Interoperability Regulations 2011);
- h) Where fleet cascades are part of the rolling stock fleet solution, whether external or internal, details setting out how the cascades will be managed and what mitigation the Bidder would use, should the incoming cascaded stock be delivered later than has been assumed;
- i) 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):

- 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 2.2 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 Cascaded Rolling Stock to be leased back to the donor franchise under Schedule 2.2 of the Franchise Agreement;
- j) Plans for meeting the Short Formation Benchmarks under Schedule 7.1 of the Franchise Agreement; and
 - k) Plans for meeting the train based metrics contained in Schedule 7.2 and Schedule 7.3 of the Franchise Agreement.

(C) SCORING

5.11.12 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (South Eastern marking framework and guidance). A Bid that scores below 4 in this Sub-Plan will result in the Bid being treated as non-compliant.

5.11.13 Without prejudice to the generality of subsection 7.3.5 (Scoring Methodology), specific examples of how the above requirements may be exceeded are set out below:

- a) Initiatives that enhance the passenger experience beyond the requirements set out in section (A) within the Train Fleet using where appropriate new or emerging technology;

- b) Initiatives with commitments to develop, evaluate and if successful implement new and emerging technologies within the Train Fleet, where such technologies have potential to benefit the Franchise and its passengers and could be transferable to the wider rail market, for example:
 - i) Operation of trains through hydrogen fuel cell or battery technology;
 - ii) Remote condition monitoring; and
 - iii) Automatic vehicle inspection;
- c) Initiatives to fit air conditioning or air cooling to those vehicles that are not already fitted (where technically feasible and where power limitations permit) that are designed to operate effectively and reliably within the range of ambient temperatures normally experienced across the Passenger Services;
- d) Initiatives to give passengers the ability to charge their mobile devices e.g. fitment of power sockets and/or USB ports, subject to the installation being technically feasible, power limitations permitting and not disproportionately expensive;
- e) Initiatives to deliver innovative 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; and
 - ii) Vehicle loading and passenger boarding / alighting information over and above the requirements in Schedule 1.5 of the Franchise Agreement;
- f) Initiatives to reduce, in conjunction with the Sub-Plan 2.1 (Train Services), the service impact of fleet performance incidents, network disruption and other operational challenges;
- g) Initiatives that deliver improvements in security for passengers and staff;

- h) Initiatives to reduce the weight of vehicles, where this is practical to do so;
- i) Initiatives which agree to work with Network Rail to install infrastructure monitoring equipment on trains where technically feasible and not disproportionately expensive;
- j) Proposals which commit to significantly improving the reliability of the train fleet through identifiable initiatives; and
- k) Initiatives which reduce the environment impact of toilets on trains.

(D) FURTHER INFORMATION

5.11.14 The provisions of this subsection apply in addition to the provisions of subsection 4.14.3 (Contractualisation) and subsection 7.7 (Evaluation impact of contractual treatment of Bidders' Initiatives).

Accessible Toilets

5.11.15 Bidders should ensure that throughout the lifetime of the Franchise that at least one universal access toilet is maintained on every Main Line and High Speed service.

Newly-built or Cascaded Rolling Stock

5.11.16 Any rolling stock that is proposed by Bidders and which does not form part of the current Train Fleet (for the purposes of this Sub-Plan) is defined as Alternative Rolling Stock whether it be newly-built or cascaded.

5.11.17 For any Alternative 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 vehicles. Their Financial Model must be consistent with the rolling stock becoming part of the Train Fleet on the Target Date(s).

5.11.18 When contractualising any proposal for Alternative Rolling Stock, the Department will incorporate into the Franchise Agreement:

- a) An obligation on the Franchisee to use all reasonable endeavours to bring the Alternative Rolling Stock into passenger service by the Target Date(s);
- b) An obligation on the Franchisee to secure the rolling stock has been brought into passenger service no later than 12 months after the Target Date(s); and
- c) Provisions to address the financial consequences of the Alternative Rolling Stock entering into service sooner than, or later than, the Target Date(s):
 - i) That there will be no adjustment to the Franchise Payments in consequence of the Alternative Rolling Stock entering into passenger service earlier than the Target Date(s);
 - ii) In the event that the Alternative 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 Alternative 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 1.6 of the Franchise Agreement, or leasing in other rolling stock to substitute for the Alternative Rolling Stock (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 operational performance benchmarks in Schedule 7.1 of the Franchise Agreement and the customer experience performance targets 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 7.1, 7.2 and 7.3 of the Franchise Agreement that are a consequence of the delay.

5.11.19 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 Financial Model must be consistent with the rolling stock becoming part of the Train Fleet on the Target Date(s).

5.11.20 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):
- i) That 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 1.6 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 operational Performance Benchmarks in Schedule 7.1 of the Franchise Agreement and the customer experience performance targets 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 7.1, 7.2 and Schedule 7.3 of the Franchise Agreement that are a consequence of the delay.

Rolling stock capacities – existing fleets and layouts

5.11.21 Table 5.3 (Capacities of Rolling Stock for Bidding Purposes) shows the standard and first class capacities of the unit types in the Train Fleet as inherited from the Start Date. Bidders shall assume these capacities for the purposes of their Bids (except insofar as proposals to modify rolling stock interiors will affect capacity as well as meeting the requirement under Sub-Plan 2.1 (Train Services) to remove first class accommodation within 18 months of the Start Date).

5.11.22 In some cases the capacities stated below differ from those assumed in the current Franchise Agreement.

Table 5.3: Capacities of Rolling Stock for Bidding Purposes

| <i>Class</i> | <i>Units</i> | <i>Vehicles</i> | <i>Seats (STD)</i> | <i>Standing (STD)</i> | <i>Standing space assessed at (0.xxm²)</i> | <i>Total (STD)</i> | <i>First Class Seats</i> |
|--------------|--------------|-----------------|--------------------|-----------------------|---|--------------------|--------------------------|
| 375/3 | 10 | 30 | 163 | 120 | 0.45m ² | 283 | 12 |
| 375/6 | 30 | 120 | 225 | 157 | 0.45m ² | 382 | 16 |
| 375/7 | 15 | 60 | 225 | 157 | 0.45m ² | 382 | 16 |
| 375/8 | 30 | 120 | 225 | 152 | 0.45m ² | 377 | 16 |
| 375/9 | 27 | 108 | 249 | 124 | 0.45m ² | 373 | 24 |
| 376/0 | 36 | 180 | 224 | 303 | 0.35m ² | 527 | 0 |
| 465/0 | 50 | 200 | 334 | 105 | 0.45m ² | 439 | 0 |
| 465/1 | 47 | 188 | 334 | 105 | 0.45m ² | 439 | 0 |
| 465/2 | 16 | 64 | 331 | 99 | 0.45m ² | 430 | 0 |
| 465/9 | 34 | 136 | 295 | 97 | 0.45m ² | 392 | 24 |
| 466 | 43 | 86 | 168 | 49 | 0.45m ² | 217 | 0 |
| 395 | 29 | 174 | 349 | 207 | 0.45m ² | 556 | 0 |
| 377/1 | 2 | 8 | 230 | 133 | 0.45m ² | 363 | 10 |
| 377/5 | 23 | 92 | 230 | 133 | 0.45m ² | 363 | 10 |

Rolling stock capacities – newly-built or reconfigured rolling stock

- 5.11.23 Where a Bidder is proposing to reconfigure the interior layout of any existing rolling stock covered by the Table 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.
- 5.11.24 Rolling stock will be assessed by the Department, for the purposes of this franchise competition, as being suitable for standing densities corresponding to a floor area allowance of either 0.45m², 0.35m² or 0.25m² per standing passenger.
- 5.11.25 The intention is that the 0.25m² allowance will be admissible only for rolling stock whose physical characteristics (e.g. stand backs and vestibules) and interior layouts are such that they can realistically accommodate the higher standing density even at high passenger turn over locations such as Lewisham or London Bridge, while also providing a good level of passenger comfort.
- 5.11.26 Because of the wide variety of possible interior layouts that Bidders might wish to consider, the Department is not setting definitive rules about the circumstances in which 0.25m² or 0.35m² per standing passenger will be admissible, but the following indicative guidance may assist Bidders.
- 5.11.27 All vehicles are assumed to have a standing density corresponding to at least 0.45m² per standing passenger, provided there are sufficient hand holds.
- 5.11.28 To be eligible for 0.35m², the Department would normally expect to see a layout designed for higher-density standing, including:
- a) A minimum unobstructed aisle width of 700mm throughout the vehicle as measured at the narrowest part of the aisle;
 - b) Each vestibule area consisting of an open space between draught screens, seats, luggage stacks or other obstructions, measuring no less than 2,850mm for a two-door per side vehicle or no less than 2,000mm for a three-door per side vehicle (measured along the length of the vehicle);

- c) Exterior doors spread along the length of the vehicle, not at the vehicle ends; and
- d) Sufficient grab-poles, seat-back grab-handles (designed to be held comfortably for prolonged periods) and other hand-holds to allow all standing passengers to stand in reasonable comfort with access to one of these.

5.11.29 To be eligible for 0.25m^2 , the Department would expect to see the above conditions met plus substantially greater aisle width and/or substantially larger vestibule areas than indicated for 0.35m^2 and with sufficient grab-poles, grab-handles and other hand-holds for all standing passengers.

5.11.30 Seating and standing capacities of any rolling stock will be assessed on a vehicle-by-vehicle basis, such that different standing densities may be allowable for different vehicles within a unit. Different densities will not, however, be applied for different areas within a single vehicle.

5.11.31 The seated capacity of any vehicle will be assessed by counting the following:

- a) Fixed seats which provide lumbar support;
- b) Wheelchair spaces; and
- c) Tip-up seats which provide lumbar support, and which are capable of being used when the wheelchair spaces are occupied.

5.11.32 The standing capacity of any vehicle will be assessed by measuring the total area of the vehicle that is reasonably accessible for use by standing passengers in square metres, then dividing by 0.45, 0.35 or 0.25 as appropriate, then rounding down to the next whole number. Any standing area within the vehicle will be bounded by the widest point of the vehicle. Measurement of the standing area must assume that any available wheelchair spaces are occupied by wheelchair users, and that all tip-up seats that were counted towards total seating capacity are occupied by seated passengers. All seats and wheelchair spaces will be assumed to require an area of 0.45m^2 when occupied.⁵ Inaccessible areas such as toilets, staff areas, litter bins,

⁵ Bidders will not be given credit for maximising standing space by reducing the seat size.

equipment cupboards, draught screens, inter-vehicle gangways and spaces between seats are excluded from the available standing area.

5.11.33 The above criteria are provided to Bidders as indicative guidance only: the Department will consider all aspects of Bidders' proposals on their merits. It does not automatically follow that a proposed layout meeting the above criteria will necessarily be agreed as being suitable for 0.25m² or 0.35m² (because other features of the proposal may render it unsuitable). Similarly, it does not follow that a proposed layout that fails to meet all of the criteria will necessarily be deemed unsuitable (because other features of the proposal may more than compensate for the particular shortcoming):

- a) In any event, the higher-density (0.25m² or 0.35m²) allowances will be admissible only where the rolling stock is to be deployed on services for which such layouts are suitable, in particular shorter-distance commuting;
- b) Where Bidders require greater certainty about the treatment of a particular layout, they should 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 vehicle, showing:
 - i) Key dimensions (including internal and external vehicle length and width, aisle widths, dimensions of vestibule areas and the width of door apertures when open);
 - ii) Its interior layout (including fixed and tip-up seats; grab-poles, hand-holds etc.);
 - iii) 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
- c) The Department will endeavour to respond within 8 working days of receipt of such a BCQ and fully-legible scale drawing as indicated above.

Main Line

5.11.34 For vehicles on Main line services the 0.45m² allowance is applied for all rolling stock. If a Bidder proposes a significant change in the balance of seating and standing capacity on any Main Line service

(see Tables ML or MV from the TSR2) inherited on Day 1 in the Train Plan, such as increasing the quantum of 3+2 or 2+2 seating within a unit, Bidders should submit a BCQ asking the Department to provide a view on suitability. Such a question must be accompanied by a fully-legible A3 scale drawing of each vehicle within the unit, showing:

- i) Key dimensions (including internal and external vehicle length and width, aisle widths, dimensions of vestibule areas and the width of door apertures when open);
- ii) Its interior layout (including fixed and tip-up seats, grab-poles, hand-holds etc.); and
- iii) 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).

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

High Speed

5.11.35 Bidders are to assume the number of seats on an existing 6-car unit inherited at the Start Date is maintained throughout the Franchise Term for all High Speed services (Table HJ of the TSR2). If a Bidder proposes to make changes to the fleet inherited at the Start Date, such as altering the seat layout or to deliver a refurbishment, they should submit a BCQ asking the Department to provide a view on suitability and any impact that this might have on meeting the capacity requirement in Table HJ of TSR2. As part of this process the Department will consider the merit in a minor change in seat numbers. Such a question must be accompanied by a fully-legible A3 scale drawing of each vehicle within the unit, showing:

- i) Key dimensions (including internal and external vehicle length and width, aisle widths, dimensions of vestibule areas and the width of door apertures when open);
- ii) Its interior layout (including fixed and tip-up seats, grab-poles, hand-holds etc.); and
- iii) 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).

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

(E) FURTHER INSTRUCTIONS ON ROLLING STOCK REQUIREMENTS

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

5.11.37 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.

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

- a) The rolling stock that is comprised within the South Eastern Train Fleet at the date of issuing this ITT;
- b) Electric or hybrid multiple units of any class that are leased by a Relevant Operator other than the current South Eastern 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; or
 - 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 South Eastern

Franchise that could be used by the donor franchisee,

or:

- ii) Will not be demonstrably surplus to the requirements of that operator, but the Bidder can demonstrate that it will be feasible for that operator to secure alternative rolling stock in sufficient time to enable that operator to maintain the operation of its train services to at least current standards;
- c) 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;
- d) Electric, bi-mode or hybrid multiple units of any class that are not leased at the date of issuing this ITT by any Relevant Operator; and
- e) Any newly-built rolling stock that the Bidder commits to procure.

5.11.39 Where a Bidder proposes rolling stock falling within paragraph 5.11.38b), their Bid must:

- a) Demonstrate that the conditions in paragraph 5.11.38b) 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.

5.12 Sub-Plan 2.3 - Performance

Notes

For the purposes of this plan, Network Rail has responsibility for the delivery of the operational infrastructure on High Speed 1 as well as the remainder of the network.

Bidders should note that the requirement for the delivery of a high performing operational railway is allocated to this plan but Bidders may cross reference as appropriate to other plans including Sub-Plan 1.2 (Alliancing and Partnering), Sub-Plan 2.1 (Train Services) and Sub-Plan 2.2 (Rolling Stock) but for the purpose of evaluation and the Quality Score, credit for any initiatives will only be considered in the main Delivery Plan in which such proposal is contained.

(A) REQUIREMENT

5.12.1 The Department requires a Franchisee who will continually improve the performance of the Franchise by:

- a) Delivering the performance benchmarks specified in Schedule 7.1 of the Franchise Agreement noting the requirement under this schedule to achieve the Short Formation Benchmarks is excluded from consideration under this Sub-Plan and contained and assessed in Sub-Plan 2.2 (Rolling Stock);
- b) Analysing performance failures to root-cause and using this information to drive decision making throughout the business;
- c) Demonstrating an understanding of the characteristics of the Suburban (Metro), Main Line and High Speed routes and the contributing factors towards achieving high performing Passenger Services on each of these;
- d) Working with Network Rail and other operators to identify the causes of poor performance & developing and implementing suitable mitigations as appropriate;
- e) Delivering a culture of “Right Time Railway” (where trains are on time at all stations along the route) amongst operational staff;
- f) Designs and implements business continuity processes for the operational resilience of the business, setting out how they will engage with industry partners (including Network Rail, ROSCOs and train maintainers) to minimise delay and disruption to passengers; and

- g) Utilises current and evolving technology to improve the operational resilience of the Franchise.

(B) EVIDENCE BIDDERS SHALL PROVIDE

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

- a) Plans for delivering the benchmarks under Schedule 7.1 of the Franchise Agreement (excluding capacity metrics which are considered in Sub-Plan 2.2 (Rolling Stock)) and overall strategy for delivering high performing Passenger Services including for each initiative proposed the:
 - i) Problem identification;
 - ii) The approach and resource commitments for the proposed solution; and
 - iii) Evidence for the measurable impact on performance;
- b) Proposals for the delivery of a Right Time Railway including:
 - i) How they propose to develop staff competencies, identify relevant targets and how these will be incentivised; and
 - ii) How they propose to work with Network Rail and other operators to develop Initiatives to ensure that a "Right Time Railway" culture and performance is embedded across the route;
- c) Their overall strategy for operational planning and management, including:
 - i) Strategy for service delivery which reflects the differing requirements between peak and off peak delivery and delivers a right time railway;
 - ii) Approaches specific to the needs of the Suburban (Metro), Main Line and High Speed routes; and
 - iii) Proposals for managing extreme weather and seasonal conditions including leaf fall;
- d) How sub-threshold delay will be identified, analysed and the total quantum reduced;

- e) How their rolling stock utilisation and work force strategy for operationally essential staff supports the robustness of the delivery of the requirements of Part (A), particularly identifying the key risks and how these will be mitigated; and
- f) How the Franchisee will minimise the impact of routine and ad hoc engineering work and challenging circumstances on the provision of Passenger Services, including by:
 - i) Maintaining the provision of Passenger Services (for example by working with Network Rail and other operators to maximise the scope of trains to continue running while engineering work is taking place, recognising the inconvenience of replacement bus services); and
 - ii) Developing and implementing appropriate rail replacement arrangements to ensure the continued wellbeing and welfare of passengers in completing their journey, including those with accessibility requirements.

(C) SCORING

5.12.3 For meeting overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (South Eastern marking framework and guidance). A Bidder that scores below 4 will result in the bid being treated as non-compliant.

5.12.4 Without prejudice to the generality of subsection 7.3.5 (Scoring Methodology) specific examples of how the above requirements may be exceeded are set out below:

- a) Initiatives which commit to specific operational performance targets at a local level and how staff will be motivated to achieve these;
- b) Proposals which commit to specific KPIs for the reduction of sub-threshold delay coupled with an explanation of how this information will drive decision making within appropriate levels of the business;
- c) Initiatives which commit to the use of right time data for relevant business planning coupled with commitments of how this information will underpin decision making within appropriate areas of the business; and

- d) Initiatives which commit to working with the operator of other services on Network Rail South East route to improve operational performance on routes shared by the Franchisee.

5.12.5 For the avoidance of doubt, a proposal to exceed the Benchmarks defined in Schedule 7.1 of the Franchise Agreement will not be considered sufficient to exceed the above requirements.

5.13 Delivery Plan 3 - Revenue

5.14 Sub-Plan 3.1 Marketing and Branding

(A) REQUIREMENTS

5.14.1 The Department requires a Franchisee who fully understands the value of investment in marketing and the relationship with market growth, and who will:

- a) Develop and implement effective marketing strategies and plans to promote Passenger Services and generate growth in revenue (farebox and non-farebox) and passenger journeys in a manner that reflects the requirements of Suburban (Metro), Main Line and High Speed segments and the distinction between peak and off peak as well as weekend journeys;
- b) Market and promote the improvements in the train service including where appropriate connections provided by a third party operator, rolling stock quality and customer service as they take place through the course of the Franchise Term in order to maximise the patronage and revenue arising from the improvements, and to improve public perception and the reputation of the Franchise including where appropriate raising awareness of opportunities for services managed by another operator such as Crossrail where proportional to do so;
- c) Use branding to maximise the value of the Franchise whilst having regard to the overall costs and benefits of branding including, meeting the obligations set out in Schedule 6.1 of the Franchise Agreement with regard to branding neutral to owning group, developing a South Eastern Railway Brand and ensuring that the Franchise branding is capable of transfer and on-going use by a Successor Operator;
- d) Adopt Neutral Branding for all branding purposes; and

- e) Develop marketing initiatives in conjunction with stakeholders, including Community Rail Partnerships, intended to increase the level of passenger journeys including but not limited to tourist attractions and special events.

(B) EVIDENCE BIDDERS SHALL PROVIDE

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

- a) How their marketing strategy will support further elements of their Bid reliant on increased uptake or patronage, including but not limited to: off peak travel; travel to tourist attractions and special events; multi-modal journeys and increasing access to rail;
- b) Their approach to developing new markets and growing existing market segments of the Franchise, showing returns on investment in marketing activities, including evidence of plans to maximise the benefits of investments and other improvements in the Franchise;
- c) Approach for Neutral Branding suitable to be adopted by a Successor Operator;
- d) Approach to identifying marketing spend including setting out the Minimum Marketing Spend and the Minimum Marketing Team Spend in Appendix 1 of Schedule 6.3 of the Franchise Agreement;
- e) Plans for working with stakeholders to develop marketing initiatives; and
- f) Plans for supporting the uptake of smart ticketing through marketing and promotional activities.

5.14.2.2 The Department will be looking for evidence to support the projected return on investment from Bidder's marketing schemes at a sufficient level of detail to inform the Department's risk adjustment process (see Appendix 3 (Risk Adjustment Process)).

(C) SCORING

5.14.3 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (South Eastern

marking framework and guidance). Without prejudice to the generality of subsection 7.3.5 (Scoring Methodology), specific examples of how the above requirements may be exceeded are set out below:

- a) Marketing initiatives that stimulate mode shift and travel by rail generally, including through collaboration with stakeholders and other train, light rail, underground and bus operators including but not limited to tourist sites or attractions;
- b) Targeted local marketing and branding developed in conjunction with local stakeholders that helps to promote rail as an integral part of public transport provision;
- c) Proposals which deliver better use of any surplus capacity during the off-peak;
- d) Proposals that adopt innovative approaches to customer relationship management i.e. able to build on increased smart ticketing sales over the Franchise Term; and
- e) Proposals which describe clear strategies coupled with commitments for the use of marketing to recover the fare box income should the Forecast Revenue Mechanism be triggered.

5.15 Sub-Plan 3.2 Fares, Ticketing and Revenue Protection

5.15.1 Bidders may propose assets to be funded by the Residual Value Mechanism (see subsection 5.2 (Residual Value Mechanism)) under this Sub-Plan.

(A) REQUIREMENTS

5.15.2 The Department requires a Franchisee who will make rail fares easier to understand and better suited to passengers' needs in a manner which is subject to ongoing review throughout the Franchise Term.

5.15.3 The Department requires a Franchisee who will offer product(s) that give passengers who travel fewer than 5 days a week a better value for money option than buying multiple return journeys.

5.15.4 The Department requires a Franchisee who will communicate information about fares and tickets to current and prospective passengers (including persons with reduced mobility, cognitive impairments, hidden disabilities and persons with other protected characteristics under the Equality Act 2010) clearly and transparently, so that:

- a) The information that passengers need is easily accessible through, and, where relevant, consistent across, a range of different communications channels, enabling them to choose the most appropriate 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.

5.15.5 The Department requires a Franchisee who will deliver a high quality standard of ticket retailing service, which will:

- a) Provide passengers with widespread and easy access to the full range of fares and a range of ticket retail opportunities that meet their needs, including providing for those without access to technology;
- b) Provide a quality passenger experience at ticket vending machines including adopting the Design Guidelines for all software and hardware upgrades; and
- c) Provide a modern smart ticketing system that will:
 - i) Offer passengers an attractive, viable and accessible option to make their journey without a paper ticket for at least all journeys that are entirely within the Franchise and made on Franchise Services;
 - ii) Facilitate progress towards a seamless and integrated smart ticketing experience for at least all journeys that are entirely within the Franchise and made on Passenger Services; and
 - iii) Minimise whole industry costs and whole life costs, including by using common industry systems and adopting broader industry initiatives where available and appropriate.

5.15.6 The Department requires a Franchisee who will maximise the benefits of investment in smart ticketing systems 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 within the Franchise and made on Passenger Services, such targets being

no less than 50% of all such journeys on smart ticketing by June 2020; and

- b) a policy of issuing annual, weekly and monthly season tickets, ordered online or at ticket offices, on smart tickets as a default option from no later than September 2019.

5.15.7 The Department requires a Franchisee who can manage the levels of ticketless travel whilst ensuring that revenue protection activities are sensitive to the overall passenger experience.

5.15.8 The Department requires a Franchisee who will conduct a pilot to simplify fares (such as through implementing single-leg pricing) and provide Pay-As-You-Go travel across the Medway Towns (Strood, Rochester, Chatham, Gillingham & Rainham) (the "**PAYG Proposals**"). The pilot should:

- a) Allow passengers to travel both within the Medway Towns and between the Medway Towns and the PAYG Zone prior to purchasing a fare (subject to the terms of the scheme), where the appropriate fare is calculated and charged automatically after travelling based on information collected about the passenger's journey;
- b) Extend beyond the current extent of the schemes operated by Transport for London;
- c) Be fully interoperable with Transport for London services and fares, with customers offered the best value fare for their journey from an appropriate combination of Oyster/Contactless and existing National Rail fares;
- d) Be delivered within the first two years of the Franchise Term, and operate until the end of the Franchise Term;
- e) Maximise the likelihood of being both affordable to taxpayers and acceptable with stakeholders and passengers, including with respect to any accompanying changes to fares which require a change to fares regulation, as set out in Schedule 5.7 of the Franchise Agreement; and
- f) Allow the Franchisee and the Department to document and evaluate approaches to fares simplification coupled with new forms of ticketing, and inform the continued development and refinement of implementable proposals to provide Pay-As-You-

Go travel across a wider geography and/or range of ticket types and media (such as period tickets).

(B) EVIDENCE BIDDERS SHALL PROVIDE

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

- a) A summary of the Bidder's proposal under this Sub-Plan, including an overview of the key benefits to passengers;
- b) The Bidder's approach to fares, including:
 - i) its Bid Fares Strategy including, as a minimum:
 - A) 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; and
 - B) this description 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 following key markets:
 - a. Ashford (Kent), Sevenoaks, Tunbridge Wells, Tonbridge, Canterbury, Gravesend, Ebbsfleet International, Chatham and Orpington.
 - ii) a summary overview of its Bid Fares Strategy relating to the requirements of this Sub-Plan;
 - iii) details of how the Bidder will consult with Stakeholders and passengers in developing and implementing any fares changes planned; and
 - iv) how any proposed changes to the structure and level of fares are expected to impact upon forecast demand and franchise revenues;
- c) A detailed explanation of the approach the Bidder will take to develop the pilot of the PAYG Proposals, including:
 - i) the proposed technical approach;

- ii) the range of fares within the Bidder's proposal;
 - iii) its strategy for communicating proposals to the passenger and relevant stakeholders;
 - iv) how the pilot will be evaluated, documented and shared with the Department;
 - v) details of the incremental changes in revenue forecast to result from the pilot, from the start of the pilot until the end of the Franchise Term; and
 - vi) how the Bidder will manage any dependencies on third parties necessary to implement the pilot and evidence that demonstrates that the proposed pilot implementation is, to the greatest possible extent, deliverable, given any such dependencies;
- d) The Bidder's approach to ticketing, including:
- i) details of how the Bidder will consult with Stakeholders and passengers in developing and implementing changes to ticketing;
 - ii) details of targets for increased usage of smart ticketing (at a minimum disaggregating targets between seasons and single/returns) and how they will be achieved; and
 - iii) a description of how the Bidder will deploy smart ticketing which should include details of:
 - A) the passenger experience for different users of the smart ticketing system, such as walk-up passengers;
 - B) the proposed technical approach; and
 - C) how it will manage the introduction to new forms of ticketing for passengers; and
- e) How the Bidder will manage the level of ticketless travel during the Franchise Term, having regard to the obligations under Schedule 6.3 of the Franchise Agreement if the Forecast Revenue Mechanism is active.

(C) SCORING

5.15.10 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (South Eastern marking framework and guidance).

5.15.11 Without prejudice to the generality of subsection 7.3.5 (Scoring Methodology), specific examples of how the above requirements may be exceeded are set out below:

- a) Implementation of a passenger-focused fares structure which improves passengers' satisfaction with, and understanding of, the value for money 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;
- c) Proposals to significantly enhance the passenger experience when using ticket vending machines through providing a simplified interface which enables passengers to be confident they are purchasing the most suitable ticket for the journey they wish to make;
- d) Commitments to guarantee that passengers are getting the cheapest appropriate ticket for their journey, for example 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 systems;
- f) Innovative proposals to maximise the wider passenger benefits of increased smart ticketing such as systems that are able to provide targeted passenger information before, during and after the journey;
- g) Particularly strong proposals to drive significant increases in the usage of smart ticketing;
- h) Proposals which use current or evolving technology to reduce congestion at gatelines in a manner which supports the passenger experience, and protects revenue; and

- i) Innovative fare or ticketing proposals which support an increased utilisation of unused capacity in the off-peak.

5.16 Delivery Plan 4 - Customer Experience and Stations

5.17 Sub-Plan 4.1 - Customer Experience

(A) REQUIREMENT

- 5.17.1 The Department requires a Franchisee who will provide a high quality experience for all customers (including persons with reduced mobility, cognitive, and mental impairments) which is subject to continuous monitoring and improvement.
- 5.17.2 The Department requires a Franchisee who can:
 - a) embed a customer-driven culture throughout the business, where the customer experience is a key corporate value and appropriate business processes are designed around the customer, for example, the administration of Delay Repay;
 - b) facilitate proactive engagement with customers, communities and other stakeholders who drive decisions and operational activity; and
 - c) ensure the wellbeing and security of customers.
- 5.17.3 The Department requires a Franchisee able to deliver the NRPS Benchmarks in respect of “Customer Service” and “Dealing With Delays” contained within Schedule 7.2 and the SQR Customer Service Benchmarks of Schedule 7.3 of the Franchise Agreement.
- 5.17.4 The Department requires a Franchisee that can continually recruit, retain, develop and motivate customer-facing staff so that they are supported and empowered to:
 - a) Provide a visible, helpful and proactive customer facing presence throughout the hours of train service and station operation, including where staff are present at stations & on-board trains and through other means of customer contact such as help points, social media or personal mobile devices;
 - b) Provide accurate, timely and relevant information and other forms of assistance to customers at each stage of the journey; and

- c) Promote security and deliver a safe and secure environment on board trains for passengers, including by reducing anti-social behaviour.
- 5.17.5 The Department requires a Franchisee that is able to work with other organisations to obtain more immediate, frequent and granular insight into issues affecting customer sentiment, for example through innovative or emerging technologies and acts upon this insight to improve services and build trust to the benefit of customers as well as sharing this information with the Department where appropriate.
- 5.17.6 The Department requires a Franchisee that will use current and evolving technology, as appropriate, to meet customer needs, in particular to provide both real time and integrated journey information (including during special events and planned and unplanned disruption) that is relevant, accurate, timely, simple and easy to use at all stages of the passenger journey. This should include but not be limited to:
- a) Information prior to, and where practicable, during the journey on seat availability and busy trains/carriages; and
 - b) Information that allows passengers to make informed decisions about interchange opportunities, including information on services run by other operators.
- 5.17.7 The Department requires a Franchisee able to provide reliable MCS External Connectivity in accordance with the MCS Minimum Service Level and other requirements set out in Schedule 13.3 of the Franchise Agreement.
- 5.17.8 The Department requires a Franchisee able to implement 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". The Department requires a Franchisee that can actively promote awareness of passengers' rights to claim compensation and the ways in which they can make a claim.
- 5.17.9 The Department requires a Franchisee that can implement a complaints procedure in a manner that meets customer needs.
- 5.17.10 The Department requires a Franchisee who will communicate to customers that first class accommodation will be removed from the

Train Fleet of the Franchise within 18 months of the Start Date in line with the requirement described under Sub-Plan 2.1 (Train Services).

(B) EVIDENCE BIDDERS SHALL PROVIDE

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

- a) Plans for achieving the NRPS in respect of "Customer Service" and "Dealing with Delays" set out in Schedule 7 and the SQR Customer Service Benchmarks set out in Schedule 7.3 of the Franchise Agreement;
- b) Plans for developing customer facing staff over the lifetime of the franchise including as a minimum:
 - i) approaches to enable continual improvement in customer service;
 - ii) an explanation of how staff recruitment, development, appraisal and retention will support improvements in customer experience; and
 - iii) an explanation of how customer facing staff will be motivated to deliver a high level of customer service; and
- c) Their Customer and Stakeholder Engagement Strategy, which should explain:
 - i) how the Franchisee will engage with customers, stakeholders and potential customers (including persons with reduced mobility, cognitive, and mental impairments) to drive continuous improvements in customer experience;
 - ii) how the Franchisee will provide a visible and accessible means for customers and communities to raise and address issues, and get direct feedback on the action taken to resolve the problem;
 - iii) how the Franchisee will work with customers, communities and stakeholders to develop CCI (Customer and Communities Improvement) Schemes;
 - iv) 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 services and facilities and how it will act to address problems; and

- v) how the Franchisee proposes to use future Customer Reports to improve engagement with its customers.

5.17.12 Plans for delivering MCS Minimum Service Level requirements and metrics set out in Schedule 13.3 of the Franchise Agreement, including:

- a) An explanation of how the Bidder will determine the required MCS External Connectivity needs to meet the MCS Minimum Service Level on Applicable Portions of MCS Relevant Routes and other Routes, as applicable, throughout the Term;
- b) Details of the MCS Relevant Routes and other routes the Bidder intends to address with the MCS Minimum Service Level;
- c) Details of any Routes that the Bidder believes would lead to disproportionate costs being incurred to provide the MCS Minimum Service Level to such Routes in comparison to passenger benefits given together with the rationale for why such Routes should be excluded from the MCS Minimum Service Level;
- d) An explanation of the customer experience to be provided especially on MSL Secondary Connectivity Routes and Other Secondary Connectivity Routes together with any limitations or restrictions on the service;
- e) Whether the Bidder intends to enter into a MCS Connectivity Service Contract, and the rationale for wishing to do so;
- f) How the Bidder will continue to monitor, report, maintain and invest in the MCS (Mobile Communications Service) and ensure the associated MCS Minimum Service Level throughout the Franchise Term; and
- g) An outline plan for fitment of the necessary on train equipment and systems to deliver the MCS Minimum Service Level and other requirements, and must explain how such equipment will be maintained and operated throughout the Core Franchise Term and any Extension Period, including plans for hardware replacement where required due to failure or obsolescence.

5.17.13 Details of any proposed accreditations in customer service and/or service quality.

5.17.14 Details of any further regular customer surveys that the Bidder proposes to adopt beyond those required by Schedule 7.2 and 7.3, and a clear explanation how these will be used to inform business decisions.

5.17.15 Plans for implementing a complaints procedure that supports the passenger experience.

5.17.16 Plans for communicating the requirement for removal of First Class accommodation in the Train Fleet as set out in subsection 5.10.3 of Sub-Plan 2.1 (Train Services) to customers.

(C) SCORING

5.17.17 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (South Eastern marking framework and guidance).

5.17.18 Without prejudice to the generality of subsection 7.3.5 (Scoring Methodology), specific examples of how the above requirements may be exceeded are set out below:

- a) Proposals that demonstrate how customer-facing staff as well as passengers can contribute to achieving the targets contained in Schedule 7.3 through providing the ability to report faults or failures beyond the use of mystery shopper surveys mandated through the Franchise Agreement;
- b) Proposals which commit to implementing or trialling new or emerging technology to support the passenger experience or gather passenger feedback;
- c) Proposals which commit to specific targets or KPIs for customer experience during times of planned or unplanned disruption and how this information will be acted upon within the business;
- d) Proposals which commit to specific KPIs for improving the passenger perception of value for money and demonstrate how the results will be acted upon within the business;
- e) Proposals which commit to benchmark the delivery of customer service with peer organisations within the transport and other sectors;

- f) Innovative and comprehensive proposals for the provision of personalised information that is tailored to passengers' individual needs which may include (but is not limited to):
 - i) expansion of the level of information provided to passengers prior to and during their journey about the availability and condition of facilities on-board their service and/or at their stations; and
 - ii) the use of customer data to make targeted communications and offers to passengers and build relationships with them;
- g) A commitment to reinvest any saving in the overall cost of claims for Delay Repay, when compared with the amount forecast in a given year without any reduction in promotional activities necessary to meet Part (A) Requirements, into initiatives that improve customer service for passengers; and
- h) Initiatives that go beyond delivery of the MCS Minimum Service Level requirements, including enhanced levels of passenger service and/or bandwidth, fitment of infrastructure in tunnels and on HS1 to enhance the offering of mobile connectivity services in these areas.

5.17.19 For the avoidance of doubt, a proposal to exceed the Benchmarks defined in Schedule 7.2 and 7.3 of the Franchise Agreement will not be considered sufficient to exceed the above requirements.

5.18 Sub-Plan 4.2 Stations

5.18.1 Bidders may propose assets to be funded by the Residual Value Mechanism (see subsection 5.2 (Residual Value Mechanism)) under this Sub-Plan.

(A) REQUIREMENT

5.18.2 The Department requires a Franchisee that can meet the station based benchmarks contained within Schedule 7.2 and Schedule 7.3 of the Franchise Agreement.

5.18.3 The Department requires a Franchisee who will deliver facilities and an environment at stations which supports customer needs and experience by:

a) Targeting the provision of services and facilities at Stations according to the volume and characteristics of customers and the potential growth in customer usage. Investing as a minimum, £6.5 million on improving services at Stations where there is a benefit to customers, yet such benefit may not generate sufficient revenues to cover costs, including as a minimum but not limited to the following elements:

- i) Customers' physical comfort and protection from adverse weather;
- ii) CCTV provision and methods to minimise or eliminate graffiti where this is economically viable to do so;
- iii) Ensuring the accessibility needs of customers with physical, mental and hidden disabilities, including cognitive impairments are catered for (in addition to the requirements in respect of Minor Works Budget in Schedule 4 of the Franchise Agreement);
- iv) Recognising that stations play an important role in supporting onward journeys on the wider transport network; and
- v) Initiatives that improve the passenger experience at stations that serve ongoing, special and major events,

(the "**Station Improvement Fund**");

b) Developing and implementing an integrated transport strategy that recognises stations may form one part of a journey and therefore providing for sufficient facilities to support access to and egress from the station in a manner that complies with the Design Standards for Accessible Railway Stations, by:

- i) Working with stakeholders to deliver improvements at stations;
- ii) Working with other transport providers to enhance intermodal interchange facilities;
- iii) Working with stakeholders and other parties to provide appropriate vehicle access and parking provision; and
- iv) Working to provide appropriate cycle access and storage in line with the RDG Cycle Rail Toolkit 2 and details of

how they will reflect on and deliver facilities consistent with the DfT 'Cycling and Walking Investment Strategy' (March 2017); and

- c) The Department requires a Franchisee who will effectively and efficiently manage, maintain and enhance Stations by:
- i) Developing, measuring and reporting on a dashboard of metrics including measures of accessibility and inclusion (in addition to the requirements under Schedule 7.2 and Schedule 7.3 of the Franchise Agreement) for Stations or a group of Stations which evidence improvements to the Station to be included as part of Schedule 1.7 of the Franchise Agreement;
 - ii) Developing and implementing a planned approach to identify and deliver sustainable operational, customer and commercial requirements and opportunities for Stations;
 - iii) Meeting the requirements detailed within the Franchise Agreement including the Station Asset Management Plan, Station Social and Commercial Development Plan (as set out in paragraph 3.3 of Schedule 1.7), Secure Stations and Secure Car Park accreditation (all Schedule 1.7), Minor Works Budget (Schedule 4), and Sustainability targets (Schedule 11.2);
 - iv) Working with Network Rail and High Speed 1 Limited to improve the provision of ticket retail facilities at Managed Stations where it is proportionate and affordable to do so whilst ensuring sufficient space is provided for passenger circulation; and
 - v) Initiatives that support the movement of passengers at stations in a manner which reduces overcrowding and supports the distribution of passengers along the whole length of trains.

(B) EVIDENCE BIDDERS SHALL PROVIDE

5.18.4 In addition to the Minimum Evidential Requirements, Bidders' responses shall clearly demonstrate how initiatives are tailored to the specific volumes and characteristics of the community and customers the Station serves.

- a) This shall include:
- i) Plans for the delivery of facilities and services at stations which at a minimum should include proposals under each of points 5.18.3a)i) to 5.18.3a)v) under subsection 5.18.3 including how the Bidder will establish and align the quantity and scope of Station services offered in relation to the volume and characteristics of passengers using their Stations;
 - ii) Plans for the development and enhancement of station facilities. Bidders should only provide information for stations with proposals included as part of the Bid; and
 - iii) Plans for the development of a station dashboard and how this will measure the Station Improvement Measures to be populated in Appendix 2 to Schedule 1.7 of the Franchise Agreement;
- b) Bidders should detail how they will ensure the successful delivery of the requirements set out in the Franchise Agreement; specifically how they will:
- i) Develop the processes and procedures that support their Station Asset Management Plan as complying with the framework provided by ISO 55001:2014 (asset management) in accordance with the requirements of the Franchise Agreement;
 - ii) in the Station Social and Commercial Development Plan, identify their initial view of potentially suitable sites at Stations (for example, redundant buildings and facilities) for both commercial development and use by the community;
 - iii) meet the requirements for obtaining Secure Stations Accreditation and Secure Car Park Accreditation (and any successor schemes) set out in Schedule 1.7 of the Franchise Agreement; and
 - iv) meet the NRPS Stations targets set out in Schedule 7.2 (NRPS, Customer Report and CCI Scheme) and Schedule 7.3 (Service Quality) of the Franchise Agreement, over the duration of the Franchise Term;

- c) Bidders should provide details of how they will target and manage the delivery of investment at Stations (including through the Station Improvement Fund);
- d) Bidders should set out their plans, where appropriate, at an individual station level, explaining the rationale and evidence for expected benefits to customers. This should include as a minimum:
 - i) how they will work with other transport providers to enhance intermodal interchange facilities noting the requirement to support taxis and private hire vehicles where appropriate to do so;
 - ii) how they will provide appropriate vehicle access and parking provision where this is demonstrably linked to suppressed demand and in a manner which is sustainable;
 - iii) how they will provide appropriate cycle access and storage, referencing RDG Cycle Rail Toolkit 2 as appropriate; and
 - iv) how they will work with local authorities to deliver local transport and development plans and how the plans will underpin decision making over the lifetime of the Franchise.

(C) SCORING

5.18.5 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (South Eastern marking framework and guidance).

5.18.6 Without prejudice to the generality of subsection 7.3.5 (Scoring Methodology), specific examples of how the above requirements may be exceeded are set out below:

- a) Proposals which include initiatives and accompanying commitments to addressing particular stakeholder needs;
- b) Proposals which include initiatives and accompanying commitments of third party funding to enhance or develop station facilities as well as improving station capacity at interchange stations, for example at Lewisham;

- c) Proposals which utilise new and evolving technology to support the passenger experience at stations;
- d) Innovative proposals and/or a commitment to spend more than the amount of the Station Improvement Fund on Station improvements with potentially a non-commercial return during the Franchise, in particular initiatives that significantly improve accessibility to the rail network for customers with physical, mental and hidden disabilities, including cognitive impairments;
- e) Initiatives that identify and prioritise investment in communities of significant socio-economic deprivation, communities that make little use of rail, and at stations with latent demand;
- f) In addition to the Social and Commercial Development Plan, specific commitments to refurbish unused or underused Station buildings and return them to use for commercial or social purposes; that benefit the community and station users;
- g) Proposals to consult with and engage, on a two-way basis, Local Authorities and local health organisations (including but not necessarily limited to NHS trusts and mental health charities) to share information on vulnerable persons and act on this intelligence accordingly;
- h) Introduction of Wi-Fi at Stations where this is supported by customer demand and can be delivered for a proportional cost;
- i) Commitments to create, fund and maintain an in-life innovation fund to support the development and introduction of technological solutions at Stations; and
- j) Proposals that commit to working with stakeholders to increase rail use at new or planned developments.

5.18.7 For the avoidance of doubt, a proposal to exceed the Benchmarks defined in Schedule 7.2 and 7.3 of the Franchise Agreement will not be considered sufficient to exceed the above requirements.

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. In summary, this information is:

- a) A Financial Model prepared in accordance with the requirements set out in subsections 6.3.1 (General), 6.3.3 (The Financial Model), 6.3.6 (Financial Templates) and 6.3.7 (Generic Model requirements);
- b) Supporting 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 (Operational Models) and 6.3.7 (Generic Model requirements);
- c) The Financial Model and Operational Models being collectively termed the “**Models**”;
- d) Supplementary Material prepared in accordance with the requirements set out in subsection 6.3.5 (Supplementary Material); Financial Templates populated in accordance with the requirements described in subsection 6.3.6 (Financial Templates);
- e) A Record of Assumptions prepared in accordance with the requirements set out in subsection 6.5 (Record of Assumptions);
- f) An Operating Manual prepared in accordance with the requirements described in subsection 6.6 (Operating Manual);
- g) Responses to all of the requirements surrounding Change as set out in subsection 6.7 (Change);
- h) Evidence that the Models have been reviewed in accordance with the requirements described in subsection 6.8 (Reviews and audit of Models);
- i) A Financial Structure and Funding Plan describing the Bidder’s financial structure and funding prepared in accordance with the requirements described in subsection 6.9 (Financial Structure and Funding Plan); and
- j) 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 6.10 (Updating of EoI financial and economic standing tests (the “Tests”) and submission of updated bond provider letter(s)).

6.1.2 The Models, the Record of Assumptions and the Operating Manual being collectively the “**Modelling Suite**”, plus any Supplementary

Material as directed by the Secretary of State (which would not automatically be subject to Model Audit), will be Placed In Escrow if the Bidder is successful pursuant to Schedule 9.2 of the Franchise Agreement.

- 6.1.3 Bidders are to use the general modelling assumptions as set out in subsection 6.4 (Assumptions).
- 6.1.4 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).
- 6.1.5 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 Models and/or Record of Assumptions

- 6.2.1 Bidders are required to satisfy themselves as to the technical accuracy of their Modelling Suite and Supplementary Material prior to submission. Where any element of the 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 Modelling Suite as received, in which case the Bidder shall bear the risk of the error or errors within that element of the Modelling Suite and of any impact that this may have on the evaluation carried out in accordance with Section 7 (Evaluation Criteria and Methodology); 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 Modelling Suite in accordance with Section 7 (Evaluation Criteria and Methodology); in which case the Department reserves the right at its sole discretion to:
 - i. not to adjust or require or allow the Bidder to adjust the Bid Franchise Payments and/or correct the Modelling Suite and, where applicable, the variable element of PCS; or
 - ii. to adjust or require or allow the Bidder to adjust the Bid Franchise Payments to reflect the impact of correcting the

error and/or correct the Modelling Suite on which the Financial Robustness Test will be re-run, in accordance with subsection 7.6, and, where applicable, the variable element of PCS,

Note that: (i) such adjustments in aggregate cannot improve the P that is used to calculate the Final Score i.e. the adjustments cannot result in a decrease to the Risk Adjusted NPV; (ii) however, if the winning Bid is one which has been subject to this adjustment, the Franchise Payments which shall be contractualised in Schedule 8.1 (Franchise Payments) of the Franchise Agreement may be either lower or higher than the 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.

6.3 Financial and Operational Model requirements

6.3.1 General

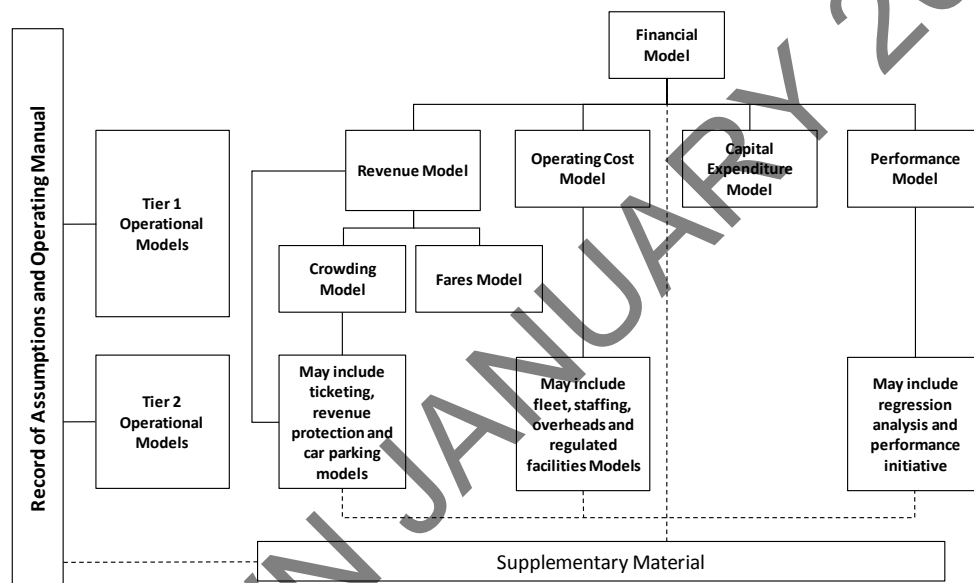
- 6.3.1.1 Each Bidder is required to submit and include as part of their Bid a Financial Model, which is supported by Operational Models and Required Supplementary Material as set out in subsection 6.3.5 (Supplementary Material). All Models must meet the requirements described in Section 4 (Explanation of Requirements for Bid Submission and Overview of Process following Bid Submission) and this Section 6 (Detailed Bid submission requirements - Financial). The Modelling Suite must demonstrate the financial consequences of the Bidder's business and operational plans over the Core Franchise Term and the Extension 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).
- 6.3.1.2 Any changes to the 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 Models

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

Figure 6.1 Anticipated 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 Models in accordance with Section 7 (Evaluation Criteria and Methodology).

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

6.3.3 The Financial Model

General

6.3.3.1 Each Bidder is required to submit with its Bid a 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 6.3.6 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 Appendix 1 to Schedule 8.1 of the Franchise Agreement. The Franchise Payment table set out in Appendix 2 to Schedule 8.1 of the Franchise Agreement must be completed in 2018/19 prices;
 - ii) To populate the Season Ticket Bond value;
 - iii) To populate the profit share thresholds in Appendix 1 to Schedule 8.2 of the Franchise Agreement;
 - iv) To populate the AFA and DFR in Appendix 2 to Schedule 8.2 of the Franchise Agreement;
 - v) To identify and track funding made available to the Franchisee as an Agreed Funding Commitment (AFC) or PCS 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 8.6 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 during the Core Franchise Term and the Extension Period. Bidders are to note that this is to be calculated in the Financial Model as an annualised backwards view of compliance with the Financial Ratio described in paragraph 2.1(a) of Schedule 12 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. In all cases, Bidders must ensure that Modified Revenue and Actual Operating Costs are calculated consistently with the definitions outlined in the Franchise Agreement;
- d) Shows how the Franchise will be funded over the Core Franchise Term and the Extension 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 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 this must be clearly stated within the Financial Model and Bidders must provide a letter from their financial advisers, as set out in subsection 6.9.1.1, 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 or not applying (as the case may be) the Long Funding Lease Rules should be clearly stated. The Bidder must provide a letter from their financial advisers as set out in subsection 6.9.1.1, confirming that they have given consideration to the deductibility of any interest expense taking into consideration both current rules concerning the tax deductibility of interest (thin capitalisation) and the issued draft legislation concerning changes effective from 1 April 2017 resulting from the UK response to the OECD Base Erosion & Profit Shifting (BEPS) Action 4 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 under sensitivities or financial robustness testing. The Bidder should also give consideration to issued draft legislation concerning changes effective from 1 April 2017 in relation to restrictions concerning the utilisation of trading losses;

- f) Properly reflects the accounting rules applicable as at the date of the issue of this ITT under which the Franchisee will report its financial information. Bidders are to adopt FRS 101, FRS 102 or IFRS. In applying accounting rules applicable as at the date of the issue of this ITT, for the avoidance of doubt Bidders should not assume early adoption of IFRS16 or make any adjustment to reflect accounting standard IFRS16 at any point in the Modelling Suite. As IFRS16 is not applicable until after the date of submission, we do not expect any element of the bid to reflect IFRS16 accounting. The accounting basis chosen must be disclosed, consistent and once selected cannot be changed in any version of the Financial Model submitted during the Bidding process;

- g) Reflects the arrangements for advance payments of HS1 IRC (including Additional IRC), OMRC and Capacity Reservation Charge as set out in Schedule 8.1 of the Franchise Agreement and subsection 3.15 (HS1 Access Charges) of this ITT, specifically:
- i) all HS1 charges must be recognised in the profit and loss in the period to which they relate. For the avoidance of doubt, this includes HS1 charges for 2018/19;
 - ii) the cash flow should reflect the receipt of advance payments from DfT through the Franchise Payments and subsequent payment in advance to HS1 in the relevant periods, where appropriate in the annualised Financial Model;
 - iii) the balance sheet should reflect the creation of a prepayment asset and deferred revenue liability for HS1 charges (in rows 32 and 54 of the "BS" sheet in the Financial Templates) which relate to a subsequent Franchisee Year, in line with the accounting standards adopted and where appropriate in the annualised Financial Model;
 - iv) the opening balance sheet should reflect the first advance payment having been received from the Department and made to HS1 Ltd in advance of the start of the Start Date, in accordance with subsections 3.15 (HS1 Access Charges) and 6.4.1m).
 - v) the Financial Ratio calculations should incorporate the impact of the cash flow and working capital treatment described above;
- h) States default prices in nominal terms and when viewed in real terms, outputs must be deflated to 2018/19 prices and outputs prior to this period must be inflated to 2018/19 prices;

- i) Calculates the Revenue Share and Revenue Support payments in accordance with Schedule 8.6 of the Franchise Agreement. For the avoidance of doubt, no Revenue Share or Revenue Support payments should be included in the Bid; and
- j) Provides output schedules in the format of the Financial Templates.

6.3.3.2 The Financial Model must adopt a structure that allows the identification and disaggregation of the incremental costs and revenues which are forecast by the Bidder solely to relate to or result from its Digital Rail Proposal to meet the requirements set out in subsections 5.8.16 to 5.8.21 of this ITT. Such costs and revenues should be included in the Bid, but they must be contained in a separate scenario or option in the Financial Model, with the functionality to switch them on or off in aggregate. When switched on, the revenues and costs relating to the Digital Rail Proposal must flow through the Financial Model to the outputs in the Financial Templates, including to the profit and loss, balance sheet, cash flow, Financial Ratios and calculation of Franchise Payments, as described in subsection 6.3.3.3. When switched off, the revenue and costs relating to the Digital Rail Proposal must not flow through the 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 costs and revenues associated with the Digital Rail Proposal, including assumptions and supporting evidence, in the Record of Assumptions, including providing the information required by subsection 6.5.2h).

Digital Rail

6.3.3.3 The Financial Model should reflect the required treatment of costs and revenues relating to the Digital Rail Proposal, as follows:

a) Capital expenditure up to ⁶ :

- i) Bidders should assume that the ⁷ Digital Rail fund is available for capital expenditure as defined by the accounting standards adopted in the Bid. Capital expenditure for the Digital Rail Proposal up to this value should not be recovered through Franchise Payments. Bidders should itemise Digital Rail assets in the Capital Expenditure Model and "TOC Capex" sheet of the Financial Templates (subject to the requirements of 6.3.4.36). 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 sheet "Other Opex" in the Financial Templates). Bidders should model the receipt of a capital grant (up to the value of ⁸ as a deferred revenue liability to offset the capital expenditure on Digital Rail assets and present this in rows 55 and 70 of sheet "BS" in the Financial Templates. The capital grant deferred revenue liability should be amortised in line with the depreciation of the capital asset and presented in row 579 of sheet "Other Revenue" in the Financial Templates.
- ii) In modelling Digital Rail assets and the capital grant, Bidders should adhere to the treatment of capital grants for fixed assets in the Financial Ratios, as set out in the definitions of Modified Revenue and Actual

⁶ Where text has been omitted from the document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the provisions within the Freedom of Information Act 2000.

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⁸ Where text has been omitted from the document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the provisions within the Freedom of Information Act 2000.

Operating Costs in the Franchise Agreement. For the avoidance of doubt:

- A) capital expenditure recognised in Actual Operating Costs should be net of grants received;
- B) movement in any deferred revenue liability in respect of capital grants received should be excluded from the "Movement in Creditors" line within Actual Operating Costs in the Financial Ratio calculations;
- C) the amortisation of the deferred revenue liability (resulting in the recognition of a credit in the P&L) should be excluded from Modified Revenue, i.e. reflected in row 42 of sheet "FO&C" in the Financial Templates: "Exclude: Proportion of income recognised in the P&L in relation to grants received in respect of capital expenditure.

b) Capital expenditure in excess of ⁹ :

- i) Any capital expenditure additional to the ¹⁰ available must be recovered through Franchise Payments and recognised in the Financial Model in accordance with the accounting standards adopted;

c) Operating expenditure and revenue benefits:

- i) Any forecast incremental running expenses relating to the Digital Rail Proposal, and any forecast financial benefits (in terms of performance benefits, cost savings and/or

⁹ Where text has been omitted from the document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the provisions within the Freedom of Information Act 2000.

¹⁰ Where text has been omitted from the document, this is because the Director General Rail or Secretary of State has decided to exclude the text in accordance with the provisions within the Freedom of Information Act 2000.

incremental revenue) relating to the Digital Rail Proposal should be included within the Bid (including in the calculation of Franchise Payments) and should be recognised in the Financial Model in accordance with the accounting standards adopted.

Addressing Franchise Change

6.3.3.4 Each Bidder is required to submit with its Bid a 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;
- b) In addition, Bidders must in relation to their Financial Model:
 - i) Adopt an absolute sign convention in constructing their Financial Model, such that all revenues and assets are positive and all costs and liabilities are negative;
 - ii) Provide a switch in their 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-2018/19 values) by RPI to 2018/19 prices); and

- iii) Ensure that their Financial Model is self-contained within a single Microsoft Excel workbook. The 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).

6.3.4 Operational Models

General

- 6.3.4.1 The operational models are all those models that contain calculations generating inputs to the Financial Model, either directly or indirectly ("**Operational Models**"). Each Operational Model should be coherent, in that the different Models, including the Financial Model, interface and work together effectively. Any interface spreadsheet required for transferring Operational Model outputs into the Financial Model or from one Operational Model to another must be provided as part of the Modelling Suite and its use fully explained in the Operating Manual.
- 6.3.4.2 Each Operational Model must include the functionality to allow the Department to undertake the Department's Financial Robustness Test as set out in subsection 7.6.1 (Financial Robustness Test).
- 6.3.4.3 Collectively, the Modelling Suite (including Supplementary Material) and Record of Assumptions 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 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 Operational Model must:
 - a) Provide an appropriate level of granularity for generating 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 and showing the derivation of forecast HS1 access charges from the published charge levels in the 2018 HS1 Network Statement. In the case of OMRC, the Modelling Suite or Record of Assumptions should also include a breakdown of the modelled charges per train per minute into the components specified in the HS1 Passenger Access Terms and Part 4 of Schedule 2 to the Track Access Agreement;

- 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.

Operational Model Structure

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

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

As described in subsection 6.3.4.6 to 6.3.4.37 where a Bidder uses sub-models in Tier 2, these must also be submitted and will be Placed in Escrow pursuant to Schedule 9.2 of the Franchise Agreement.

Revenue Model

- 6.3.4.6 This demand and passenger revenue forecasting model must at least disaggregate demand and revenue into the ticket types and Service Groups contained in the Financial 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. The 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 subsections 6.3.4.10 and 6.3.4.11);
 - b) 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 subsections 6.3.4.10 and 6.3.4.11);
 - c) Timetable changes;
 - d) Fare proposals and policy that demonstrates compliance with Schedule 5 of the Franchise Agreement;
 - e) Operating performance;
 - f) Service quality;
 - g) Marketing;
 - h) Revenue protection Initiatives;

- i) Revenue / yield management Initiatives; and
- j) Other investments or Initiatives (such as station or rolling stock improvements).

6.3.4.8 The 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 will be made available through either the Data Site or provided on a CD or DVD with preloaded PDFH 5.1 elasticity sets. Any deviations away from this standard setup must be accompanied by supporting documentation as set out in subsection 6.3.4.12.

6.3.4.9 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 revenue model; and
- d) The version(s) of MOIRA1 that have been used to populate the revenue model, if they do not use the version of MOIRA1 supplied on the Data Site.

6.3.4.10 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 or models should follow an elasticity based approach. Bidders should be aware that the Passenger Demand Forecasting Council is in the process of updating the PDFH. The current WebTAG PDFH approach used by the Department, is PDFHv5.1 with the following exceptions:

- a) PDFHv4.0 is used for fares;
- b) PDFHv5.0 is used for car costs;

- c) PDFHv5.0 is used for Airport GJTs; and
- d) PDFHv5.0 is used for Journey Purpose/ticket type mapping.

6.3.4.11 Following the publication of the updated version of the PDFH, the Department will make a decision as to which parts (if any) of that updated version will be adopted into WebTAG. The Department will notify Bidders of any decision to update WebTAG to reflect the updated PDFH on the Data Site as soon as possible following such decision. Bidders should note that such changes to WebTAG may occur prior to or after the date for Bid submission.

6.3.4.12 Bidders 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 6.3.5 (Supplementary Material).

6.3.4.13 Bidders should bid their own views of exogenous forecasts and other relevant exogenous revenue factors. The Department has provided details of exogenous forecasts of demand drivers on the Data Site in the document folder 04.15, WebTAG which may be updated during the bid period from time to time ("**Exogenous Forecasts**"). The methodology for the construction of exogenous forecasts is described in the documents '04.15 WebTag.pdf', 'DDG June 2017 - Exogenous Assumptions -for circulation r.pdf' and 'DD_June 2017.zip' also available on the Data Site. For clarity, Bidders are not required to use the Department's Exogenous Forecasts, but where the Department's Exogenous Forecasts are not used, evidence to justify the use of alternative assumptions and approaches must be provided, in accordance with subsection 6.3.5 (Supplementary Material).

6.3.4.14 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, 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, any assessment of the confidence in the data, techniques and evidence used. The Record of Assumptions must summarise the assumptions and approaches, 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 models must have the functionality to enable the Department to replace the Bidder's own exogenous factors with the Department's 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 risk adjusted Exogenous Forecasts.
- 6.3.4.16 The Models must have the capability to forecast the Other Revenue section of the Financial Model, to the level of disaggregation required by the Financial Templates. Given that many of the items in this section are secondary to forecasts generated by the revenue and operating cost models, Bidders may choose to provide this capability within the Financial Model, employ an additional Tier 1 Operational Model, or develop an alternative methodology. Bidders are required to detail the approach adopted in their Operating Manual and/or Record of Assumptions and such approach will form part of the evaluation carried out in accordance with Section 7 (Evaluation Criteria and Methodology).
- 6.3.4.17 Bidders must leave available a spare driver input slot within the 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.

Fares Model

6.3.4.18 Information on fares may be provided in a standalone model or incorporated in the 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 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 5.4 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 5.4 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 6.4.1; 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 c) 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%.

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

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

- a) The Models must assess and demonstrate compliance with the Regulation of Individual Fares in Schedule 5.5 of the Franchise Agreement; and
- b) The differential increases that the 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.

6.3.4.21 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 subsection 6.3.4.18d) above, it will be deemed undeliverable, and will be subject to the risk adjustment process described in Appendix 3 (Risk Adjustment Process).

Crowding Model

6.3.4.22 Bidders must submit a crowding model which is clearly linked to the Revenue Model, clearly documented in the Record of Assumptions and consistent with the technical data submitted for Sub-Plan 2.1 (Train Services). The 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 Table 5.3 in Sub-Plan 2.2. The crowding model must be used to calculate a suppression factor for each year of the Core Franchise Term and the Extension Period, which is input into the Revenue Model.

6.3.4.23 The crowding model must show average daily loadings for each stop along the line of route for every service and

every Autumn Weekday timetable specified in subsections 5.10.17 and 5.10.18 of this document. Crowding suppression should be calculated at the level of individual legs for these services.

- 6.3.4.24 For other services, Bidders may model crowding suppression in less detail, while noting the requirements of subsection 6.3.4.28.
- 6.3.4.25 Bidders must use the survey data supplied on the Data Site (04 - 'Data and Marketing Information') in constructing their respective 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.
- 6.3.4.26 Bidders must provide evidence of the source of data and assumptions used within the crowding model.
- 6.3.4.27 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 crowding model.
- 6.3.4.28 Bidders are not instructed to submit models that model the reassignment of passengers due to crowding, but will be free to do so. Bidders must bear the following in mind in the development of their crowding models:
 - a) The techniques used should be consistent with the approaches adopted by the PDFH;
 - b) Bidders must provide robust evidence to justify the use of alternative assumptions and approaches; and
 - c) The Models should be developed such that they are, transparent, understandable, and can be run within a reasonable timescale.
- 6.3.4.29 Crowding modelling approaches must demonstrate consistency with WebTAG guidance, detail the calibration and validation process, and allow full traceability of model inputs through to model outputs. The calibration and validation process should be fully documented;

Operating Cost Model(s)

- 6.3.4.30 Information on operating costs may be provided in a standalone model or incorporated in the Financial Model. However presented, the relevant model or part of a model must produce inputs to the 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).

Performance Model

- 6.3.4.31 The Performance Model must produce the following inputs to the 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 performance relative to the operational performance benchmarks as set out in Schedule 7.1 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 7.1 of the Franchise Agreement.

- 6.3.4.32 The Performance Model must be capable of calculating the following on a periodic and annual basis over the Franchise Term and for at least 13 rail periods prior to the Start Date:

- a) Forecast Average Minutes Lateness (AML), Deemed Minutes Lateness (DML) and Performance Minutes (AML + DML) by Service Group;
- b) Attribution of Performance Minutes between the Franchisee and Network Rail;
- c) Forecast TOC-on-self delays as defined in paragraphs 10 - 12 of Schedule 7.1 of the Franchise Agreement;

- d) Forecast TOC-on-self cancellations as defined in paragraphs 3 - 6 of Schedule 7.1 of the Franchise Agreement;
- e) Forecast short formations as defined in paragraph 15 of Schedule 7.1 of the Franchise Agreement;
- f) Forecast Time to 3 Minutes;
- g) Forecast Time to 15 Minutes;
- h) Forecast All Cancellations;
- i) Forecast PPM;
- j) Forecast CaSL; and
- k) 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 NR regimes must be shown separately.

6.3.4.33 The Performance Model must be capable of calculating annual forecast Schedule 7.1 payments over the Franchise Term, disaggregated by the following components of the Schedule 7.1 regime in the Franchise Agreement: TOC-on self-delays; TOC-on-self cancellations; short formations; Time to 3 Minutes; Time to 15 Minutes; and All Cancellations.

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

6.3.4.35 Bidders are required to forecast expenditure associated with Delay Repay, either in the Performance Model or another model within the Modelling Suite. Regardless of where it is calculated, Delay Repay calculations must be linked to forecast performance levels as produced by the 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.

Capital Expenditure Model

6.3.4.36 Information on planned capital expenditure may be provided in a standalone model or incorporated in the Operating Cost Model or Financial Model. However presented, the relevant model or part of a model must include all capital expenditure, including items 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) 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 Core Franchise Term and at the end of the Extension Period.

The list must set out all items covered by the RV Mechanism and all items with a value in excess of £250,000 (2018/19 prices) in any forecast year or £500,000 in total (2018/19 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 Record of Assumptions and be reconciled to any totals reported in Delivery Plan 0.

- 6.3.4.37 In addition to the information on capital expenditure required above, Bidders are required to set out total expenditure on assets, whether capitalised or expensed in the Bid, by submitting a completed version of the table set out in location folder '01 ITT & Bidder Consultation Documents' on AWARD, in the Record of Assumptions. Bidders should submit this table in Excel format as part of their Required Supplementary Material. Bidders should also provide the information required in 6.3.4.36a) - e) above for all asset-related expenditure included in the table.

6.3.5 Supplementary Material

- 6.3.5.1 In situations where this ITT requires the Bidder to provide additional evidence or other material (including subsections 6.3.4.6 to 6.3.4.37 inclusive), (**Required Supplementary Material**) Bidders must submit those items in a separate file labelled "Required Supplementary Material" in which each item submitted must be clearly labelled and cross-refer to the subsection in this ITT and the items of the 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 revenue model (enabling the Department to track model values pre-processed externally to the Model values back to the original inputs).

- 6.3.5.2 Separately and in addition to the requirements of subsection 6.3.5.1, if any element of the 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”, and with each item of Other Supplementary Material clearly labelled and cross referenced to the specific place in the 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 with its Bid items of Other Supplementary Material 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 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).

6.3.5.3 Supplementary Material is not required to be included as part of the Modelling Best Practice Confirmation and final Model Audit as per subsection 6.8 (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 Modelling Suite Placed in Escrow, either incorporated into Record of Assumptions or as additional Tier 2 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.

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

6.3.6 Financial Templates

- 6.3.6.1 The Department requires that the output from the Models follow the Financial Templates that will be made available in the Data Site and Bidders must incorporate these Financial Templates into the 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 Financial Model using these lines rather than allocating to alternative categories (for example, the financing cost line items on the P&L1 sheet, rows 534-546 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 Record of Assumptions.
- 6.3.6.2 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.
- 6.3.6.3 The populated Financial Templates must also be submitted in PDF format. Bidders are required to integrate the Financial Templates into their Financial Model as the template outputs will form the basis for financial evaluation. No hard copies or further PDFs of 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.

- 6.3.6.4 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 | Populate but do not alter structure |

| Sheet | Content | Status |
|-----------------------------|--|---|
| | costs/revenues | |
| 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 |
| 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 cashflow 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 8.1, Appendix 1 to Schedule 8.2 and Appendix 1 to Schedule 8.6 (feed from Financial Statements and Bidder model) of the Franchise Agreement | Populate (blue cells only) but do not alter structure |
| NPV | NPV of Adjusted Evaluated Payments calculation (feed from Financial Statements and calculation based on this) | Contains formulae, do not alter |
| FO&C | Schedule 12 of the Franchise Agreement financial ratios, 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 |

- 6.3.6.5 The table in the FAA sheet containing Minimum Marketing Spend and Minimum Marketing Team Spend figures for Appendix 1 of Schedule 6.3 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 6.3 in the Franchise Agreement. As a minimum, costs included in the Financial Model in rows 117 (Marketing staff costs), 314 (Marketing operating costs), 357 (Advertising) and 358 (Media) of the P&L1 should be captured in the table in Appendix 1 to Schedule 6.3. The table should be populated with these costs in 2018/19 prices.
- 6.3.6.6 The Table in the FAA sheet containing HS1 Charges Paid in Advance for inclusion in Table 1 in Appendix 3 to Schedule 8.1 of the Franchise Agreement must be populated with the Bidder's forecast of the total charges payable to HS1 Ltd for each Franchisee Year with respect to IRC (including Additional IRC), OMRC and Capacity Reservation Charge. The table should be populated with these costs in 2018/19 prices, shown as positive figures, and should reconcile to rows 494 to 497 of the P&L1 (multiplied by minus one) when the Financial Templates are set to real values.
- 6.3.6.7 The Financial Templates shall be populated in full (which includes columns I, J, K and L in the Financial Templates labelled 'Actual' and 'Forecast' for the years 2015/16 to 2018/19, where years 2015/16 and 2016/17 will be 'Actual' and years 2017/18 and 2018/19 will be 'Forecast'), with outputs from the Models specified in Franchisee Years ending 31 March of each year.
- 6.3.6.8 With regard to historical years (Year -3 and Year -2), Year -1 and Year 0 (2015/16 to 2018/19):
- a) Bidders are not required to populate the balance sheet and cash flow for Years -3 to Year 0 in columns I, J, K and L in each of the "BS" sheet and "CF" sheet;
 - b) Bidders are required to populate the profit and loss account for Years -3 to Year 0 in columns I, J, K

and L 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; and

- c) Bidders are expected to describe their opening balance sheet assumptions in the Record of Assumptions.

6.3.6.9 The first Franchisee Year of the South Eastern Franchise is expected to run from 1 April 2019 to 31 March 2020.

6.3.6.10 Bidders are required to provide their Franchise Payments for the Extension Period. The Franchise Payments for the Extension Period will reflect the prices and assumptions from the last complete financial year of the Core Franchise Term rolled forward and adjusted in accordance with and to the extent provided by the Franchise Agreement with respect to indexation (the **“Year 8 Assumptions”**).

6.3.6.11 Where a Bidder does not agree with the Year 8 Assumptions, it may propose alternative assumptions or if it expects any revenues or costs to be different in the Extension Period due to their cyclical nature or for any other reason (the “Bidder’s Alternative Assumptions”) in the Record of Assumptions. The Bidder must provide evidence to the Department to demonstrate to the Department why the Bidder’s Alternative Assumptions are more credible than the Year 8 Assumptions and explain any differences from the Year 8 Assumptions in the Record of Assumptions. These Bidder’s Alternative Assumptions should not be included in the Financial Model submitted at bid. Where a set of growth rates to exogenous drivers are applied, the Department would not consider these as Bidder’s Alternative Assumptions unless there is a change in the source of the data between the Core Franchise Term and the Extension Period. Depreciation for assets fully depreciated in the Core Term need not be carried forward into the Extension Period.

- 6.3.6.12 If in the Department's reasonable view the Bidder in question has demonstrated successfully that the Bidder's Alternative Assumptions are more credible than the Year 8 Assumptions it will ask the Bidder to resubmit. However, if in the Department's reasonable view the Bidder in question has failed to demonstrate that the Bidder's Alternative Assumptions are more credible than the Year 8 Assumptions, it will inform the Bidder about the reasons why it considers that the Bidder's Alternative Assumptions are not in its view more credible than rolling forward the Year 8 Assumptions and the Bid as submitted will remain extant.
- 6.3.6.13 If the Department considers that it requires clarifications before it can reach a reasonable view as to whether the Bidder in question has demonstrated successfully, or has failed to demonstrate, that the Bidder's Alternative Assumptions are more credible than the Year 8 Assumptions, it will ask the Bidder in question to provide such clarifications before taking action in line with subsection 6.3.6.12.
- 6.3.6.14 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 12 of the Franchise Agreement in completing the Financial Templates.
- 6.3.6.15 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 6.3.6.2;

- 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 Financial Model; and
- d) Must ensure that the outputs in the Financial Templates are linked to the input / calculation cells within the Financial Model where appropriate and in such a manner as to facilitate both the understanding of the Financial Model and tracing of core assumptions used in the Financial Model.

6.3.6.16 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 (2018/19 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'.

6.3.7 Generic Model requirements

6.3.7.1 Bidders must ensure that their Models 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 6.8.3 (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 Operating Manual;

- 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 6.8.3 (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 6.8.3 (Derogations) below;
- i) The Models submitted by Bidders must be in line with best practice in accordance with the requirements set out in subsection 6.8 (Reviews and audit of Models) and employ the accepted principles of “separation”, “consistency”, “integrity” and “linearity” (as described in subsection 6.8.2.5), except where a derogation has been granted in accordance with the process described in subsection 6.8.3 (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;
- 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 j).

6.3.7.2 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 Operating Manual. All Operational Models that support the inputs to and calculations within the Financial Model are required to be submitted, and it is anticipated that the full Modelling Suite will be maintained and supplemented together, and submitted simultaneously as required to support any Change arising during the Core Franchise Term and Extension Period.

6.4 Assumptions

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

- a) The Franchise will commence on 1 April 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 2019 and annually thereafter. Bidders should adopt their own RPI and AWE assumptions up to and including the financial year commencing 1 April 2018, and such assumptions should be clearly stated;
- d) The real discount rate to be applied in Net Present Value calculations is 3.5% per annum;
- e) The Net Present Value of Bid revenues, costs and Franchise Payments will be discounted to the start of the Franchise (1 April 2019);
- f) For the purposes of calculating Net Present Values, the template calculation assumes mid-year cashflows 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 Core Franchise Term and Extension 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 Core Franchise Term and Extension Period;
- h) Bidders must assume that the CP2 structure of HS1 track and station access charges and performance regimes continues throughout the Core Franchise Term and Extension Period, with CP2 values assumed for parameters used in the calculation of OMRC, Capacity Reservation Charge, stations Long Term Charges and performance regimes. For Additional IRC, Bidders are to assume the charges per train per minute in the 2018 HS1 Network Statement plus the Additional IRC (if any) assumed to be charged to cover the costs of HS1 enhancements to deliver the train services and Initiatives set out in the Bid. Bidders are required to make their own assumptions about:
 - i) any Additional IRC charged to cover the costs of HS1 enhancements to deliver the train services and Initiatives set out in the Bid;

- ii) changes to OMRC Pass Through Costs ($OMRCC_{SGV}$) resulting from annual reviews (as set out in paragraph 3.4 of Part 2 of Section 7 of the HS1 Passenger Access Terms) and the values of OMRC and IRC wash-up payments (as set out in paragraph 10 of Part 2 of Section 7 of the HS1 Passenger Access Terms); and
 - iii) for all HS1 regimes and charges other than Additional IRC, all other future amendments which are not covered by the Access Review process (set out in Part 3 of Section 7 of the HS1 Passenger Access Terms);
- i) Bidders must assume that for Schedule 5.4 and Schedule 5.5 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;
 - j) 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;
 - k) Bidders should expense pension cash contributions but should not model actuarial gains or losses on pension assets or liabilities; and
 - l) 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, and about HS1 access charges for any new stock proposed for operation on HS1 infrastructure; and
 - m) Bidders should assume that a payment is to be made to HS1 Ltd by 25 March 2019 to cover HS1 charges paid in advance for Periods 1 to 3 of Franchisee Year 2019/20, and that, in accordance with subsection 3.15 (HS1 Access Charges), the Department will enable this advance payment to be made prior to the commencement of the franchise calculated in the same way as HTAAQ in the Franchise Payment formula in Schedule 8.1 of the Franchise Agreement.

6.5 Record of Assumptions

6.5.1 Each Bidder is required to submit with its Bid a 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 Bidder's 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 5.1 (Delivery Plan 2 – Train Service and Performance);
- f) Provides detail and transparency of all indexation assumptions used;
- g) Provides detail 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 the end of the 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;
- v) Rolling stock maintenance reserve – how each reserve has been accounted for; and
- vi) Treatment of any derivatives, e.g. 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 current rules concerning the tax-deductibility of interest and announcements relating to proposed changes to those rules. This should include the thin capitalisation rules, the draft legislation concerning changes effective 1 April 2017 resulting from the UK response to the OECD Base Erosion & Profit Shifting (BEPS) Action 4, 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 Models, are properly explained;
- k) Provides a level of usability such that linkages to the Models are clear and the narrative provides the user with sufficient information to assess the financial impact of price or volume changes within a reasonable timeframe;
- l) Uses tables to enhance the narrative, such tables being directly traceable to the Models;

- 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"); and
- o) 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 8.6 of the Franchise Agreement.

6.5.2 The Record of Assumptions must:

- a) Contain all financial, mobilisation and operational assumptions used in the Models and explain and discuss 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 Record of Assumptions;
- b) Include a table setting out the percentage of total other revenues, other operating costs and rolling stock costs (totals in real terms over the Core Franchise Term and Extension 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 (Schedule 4 and Schedule 8 of the Track Access Agreement);

- 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 Core Franchise Term and Extension Period, any costs and revenues that accrue in relation to that investment must be explicitly set out in the Record of Assumptions setting out:
- i) The period from investment until the end of the Extension Period;
 - ii) The period from end of the Extension 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 2018/19 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 Core Franchise Term and Extension Period in nominal prices; and
 - v) Show the non-depreciated value (i.e. residual value) in nominal prices at the end of the Core Franchise Term and Extension Period of:
 - A) Assets to which the provisions of subsections 5.2.1 to 5.2.5 (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 the Bid proposes are acquired by a Successor Operator in accordance with the provisions contained in subsections 5.2.1 to 5.2.5 (Residual Value Mechanism) along with the other information required by those subsections.

- f) If a Bidder provides for investments in assets to be identified in the future, or a general investment fund, the 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 Financial Model are attributable to Initiatives, set out the reasons for such in the Record of Assumptions for each affected input to the Financial Model. An example of how such movements could be presented is shown in respect of headcount in Table 6.2 (Example of presentation of movements in Record of Assumptions) below. Bidders should note that words and values contained within Table 6.2 (Example of presentation of movements in Record of Assumptions) are indicative only;

Table 6.2 Example of presentation of movements in 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.

- h) Bidders should provide the annual capital expenditure in their Digital Rail Proposal disaggregated by the categories below, or any other categories considered appropriate, and provide a reconciliation to the capital expenditure in their Digital Rail Proposal in the Financial Model Templates and to the total expenditure on Digital Rail Proposal assets outlined in the submitted version of the table set out in location folder '01 ITT & Bidder Consultation Documents' on AWARD:
- i) Capital costs should be disaggregated into the following components (or other components as considered appropriate):
- Digital Capex (C-DAS);
 - Digital Capex (Traffic Management);
 - Digital Capex (Stock & Crew)
 - Digital Capex (excl. C-DAS, Traffic Management and Stock and Crew);
 - Possessions;
 - Software Development; and
 - Level Crossing.
- ii) Where relevant, each of the cost components should be further disaggregated as follows:
- Construction costs;
 - Land and property costs; and
 - Preparation and administration costs.
- i) Bidders should provide disaggregated cost and revenue assumptions (including in relation to depot and stabling) in respect of the provision of the Maidstone East Services and the Rainham Services
- j) Bidders should provide a credible forecast for total opening revenue with their Bids, and provide full evidence for this in the Record of Assumptions. This total opening passenger revenue forecast should be for the full year 2019/20. A bridge showing

how the forecast revenue for the full year 2019/20 is derived from the actual revenue reported in LSER's management accounts for the 2016/17 full year and 2017/18 Periods 1 to 9 should be provided, setting out the impact of each revenue driver. The management accounts for 2017/18 Periods 1 to 9 will be made available on the Data Site during the Bidding period; and

- k) Bidders must fully explain how the Minimum Marketing Spend and Minimum Marketing Team Spend figures in Appendix 1 of Schedule 6.3 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 6.3.6.5.

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 the above table as guidance, Bidders shall, in their Record of Assumptions, provide details of the impact that Initiatives have on each cost, revenue or other input to the submitted Financial and 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 6.3.4.10 and 6.3.4.11) 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 revenue model. This information must be provided electronically in raw format as an Appendix to the Bidder's 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 Record of Assumptions before contractualisation takes place and the Record of Assumptions is Placed in Escrow.

6.6 Operating Manual

6.6.1 Each Bidder is required to submit with its Bid an 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 "Models", including how each interfaces and interacts with other Models;
- c) Includes an explanation of the flow of data through the Financial Model and the interfaces with the Operational Models submitted. This may be presented diagrammatically with supporting narrative as appropriate. This must also describe how any interface spreadsheets are used in the flow of data between models, if applicable;
- d) Includes a description of each Model, its structure and capability;
- e) Includes a description of the purpose and operational characteristics of each worksheet and how it interacts with the 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 Models are able to carry out the tests described in subsections 6.3.4.2 and 6.3.4.4; and
- h) Where macros (or other visual basic functions) have been used, includes a description of the macros used in the operation of the 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 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 Operating Manual before contractualisation takes place and the Operating Manual is Placed in Escrow.

6.7 Change

6.7.1 Matters to be addressed in the Operating Manual

6.7.1.1 In addition to the requirements and content set out in subsection 6.6 (Operating Manual), the Operating Manual shall also include the worked examples of Change (“**Worked Examples**”) set out below. The Worked Examples will be evaluated in accordance with Section 7 (Evaluation Criteria and Methodology). The Financial Model is not required to include a switch to allow these examples to be selected. The Worked Examples to be included are:

- 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) - the introduction of Thameslink services to Maidstone East is delayed indefinitely and the South Eastern Franchisee is required to continue to operate the Maidstone East Services as per the December 2019 timetable for the remainder of the Franchise Term;
- c) Worked Example (C) - after a Charging Review, the following changes are made to Network Rail regulated charges from April 2019 (the Start Date):
 - i) The capacity charge for Service Code 24657005 on weekdays is halved;
 - ii) The Variable Usage Charge as set by Network Rail for Vehicle Type 375/M on the

Network Rail price list is 9.3p per vehicle mile in 2019/20 prices;

- iii) The Network Rail Schedule 8 payment rate for service group HU05 is trebled and the benchmark changed to 0.900 minutes for all years of CP6;
 - iv) The Long Term Charge for Hastings on the Network Rail price list is £200,000 in 2019/20 prices; and
 - v) All other Network Rail regulated charges remain at CP5 rates as instructed in subsection 6.4.1; and
- d) Worked Example (D) – after a Charging Review, the following changes are made to HS1 regulated access charges from April 2020:
- i) The published indicative Operations, Maintenance and Renewals Charge (OMRC) for ‘Domestic passenger services to Ashford International Station’ using Class 395 stock is £50.89 per train minute in February 2020 prices, subject to adjustment and indexation provisions consistent with those in HS1 CP2;
 - ii) The annual Long Term Charge for St Pancras International (equivalent to that set out in section 3.6.1 of the 2018 HS1 Network Statement) is £3.50m in February 2020 prices, subject to adjustment and indexation provisions consistent with those in HS1 CP2; and
 - iii) All other HS1 stations Long Term Charges remain at HS1 CP2 rates.

6.7.1.2 The Bidder must ensure that the Worked Examples:

- 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 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 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 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.

6.7.2 Modelling Change

- 6.7.2.1 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 6.3 (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 that Table.

Table 6.3 Modelling Change submission requirements

| No. | Item | Requirements |
|-----|---|---|
| 1. | Worked Examples and approach to Change | Each Bidder will include within the Operating Manual submitted with its Bid, the Worked Examples and details of its approach to Change prepared in accordance with the requirements described in subsection 6.7 (Change) of this ITT. |
| 2. | Record of Assumptions and Operating Manual | Each Bidder will include within its Bid, a Record of Assumptions prepared in accordance with the requirements described in subsection 6.5 (Record of Assumptions) of this ITT (and those assumptions are reasonable in respect of the approach to Change described in subsection 6.7 (Change) of this ITT) and an Operating Manual prepared in accordance with the requirements described in subsection 6.6 (Operating Manual) of this ITT. |
| 3. | Suitability of Financial Model for implementing Changes | Each Bidder will include within its Bid, a Financial Model prepared in accordance with the requirements described in subsections 6.3 (Financial and Operational Model requirements) and 6.4 (Assumptions) of this ITT, which shall be consistent with the approach to Change described in subsection 6.7 (Change) of this ITT. |
| 4. | Suitability of Operational Models (including integrity of the Modelling Suite) for implementing Changes | Each Bidder will include within its Bid, Operational Models prepared in accordance with the requirements described in subsections 6.3 (Financial and Operational Model requirements) and 6.4 (Assumptions) of this ITT, which shall be consistent with the approach to Change described in subsection 6.7 (Change) of this ITT. |

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

6.7.2.3 The Bidder’s approach to the pricing of any Change must demonstrate to the Department that the 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 6.7 (Change) will be managed in accordance with subsection 3.5 (Non-compliant Bids).

- 6.7.2.4 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 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.

6.8 Reviews and audit of Models

6.8.1 Introduction

- 6.8.1.1 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 6.4 Model review and audit requirements

| | Modelling Best Practice Confirmation | Model Audit | Calculation Review | Review by Department's Technical and Financial Advisers |
|------------------------------------|---|---|---|---|
| Financial Model | ✓ | ✓ | | ✓ |
| Tier 1 Operational Models | ✓ | | ✓ | ✓ |
| Tier 2 Operational Models | ✓ | | ✓* | ✓ |
| 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 Models and/or Supplementary Material as part of the Calculation Review.*

6.8.1.2 The Financial Model and Operational Models of all Bidders must have been subject to Modelling Best Practice Confirmation. Details of the process are set out in subsection 6.8.2 (Modelling Best Practice Confirmation). The Financial Model of one or more Bidders will be subject to a full Model Audit. Details of the process are provided in subsection 6.8.4 (Model Audit).

6.8.1.3 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 Models and/or Record of Assumptions).

6.8.2 Modelling Best Practice Confirmation

6.8.2.1 Each Bidder must provide with its Bid an independent Modelling Best Practice Confirmation report on all sections of the Models. 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.

6.8.2.2 The report must take account of any derogations obtained in accordance with the process described in

subsection 6.8.3 (Derogations) below. The Modelling Best Practice Confirmation is not considered to be an audit of the Models.

6.8.2.3 The Financial Templates should be included in the Modelling Best Practice Confirmation. Where the Financial Templates issued by the Department deviate from Modelling Best Practice, 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.

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

6.8.2.5 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.

6.8.2.6

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).

6.8.2.7

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 6.8.3 (Derogations).

6.8.3 Derogations

6.8.3.1 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.

6.8.3.2 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

6.8.3.3 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

6.8.3.4 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 Operating Manual and Record of Assumptions.

Modelling Best Practice Confirmation

- 6.8.3.5 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 Operational Models, at the underlying input/assumption interface.

Array Formulae

- 6.8.3.6 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.

6.8.4 Model Audit

- 6.8.4.1 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 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 £1 million (2018/19 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 Financial Model for determining the scope of the audit. The Department will expect to receive the audit report within 15 working days of it being requested of the Bidder.

6.8.4.2 The Department requires the Model Audit to confirm:

- a) Whether the Financial Model has been constructed appropriately so as to materially achieve the objective that it was designed to meet, insofar as its logical integrity under the Bid assumptions and input data is concerned, including the conversion of nominal values to real values;
- b) Whether the tax charge, liabilities and payments calculated by the Financial Model, on the basis of the assumptions made in the Operating Manual and Record of Assumptions appear materially consistent with current understanding of existing UK tax legislation 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 Financial Model is appropriate, and is consistent with the accounting treatment adopted in the 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 the date of issue of this ITT and whether the key accounting assumptions in the Financial Model and the Operating Manual and 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 in accordance with Schedule 12 of the Franchise Agreement;

- g) Whether the Financial Model has been developed in a well-structured manner to best practice standards;
- h) Whether assumptions and input data in the Operating Manual and Record of Assumptions have, in all material respects been consistently reflected in the Financial Model;
- 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; and
- j) Whether the modelling requirements for the Financial Robustness Test are met such that the Financial Model accurately performs the calculations as required in subsection 6.3.3.1, subsection 7.6 (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.

6.8.4.3 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 Financial Model. The Model Audit will test the logical integrity of the arithmetical operations in the Financial Model formulae and calculations under the assumptions and input data for the specified test(s). A robustness test is defined as a change in one or more input variables through the models with the Bid Franchise Payments and Agreed Funding Commitment held constant i.e. "frozen".

6.8.4.4 The Department recognises that the finance, accounting and taxation elements of the Model Audit are not relevant to the Tier 1 and 2 Operational Models, 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 6.8.5 (Calculation Review).

6.8.5 Calculation Review

6.8.5.1 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 Operational Models (a “**Calculation Review**”). The Department reserves the right to include some or all of the Tier 2 Operational Models and/or Supplementary Material in the Calculation Review and reference below to Tier 1 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 Operational Models 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 Operational Models have been developed in a well-structured manner to best practice standards; and
- c) Whether assumptions and input data in the Operating Manual and Record of Assumptions have in all material respects been consistently reflected in the Tier 1 Operational Models.

6.9 Financial Structure and Funding Plan

6.9.1 Bid requirements

6.9.1.1 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 Financial Model. The capital expenditure covered by this plan must be clearly reconciled to amounts contained in the Capital

Expenditure Model or sheet(s) contained in the Financial Model or cost model and any capital expenditure or investment amounts presented in Delivery Plan 0;

- b) Shows that the PCS has been calculated and provided in accordance with the requirements set out in subsection 6.9.2.4 to 6.9.2.7;
- 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, for each element of AFC funding, amounts of equity, debt or other funding provided and repayment profiles where relevant. 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 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 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 subsection 6.10 (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 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 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 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 Financial Model;

- iv) Confirming that the Financial Model has been prepared following FRS101, FRS102 or IFRS accounting standards;
- 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 Financial Model and confirming that such relief will be supported by the Bidder's owning group, as per subsection 6.3.3.1;
- 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 6.10 (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.

6.9.2 Funding

6.9.2.1 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

6.9.2.2 This is the amount and timing of funding incorporated in a Bid 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 Financial Model to enable the Bidder to demonstrate that its Bid complies with the Financial Ratio (1.070:1) tests in subsection 6.3.3.1. The amount and timing of any Agreed Funding Commitment made available to the Franchisee must not lead to the Financial Ratio of 1.070:1 being exceeded. It is permissible for the 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.

6.9.2.3 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 7.9.2.

Parent Company Support

6.9.2.4 Bids for the South Eastern Franchise must be supported by a level of Parent Company Support ("**PCS**"). Such support must come from the Guarantor (as defined in the South Eastern Franchise Pre-Qualification Process Document).

6.9.2.5 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 6.9.2.7. The Additional PCS may be proposed by Bidders in accordance with subsection 6.9.2.8. The Actual PCS is defined in the Funding Deed as ‘the PCS Facility’.

- 6.9.2.6 The Guarantor(s) of the successful Bidder as provider(s) of the PCS 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 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 6.10 (Updating of EoI financial and economic standing tests (the “Tests”) and submission of updated bond provider letter(s)).

Required Parent Company Support

- 6.9.2.7 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 Financial Model (“**Required PCS**”). The method of calculation is set out in the Financial Templates and is as follows:

$$\text{Required PCS} = £25,000,000 + 6\% \times \sum_{y=1}^8 (BFP_y - FP_y)$$

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 Core Franchise Term.

FP_y equals the Franchise Payments as calculated by the Bidder’s Financial Model and output in the Financial Templates sheet ‘Funding’ row 21 for each Franchisee Year “y” of the Core Franchise Term, 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 Schedule 8.2 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 £25,000,000.

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

- 6.9.2.8 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 £25,000,000. 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.

Bonding of Parent Company Support

- 6.9.2.9 Bidders will be required to procure, in accordance with the Funding Deed, a 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**”).

6.10 Updating of Eol financial and economic standing tests (the “Tests”) and submission of updated bond provider letter(s)

- 6.10.1 Bidders should refer to the Eol and PPD for information relating to how the Tests will be updated.
- 6.10.2 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 6.9.2 (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 which ought to have been disclosed under Section C1.3 of the EoI.

6.10.3 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 £12,500,000 (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 EoI and PPD and the level of Bonded PCS.

6.10.4 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.

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 South Eastern Franchise 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, 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 38 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:

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

Where

P is the Bidder's Risk Adjusted NPV, as defined in subsection 7.6.3 (Calculation of Risk Adjusted NPV), multiplied by minus one.

P 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). P 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 85.

- 7.2.1.4 The maximum Quality Score is 13 (and therefore the maximum value of $(n \times Q)$ is 1,105. 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 P 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

$n = 130$ for this example.

Bidder 1: $P=2,000$; $Q = 11$

Bidder 2: $P=2,100$; $Q = 5$

The Final Score for each Bidder will be:

Bidder 1: $2,000 + (130 \times 11) = 3,430$

Bidder 2: $2,100 + (130 \times 5) = 2,750$

The winning Bidder would be Bidder 1 as it achieves the highest Final Score.

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 Modelling Suite and re-run the Financial Robustness Test in accordance with subsection 7.6, 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 P 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 38 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 38 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 15 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 15 points, the remaining Bids will be deemed “Stage 3 Bids”; and
- c) **Stage 3:** The winning Bid will be the Stage 2 Bid that achieved the highest value for P (without reference to $n*Q$), which for the avoidance of doubt, would be the highest positive P in the event of a premium or where there is no positive P would be the negative P 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 7.3.5 (Scoring Methodology) and assign each Sub-Plan an evaluation score in accordance with subsection 7.3.5 (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 column C of Table 7.2 (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 7.10 (Delivery Sub-Plan non-compliance).

Table 7.2 Sub-Plan weightings

| Delivery Plan | Sub-Plan | Sub-Plan weighting |
|---|--|--------------------|
| Delivery Plan 0: Bid Summary | | N/A |
| Delivery Plan 1: Franchise Management | Sub-Plan 1.1 Leadership and Sustainability | 5.0% |
| | Sub-Plan 1.2 Alliancing and Partnering | 10.0% |
| Delivery Plan 2: Train Services and Performance | Sub-Plan 2.1 Train Services | 22.5% |
| | Sub-Plan 2.2 Rolling Stock | 20.0% |
| | Sub-Plan 2.3 Performance | 10.0% |
| Delivery Plan 3: Revenue | Sub-Plan 3.1 Marketing and Branding | 2.5% |
| | Sub-Plan 3.2 Fares, Ticketing and Revenue Protection | 10.0% |
| Delivery Plan 4: Customer Experience | Sub-Plan 4.1 Customer Experience | 12.5% |
| | Sub-Plan 4.2 Stations | 7.5% |

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.

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 Suite 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

7.3.4.1 In evaluating Sub-Plans, the Department may take into account any relevant information submitted with the Bid including, without limitation, the Operational Models, the Record of Assumptions, and technical data such as the working timetable.

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;
- 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);

- 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 7.9 (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);
- 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 Scoring Methodology

7.3.5.1 Delivery Plans will be assessed at a Sub-Plan level in accordance with subsection 7.3.4 (Evidence), 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 5.2 (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.

7.3.5.2 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.

7.3.5.3 Evaluation scores will be awarded, in the judgement of the evaluators, by reference to the marking framework in Table 7.3 (South Eastern marking framework and guidance) below and should be read in conjunction with the explanatory text which follows.

Table 7.3 South Eastern 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. |

7.3.5.4 An evaluation score of 8 will be awarded 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.

7.3.5.5 An evaluation score of 10 will be awarded 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.

Scoring in the round

- 7.3.5.6 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.
- 7.3.5.7 Table 7.3 (South Eastern marking framework and guidance) sets 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.
- 7.3.5.8 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 (South Eastern 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.
- 7.3.5.9 Where the evaluators have minor concerns in relation to certain aspects of a 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.

7.3.5.10 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

7.3.5.11 In addition to the scores set out in Table 7.3 (South Eastern marking framework and guidance) and in accordance with the subsection 7.3.5 (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 (South Eastern 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 (South Eastern marking framework and guidance). 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.

7.3.5.12 In addition to the possibility of awarding one of the scores set out in Table 7.3 (South Eastern 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.

7.3.6 Process for moderation of, and reaching consensus on, Sub-Plan evaluation scores

- 7.3.6.1 The Department will carry out a process for the purposes of moderating and reaching consensus on evaluation scores.
- 7.3.6.2 Each evaluator will undertake an evaluation of the relevant Sub-Plans, and allocate evaluation scores by reference to the scoring methodology described in subsection 7.3.5 (Scoring Methodology). These individual scores and a narrative explaining each one of these scores will be entered into AWARD.
- 7.3.6.3 These evaluators will then agree a consensus evaluation score for each of the Sub-Plans they have scored which will then be moderated.
- 7.3.6.4 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 South Eastern project director, or their nominee, is appropriate by reference to the scoring methodology described in subsection 7.3.5 (Scoring Methodology).
- 7.3.6.5 The South Eastern project director will appoint a facilitator and a record keeper to manage this process.

7.4 Evaluation impact of Inconsistent Initiatives

- 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 (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 (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 Modelling Suite for the purposes of running the FRT 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 in accordance with subsection 7.6, except that the scoring of the Bid (including both P and Q as defined in subsection 7.2) 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 subsections 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 6.7.2 (Modelling Change), Bidders must submit the items in the column headed 'Item' in Table 6.3 (Modelling Change submission requirements) in accordance with the requirements in the column headed 'Requirements' in Table 6.3 (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 6.3 (Modelling Change submission requirements), relating to the suitability of a Bidder's Record of Assumptions and Operating Manual, will not be limited to consideration of the suitability of these documents when applied to Worked Examples but, rather, will consider the suitability of these documents across the entirety of the Bid; and
 - b) Assessment of items 3 and 4 in Table 6.3 (Modelling Change submission requirements), relating to the suitability of the Models, will not be limited to consideration of the suitability of the Financial and Operational Models when applied to Worked Examples but, rather, will consider the suitability of the Models across the entirety of the Bid.

7.6 Evaluation of Financial Robustness

7.6.1 Financial Robustness Test

7.6.1.1 The Department will undertake a financial robustness test (“**Financial Robustness Test**”) in accordance with this subsection 7.6.1 (Financial Robustness Test) and the following subsections (7.6.2, 7.6.3 and 7.6.4) on each Bidder's Models. 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 7.6 (Financial Robustness Test). 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 “P” score.

7.6.1.2 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 "P" 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 7.6.3 (Calculation of Risk Adjusted NPV).

7.6.1.3 For the purpose of the Financial Robustness Test, the incremental costs and revenues relating to the Digital Rail Proposal described in subsections 6.3.3.2 and 6.3.3.3 will be switched on in the Bidder's Financial Model. Hence:

- a) Capital expenditure relating to the Digital Rail Proposal will not be included in the Risk Adjusted NPV due to not being recovered through Franchise Payments;
- b) Any incremental operating costs and/or revenues resulting from the Digital Rail Proposal will be included in the Risk Adjusted NPV; and

- c) The forecast costs and revenues relating to and resulting from the Digital Rail Proposal will be subject to the risk adjustment process (outlined in Appendix 3 (Risk Adjustment)) in the same way as all other costs and revenues.

7.6.2 Assessment of acceptability of financial risk

7.6.2.1 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 Bids. The process for the determination of risk adjustments and the calculation of the impact of these adjustments is described in Appendix 3 (Risk Adjustment).

7.6.2.2 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 Bidder. The process to derive the risk adjustments is described in Appendix 3 (Risk Adjustment). 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 Bidder (which will be the **"Central Risk Adjusted Scenario"**).

7.6.2.3 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 Bidder. It may also elect to only carry out part of the process set out in Appendix 3 (Risk Adjustment), or a simplified process, if it considers that undertaking additional steps would not change the identity of the winning Bidder. In making this decision, the Department may take into account the maximum "P" score that each Bidder could achieve, which will be calculated using the process set out in this subsection 7.6, but with the Financial Model submitted by the Bidder used in place of the Central Risk Adjusted Financial Model.

- 7.6.2.4 For Bids which are identified to be subject to subsection 7.6.2.3 and therefore not risk adjusted, the 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 $P + (n \times Q)$ score is one which was previously not risk adjusted, or only part of the process was carried out, in accordance with subsection 7.6.2.3, that Bid will be risk adjusted and the Financial Robustness Test (including all steps outlined in this subsection 7.6.2 and subsections 7.6.3 and 7.6.4, if applicable) will then be undertaken for that Bidder before the identity of the winning Bidder is determined.
- 7.6.2.5 If a Bidder is projected in its Central Risk Adjusted Financial Model to breach the Financial Ratios (1.050:1) at any point during the Core Franchise Term, the Bid will be deemed to have an unacceptable financial risk, except as described in subsection 7.6.2.11 below. If no breach is projected, the Bid will be deemed to have acceptable financial risk.
- 7.6.2.6 For the purpose of making this assessment, the Department will:
- a) In accordance with the functionality described in subsection 6.3.3 (The Financial Model), 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 breaching the Financial Ratios (1.050:1).
- 7.6.2.7 There will be no opportunity for the Bidder to amend its Bid, including by making available additional finance.

7.6.2.8 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 cashflow 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 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).

7.6.2.9 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 7.1 of the Franchise Agreement) regimes and the ticketless travel regime will be reflected in the Financial Robustness Test.

7.6.2.10 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 cashflow 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.

- 7.6.2.11 If a Bidder is projected in its Central Risk Adjusted Financial Model to breach the Financial Ratios (1.050:1) at any point during the Core Franchise Term, 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 Core Franchise Term in order to avoid breaching the Financial Ratios (the “**Notional PCS**”) is less than the “**Materiality Threshold**”. The Materiality Threshold will be £20,000,000 (nominal).

7.6.3 Calculation of Risk Adjusted NPV

- 7.6.3.1 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).

- 7.6.3.2 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**”.

- 7.6.3.3 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.
- 7.6.3.4 The Central and Downside Risk Adjusted NPVs will be for the Core Franchise Term and will not include the Extension Period.
- 7.6.3.5 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 shall be expressed as positive figures.
- 7.6.3.6 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;
 - c) Any Revenue Share payments to the Department that may be made under the Forecast Revenue Mechanism; or
 - d) Any payments to/from the Department that may be made under any of the performance or incentive regimes in the Franchise Agreement.
- 7.6.3.7 Although these payments will not be included in Evaluated Payments, they will be reflected in the

Financial Robustness Test in accordance with subsections 7.6.2.8 and 7.6.3.11.

- 7.6.3.8 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 7.6.4 (Consequences of forecast breach on evaluation).
- 7.6.3.9 In the Central Risk Adjusted Scenario, the Adjusted Evaluated Payments will be equal to the Evaluated Payments in the Central Risk Adjusted Financial Model.
- 7.6.3.10 If a Bidder, in the Downside Risk Adjusted Financial Model, is projected to breach the Financial Ratios (1.050:1) at any point during the Core Franchise Term, the Adjusted Evaluated Payments used in the calculation of the Bidder's Downside Risk Adjusted NPV will be calculated as set out in subsection 7.6.4 (Consequences of forecast breach on evaluation). Otherwise they will be equal to the Evaluated Payments in the Downside Risk Adjusted Financial Model.
- 7.6.3.11 In making its assessment of projected PCS drawdown and hence whether and when breach is forecast, the Department will take into account the impact on the Bidder's projected cashflow 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 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 7.6.3.12c).
- 7.6.3.12 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 7.1 of the Franchise Agreement) regimes and the ticketless travel regime 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 7.1 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.

7.6.3.13 In making its assessment of projected PCS drawdown and hence whether and when breach is forecast in each Risk Adjusted Scenario, the Department will take into account the impact on the Bidder's projected cashflow 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 the respective Risk Adjusted Scenario in each Franchisee Year in determining the profit share thresholds to apply in the calculation for that year.

7.6.4 Consequences of forecast breach on evaluation

- 7.6.4.1 If a Bidder is projected in the Central Risk Adjusted Financial Model to breach the Financial Ratios at any point during the Core Franchise Term, except as described in 7.6.2.11, 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).

7.6.4.2 If the Bidder is projected in the Downside Risk Adjusted Financial Model to breach the Financial Ratios (1.050:1) at any point during the Core Franchise Term, the Evaluated Payments will be adjusted to reflect the point of forecast 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 Bidder is projected to breach the Financial Ratios (1.050:1) in the Downside Risk Adjusted Financial Model (the Franchisee Year of forecast 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;
- 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, where X% is the proportion of the Year of Breach before the Financial Ratios (1.050:1) are projected to be breached 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; and
 - ii) The Department’s Base Line Payments (see Table 7.4 (Department’s Base Line

Payments)) 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 Core Franchise Term, 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 Evaluated Payments in respect of that Franchisee Year in Sheet NPV row 40 of the Downside Risk Adjusted Financial Model; and
 - ii) The Department's Base Line Payments (see Table 7.4 (Department's Base Line Payments)) in respect of that Franchisee Year.

Table 7.4 Department's Base Line Payments

| Franchisee Year | Department's Base Line Payments (expressed as nominal prices, £'000s) |
|----------------------------------|---|
| Franchisee Year to 31 March 2020 | 161,449 |
| Franchisee Year to 31 March 2021 | 169,093 |
| Franchisee Year to 31 March 2022 | 137,606 |
| Franchisee Year to 31 March 2023 | 165,315 |
| Franchisee Year to 31 March 2024 | 188,101 |
| Franchisee Year to 31 March 2025 | 150,153 |
| Franchisee Year to 31 March 2026 | 160,392 |
| Franchisee Year to 31 March 2027 | 130,614 |

7.6.4.3 If a Bidder is projected in the Downside Risk Adjusted Financial Model to breach the Financial Ratios at any point during the Core Franchise Term and the projected

PCS requirement exceeds the Bidder's PCS facility by more than the Materiality Threshold, the point of forecast breach for the purposes of calculating the Bidder's Downside Risk Adjusted NPV will be determined without taking into account the Materiality Threshold.

7.6.4.4 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 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 calculating the Final Score as defined in subsection 7.2 (Definition of MEAT for the Competition);
- c) In assessing whether breach is projected in the Downside Risk Adjusted Financial Model, the Department shall take into account the same factors as set out in subsection 7.6.2.6;
- d) The provisions of this subsection 7.6.4 (Consequences of forecast 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 breach the Financial Ratios during the Core Franchise Term but the amount of Notional PCS required to avoid the breach is less than the Materiality Threshold described in subsection 7.6.2.11; and
- e) The provisions of this subsection 7.6.4 (Consequences of forecast 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 breach the Financial Ratios during the Core Franchise Term but the

amount of Notional PCS required to avoid the breach is less than the Materiality Threshold described in subsection 7.6.2.11.

7.7 Evaluation impact of contractual treatment of Bidders' Initiatives

7.7.1 The following will apply in relation to the contracting of Initiatives included in a Bidder's 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 5 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 7.7 (Evaluation impact of contractual treatment of Bidders' Initiatives):

- A) To any evaluation score, where such revision would result in an increase in such evaluation score; and
- B) 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 acceptable financial risk.

7.7.2 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.

7.8 Interaction between evaluation scores and the Financial Robustness Tests

7.8.1 The assessment of financial robustness described in subsection 7.6 (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).

7.8.2 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. 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 that Bidder's Initiatives, and believes that as a result there is a material risk of a materially different financial outcome from the Bidder's financial projections, the Department may make a financial risk adjustment as described in subsection 7.6 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 3.5, subsection 7.7 and as provided for elsewhere in this ITT.

7.9 Impact of review of financing and funding proposals

- 7.9.1 Bidders' financing and funding proposals, as described in their Financial Structure and Funding plan (described at subsection 6.9 (Financial Structure and Funding Plan)), and their financial implications as reflected in the Bidders' Modelling Suites, will be reviewed in order to assess their robustness, deliverability and credibility.
- 7.9.2 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 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 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)) to reflect any resulting risk to the financial robustness of the Bid.

7.10 Delivery Sub-Plan non-compliance

- 7.10.1 A Bid will be treated as non-compliant, if it receives an evaluation score of less than 4 in respect of any of the following Sub-Plans:
- a) 1.2 Alliancing and Partnering;
 - b) 2.1 Train Services;

- c) 2.2 Rolling Stock;
- d) 2.3 Performance; and/or
- e) 4.1 Customer Experience

together the “**Key Sub-Plans**”.

7.10.2 In addition, 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 (Sub-Plan weightings). A Bid will 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 7.10, and it will not be used in the calculation of the overall Quality Score, which will be determined in accordance with subsection 7.11 (Conversion of evaluation scores into Quality Scores).

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 7.5 (Conversion of evaluation scores into Quality Scores).

Table 7.5 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 |

| Evaluation Score | Quality Score |
|------------------|---------------|
| 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 7.10 (Delivery Sub-Plan non-compliance) 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 column (C) of Table 7.2 (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 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 7.6.2.5); 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 Thameslink and Digital Rail 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 Negotiations

7.13.1 In addition to the Department's rights under subsection 7.12 (Rebid), the Department reserves the right at its sole discretion to negotiate with one, some or all Bidders 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.

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 the context otherwise requires.

| Term | Meaning |
|--|--|
| Actual Parent Company Support or Actual PCS | has the meaning given in subsection 6.9.2.5; |
| Additional IRC | means the additional investment recovery charge imposed by HS1 Ltd to recover the cost of enhancements to HS1 infrastructure not covered through the renewals process; |

| Term | Meaning |
|--|---|
| Additional Parent Company Support or Additional PCS | has the meaning given to it in subsection 6.9.2.8; |
| Additional Rolling Stock | means Specified Additional Rolling Stock and Unspecified Additional Rolling Stock; |
| Adjusted Evaluated Payments | has the meaning given to it in subsection 7.6.3.8; |
| AFC Plan | has the meaning given to it in the Funding Deed; |
| Agreed Documents | means those documents listed in Table 4.3 (List of Agreed Documents) of the ITT; |
| Agreed Funding Commitment or AFC | has the meaning given to it in the Funding Deed; |
| Alliance Objectives | has the meaning given to it in subsection 5.8.3; |
| Associated Entity | has the meaning given to it in subsection 1.4.1 (Communications); |
| ATOC | Association of Train Operating Companies; |
| AWARD | has the meaning given to it in subsection 3.8.1 (Data Site and AWARD); |
| AWE | for the purpose of the ITT only, means the index of Average Weekly Earnings; |
| Base Line Payments | means the figures included in Table 7.4 (Department's Base Line Payments); |
| BCQ | has the meaning given to it in subsection 3.8 (Data Site and AWARD); |
| Bid | a tender submitted by a Bidder in response to this ITT; |
| Bidder | has the meaning given to it in subsection 1.1.1; |
| Bidder's Alternative Assumptions | has the meaning given to it in subsection 6.3.6.11; |
| Bonded PCS | has the meaning given to it in subsection 6.9.2.9; |
| Bonding Requirements | where the Guarantor(s) of an amount of Guarantee pass the economic and financial standing tests referred to in subsection 6.10 (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 6.10 (Updating of EoI financial and economic standing tests (the "Tests") and submission of updated bond provider letter(s)) (Updating of PQQ financial and economic standing 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 6.8.5 (Calculation Review); |

| Term | Meaning |
|---|---|
| CAPEX | capital expenditure; |
| Capital Expenditure | the expression "Capital Expenditure" refers to the nature of the expenditure incurred by the Franchisee and, accordingly, does not include expenditure incurred under operating leases. |
| Cascaded Rolling Stock | has the meaning given to it in paragraph 3.1 of Schedule 2.2 of the Franchise Agreement; |
| C-DAS | has the meaning given in subsection 5.8.16; |
| Central Risk Adjusted Financial Model | has the meaning given in subsection 7.6.2.2; |
| Central Risk Adjusted NPV | has the meaning given in subsection 7.6.3 (Calculation of Risk Adjusted NPV); |
| Central Risk Adjusted Scenario | has the meaning given in subsection 7.6.2.2; |
| Challenging Circumstances | circumstances such as extreme weather, industrial action or line closures; |
| Conditions Precedent Agreement | means the version of the South Eastern Condition 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 (Risk Adjustment); |
| Consultee | has the meaning given to it in subsection 3.4.1 (Industry consultation and disclosure of information in Bids); |
| Contingent Initiatives | has the meaning given to it in subsection 4.14.3 (Contractualisation); |
| Contractual Incentive Mitigations or CIMS | the additional and amended obligations imposed upon the Franchisee pursuant to the operation of Schedule 6.3 of the Franchise Agreement; |
| Core Franchise Term | the core term of the Franchise Agreement (excluding any extension that may be called under clause 5.2); |
| Critical Load | a train's passenger load at the Critical Load Point; |
| Critical Load Point | the geographic location at which a train's passenger load is at its greatest; |
| Data Site | has the meaning given to it in subsection 3.8.1 (Data Site and AWARD); |
| Delay Repay | means compensation arrangements which include a commitment to provide following receipt of a valid claim, at least the following compensation to holders of any type of ticket, whatever the cause of the delay which at the Start Date |

| Term | Meaning |
|---|---|
| | <p>are:</p> <ul style="list-style-type: none"> a) 25% of the cost of the single ticket or 25% of the cost of the relevant portion* of the return ticket for delays of between 15 and 29 minutes; b) 50% of the cost of the single ticket or 50% of the cost of the relevant portion* of the return ticket for delays of between 30 and 59 minutes; c) 100% of the cost of the single ticket or 100% of the cost of the relevant portion* of the return ticket for delays of between 60 and 119 minutes; and d) 100% of the cost of the single ticket or 100% of the cost of the return ticket (i.e. both ways) for delays of 120 minutes or longer; |
| Delivery Plan | <p>means a Delivery Plan described in section 5 (Detailed Bid submission requirements - Delivery Plans), being:</p> <p>Delivery Plan 0 – Bid Summary;</p> <p>Delivery Plan 1 – Franchise Management;</p> <p>Delivery Plan 2 – Train Service and Performance;</p> <p>Delivery Plan 3 – Revenue;</p> <p>Delivery Plan 4 – Customer Experience and Stations;</p> <p>and ‘Delivery Plans’ shall mean more than one of them;</p> |
| Department | has the meaning given to it in subsection 1.1.1; |
| Digital Rail Proposal | has the meaning given to it in subsection 5.8.16; |
| DLA Piper | has the meaning given to it in subsection 3.2.4; |
| Downside Risk Adjusted Financial Model | has the meaning given to it in subsection 7.6.3.1; |
| Downside Risk Adjusted NPV | has the meaning given to it in subsection 7.6.3 (Calculation of Risk Adjusted NPV); |
| Downside Risk Adjusted Scenario | has the meaning given to it in subsection 7.6.3.1; |
| Draft Thameslink Timetable | has the meaning given to it in subsection 5.3.1; |
| EA02 | Enterprise Act 2002; |
| EC | European Commission; |
| EIR | Environmental Information Regulations; |
| Engineering Access Statement | means the statement included at Schedule 4 to the Track Access Agreement; |

| Term | Meaning |
|---|--|
| Enhancement Works | shall have the meaning given to such term in the Enhancement Works Side Letter; |
| Enhancement Works Side Letter | means the side letter between the Previous Franchisee and the Thameslink Operator dated 8 September 2017; |
| Escrow Agreement | means the version of the South Eastern 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 subsection 5.11.7; |
| EU | European Union; |
| EUMR | Council Regulation (EC) No. 139/2004; |
| Evaluated Payments | has the meaning given to it in subsection 7.6.3.5; |
| Evaluation Score | has the meaning given in subsection 7.10.2; |
| Exogenous Forecasts | means the Department’s central view of exogenous forecasts of demand drivers at the time of publication of this ITT, provided in the Data Site in the document '04.15 WebTAG.pdf', 'DDG June 2017 - Exogenous Assumptions -for circulation r.pdf' and 'DD_June2017.zip'; |
| 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 (Duration of the Franchise Agreement); |
| Final Risk Adjustments | has the meaning given to it in subsection A3.2 (Overview of Process) of Appendix 3 (Risk Adjustment); |
| Final Score | has the meaning given to it in subsection 7.2.1.3; |
| Financial Model or FM | a financial model prepared in accordance with subsection 6.3; |
| 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 Robustness Test | has the meaning given to it in subsection 7.6; |
| Financial Structure and Funding Plan | has the meaning given to it in subsection 6.9; |
| Financial Templates | has the meaning given to it in subsection 6.3.6; |
| FLPA | has the meaning given to it in subsection 1.4.1; |
| FOIA | Freedom of Information Act 2000; |
| Forecast Revenue Mechanism or FRM | means the mechanism contained in Schedule 8.6 (Forecast Revenue Mechanism) of the Franchise Agreement under which the |

| Term | Meaning |
|---|---|
| | Secretary of State may receive Revenue Share payments from the Franchisee or the Franchisee may receive Revenue Support payments from the Secretary of State; |
| Form of Tender | means the version of the South Eastern Franchise Competition Form of Tender which the Department supplies to Bidders as the “Final Bid Version” for the purposes of this ITT; |
| Franchise, South Eastern or SEF | means the rights tendered by the Secretary of State on 29 November 2017 to operate railway passenger services over the Routes prescribed in paragraph 2.1 of Part 1 (Franchise Services) of Schedule 1.1 (Franchise Services and Service Development) of the Franchise Agreement; |
| Franchise Agreement | means the version of the South Eastern Franchise Agreement which the Department supplies to Bidders as the “Final Bid Version” for the purposes of this ITT; |
| Franchise Competition Guide | has the meaning given to it in subsection 1.6; |
| Franchise Expression of Interest, Expression of Interest, or Eoi | means the Expression of Interest issued on 28 February 2017 in relation to the Franchise; |
| Franchise Pre-Qualification Process Document (PPD) | means the pre-qualification process document that accompanied the PQQ; |
| Franchise Signature Documents | has the meaning given to it in Table 4.2 (Structure and Format of Bids); |
| Funding Deed | means the version of the South Eastern Funding Deed which the Department supplies to Bidders as the “Final Bid Version” for the purposes of this ITT; |
| GDP | means Gross Domestic Product; |
| HMT | Her Majesty’s Treasury; |
| HS1 CP2 | means the control period in relation to HS1 infrastructure from 1 April 2015 to 31 March 2020; |
| IFRS | International Financial Reporting Standards; |
| Inconsistent Initiative | has the meaning given to it in subsection 7.4.1; |
| Industry Partners | include without limitation: Network Rail, ORR, Transport for London, other train operators, freight operators, ROSCOs and the wider supply chain including SMEs; |
| Initiatives | proposals and commitments included in a Bidder’s Sub-Plans; |

| Term | Meaning |
|---|---|
| Interest Rate | means a rate equivalent to two per cent (2%) per annum above the base lending rate published by Royal Bank of Scotland plc (or such other bank as the Secretary of State may, after consultation with the Franchisee, determine from time to time) during any period in which an amount payable under the Franchise Agreement remains unpaid; |
| Invitation to Tender | means the Invitation to Tender issued by the Secretary of State on 29 November 2017 as part of the procurement process pursuant to which the Franchise Agreement was entered into; |
| Investment Recovery Charge or IRC | means the investment recovery charge imposed by HS1 Ltd; |
| Key Performance Indicator or KPI | has the meaning given to it in subsection 5.8.7; |
| Key Sub-Plans | has the meaning given to it in subsection 7.10.1; |
| KICC | has the meaning given to it in subsection 5.8.4; |
| Letters of Support | means letters written by a third party which support elements of a Bidders' proposal; |
| 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 South Eastern Franchise, together with explanations of any movements in such financial and operational performance (including any addendums to such report); |
| Long Funding Lease Rules | has the meaning given to it in subsection 6.9.1.1m); |
| LSER | means London & South Eastern Railway Limited (company no. 04860660) whose registered office is at 3 rd Floor, 41-51 Grey Street, Newcastle Upon Tyne, NE1 6EE; |
| Maidstone East Services | means the peak only passenger service from Blackfriars to Maidstone East via Elephant & Castle operated by the Franchisee that is to be replaced by the two trains per hour service between Cambridge and Maidstone East via London Bridge provided by the Thameslink Operator throughout the day; |
| Materiality Threshold | has the meaning given to it in subsection 7.6.2.11; |
| MEAT | most economically advantageous tender; |
| Minimum Evidential Requirements | evidential requirements for Sub-Plans specified in subsection 5.1.4; |
| Model Audit | has the meaning given to it in subsection 6.8.4; |
| Modelling Best Practice Confirmation | the confirmation that the Models have been prepared in accordance with best practice as required by subsection 6.8.2, subject to any derogations granted pursuant to subsection 6.8.3; |

| Term | Meaning |
|--|---|
| Modelling Suite | has the meaning given to it in subsection 6.1.2; |
| Models | has the meaning given to it in subsection 6.1.1; |
| MOIRA or MOIRA1 | the timetabling software known as 'MOIRA' used to forecast the impact of timetables on passenger demand and revenue but not MOIRA2 or MOIRA 2.2; |
| Network Rail Thameslink Response | has the meaning given to it in subsection 5.3.2; |
| Notional PCS | has the meaning given to it in subsection 7.6.2.11; |
| NPV of Adjusted Evaluated Payments | NPV of Adjusted Evaluated Payments over the Core Franchise Term as calculated in cell F83 of sheet NPV of the Financial Templates; |
| NPV or Net Present Value | net present value, calculated as the aggregation of the present value of relevant future cash flows; |
| Off-Peak | means, in relation to any Passenger Service, the period of time outside of the Peak; |
| Open Government Licence | means the licence, as amended from time to time, available at http://www.nationalarchives.gov.uk/doc/open-government-licence/version/3/ ; |
| Operations, Maintenance and Renewal Charges or OMRC | means the charges imposed by HS1 Ltd with regard to the operations, maintenance and renewals costs of the HS1 infrastructure; |
| Operating Manual | a manual prepared in accordance with subsection 6.6; |
| Other Revenue | as set out in the Financial Templates; |
| Other Supplementary Material | has the meaning given to it in subsection 6.3.5.2; |
| Parent Company Support or PCS | has the meaning given to it in subsections 6.9.2.4 to 6.9.2.5; |
| 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); |
| PAYG Proposals | has the meaning given to it in subsection 5.15.7; |
| PDFH | Passenger Demand Forecasting Handbook; |
| PPM Figures | means the moving annual average percentage published by Network Rail in respect of PPM, rounded to one (1) decimal place; |
| PQQ | pre-qualification questionnaire for the South Eastern Franchise published on 28 February 2017; |

| Term | Meaning |
|--|---|
| Price | means, in respect of any Fare, the price of such Fare before the deduction of any applicable discount to which a purchaser may be entitled, as notified to RSP in accordance with Schedule 5 (Fares and Smart Ticketing) to the Ticketing and Settlement Agreement; |
| Proposed Risk Adjustments | has the meaning given to it in subsection A3.2 (Overview of process) of Appendix 3 (Risk Adjustment); |
| PwC | has the meaning given to it in subsection 3.2.4; |
| Quality Score | the score awarded to a Bidder in accordance with subsection 7.11; |
| RAB | has the meaning given to it in subsection 5.1.7; |
| Rail Franchise | means any passenger rail franchise awarded pursuant to the Act in respect of which a franchisee or its wholly owned subsidiary provides franchised services; |
| 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 ; |
| Rainham Services | means the two trains per hour passenger service from Gillingham to London Charing Cross/Cannon Street currently operated by the Previous Franchisee that is to be replaced by the two trains per hour passenger services between Rainham and Luton provided by the Thameslink Operator; |
| Record of Assumptions or RoA | means a record of assumptions prepared in accordance with subsection 6.5; |
| 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 | has the meaning given to it in subsection 3.12; |
| 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); |
| Required Parent Company Support or Required PCS | has the meaning given to it in subsection 6.9.2.7; |
| Required Supplementary Material | has the meaning given to it in subsection 6.3.5.1; |

| Term | Meaning |
|---|---|
| Residual Value Mechanism or RV Mechanism | has the meaning given to it in subsection 5.2; |
| Revenue Share | means amounts that may be payable to the Secretary of State by the Franchisee pursuant to the Forecast Revenue Mechanism; |
| Revenue Support | means amounts that may be payable by the Secretary of State to the Franchisee pursuant to the Forecast Revenue Mechanism; |
| Risk Adjusted Financial Model | means either the Central Risk Adjusted Financial Model or the Downside Risk Adjusted Financial Model; |
| Risk Adjusted NPV | has the meaning given to it in subsection 7.6.3; |
| Risk Adjusted Scenario | means either the Central Risk Adjusted Scenario or the Downside Risk Adjusted Scenario; |
| Roland Berger | has the meaning given to it in subsection 3.2.4; |
| ROSCO | means any company leasing rolling stock vehicles to the Franchisee under a Rolling Stock Lease; |
| RPI | for the purpose of the ITT only, means the Retail Prices Index; |
| Schedule of Initiatives | means the template schedule outlined at Table 4.4 (Schedule of Initiatives); |
| Scheme | has the meaning given to it in subsection 5.2.1; |
| SDG | has the meaning given to it in subsection 3.2.4; |
| Secretary of State | has the meaning given to it in subsection 1.1.1; |
| Sectional Running Times or SRTs | means the sectional running times used in the preparation of the 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; |
| SO | has the meaning given to it in subsection 5.10.8; |
| Specification | the requirements of the Delivery Plans and Sub-Plans as set out in Section 5 (as applicable), or the relevant parts thereof (as the context may require); |
| Stage 2 Bids | has the meaning given to it in subsection 7.2.2; |
| Stakeholders | include without limitation: Network Rail, ORR, the Department, Transport for London, RSSB, NSARE, other train operators, freight operators, ROSCOs, ATOC/Rail Settlement Plan, BTP, Rail Delivery Group, trade unions, Great Eastern Main Line Task Force, West Anglia Task Force, National Rail Enquiries, cross-industry bodies, charities, Community Rail Partnerships, Transport Focus, Local Authorities, Local Transport Authorities and the wider supply chain including SMEs; |
| Station Improvement Fund | has the meaning given in subsection 5.18.3b); |

| Term | Meaning |
|---------------------------------|---|
| Sub-Plan | those plans as set out in the column headed 'Sub-Plan' in Table 5.1 (Delivery Plans and Sub-Plans); |
| SuO | has the meaning given to it in subsection 5.10.8; |
| 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 subsections 6.3.7.1 and 6.3.7.2 respectively; |
| SX | has the meaning given to it in subsection 5.10.8; |
| Target Date | has the meaning given to it in subsection 5.11.16; |
| Target Revenue | means the amount of Target Revenue for each Franchisee Year being as specified in Appendix 1 to Schedule 8.6 (Forecast Revenue Mechanism) 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; |
| Technical Annex | means the document provided relating to the Franchise containing the information outlined at subsection 5.10.7; |
| Tests | has the meaning given to it in subsection 6.10; |
| Thameslink Programme | means the scheme promoted by Network Rail formerly known as "Thameslink 2000" as described in its 2005 Transport and Works Act 1992 application, to enhance the network and relevant stations to allow for the operation of up to 12-car trains and up to 24 trains per hour between Midland Main Line/Great Northern and London Bridge/Elephant & Castle or such other capacity derived from the specification as is agreed by the Secretary of State. Network Rail and all relevant stakeholders; |
| Thameslink Response Date | has the meaning given to it in subsection 5.3.2; |
| Tier 1 Operational Model | means the: <ul style="list-style-type: none"> a) Revenue Model; b) Fares Model (which may be included in the Revenue Model); c) Crowding Model; d) Operating Cost Model (which may be included in the Financial Model); e) Performance Model; and f) Capital Expenditure Model (which may be included in the Financial Model or the Operating Cost Model); |
| Tier 2 Operational Model | means any additional or sub-models submitted as part of the Modelling Suite; |
| TMS | has the meaning given to it in subsection 5.8.16; |
| TOC | means train operating company; |

| Term | Meaning |
|-------------------------------|--|
| Total Capacity | The number of seats plus the number of passengers standing; |
| Train Crew Strategy | means the plan or strategy prepared by the Bidder in response to the requirements set out in Sub-Plan 2.1 (Train Services) for the allocating of sufficient train crew to the Train Services during the Franchise Term which will be contracted as part of the Franchise Agreement; |
| Train Plan or TP | means the plan or diagram (including sub-plans or sub-diagrams) prepared by the Franchisee for the operation of trains and train formations under the Timetable that best matches available capacity to Forecast Passenger Demand as amended from time to time during the Franchise Term in accordance with the Franchise Agreement; |
| Transport Focus | the independent public body known as both 'Transport Focus' and the 'Rail Passenger Council' created by Government to safeguard the interests of passengers; |
| Typical Autumn Weekday | A Thursday in Autumn (excluding half term week) with no disruption to services, no special events generating abnormal demand and no Challenging Circumstances; |
| Value Added Tax or VAT | means value added tax as provided for in the Value Added Tax Act 1994; |
| WebTAG | means the Department's published Web-Based Transport Analysis Guidance; |
| Worked Examples | has the meaning given to it in subsection 6.7.1.1; |
| Year 8 Assumptions | has the meaning given in subsection 6.3.6.10; |
| Year of Breach | has the meaning given to it in subsection 7.6.4.2a). |

A2. Appendix 2: Not used

WITHDRAWN JANUARY 2026

A3. Appendix 3: Risk Adjustment

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 adjusting them would not change the identity of the winning Bidder. 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 Bidder. In making this decision, the Department may take into account the maximum "P" score that each Bidder could achieve, which will be calculated using the process set out in subsection 7.6 (Evaluation of Financial Robustness), but with the 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 and therefore not risk adjusted, the 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 $P + (n \times Q)$ score is one which was previously not risk adjusted, or only part of the process was carried out, in accordance with subsection A3.1.2, that Bid will be risk adjusted and the Financial Robustness Test (including all steps outlined in subsection 7.6.2 (Assessment of acceptability of financial risk) and subsections 7.6.3 (Calculation of Risk Adjusted NPV) and 7.6.4 (Consequences of forecast breach on evaluation), if applicable) will then be undertaken for that Bidder before the identity of the winning Bidder 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 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:

- A3.2.1.1 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).

- A3.2.1.2 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 7.6 (Evaluation of Financial Robustness), the Proposed Risk Adjustments would result in the Bidder being projected in its Central Risk Adjusted Financial

Model to breach the Financial Ratios 1.050:1 at any point during the Core Franchise Term; or

- ii. The Financial Robustness Test would result in that Bidder's ranking in terms of $P + (n \times Q)$ changing from first place based on the maximum "P" score each Bidder could achieve to a lower final ranking, due to forecast 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 "P" 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 Bidder(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 A3.1.5, 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 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 Core Franchise Term 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 (2018/19 prices) in any given Franchisee Year or no more than £10,000,000 (2018/19 prices) in total over the Core Franchise Term. 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 projections 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 exogenous revenue (i.e. those factors which are outside the control of the Bidder) projections (i.e. the resultant predicted outcome of the methodology, assumptions and values used by the Bidder) where the Department's reasonable view of the most credible outcome is different to that set out in a Bidder's Modelling Suite. For exogenous revenue factors, equivalent values will be used in the risk adjusted forecasts for all Bidders.
- A3.4.2 For exogenous revenue factors, the Department's assessment of the most credible outcome of these factors 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 Record of Assumptions, or any other relevant information submitted with Bids.
- A3.4.3 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 subsections 6.3.4.10 and 6.3.4.11;
 - ii. Rail demand forecasting guidance recommended by WebTAG as specified in subsections 6.3.4.10 and 6.3.4.11;
 - 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. Exogenous Forecasts.

- A3.4.4 The Exogenous Forecasts include (without limitation): GDP, employment, population, non-car ownership, fuel cost, car time, bus cost, bus time, bus headway, air passengers for airport flows only.
- A3.4.5 Bidders should bid their own views of the Exogenous Forecasts and other relevant exogenous revenue factors and the impact of the same on their Modelling Suites. However, the Department will use the Exogenous Forecasts for the purposes of risk adjustment unless the Department's reasonable view of the most credible outcome as regards the Exogenous Forecasts 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. Consequently, the Department reserves the right to update the Exogenous Forecasts at any time.
- A3.4.6 The Department will consider the credibility of the opening (2019/20) revenue forecast provided by the Bidder and evidenced in the 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 A3.1.5, 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 subsections 6.3.4.10 and 6.3.4.11;
 - 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 subsections A3.6.3 to A3.6.5.
- A3.6.3 Bidder's Financial Models 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 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) 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.

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 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;
- 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-A3.8.4 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 2017/18 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) 2019/20 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) 2019/20 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 Core Franchise Term the forecast of FRM Revenue in the Downside Risk Adjusted Scenario will be the lower of that in these two variants.

A3.8.5 **NOT USED**

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 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 operational performance (Schedule 7.1 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.